Annual Report & Accounts 2015

SKIPTON
BUILDING SOCIETY
For life ahead

Contents

Overview

2015 Group Highlights	4
Chairman's Statement	6
Group Chief Executive's Report	8

Strategic Report

Our vision	12
The business model	12
Strategy and objectives	13
Performance in the year	16
Performance by division	26
Principal risks and uncertainties	28

Corporate Responsibility Report 29

Governance

The Board of Directors	34
Directors' Report	37
Directors' Report on Corporate Governance	40
Audit Committee Report	46
Risk Management Report	50
Directors' Remuneration Report	57

Financials

Independent Auditor's Report	73
Income Statements	77
Statements of Comprehensive Income	78
Statements of Financial Position	79
Statements of Changes in Members' Interests	80
Statements of Cash Flows	82
Notes to the Accounts	84

Country by Country Reporting 165

Annual Business Statement 166

Glossary 171

2015 Group Highlights

Key performance highlights

43,348
new customers

Society customer numbers increased by 43,348 to a record 838,087

£146.9m
Total Group profit

Total Group profit before tax (PBT) of £146.9m (2014: £180.6m)

£1.5bn
Mortgage book growth

Mortgage book grew by £1.5bn to £14.2bn, an annual growth rate of 11.9% (2014: 11.2%)

£1.4bn
Savings balances growth

Savings balances grew by £1.4bn to £12.8bn, an annual growth rate of 11.9% (2014: 11.7%)

£3.7bn
Gross residential mortgage lending

Gross residential mortgage lending up by 23.3% to £3.7bn (2014: £3.0bn)

23,094
Homeowners helped

Helped 23,094 homeowners to purchase or remortgage their properties, including 3,847 first time buyers

£153.3m
Underlying Group profit

Underlying Group PBT from continuing operations increased to £153.3m (2014: £150.1m)

16.80%
Group Common Equity Tier 1 ratio

Group Common Equity Tier 1 ratio increased to 16.80% (2014: 16.09%)

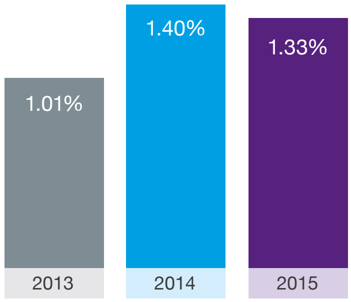
88%
net customer satisfaction

Society net customer satisfaction of 88% (2014: 88%)

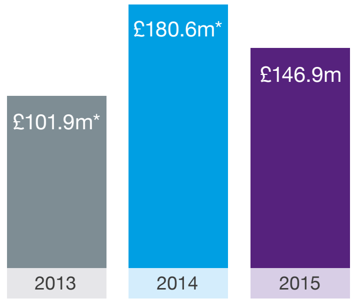
90%
employee engagement

Society employee engagement of 90% (2014: 88%)

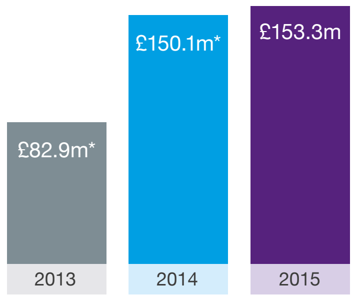
Three Year Financial Highlights Year ended 31 December



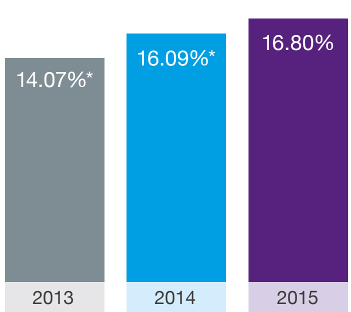
Net interest margin



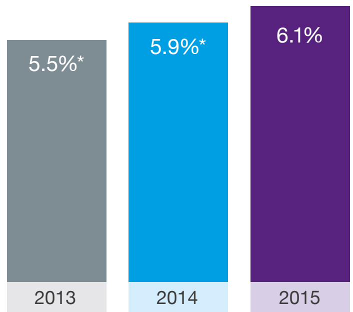
Total Group profit before tax



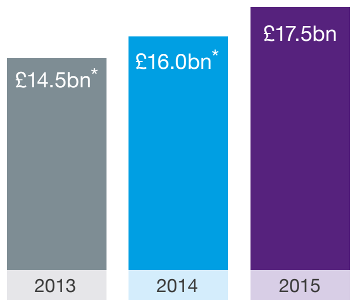
Underlying Group profit before tax (note 1)



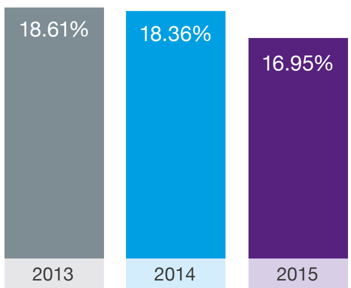
Group Common Equity Tier 1 ratio



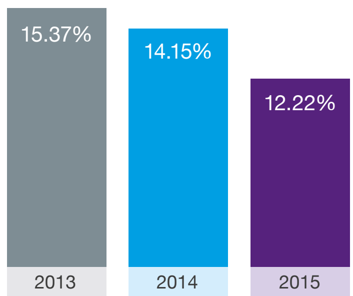
Leverage ratio



Total assets



Liquidity ratio



Wholesale funding ratio

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b) to the Accounts. The comparative figures for the Common Equity Tier 1 ratio and leverage ratio also reflect a reclassification of fair value adjustments under CRD IV rules.

Note

1. Underlying Group profit before tax excludes Financial Services Compensation Scheme charges, gains on disposal of subsidiary, associate and equity share investments and profits from discontinued operations.

Awards won

Personal Finance Best junior/children's savings provider

7th in the KPMG Nunwood Customer Experience Excellence survey

Listed for the first time in *The Sunday Times* '100 Best Companies to Work For'

Gold corporate engagement award for Grassroots Giving

What Mortgage Awards Best National Building Society 2015

Best Cash ISA Savings Provider and Best Savings Account Provider in the MoneySuperMarket 'Supers' Awards

Chairman's Statement

"As a proud mutual we recognise the importance of having a membership that engages with us and challenges us to be even better."

2015 was another year of strong performance for your Society – growing market share in mortgages and savings – and increasing customer numbers to a record 838,087.

The number of customers saving with the Society increased to 685,679, despite strong competition in the market, in particular from National Savings & Investments in the early part of the year. Interest rates for savers remain low with UK base rates at a record low of 0.5% for over six years and are likely to remain relatively low for some time to come.

We will continue to support our savings customers by offering reviews under our 'no pressure promise'. During 2015, we halved the number of historical products maintained by the Society and improved the functionality of others. This enabled us to simplify our closed product range, while ensuring that people with those products maintained or saw increases in the interest rate they received.

We will also continue to offer financial advice on investments and pensions to customers requiring such advice. Financial advice is seen as integral to our core proposition in helping people to plan and prepare 'For Life Ahead'. In January 2016, we announced that Skipton Financial Services Limited (SFS) will be integrated with the Society, subject to regulatory approval, and following integration we will provide advice on pensions and investments, including inheritance planning, under a single Skipton Building Society brand.

The mortgage market was fairly buoyant in 2015, with increased competition putting pressure on lending margins. Nevertheless, the number of customers borrowing from the Society increased to 162,088. The Society continues to provide a range of mortgage products for first and second time buyers, remortgage customers and for those buying properties to let. In addition, our Guernsey based subsidiary, Skipton International Limited (SIL), provided mortgage finance for properties in the Channel Islands and to UK expatriates for purchases of buy-to-let properties in the UK.

We expect the mortgage market to remain relatively buoyant in 2016 and expect that competition for both mortgages and savings will increase. This is likely to result in further pressure on our net interest margin which declined to 133bps in 2015 compared to 140bps in 2014. The net interest margin is primarily the difference between what we pay our savings customers and other providers of funds and what we charge to our borrowing customers or earn on other assets, and we will continue to balance what we pay our savers against what we earn on lending and other assets.

The Society is in a strong financial position as is evident from its capital ratios and stable underlying profitability.

The strength of the Society is further enhanced through its estate agency operations, Connells, that operates under a number of different brands including Connells, William H Brown, Barnard Marcus, Sharman Quinney and Peter Alan. In 2015, Connells acquired Gascoigne Halman estate agents and made a number of other small acquisitions of estate agency or letting businesses. Connells reported strong profits from the sale of houses, lettings, surveys and valuations and mortgage services and we believe it is well positioned to continue generating strong profits that support the Society.

In 2015 we accelerated our development of online digital services, initially focusing on mortgage intermediaries, but increasingly our efforts will be devoted to enhancing functionality and services for our savings members. Skipton Direct, our customer contact centre, supports our branches and online proposition and has expanded significantly to enable us to speak directly with more customers over the telephone. Our branches remain the cornerstone of our distribution network – reaching out to customers with Skipton's renowned friendliness.

The friendly approach adopted by all our people is evident in our customers' experience, with the Society being in the top 10 UK brands and the UK's highest rated building society according to the KPMG Nunwood UK Customer Experience Excellence survey. We are just as pleased to operate at the 'Gold Standard' with Investors in People and to be named in *The Sunday Times* 100 Best Companies To Work For listing, and we will continue to invest in our people, service excellence and leadership development.

It is important that we remain in touch with our membership so that we are aware of their views, requirements and concerns. During 2015 we continued to seek our customers' views in a number of different ways, including our customer panel, which now has over 4,000 members, and our customer forums. Members of the forum were invited to take part in face-to-face discussions at our head office on three occasions during the year, and customer panel members participated in seven surveys. In total, we carried out over 40 pieces of research during the year with customers and intermediaries, to help us develop our proposition and service.

Of course being a 162-year-old business, we know that our impact reaches much further than providing financial solutions for our members. Last year we continued reaching out to our membership and beyond through a programme of community support, fundraising and volunteering from our flagship community programme, Grassroots Giving, which scooped another two national awards, through to creating a charity appeal for victims of the UK floods in December.

In addition, we continued to support key community partners including The Great Yorkshire Show and the Skipton Building Society Camerata. We also donated £150,000 to the Skipton Building Society Charitable Foundation who support registered charities across the UK.

As a proud mutual we recognise the importance of having a membership that engages with us and challenges us to be even better. That's why I would like to encourage all members to get involved with their Society in whatever way suits them best and I would urge all members to vote at our Annual General Meeting (AGM) which will be held on 25 April 2016.

I would also like to mention a number of Board changes, some of which have already happened and some of which will take place around the time of the AGM.

As reported last year, Bobby Ndawula became the Group Finance Director and a member of the Board in February 2015. In January 2016 our new Executive Director responsible for Distribution and Financial Services, Andrew Bottomley, joined the Society and became a member of the Board. We now have a full strength executive team who are highly capable and committed to building a better Society.

In September 2015 we appointed a new Non-Executive Director, Denise Cockrem, who is also the Chief Financial Officer of Good Energy plc, having previously worked for banking and insurance companies. And, in February 2016 we announced the appointment of Mark Lund who is currently a Non-Executive Director of SFS and will join the Board of the Society on the date of our AGM, subject to members voting in favour. Indeed, members will be asked to vote on all Directors standing for election or re-election to the Board at the AGM.

We welcome the new Directors and will be saying farewell to two Non-Executive Directors retiring at the conclusion of the AGM.

Nimble Thompson has been a member of the Board since 2009, having previously served on the Board of the Scarborough Building Society. He is the Deputy Chairman and Senior Independent Director, and the Chairman of the Remuneration Committee. Nimble has contributed significantly to the development of the Society over the past seven years and is a trusted and valued colleague whose sound advice has been greatly appreciated and will be sorely missed.

Graham Picken will succeed Nimble as Deputy Chairman and Senior Independent Director and Helen Stevenson will take over as Chair of the Remuneration Committee.

We also say goodbye to Cheryl Black who has served as a Non-Executive Director for the past three years and provided fresh insights into customer service, contributing significantly to our improved customer proposition and service. Her championing of customer service will be taken up by others but her unique contribution will be missed.

We wish Nimble and Cheryl all the best for the future.

While it is entirely appropriate that we keep members fully informed of changes to the Board, I am sure that our membership would join with me in thanking all the people involved in the Society, for it is through their efforts that we can continue to serve our members. The Society has some of the friendliest and most capable people in the financial services industry, who focus on doing the right thing for the customer. I thank them for all their efforts and continuing support.

Members can be assured that the Society is committed to serving their needs for many years to come.

Mike Ellis
Chairman
23 February 2016

Group Chief Executive's Report

"In 2015, we enabled more people to save for their future and buy their own home than we ever have before. At the same time, we continued to strengthen our financial position."

I'm delighted to report another year of strong performance. It demonstrates that our 162-year-old core purpose of delivering consistent value to our members is still as relevant today as it was when we were founded. In 2015, we enabled more people to save for their future and buy their own home than we ever have before. At the same time, we continued to strengthen our financial position.

Our commitment to providing a first-rate experience for our members is, as always, paramount to us. They are at the heart of everything we do. This forms an integral part of our overall ethos of 'Building a better Society'. Here's how we've put these words into action during 2015:

- Customer numbers continued to grow and increased by 43,348 to 838,087;
- We were declared the UK's top building society for customer experience in the KPMG Nunwood Customer Experience Excellence survey, and seventh best out of 272 brands;
- Our mortgage book increased by £1.5bn to £14.2bn, representing an 11.9% growth in mortgage balances. We helped 23,094 homeowners purchase or remortgage their properties, including 3,847 first time buyers;
- We saw a £1.4bn growth in savings balances (a growth rate of 11.9%) as we continued to offer a suite of competitive and award-winning products;
- Total Group profit before tax (PBT) amounted to £146.9m (2014: £180.6m). The sale of subsidiaries, associates and equity investments generated a combined profit of £1.0m (2014: £38.2m);
- Underlying Group profit before tax (PBT) from continuing operations (prior to Financial Services Compensation Scheme (FSCS) charges, gains on the disposal of subsidiary, associate and equity share investments and profits from discontinued operations) increased by 2.1% to £153.3m;
- Group administrative expenses increased by 8.6% to £464.4m (2014: £427.7m), partly due to increased activity and partly due to increased investment across all areas of the business to help ensure we deliver a sustainable performance over the long term;
- The Group Common Equity Tier 1 (CET 1) ratio increased to 16.80% from 16.09%;
- The leverage ratio remained strong at 6.1%, comfortably ahead of the Regulator's expected minimum; and
- Skipton was upgraded by both Fitch and Moody's credit ratings agencies during the year.

I'm particularly pleased that despite the Bank Base Rate being held at 0.5% for over six years, and the effect of the Funding for Lending Scheme on demand for retail savings, our savings balances have grown well in excess of overall growth in the market. We also saw excellent growth in our mortgage book. This is testament to our competitive pricing and service proposition and is the third successive year of excellent growth, during which time savings balances have increased by 36.0% and mortgage balances by 35.8%.

Our strong underlying profits and robust capital position provide a firm foundation for realising our ongoing ambition of 'Building a better Society'. Looking forward, we will continue to invest back into the business to ensure we continue to serve our members for their lives ahead.

Putting people first

Over the last 12 months, we've continued to engage with our members to understand their needs and deliver what's important to them. We work hard to create a customer-focused culture and in 2015 have invested heavily in our Delivering Service Excellence programme, an initiative for our entire workforce ensuring we keep members at the forefront of everything we do.

We're extremely proud that our efforts to provide the very best in customer experience have, once again, been acknowledged in high-profile consumer research.

Skipton Building Society was named the seventh best UK brand (2014: 13th) for customer experience across many different industries in the most recent KPMG Nunwood Customer Experience Excellence survey. As well as leaping into the prestigious top ten, alongside brands like John Lewis and Amazon, we were named the UK's top building society for customer experience.

Our people are an integral part of our continued success. We recognise that investing in them has a positive impact on both the customer experience and employee engagement. In 2015, our employee engagement level stood at 90%, higher than 2014 and significantly ahead of industry norms, and for the first time ever Skipton was listed in *The Sunday Times* 100 Best Companies To Work For.

We're working hard to remain a successful modern mutual for the 21st century and continuing to invest across all channels so customers can easily interact through the channel of their choice.

During 2015, we invested in SMS technology for our savings customers and enhanced our online ISA transfer services after listening to customers and taking on board their comments.

Helping our members save for the future and plan for life ahead

Supporting our members at key life stages with good value products and a first-rate service with the human touch remained our key focus throughout 2015.

During the year, we continued to provide competitive, innovative and award-winning products and services to our savers. We launched a base rate tracker savings account and we added to our loyalty range by offering preferential ISA rates to qualifying members.

During 2015 we launched retiresavvy.co.uk – a unique online community and information hub that brings together people with an interest in retirement to share their knowledge, ideas and experiences. By December 2015, we had reached 10,000 users per month.

Our subsidiary Skipton Financial Services Limited (SFS) launched a pensions accumulation and pension switching service which is designed to help people navigate their way through the pension reforms and better prepare for life ahead.

Despite the early part of 2015 seeing net savings outflows, due to the market distortion created by National Savings & Investments' pensioner bonds, strong growth resumed throughout the remainder of the year, culminating in the highest level of savings balances ever held by the Society. Our range of competitive savings products saw members' deposit balances grow by £1.4bn to £12.8bn, an annual growth rate of 11.9%. The growth in Skipton's savings balances accounted for 2.1% of the growth in the UK deposit savings market (source: Bank of England statistics, December 2015), compared to our market share of savings balances of 1.0%. Skipton was the UK's fourth largest ISA provider in terms of transfers-in activity during April and May 2015.

Market conditions continue to have an impact on savers. The average savings rate paid across all our accounts reduced by 0.25% during the 12 month period. Despite the Bank Base Rate remaining at 0.5%, Skipton's rates averaged 1.69% during the year. Skipton paid, on average, 0.48% higher interest than the market average for banks and building societies during the 10 month period to 31 October 2015 (the latest available comparable data – source: CACI Savings Market Database). In addition, our savings rates received 461 independent media best buy table mentions over the year.

Helping our members buy their own homes

Our gross mortgage lending increased by 23.3% to £3.7bn and our mortgage book grew by £1.5bn to £14.2bn, an annual growth rate of 11.9%. As such, net mortgage lending accounted for 6.4% of the growth in the UK residential mortgage market (source: Bank of England statistics, December 2015). Skipton's share of UK residential mortgage balances stood at 1.0%.

The Society helped 23,094 homeowners to purchase or remortgage their properties, including 3,847 first time buyers, and 618 via the Government's 'Help to Buy' equity loan scheme. The rental market remained strong and £467m of the Group's gross lending was on buy-to-let mortgages.

In recognition of the growing new-build market, we launched a suite of bespoke mortgage products specifically for this type of property and invested heavily in our operational support teams.

Our prudent approach to lending is demonstrated by the relatively low number of Group residential mortgages with arrears. As at 31 December 2015, only 0.91% (2014: 1.20%) of accounts were three months or more in arrears, compared to the Council of Mortgage Lenders' (CML) industry average of 1.12% (2014: 1.30%) of mortgages in arrears by more than three months.

A strong financial Group performance

- Group total assets increased by 9.7% during the year to £17.5bn (2014: 10.3% to £16.0bn);
- Group net interest margin reduced to 1.33% (2014: 1.40%);
- Total Group PBT amounted to £146.9m (2014: £180.6m); and

- Underlying Group PBT from continuing operations increased by 2.1% to £153.3m (2014: £150.1m).

I am disappointed that the Society's retained profits for 2016 onwards will be impacted by the introduction of an 8% corporation tax surcharge on banking companies. If this surcharge had applied in 2015 the cost to us would have been £5.5m, which could have reduced our appetite to lend. The collateral damage of this tax raising initiative, mainly aimed at banks, fails to recognise the distinctive legal form, business model, and reduced risk of failure implicit in building societies.

Full details on the performance of the Group can be found in the Strategic Report on pages 16 to 28.

Excellent results from the Mortgages and Savings division

In addition to reporting strong growth in mortgage and savings balances, the Mortgages and Savings division produced PBT of £104.8m, up from £98.4m in 2014, an increase of £6.4m (or 6.5%).

Further detail on the performance of the Mortgages and Savings division can be found in the 'Performance by division' section of the Strategic Report on pages 26 and 27.

Improved performance and a growing presence in Estate Agency

During 2015, Connells, our Estate Agency division, continued its investment within the business, and delivered a good set of results, reporting PBT of £62.5m (2014: £62.2m). The prior year included a profit of £10.1m arising from the part disposal of shares on the flotation of Zoopla (the 2015 results include a profit of £0.3m arising from the sale of shares); excluding these gains Connells' pre-tax profits increased by 19.4% year-on-year. House sales (exchanges) by Connells in 2015 increased by 1% compared to 2014 (excluding properties sold by Gascoigne Halman, acquired during 2015), whilst income from other areas of the business also increased.

Further detail on the performance of the Estate Agency division can be found in the 'Performance by division' section of the Strategic Report on page 27.

Results from remaining subsidiaries

- SFS recorded a loss before tax of £(1.7)m (2014: PBT of £0.2m), which included restructuring costs of £1.3m;
- The provision of financial advice remains integral to the delivery of our 'For Life Ahead' customer proposition. In January 2016, the Society announced that, subject to regulatory approval, the assets and business of SFS will be hived up into Skipton Building Society, to form one stronger organisation that is better aligned to meet the needs of our customers;
- Skipton Business Finance Limited recorded a PBT of £3.2m (2014: £2.9m);
- Jade Software Corporation Limited recorded a loss before tax of £(1.3)m (2014: loss of £(0.7)m);
- Our share of Wynyard Group Limited losses was £(2.3)m (2014: £(2.6)m), and our shareholding reduced from 21.7% to 17.8% following share issues in the year to which the Group did not subscribe; and
- In May, Skipton completed the sale of its entire shareholding in Pearson Jones plc, resulting in a loss on disposal of £(0.8)m.

Further details on the performance of the Financial Advice division and Investment Portfolio can be found in the 'Performance by division' section of the Strategic Report on pages 27 and 28.

Giving something back to our communities

Our vision to 'Build a better Society' encapsulates our mutual heritage and our wider role to be a positive part of the communities in which we operate. In 2015, we played an active role in supporting our communities in a number of different ways as set out in the Corporate Responsibility Report on pages 29 to 33.

Conclusion and outlook

2015 saw another strong performance by the Society, with further good growth in mortgages and savings well in excess of our market share of balances. The investment made in our people in recent years and their focus on customers culminated during the year in external recognition and a ranking of seventh for customer experience excellence out of 272 UK brands.

The outlook for the UK economy does not cause us undue concern, but its connectivity to a global economy where growth is moderating and volatility is experienced in many markets means that we remain cautious. We anticipate the gradual reduction in our net interest margin witnessed over the last 18 months will continue, due to competitors having an increased appetite for growth and the unwinding of the Funding for Lending Scheme in the medium term.

Continuing house price growth outstripping wage inflation remains a major barrier to potential first time buyers, in some regions more than others. We will continue to take part in the Government's 'Help to Buy' (equity loan) scheme in 2016, helping more people to buy new-build homes, and will continue to support home buyers in the second hand property market with smaller deposits.

A significant and growing majority of home buyers and people remortgaging use a broker to look after their mortgage needs, and this trend fits well with our business model. We recognise the critical role played by intermediaries in serving the UK mortgage market. We will continue to support our broker partners through our 'Real Life Lending' proposition, to enable our customers to have access to the products and service they need throughout the life of their mortgage.

We are conscious of the continuing low interest rate environment and the impact that it has on our savers, but the good value that we offer relative to the market is demonstrated by our very strong savings growth over the past three years.

2016 will see some positive taxation changes for savers and we anticipate a shift in customer behaviour following the introduction of the Personal Savings Allowance in April. ISAs may play a less important part in savings decisions than in previous years. And with the increased flexibility around ISAs, some customers may start to treat them more as transactional accounts rather than longer term savings.

There will certainly be more complexity for savers to digest and members may need more help in making decisions about their money, including investments and pensions, particularly in light of the Government's pension reform agenda. Our established 'My Review' service is well positioned to provide invaluable support to our members who may need advice and guidance.

The outlook for the Society remains healthy, although we remain vigilant to factors which may impact its performance, most noticeably the economy, new regulatory requirements, and changes in consumer behaviour, in particular their desire to engage with the Society through the channel of their choice, and for it to be easy to access, easy to understand, and easy to use. It has been another strong year for the Society and we remain extremely well placed to capitalise upon the opportunities that lie ahead as well as mitigate the risks that arise in an uncertain world.

David Cutter

David Cutter
Group Chief Executive
23 February 2016

Strategic Report

Our Vision:

Building a **better** Society

Skipton Building Society was established 162 years ago with the core purpose to provide a safe place for our members to place their hard-earned savings, and to lend money to people of the community in order to own their own homes. Whilst the environment in which we operate may have changed drastically, our core purpose remains the same as we continue towards achieving our vision of 'Building a better Society'.

This Strategic Report sets out the strategic objectives we have put in place in order to achieve this vision, and sets out how putting our customers at the heart of our business is key to us achieving our vision. The report also provides a review of our performance during the year against our strategic objectives, which remain to grow our mortgages and savings business by providing excellent customer service to a growing customer base, to provide high quality financial advice as part of our extended customer proposition and to maintain a significant presence in estate agency, helping to ensure our ongoing financial strength.

The business model

Skipton Building Society is the fourth largest building society in the UK, with £17.5bn of assets, 838,000 customers and a national presence of branches.

The Society's strategy of providing excellent customer service by always placing the customer first is reflected in how we manage the Group's business model and structure. The Society is at the heart of the Skipton Group and the key member of the core Mortgages and Savings division, whose business model is built on providing a secure place for our growing number of members' savings, which they can access through the channel of their choice, be it through our national branch network, over the telephone or online. These funds then allow us to lend to borrowers, both directly to our customers and through mortgage brokers to enable home ownership.

Also key to the Society's strategy and business model are our significant interests in estate agency, through ownership of the Connells group and the provision of financial advice (currently through Skipton Financial Services Limited, although it is proposed to integrate this into the Society during 2016 subject to regulatory approval). The Group's presence in the estate agency market provides an additional income stream that further strengthens the Society's financial position. Maintaining a strong financial position is fundamental to our business, in order to continue to provide protection for our customers' deposits, and to enable us to continue to invest in our customer proposition for the good of all our members. The provision of financial advice is also fundamental to our strategy as a key part of our extended customer proposition, particularly to help guide our customers up to and through retirement. In addition, the Society holds interests in a number of other smaller companies as part of the Investment Portfolio.

The Group is managed through a number of reportable segments, with each segment offering different products and services aligned to the achievement of the Group's strategic objectives, as outlined below:

Mortgages and Savings

Principally the Society but also includes deposit taking and mortgage lending in the Channel Islands and the UK through Skipton International Limited (SIL). Our specialist mortgage businesses Amber Homeloans Limited (Amber) and North Yorkshire Mortgages Limited (NYM), which ceased lending in 2008, are also part of the division, as are the Group's special purpose vehicles (SPVs), formed to acquire funds from the wholesale markets, and the intermediate holding company Skipton Group Holdings Limited (SGHL).

Estate Agency

Includes property sales, surveys and valuations, conveyancing, lettings, asset management and mortgage and insurance broking carried out through the Connells group.

Financial Advice

Provision of financial advice through Skipton Financial Services Limited (SFS) and, prior to its disposal during 2015, Pearson Jones plc.

Investment Portfolio

A small number of companies that do not fall into the above categories, principally the invoice discounting business Skipton Business Finance Limited (SBF) and Jade Software Corporation Limited (Jade), a software company that provides IT solutions to a range of industries, including the Society and other financial services companies.

On 11 May 2015, the Group sold its entire shareholding in Pearson Jones plc and its subsidiary businesses, a financial advice company whose particular line of business now falls outside of our core strategy, for a loss of £(0.8)m. As this business was not considered a major line of business for the Group, it is not classified as a discontinued operation in these financial statements.

The Society strategy and objectives

We remain committed to mutuality because we believe that this is in the best long term interests of our members. Our mutual status provides us with the advantage that we do not need to make additional profits to pay shareholders. Instead, we focus on ensuring a balance exists in our measures of success: supporting our members, generating sufficient profit to maintain a strong balance sheet and taking long term decisions to invest in the future development of the business for the benefit of our members.

In order to achieve the objective of growing the business, principally through the Society, we continue to use strategic plans that focus on defined medium term objectives built around the following four pillars:

Our Customers

Our customer strategy is to put the customer at the heart of our business, providing a compelling and differentiated proposition that resonates with our customers and makes them want to become and remain Skipton customers.

In order to achieve this we continue to invest in developing a deep understanding of the needs of our customers through research, insight and feedback. We use this insight to refine, develop and improve the products and services that we offer.

Our target savings and investment customers are those planning for and moving through retirement. We continue to focus on ensuring that we have a compelling proposition to meet the needs of these target customers. We promote this to our customers under the strapline ‘For Life Ahead’ and will seek to further develop and promote this over the coming years.

We continue to focus on helping customers to own their own homes by providing good value mortgages, together with excellent personal service, to both our mortgage customers and intermediary partners. We also provide finance to customers seeking to invest in buy-to-let properties which supports the growing rented housing sector.

Fundamental to the delivery of our customer strategy is the continued development of a truly customer centric culture across the Society. In 2015 we continued to develop and improve our internal capability and infrastructure to deliver an exceptional customer experience. Investment in enhanced digital capability is a particular area of focus to support an improved customer experience. We also grew our Skipton-based contact centre, Skipton Direct, and have continued to update our branch network to meet the changing needs and expectations of our customers, including carrying out seven branch refurbishments during the year.

A review of performance in the year against our customer strategy is set out on page 16.

Our People

Our strategy requires people who are able to deliver it and a culture which enables them to do so. Our people strategy is therefore to ensure we have the right people, with the right skills and knowledge, who are highly engaged and who perform well to deliver a great experience for our customers both now and in the future.

Our culture is the sum of all our behaviours and we know that it influences everything we do. We pay attention to and invest in our culture, to align this with our vision and our strategy and to actively support delivery of all our corporate plans and objectives. This means that we manage, lead, influence and reinforce our desired culture in a proactive and purposeful way, using a variety of formal, informal, tangible and less tangible methods.

Our values and behaviours provide the framework for ensuring our culture supports our strategy and they are built into every aspect of leading and managing people. We recruit, select, induct, train, coach, develop, support, reward and performance manage our people using those values and behaviours.

continued on next page

Our People (continued)

One of the things that sets our service apart for our customers is our human touch and we ensure that this focus on customers, people and relationships is part of our culture. We develop the skills of all our people to deliver our customer proposition, to bring our values and behaviours to life every day and to have empathy and build relationships with our customers and with each other.

Ensuring our people have access to a wide range of expertise across the Society is part of our internal communications framework, enabling us to connect all our people and their knowledge together, ensuring we are all one cohesive team.

We continue to develop leadership capability, as well as investing in leaders of the future. We support all our people to perform and develop their skills and knowledge in a range of ways including training and coaching. We invest in developing the skills needed in the future in a variety of ways such as apprenticeships, career development programmes and succession planning.

Our reward strategy is an important part of retaining the right skills and experience and reinforcing our culture. Importantly, conduct risk (ensuring we always deliver a fair outcome for our customers) will remain at the forefront of our minds to ensure that any remuneration package relating to performance encourages the right behaviours and customer outcomes.

We know that engagement (how passionate, loyal and committed our people feel about the Society) is one aspect of our culture we can tangibly measure and that high engagement makes a difference to our customers. We all work hard to sustain high levels of employee engagement above the financial services industry benchmark.

A review of performance in the year against our people strategy is set out on pages 16 and 17.

Our Proposition

We seek to provide good value products and consistently excellent service to our customers however they choose to interact with us.

Our proposition is based on continually striving to understand what is important to our customers, listening to their feedback and ensuring that the mortgage and retail savings products and services we offer are aligned with their needs. We focus on meeting the needs of customers planning for and in retirement, through our 'For Life Ahead' proposition. Our mortgage proposition 'Real Life Lending' focuses on building strong relationships with our mortgage customers and intermediary partners.

Our core services are mortgages, savings and investment advice, complemented by protection, pensions, legacy and inheritance tax planning. We will continue to focus on helping our customers with their longer term financial needs. The way in which our people provide our core products and services and deliver the 'human touch' is central to our proposition. A key strategic objective is to provide customers with choice as to how they engage with us; face-to-face (branch or home-based advice), through Skipton Direct or digitally, in order that they experience a high quality, seamless, empathetic and personalised service.

Investment in enhanced digital capability continues to be an important area of focus, in recognition that customers are adopting digital technology at an ever increasing pace. Key digital initiatives in 2015 included enhancing our online mortgage application system for our intermediaries, launching retiresavvy.co.uk, a new website designed to help demystify retirement for those planning for retirement and for those already retired, and launching web-chat for use by our intermediary partners. We expect this to continue going forward, with a strong focus on developing a seamless customer experience across all channels, further enhancements to our online customer experience and the introduction of more digital functionality in branches.

The provision of financial advice for our target market is a key differentiator and integral to the delivery of our 'For Life Ahead' customer proposition. Financial advice is currently provided through the Society's wholly-owned subsidiary, SFS, although it is proposed to integrate the two businesses during 2016, subject to regulatory approval. We will be seeking to broaden our financial advice offering which is currently predominantly provided face-to-face in branch. We will be exploring opportunities to expand this to increase appeal to a wider audience through digital, video and telephone channels.

A review of performance in the year against our proposition strategy is set out on pages 17 and 18.

Our Financial Strength

Financial strength is fundamental to building a sustainable future and being here for our members over the long term; therefore our financial strategic objective is to maintain our strong capital position and sustain our financial strength. We will do this by continuing to grow both our mortgage and savings balances through the provision of high quality customer service and offering competitive rates, whilst not changing our prudent approach to risk management.

Sustainable growth is important as it gives us the opportunity to progress and develop the business and our people, for the benefit of our members over the long term. It is also important to achieve financial growth in order to outstrip inflationary and risk framework cost pressures.

We will focus on growing the Society organically at a sustainable rate, recognising we continue to operate in an environment where Bank Base Rate remains at 0.5%. Although there remains a disconnect between Bank Base Rate and the cost of retail funding, we recognise the cost of retail funding across the industry has been suppressed as a result of the Funding for Lending Scheme (FLS). Our future plans take into account the impact of FLS unwinding over the next few years.

The Group's investment in Connells is also key to our financial strategy, creating additional financial strength for the Society through the regular receipt of dividend payments generated from Connells' increasing market presence in estate agency and its growing lettings portfolio. The Group will continue to grow its estate agency presence through both organic growth and acquisitions where appropriate, maximising revenue from all aspects of the Estate Agency division as an additional source of capital to strengthen the Group's overall financial position.

As part of our financial strategy we will also closely monitor our cost base and improve efficiencies to ensure that the Society optimises its activities and processes to deliver a great customer experience.

The majority of the growth in lending will continue to be funded by retail balances, and we will seek to maintain an appropriate mix of wholesale and retail funding. Given our strengthening credit ratings from both Moody's and Fitch, which were upgraded further during the year, we are in a better position to consider widening our wholesale funding sources, whilst maintaining our commitment to members to offer competitive savings rates and growing our customer base.

Our liquidity strategy is to ensure that liquidity is held in sufficient quantity and quality to support the Group's business plans and meet our liquidity risk appetite and regulatory requirements. Managing liquidity and capital will continue to be done on a prudent basis, operating within limits that define our low risk appetite, and using a variety of stress testing scenarios to ensure we would remain resilient even under an extreme environment.

We will continue to enhance and embed our Internal Ratings Based credit risk models to ensure effective pricing, provisioning and use of capital. The enhanced credit risk management framework provides us with better tools to understand the credit dynamics of our existing loan books and of new lending proposals, to improve our pricing capability, and to more effectively deploy credit management strategies at a time when interest rates may rise and competition in the mortgage market is predicted to further intensify. Managing loan impairment losses in our mortgage portfolios remains a key priority and we continue to monitor and manage mortgages that have fallen into arrears, supporting our members wherever possible, and ensuring fair outcomes for our borrowers whilst protecting the business against financial losses for the benefit of all our members.

Performance in the year

We monitor our progression against our vision and strategic goals using a number of key performance indicators (KPIs), aligned to each of our strategic pillars. These indicators are reported to the Board on an ongoing basis and are key to the Board's management of the business and to its decision making process.

Our Customers

Key Performance Indicator	Strategic Goal	2015	2014	2013
Our Customers				
Growth in customer numbers (Society only)	To ensure we are attracting and retaining customers	**43,348**	31,276	21,046
Increase in customer savings balances (Society only)	To help more customers save for their future	**£1,367m**	£1,196m	£826m
Group gross mortgage advances	To enable us to meet our goal of enabling home ownership through prudent and controlled lending	**£3,675m**	£2,981m	£2,415m
Group net mortgage growth	To enable us to meet our goal of enabling home ownership through prudent and controlled lending	**£1,508m**	£1,275m	£961m

A key measure of success as a mutual is the growth of our customer base and mortgage and savings balances. In 2015 Society customer numbers grew by 43,348 to take its total customer base to 838,087. We grew mortgage balances by 11.9% (2014: 11.2%), despite the continued run-off of our specialist mortgage portfolios which reduced by 9.4% during 2015. This mortgage growth, which was delivered within our prudent credit risk appetite, was significantly ahead of the market (source: Bank of England statistics, December 2015) where net mortgage growth was 1.8%. This demonstrated our success in delivering mortgage products and services that are valued by both new and existing Skipton members.

Gross mortgage advances totalled £3,675m (2014: £2,981m) across the Group during 2015, representing an increase of 23.3% compared to 2014. During the year we continued to help a broad spectrum of homeowners, by offering loans requiring only a 10% deposit for first and next-time buyers, a targeted range of new-build mortgages including 'Help to Buy' equity loans and a suite of buy-to-let loans.

We also grew member savings balances by 11.9% (2014: 11.7%) during the year compared to the UK savings market where net savings growth was 5.1% (source: Bank of England statistics, December 2015).

Our savings balances growth was achieved through a range of attractive new savings products, bringing new members to the Society, and we have also retained members and balances by having our 'off-sale' accounts at rates above the industry average. The industry average rate for an easy access savings account is 0.54% (source: Bank of England statistics, December 2015) whereas our equivalent average rate is 1.06%.

We offered appealing ISAs throughout the year including a range of loyalty fixed rate ISAs in April for existing members, which were taken out by over 17,000 members. Our ISAs were a key driver in attracting new members to the Society; in April and May we were the fourth largest savings provider for ISA transfers in from other providers, far above our natural market share.

We aim to grow our customer base in a sustainable manner, bringing the benefits of membership to an increasing number of customers going forward.

Our People

Key Performance Indicator	Strategic Goal	2015	2014	2013
Our People				
Employee engagement (Society only) (note 1)	To ensure our people are passionate, loyal and committed	**90%**	88%	83%

Note

1. As measured by Willis Towers Watson, an independent company who provide benchmarking on employee surveys in both the UK and globally.

The delivery of our people strategy is primarily measured by employee engagement which increased to 90% in 2015. Building and sustaining high engagement (above 85%) is achieved through a range of activities reflecting all aspects of our people strategy including learning and development, recruitment and reward. The focus now will be maintaining employee engagement above 85% over the coming years as competition in the mortgage and savings market is likely to increase.

During 2015 we built on the support provided to our customer facing teams by rolling out programmes such as 'Delivering Service Excellence' and 'Managing Service Excellence' into our Head Office which 1,002 of our people experienced. 'Building a better Society' workshops were also experienced by 880 people, enabling them to strengthen the connection to the customer across the Society. We continued to support the skills of our leaders through skills training and programmes such as 'Leading High Performance'. Our investment in developing the skills of our customer facing teams continued through skills training.

To support our delivery we have invested in attracting the right people with the right skills into the Society. In 2015 we recruited, welcomed and trained 491 new people across the Society's teams. We also launched our first apprenticeship scheme and achieved a place in *The Sunday Times* 100 Best Companies to Work For.

Employee equality and diversity

The Society remains committed to the principles of diversity. We aim to create an environment where our people feel valued and respected and that promotes dignity. We provide a work environment that is safe and accessible, free from unfair treatment, discrimination and harassment and gives fair access to learning, development, reward and promotion opportunities. We have a range of policies and practices which support these aims and monitor their application. The number of employees of each gender employed in the Group as at 31 December 2015 is outlined below:

	Male	Female	Total
Directors (note 1)	7	4	**11**
Senior managers (note 2)	39	24	**63**
Other employees	3,840	4,976	**8,816**
	3,886	**5,004**	**8,890**

Notes
1. Society Board Directors only.
2. Consists of the Society's Senior Leadership Team and the Executive Directors of the subsidiaries.

Our Proposition

Key Performance Indicator	Strategic Goal	2015	2014	2013
Our Proposition				
Society net customer satisfaction score (note 1)	To ensure we are putting the customer at the heart of our business	**88%**	88%	85%
Society FOS complaints - change in outcome rate	To ensure we are treating customers fairly	**32%**	16%	13%

Note
1. As measured from an independent survey by KPMG Nunwood of 2,399 Society members. The net customer satisfaction score is calculated by subtracting dissatisfied customers (those scoring satisfaction with the Society as 1-3 on a scale of 1-7) from those who are satisfied (those scoring satisfaction as 5-7 on the same scale).

One of the ways in which we monitor the success of our proposition is by measuring net customer satisfaction. We do this quarterly, using an independent third party to ask our customers about their levels of satisfaction with the service they have received. In 2015 net customer satisfaction was 88% (2014: 88%), demonstrating the continued delivery of high quality products and services to our customers.

Our commitment to seeking to offer consistently excellent service was again recognised in the independent KPMG Nunwood 2015 Customer Experience Excellence rankings where we were ranked seventh overall out of 272 brands for the quality of our customer experience. This was an improvement on our ranking of 13th in 2014 and made us the highest ranked building society.

Independent third party recognition of our products and services is a key demonstration of the value that we are delivering to our members. We received 541 independent 'best-buy' mentions for our products in 2015 (2014: 804). Additionally we received a number of awards for both the quality of products and service offered, more details of which can be found in the Corporate Responsibility Report on pages 29 to 33.

Whilst we strive to get things right for our customers first time, every time, we recognise that on occasion things can go wrong and our customers have cause for complaint. We aim to deal with these complaints efficiently and with empathy, putting right what has gone wrong. A measure of our success in doing this is the proportion of the Society's complaints going to the Financial Ombudsman Service (FOS) that have their outcomes changed. The Society's change in outcome rate for 2015 was 32% (2014: 16%). This compared favourably with the financial services industry average of 55% for 2015 (source: FOS complaints data (resolved cases)).

Our Financial Strength

Key Performance Indicator	Strategic Goal	**2015**	2014 Restated*	2013 Restated*	**Discussed further**
Our Financial Strength					
Total Group profit before tax	To ensure we generate the necessary capital to enable the business to develop	**£146.9m**	£180.6m	£101.9m	Page 19
Underlying Group profit before tax from continuing operations	To ensure we generate the necessary capital to enable the business to develop regardless of any non-recurring or one-off costs or benefits	**£153.3m**	£150.1m	£82.9m	Page 19
Group net interest margin (% of mean assets)	To demonstrate the earnings of our core Mortgages and Savings division	**1.33%**	1.40%	1.01%	Page 20
Mortgages and Savings division cost income ratio	To maintain a manageable cost base to ensure the business is cost efficient	**47.97%**	44.54%	49.97%	Page 20
Mortgages and Savings division management expense ratio	To maintain a manageable cost base to ensure the business is cost efficient	**0.67%**	0.65%	0.59%	Page 20
Group residential mortgages in arrears by three months or more	To manage and monitor our arrears and credit risk management	**0.91%**	1.20%	1.55%	Page 22
Liquidity as a % of shares, deposits and borrowings	To ensure we hold sufficient levels of overall liquidity	**16.95%**	18.36%	18.61%	Page 23
Group retail funding as a % of total funding	To ensure we fund the majority of our mortgages through retail savings, in line with our customer proposition	**87.78%**	85.85%	84.63%	Page 23
Group Common Equity Tier 1 ratio	To ensure the Group remains financially strong by having a strong (risk weighted) capital base	**16.80%**	16.09%	14.07%	Page 25
Group leverage ratio	To ensure the Group remains financially strong by having a strong (non risk weighted) capital base	**6.1%**	5.9%	5.5%	Page 26

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b) to the Accounts. The comparative figures for the Common Equity Tier 1 ratio and leverage ratio also reflect a reclassification of fair value adjustments under CRD IV rules.

Unless otherwise stated, the 2014 financial comparatives provided in the above table and in the following sections of the Strategic Report are based on the continuing operations of the Group, therefore excluding the 2014 trading profits and profit on disposal of Homeloan Management Limited which was disposed of by the Group in 2014.

Financial performance

The Board monitors profits on both a statutory level, governed by accounting standards and practices, and at an 'underlying' level, which is defined as profit before tax from continuing operations prior to gains or losses on disposal of Group undertakings and excluding the FSCS levy. Underlying Group profit before tax for the year, as shown below, grew by 2.1% to £153.3m (2014: £150.1m) due to a strong performance in the Mortgages and Savings and Estate Agency divisions.

	2015 £m	2014 Restated* £m
Total Group profit before tax	146.9	180.6
Less profit before tax from discontinued operations	-	(0.1)
Less profit on disposal of discontinued operations	-	(24.7)
Profit before tax from continuing operations	146.9	155.8
Add back loss / less profit on disposal of subsidiary undertakings	0.4	(1.1)
Less profit on part disposal of associate and equity share investments	(1.4)	(12.4)
Add back FSCS levy	7.4	7.8
Underlying Group profit before tax from continuing operations	153.3	150.1

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b) to the Accounts.

The Group's results from continuing operations by division were as follows:

	2015 £m	2014 Restated* £m
Mortgages and Savings	104.8	98.4
Estate Agency	62.5	62.2
Financial Advice	(1.8)	1.4
Investment Portfolio	1.4	5.2
Sundry incl. inter-divisional adjustments^	(20.0)	(11.4)
Profit before tax (PBT)	146.9	155.8

^ Sundry including inter-divisional adjustments relates primarily to the elimination of inter-divisional trading, the write down of goodwill arising on consolidation relating to subsidiary investments and the cost of the Connells management incentive scheme.

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b) to the Accounts.

The core Mortgages and Savings division increased its profits from £98.4m to £104.8m during the year, following an outstanding year of mortgage lending, with Group mortgage balances up 11.9% to £14.2bn and the net interest income for the division increasing by 4.4% to £219.8m.

Our Estate Agency division continues to deliver strong profits for the Group, with profits for the year of £62.5m compared to £62.2m in 2014 (£52.1m excluding a £10.1m profit on disposal of part of its shareholding in Zoopla Property Group Plc; the 2015 figure includes a £0.3m profit from a further sale of shares). Excluding these gains on Zoopla, the increase in profit is as a result of increased house sales and lettings activity, despite entering the year with a lower sales pipeline than seen in recent years following a slow down of the housing market at the end of 2014.

The Financial Advice division reported a pre-tax loss of £(1.8)m (2014: profit of £1.4m), including a £(0.8)m loss on disposal of Pearson Jones plc, which was sold during the year. Pearson Jones also contributed £0.7m of trading profits during the year up to the date of its disposal. SFS, the remaining company in the division, reported a loss of £(1.7)m for the year (2014: £0.2m profit) due to restructure costs of £1.3m and other factors which are set out on page 27.

The profit for the Investment Portfolio for the year was £1.4m, down from £5.2m in 2014. The 2014 results included a profit on disposal of The Private Health Partnership of £2.2m and a profit on a deemed part disposal of the Group's associate holding in Wynyard Group Limited of £2.3m.

Further details on the performance of each division can be found on pages 26 to 28.

A summary Income Statement is set out in the table below:

	2015 £m	2014 Restated* £m
Net interest income	223.3	213.3
Net non-interest income	402.6	395.6
Fair value gains / (losses) on financial instruments	4.0	(2.0)
Realised gains / (losses) on treasury assets	0.1	(3.7)
Share of profits / (losses) from joint ventures and associates	0.2	(0.2)
Dividend income from equity share investments	0.3	1.1
(Loss) / profit on disposal of subsidiary undertakings	(0.4)	1.1
Profit on part disposal of associate	1.1	2.3
Profit on part disposal of equity share investments	0.3	10.1
Total income	631.5	617.6
Administrative expenses	(464.4)	(427.7)
Operating profit before impairment losses and provisions	167.1	189.9
Impairment losses on loans and advances to customers	(8.4)	(13.3)
Impairment losses on debt securities	-	(2.0)
Impairment losses on equity share investments	-	(1.3)
Provisions for liabilities	(11.8)	(17.5)
Profit before tax from continuing operations	146.9	155.8
Profit before tax from discontinued operation	-	24.8
Total Group profit before tax	146.9	180.6
Taxation	(33.5)	(34.9)
Profit after tax	113.4	145.7

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b) to the Accounts.

The movements in the Income Statement during the year are attributable to the following key Income Statement items.

Net interest income

Net interest income, which is the main source of income for the Society, increased by 4.7% across the Group to £223.3m (2014: £213.3m). The Group's net interest margin, one of our key measures of profitability and performance, measures net interest income as a percentage of mean total assets, and this remained strong during the year at 1.33%. The net interest margin for 2014 was 1.40%; however this included an £8.1m gain following the sale of treasury assets. Excluding this gain, the net interest margin for 2014 was 1.35%.

The reduction in net interest margin (excluding the gain of £8.1m in 2014 referred to above) is due to an increase in competition seen in the marketplace during the year, with a reduction in the average mortgage rates available across the market leading to a reduction in the interest income earned on new mortgage products. We expect increased competition to result in further pressure on margins going forward.

Net non-interest income

The Group's net non-interest income (or 'other income') by division is set out below:

	2015 £m	2014 £m
Mortgages and Savings	**8.1**	14.0
Estate Agency	**351.4**	322.9
Financial Advice	**28.5**	36.6
Investment Portfolio	**20.9**	26.4
Inter-divisional adjustments^	**(6.3)**	(4.3)
	402.6	395.6

^ Inter-divisional adjustments relate primarily to the elimination of inter-divisional trading.

The majority of the Group's other income is generated by the Estate Agency division, which saw a 9% increase in income in the year following a strong trading performance across the division. House sales were up 1% (excluding properties sold by Gascoigne Halman, acquired during 2015) and the healthy UK property market, together with continued investment in Connells' lettings capabilities and acquisitions made in previous years, all contributed to the increase seen in income during the year.

The Financial Advice division saw a decrease in other income of £8.1m predominantly due to loss of revenues following the disposal of Pearson Jones plc during the year, and the disposal of former financial advice subsidiary Torquil Clark Limited during 2014. These two businesses contributed combined income for the division of £13.8m during 2014 (2015: £3.5m).

The Mortgages and Savings division's other income decreased by £5.9m in the year, predominantly due to reductions in commission receivable from referrals to SFS.

The Investment Portfolio saw a decrease in other income in the year following the loss of income from The Private Health Partnership Limited which was disposed of during 2014 and also following the closure of another Group company in the division, Bailey Computer Services Limited, which ceased trading at the end of 2014. Jade Software Corporation's income grew slightly in its local currency (New Zealand dollars) but due to the relative weakness of the New Zealand dollar, this translated into a reduction of 10% when translated into Sterling. In contrast, Skipton Business Finance continued to grow its profits, revenues and customer base.

Profit on disposal of subsidiary undertakings

On 11 May 2015, the Group disposed of its entire shareholding in Pearson Jones plc, which was part of the Financial Advice division, resulting in a loss on disposal of £(0.8)m.

Profit of £0.7m was recognised in the Investment Portfolio in relation to the disposal of Mutual One Limited (£0.1m), a business sold in 2013, and the disposal of The Private Health Partnership (£0.6m) which was disposed of in 2014. These additional profits were recognised on receipt of contingent consideration relating to the original terms of these disposals.

A loss on disposal of £(0.3)m was recognised during the year on disposal of Connells Relocation Services Limited, a subsidiary of the Connells group.

In 2014, the Group disposed of its entire shareholdings in Torquil Clark Limited (part of the Financial Advice division), The Private Health Partnership Limited (part of the Investment Portfolio) and Homeloan Management Limited (which represented the entire Mortgage Services division) for a combined profit of £25.8m, £24.7m of which was classed as arising from discontinued operations.

Administrative expenses

The Group's administrative expenses by division are set out below:

	2015 £m	2014 Restated* £m
Mortgages and Savings	**111.3**	97.5
Estate Agency	**289.0**	264.6
Financial Advice	**28.5**	33.8
Investment Portfolio	**20.9**	24.6
Sundry incl. inter-divisional adjustments^	**14.7**	7.2
	464.4	427.7

^ Sundry including inter-divisional adjustments relates to the elimination of inter-divisional trading and also includes the cost of the management incentive scheme for the senior managers at Connells Limited.

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b) to the Accounts.

Administrative expenses across the Group increased by 8.6% to £464.4m (2014: £427.7m).

During the year the Mortgages and Savings division's administrative expenses increased by 14.2% to £111.3m (2014: £97.5m), both as a result of the increased activity evident in our significant increase in lending and our growing savings balances, and also due to increased investment across all areas of the organisation, enabling us to focus on providing high levels of customer service, including expansion of our contact centre and improvements to our digital presence. As a result the division's ratio of administrative expenses to mean assets (its management expense ratio) increased slightly in the year to 0.67% (2014: 0.65%).

Administrative expenses in the Estate Agency division increased by 9.2% during the year to £289.0m (2014: £264.6m). This increase is largely due to staff costs, which rose by £21.8m to £197.8m (2014: £176.0m), reflecting the division's continued investment in headcount to grow the business organically and through acquisitions.

The remaining increase in Group administrative expenses is mainly due to an increase in the charge for the management incentive scheme in place for Connells' senior management, which is recognised centrally within inter-divisional adjustments; this increased to £15.9m compared to £5.4m in 2014. The management incentive scheme cost is based on a number of assumptions relating to the future performance of the Estate Agency division, and is in place to retain the top management team at Connells in order to safeguard the future financial contribution this business will make to the Group. The increase to the charge in the year is as a result of an update to the assumptions in relation to the scheme, the details of which can be found in note 25 to the Accounts.

At a Group level the management expense ratio is less comparable, given our trading businesses, but nevertheless has seen an improvement to 2.77% from 2.81%, representing the continued focus on cost efficiency across the Group. Whilst expenses within the Estate Agency division increased in line with the increases seen in income for the division, decreases in net non-interest income across the rest of the Group has resulted in the Group cost income ratio increasing to 73.71% (2014: 70.91%).

Impairment losses on loans and advances to customers

The Group's impairment charge on loans and advances to customers reduced to £8.4m (2014: £13.3m) and is broken down as follows:

	2015 £m	2014 £m
Residential mortgages	0.6	4.3
Equity release mortgages	6.5	5.7
Commercial mortgages*	1.3	3.1
Other loans	-	0.2
	8.4	13.3

* Also known as loans fully secured on land.

Ongoing management of our credit risk exposure is a key strategic focus for the Group in order to keep losses to the Group to a minimum and help our customers through financial difficulties wherever possible. The reduction in the impairment charge for losses on loans and advances to customers throughout the year reflects the ongoing improvement in arrears across the Group, with the number of mortgages in arrears falling across all our mortgage portfolios. For more details on our arrears performance, see page 22.

In line with our strategic focus on credit risk management, we have made enhancements to our credit risk loan impairment models during the year that are used to calculate impairment provisions for losses on loans and advances to customers. Assumptions regarding the movement in house prices are a key input into our credit risk impairment models and following an increase in house prices during the second half of the year, as well as the reduction in arrears, the impairment charge on loans and advances to customers has fallen year-on-year.

The equity release charge relates to the equity release portfolio acquired when the Society merged with Scarborough Building Society in 2009. The expected future losses on this portfolio relate to the 'no negative equity guarantee' provided to customers (as described in note 15), and are, inter alia, a function of the actual and projected interrelationship between market-wide long term house prices and retail price inflation and the specific behaviour of this portfolio. During the year we have updated the associated key assumptions including future house price increases and the level of voluntary redemptions we expect to observe within this portfolio, resulting in a charge of £6.5m for the year (2014: £5.7m).

Provisions for liabilities

The Group's provisions for liabilities charge was £11.8m for the year (2014: £17.5m), £7.4m (2014: £7.8m) of which relates to the Group's share of the costs of the Financial Services Compensation Scheme. The levy is charged to the Society and other regulated deposit takers, which compensates savers and investors for losses when financial institutions fail. Charges for other provisions (£4.4m; 2014: £9.7m) relate mainly to professional indemnity claims made against Connells' Survey and Valuation business and commission and clawback rebates, which arise in the ordinary course of business.

Taxation

The Group's effective tax rate is 22.8% (2014: 22.4%) compared with the standard rate of UK corporation tax of 20.25% (2014: 21.5%). The major impact on the effective rate for the year is the cost of the Connells management incentive scheme, which is not deductible for tax purposes. However this is partly offset by non-taxable income and the impact of lower tax rates on profits made by our Guernsey-based retail banking operation, SIL.

The table below shows the total UK tax contribution made by the Group in the year:

UK taxes borne in the year	2015 £m	2014 £m
Corporation tax	32.5	31.7
Taxes on property	8.0	7.6
Employment taxes	25.3	26.5
Irrecoverable VAT	6.6	8.0
	72.4	73.8

More detailed tax disclosures are provided in notes 10 and 27 to the Accounts and in the Country by Country Reporting section on page 165.

Other comprehensive income

During the year the Group recorded £11.9m (net of tax) of other comprehensive income (2014: expense of £(6.5)m). This mainly consisted of a £7.3m unrealised gain resulting from an increase in the fair value of the Group's shareholding in Zoopla. The £7.3m gain is based on the quoted share price as at 31 December 2015 and has been recognised in the available-for-sale reserve. The remeasurement of retirement benefit obligations resulted in a gain of £5.7m (before tax) through other comprehensive income (2014: loss of £(22.8)m). Various other movements in the Society's available-for-sale and cash flow hedging reserves account for the remainder of the overall movement in the Group's other comprehensive income.

Financial position

Our strong financial position is analysed below by our key balance sheet areas – loans and advances to customers, liquidity, and retail and wholesale funding.

Loans and advances to customers

Lending to our members is at the core of the Society's underlying purpose and our lending activity focuses primarily on secured lending on residential properties through mortgage intermediaries. During the year the Group delivered a record level of mortgage growth, with gross mortgage advances totalling £3.7bn (2014: £3.0bn), whilst net lending (being mortgages advanced during the year less mortgages redeemed and repaid) was up 18.3% to £1.5bn (2014: £1.3bn). The majority of the Group's gross mortgage advances were in the form of residential mortgages for the Society's customers, which amounted to £3.5bn (2014: £2.8bn).

The Group's overall loans and advances have increased by 11.9% to £14.4bn from £12.8bn at the end of 2014 as set out in the table below:

	2015 £m	2014 £m
Residential mortgages (including buy-to-let)	13,457.0	11,926.2
Equity release mortgages	273.0	273.9
Commercial mortgages	354.0	382.1
Other lending:		
Debt factoring loans	71.6	63.8
Other loans	44.5	45.9
Gross balances	14,200.1	12,691.9
Impairment provisions	(61.8)	(58.9)
Fair value adjustment for hedged risk	224.9	203.8
	14,363.2	12,836.8

The increase seen in our lending is a significant achievement against our strategic objectives of growing both our mortgage and savings balances, and importantly it has been achieved without extending our credit risk appetite. The Group's mortgage portfolio remains well diversified by product type and geographical location, and the average loan-to-value (LTV) for the overall residential mortgage portfolio remains low at 48.5% (2014: 50.3%), with the average LTV on new lending for the Society at 63.6% (2014: 65.8%). The Group continues to effectively manage those mortgage accounts in arrears, as demonstrated by our performance of only 0.91% (2014: 1.20%) of mortgages being in arrears by three months or more in comparison to the industry average of 1.12% (2014: 1.30%) of mortgages in arrears by more than three months (source: Council of Mortgage Lenders).

Residential mortgages in arrears by three months or more	2015	2014
Society		
Number of cases	450	493
% of Society book	0.44%	0.52%
Impairment provision on residential mortgages (excluding equity release)	£6.8m	£8.2m
Amber Homeloans (Amber)		
Number of cases	415	554
% of Amber book	6.64%	8.13%
Impairment provision on residential mortgages	£13.4m	£16.2m
North Yorkshire Mortgages (NYM)		
Number of cases	198	256
% of NYM book	5.54%	6.45%
Impairment provision on residential mortgages	£5.0m	£4.9m
Skipton International (SIL)		
Number of cases	-	-
% of SIL book	-	-
Impairment provision on residential mortgages	-	-
Total		
Number of cases	1,063	1,303
% of total book	0.91%	1.20%
Impairment provision on residential mortgages (excluding equity release)	£25.2m	£29.3m

The Group's commercial mortgage portfolio, which was closed to new lending in 2008, reduced in the year by 7.4% to £354.0m as we continue to manage down these balances. The average LTV of this portfolio also reduced to 56.1% from 56.7%. The mortgage balances of Amber and NYM continued to run off during the period and reduced by 9.4% to £1.3bn, as these portfolios are also closed to new lending. Close monitoring of the Group's exposure to potential losses on these outstanding loans remains a key part of our credit risk strategy.

We continue to provide support for our customers who find themselves in financial difficulty and where appropriate we will apply a policy of forbearance, which could include arrears capitalisation, a reduction in the monthly payment, a conversion to interest only or a mortgage term extension, based on the customer's individual circumstances and needs. Ensuring a fair outcome for our customers is central to our strategy of forbearance, and further details on this can be found in note 36 to the Accounts.

Liquidity

The Group holds liquid assets of an appropriate quality to ensure it can meet its financial obligations as they fall due, and to counter any economic uncertainty. Whilst it is vital that the appropriate level of liquid assets is maintained at all times, holding excessive liquidity can be costly and so maintaining the appropriate balance of high quality liquid assets is fundamental to the Group's strategy and liquidity management.

The Group's liquid assets increased slightly in the year to £2,637.8m from £2,594.1m at 31 December 2014. The Group continues to closely manage its liquidity by balancing the need to hold healthy levels of liquid assets against the cost of holding excess liquidity, resulting in a reduction in the liquidity ratio (as a percentage of shares, deposits and borrowings) from 18.36% to 16.95%.

As well as liquid assets held on the balance sheet, the Society also has access to additional liquid assets in the form of Treasury Bills which have not been used in secured funding transactions (£631m; 31 December 2014: £163m), and therefore are not included in the above liquidity ratio but help in meeting the Society's regulatory requirements.

The Group's treasury investments are held to provide liquidity and 99.9% (2014: 96.7%) of the Group's treasury investments are rated A3 or better. The Group's policy is that initial investments in treasury assets are typically A3 or better (with the exception of some building societies, where separate credit analysis is undertaken).

The Liquidity Coverage Ratio (LCR), a new regulatory measure, became a minimum regulatory requirement in the UK in 2015. The LCR is designed to ensure that financial institutions have sufficient high quality liquid assets available to meet their liquidity needs for a 30 day liquidity stress scenario. Financial institutions throughout the UK are required to have a minimum LCR position of 80% under the transitional arrangements, however the Group's internal limit for this measure is to always be above 100%. The Group's LCR position has been maintained above both the regulatory and internal limit set by the Board throughout the year.

The Group regularly conducts an Internal Liquidity Adequacy Assessment Process (ILAAP) in accordance with the Prudential Regulation Authority's (PRA) liquidity guidelines, and the Board remains satisfied that the Group has sufficient liquid assets at its disposal in order to meet its obligations as they fall due.

Funding

The Society continues to retain a strong retail base, and places less reliance on the wholesale markets. Finding the right mix of retail and wholesale funding is essential to the Group achieving both its retail savings and lending growth objectives. At 31 December 2015, £12,828.2m (2014: £11,467.5m) of our funding comes from retail savings (excluding SIL) representing 87.8% (2014: 85.9%) of our total funding (excluding SIL).

Retail funding

The launch of the Government's FLS in August 2012, which the Society continued to participate in during 2015, has resulted in ongoing availability of relatively low cost retail funding in comparison to the cost of retail funding prior to the launch of the FLS. However as a mutual building society we remain committed to providing savers with competitive returns along with offering excellent customer service, which is reflected in the increases in retail savings balances seen during the year.

In addition to our UK retail funding, the Group also accepts deposits through our Guernsey-based subsidiary, SIL. SIL has again increased its retail funding base and offshore deposits in the year, to £1,080.9m (2014: £899.2m). These balances are included in 'Amounts owed to other customers' within the Group Statement of Financial Position.

Wholesale funding

The Society accesses the remainder of its funding through the wholesale markets. Whilst we are committed to maintaining the majority of the Society's funding through retail deposits, there are certain benefits that wholesale funding brings such as the term of funding, which positively impacts the competitive mortgage rates we can offer our customers. At 31 December 2015, £1,653.0m of our funding came from the wholesale markets as analysed by composition below:

	2015 £m	2014 £m
Repo and other secured agreements	**651.2**	691.1
Deposits	**393.0**	342.7
Certificates of deposit	**21.1**	7.0
Medium term notes	**0.1**	0.1
Securitisation	**587.6**	723.5
	1,653.0	1,764.4

The Group's wholesale funding balances in the above tables exclude offshore funding in our Guernsey-based subsidiary, SIL, as shown below:

	2015 £m	2014 £m
Amounts owed to credit institutions	**735.6**	789.8
Amounts owed to other customers	**1,389.5**	1,143.2
Debt securities in issue	**608.8**	730.6
Less: SIL funding	**(1,080.9)**	(899.2)
	1,653.0	1,764.4

The Society has continued to make use of the benefits of the Government's Funding for Lending Scheme, drawing down £230m of Treasury Bills during the year (2014: £540m). At 31 December 2015, in total the Society had drawn £880m of Treasury Bills under the scheme (31 December 2014: £650m). Some of these Treasury Bills have been used in secured funding transactions to obtain £248m of wholesale funding (31 December 2014: £485m) and this is included in our wholesale balances above. The Society also raised £300m of term wholesale funding, secured on a portfolio of residential mortgages, through a special purpose company, Beckindale No. 2 Limited.

The credit ratings assigned by two major credit rating agencies, Fitch and Moody's, were upgraded during the year, reflecting the strong performance in the Society's core Mortgages and Savings business and the de-risking of the Group following subsidiary disposals during 2014 and 2015. The Society's long and short term credit ratings as at 31 December 2015 were as follows:

	Long term	Short term	Outlook	Date of last rating action / confirmation
Fitch	BBB+	F2	Stable	4 June 2015
Moody's	Baa2	P-2	Stable	5 June 2015

The Class A Notes of all our rated securitisation transactions (Darrowby No. 1 plc, Darrowby No. 2 plc and Darrowby No. 3 plc) remain Aaa rated by both agencies.

Since the end of December 2015, through Darrowby No. 4 plc, the Society completed its fourth securitisation transaction, raising £300m of wholesale funding. The Class A Notes are also rated Aaa by both Fitch and Moody's.

Capital

Capital comprises the Group's general reserve, subscribed capital provided through Permanent Interest Bearing Shares (PIBS) and subordinated liabilities. Capital is ultimately held for the protection of depositors and other creditors by providing a buffer against unexpected losses.

Capital is calculated under the Capital Requirements Regulation (CRR) and the Capital Requirements Directive, together referred to as CRD IV. CRD IV was implemented on 1 January 2014 and introduced a number of changes to the capital framework. The impact of CRD IV in some areas was immediate; however in some cases the impact is being phased in under transitional arrangements up to 2022. Under CRD IV the key level at which we monitor our capital is at a prudential consolidation group level. The prudential group comprises the entire Group except Connells and a small number of other entities whose activities are not closely aligned with the core business. Further details regarding our capital position are set out in the Pillar 3 disclosures available on our website.

The PRA regulates the Group, which is required to manage its capital in accordance with the rules and guidance issued by the PRA under CRD IV. The capital requirements of the Group are monitored on an ongoing basis to ensure the minimum regulatory requirement is always met and that the Group has sufficient levels of capital for current and projected future activities.

The following table shows the composition of the prudential group's regulatory capital as at 31 December 2015 under CRD IV fully loaded and transitional rules and prepared on the Standardised basis:

	CRD IV Fully Loaded[1] 2015 £m	**CRD IV Transitional 2015 £m**	CRD IV Fully Loaded[1] 2014 Restated* £m	CRD IV Transitional 2014 Restated* £m
Common Equity Tier 1				
Reserves (note 2)	**1,059.4**	**1,059.4**	943.3	943.3
Prudential adjustments (note 3)	**(0.9)**	**(0.9)**	(0.9)	(0.9)
Deductions from Tier 1 capital (note 4)	**(7.4)**	**(7.4)**	(11.1)	(11.1)
Deduction of unrealised gains on available-for-sale debt securities	**-**	**-**	-	(2.6)
Deduction of cash flow hedging reserve	**3.2**	**3.2**	5.3	5.3
Total Common Equity Tier 1	**1,054.3**	**1,054.3**	936.6	934.0
Additional Tier 1 Capital – PIBS (note 5)	**-**	**63.0**	-	72.0
Total Tier 1 capital	**1,054.3**	**1,117.3**	936.6	1,006.0
Tier 2				
Subordinated liabilities (note 5)	**2.4**	**32.4**	4.4	37.7
PIBS (note 6)	**40.0**	**27.0**	40.0	18.0
Total Tier 2 capital	**42.4**	**59.4**	44.4	55.7
Total Own funds	**1,096.7**	**1,176.7**	981.0	1,061.7
Risk weighted assets				
Retail mortgages	**4,941.7**	**4,941.7**	4,454.9	4,454.9
Commercial mortgages	**334.0**	**334.0**	359.3	359.3
Treasury assets	**332.9**	**332.9**	413.4	413.4
Other assets (note 7)	**321.5**	**321.5**	297.0	297.0
Operational risk	**346.3**	**346.3**	297.0	297.0
Market risk	**-**	**-**	-	-
Total risk weighted assets	**6,276.4**	**6,276.4**	5,821.6	5,821.6
Capital Ratios				
Common Equity Tier 1 (CET 1) (%) (note 8)	**16.80**	**16.80**	16.09	16.04
Tier 1 (%) (note 8)	**16.80**	**17.80**	16.09	17.28
Total capital (%) (note 8)	**17.47**	**18.75**	16.85	18.24

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings (fully loaded and transitional) and a reclassification of fair value adjustments under CRD IV rules (fully loaded only). Further details on the change in accounting policy are provided in note 1b) to the Accounts.

Notes

1. The key impact on 'Own funds' of the CRD IV fully loaded rules are that all existing additional Tier 1 and Tier 2 instruments that become ineligible as capital by 1 January 2022 are excluded in full.
2. Reserves consist of the general reserve, unrealised gains / losses on available-for-sale assets and the cash flow hedging reserve.
3. Prudential adjustments include deductions to capital for deferred tax and a valuation adjustment ('AVA') on fair value assets. AVA has been applied to prudently provide for the downside of fair value exposures that are intrinsically subjective in nature.
4. Under PRA rules intangible assets (including goodwill) must be deducted from regulatory capital.
5. The PIBS and subordinated liabilities are disclosed at par value, therefore the associated fair value adjustments for hedged risk are excluded. Subordinated liabilities with less than five years to maturity are amortised from a capital perspective.
6. Under CRD IV all of our PIBS will be phased out of Tier 1 capital as they fail to satisfy the CRD IV requirements. However £40m of our PIBS will continue to satisfy the criteria for Tier 2 capital and will therefore be phased into Tier 2.
7. Other assets include capital required for debt factoring loans, property, plant and equipment, the cost of investment in subsidiary companies outside the prudential group, other debtors and the fair value of hedged assets.
8. Calculated as relevant capital divided by risk weighted assets.

The increase in Own funds (total capital) during 2015 was driven by the accumulation of profits during the year, which are added to the general reserve.

During the year the Group has continued to perform regular stress tests on its capital base, and these tests have consistently demonstrated a capital surplus above requirements after allowing for severe stress scenarios.

Leverage ratio

The leverage ratio is defined as the ratio of Tier 1 capital to total exposure, i.e. total assets per the Statement of Financial Position (subject to some regulatory adjustments).

Following the European Commission's adoption on 10 October 2014 amending the CRR definition of the leverage ratio, we have applied this definition to calculate a leverage ratio at a prudential group level, being the key consolidation level at which the Group is regulated under CRD IV.

Fully loaded leverage ratio – prudential group	**2015**	2014 Restated*
Leverage ratio (%) (Tier 1 capital / LR Exposure measure) (note 1)	**6.1**	5.9

* The comparative figure has been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings and a reclassification of fair value adjustments under CRD IV rules. Further details on the change in accounting policy are provided in note 1b) to the Accounts.

Note

1. Tier 1 capital is based on the end-point definition as set out in the CRR text.

Pension funds

As described in note 28 to the Accounts, during 2015 the Group managed three funded defined benefit pension schemes which merged into two schemes on 31 January 2016. The aggregate valuation of these defined benefit schemes at 31 December 2015 resulted in a deficit of £65.2m (2014: £73.0m) using the methodology set out in IAS 19 *Employee Benefits*.

We continue to take steps to manage this deficit, and both schemes are closed to new members and future accrual of benefit. Additional contributions totalling £21.9m have been paid into the schemes in the last five years. We have also undertaken a number of other initiatives aimed at managing the funding deficit and associated long-tail risk including early retirement exercises and enhanced pension transfer exercises.

We will continue to monitor the deficit on the schemes to manage the funds in a responsible manner, with the aim of ultimately eliminating the actuarial funding deficit.

We also operate defined contribution stakeholder schemes into which eligible employees are automatically enrolled.

Performance by division

The Group's results from continuing operations by division were as follows:

	2015 **£m**	2014 Restated* £m
Mortgages and Savings	**104.8**	98.4
Estate Agency	**62.5**	62.2
Financial Advice	**(1.8)**	1.4
Investment Portfolio	**1.4**	5.2
Sundry incl. inter-divisional adjustments^	**(20.0)**	(11.4)
Profit before tax (PBT)	**146.9**	155.8

^ Sundry including inter-divisional adjustments relates primarily to the elimination of inter-divisional trading, the write down of goodwill arising on consolidation relating to subsidiary investments and the cost of the Connells management incentive scheme.

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b) to the Accounts.

Mortgages and Savings

The Mortgages and Savings division, the Group's core division, saw a strong performance, again increasing profits during the year. PBT increased by 6.5% to £104.8m (2014: £98.4m).

The main driver for the increase in profits was the increase in net interest income, which increased by 4.4% to £219.8m from £210.6m in 2014. The Group net interest margin at 1.33% reduced slightly in the year as discussed further on page 20.

Group mortgage balances increased by 11.9% to £14.2bn (2014: 11.2% to £12.7bn) due to the increase in lending within the Society, achieved without extending our credit risk appetite or compromising the quality of our mortgage assets. Retail balances increased by 11.9% to £12.8bn (2014: 11.7% to £11.4bn) representing our commitment to ongoing excellent customer service, coupled with competitive savings rates for a growing number of members.

The division saw an increase in costs in 2015, a continuation of the upwards trend in our cost base which reflects investment across all areas of the organisation during the year, enabling us to focus on providing high levels of customer service and customer intimacy.

The impairment charge on loans and advances to customers for the division fell to £8.4m (2014: £13.0m) as discussed on page 21, and provisions for liabilities charges for the division also reduced to £7.5m (2014: £8.0m) as discussed on page 21.

The division's Channel Islands operation, SIL, again saw growth during the year, delivering profits of £13.7m (2014: £12.2m), as it grew both its mortgages and savings balances by 13.8% and 20.2% to £890.9m and £1,080.9m respectively (2014: £782.8m and £899.2m respectively). The quality of SIL's mortgage book is excellent with no cases in arrears by three months or more and, currently, there is no impairment provision against any of its mortgages.

Our specialist lending businesses, Amber and NYM, reported an aggregate profit before tax of £8.8m (2014: £4.8m). Due to the specialist nature of these mortgage portfolios, impairment provisions and arrears are generally higher than those reported in the Society, and the aim of these businesses is to manage the mortgage portfolios carefully through a proactive collections process with a view to running down these mortgage balances completely. During the year both companies continued to improve the performance of their mortgage portfolio, with the number of mortgages in arrears by three months or more improving to 6.2% (2014: 7.5%), and aggregate mortgage balances decreasing in the year to £1,300.3m from £1,435.8m.

Estate Agency

The Group's estate agency operations are carried out through the Connells Limited group of companies. Performance highlights are outlined below:

	2015	2014
Total income	£354.8m	£337.2m
Profit before tax	£62.5m	£62.2m
Movement in:		
Estate agency house exchanges	+1%	+11%
Residential lettings properties under management	+17%	+21%
Number of mortgages arranged	+23%	-6%
Surveys and valuations carried out	+12%	+10%
Number of conveyancing transactions arranged	+10%	+14%

Connells took advantage of an improving housing market during 2015, delivering another good result. Whilst overall profit before tax was only marginally above 2014, the prior year included £10.1m profit from Connells' disposal of part of its shareholding in Zoopla Property Group Plc on that company's flotation in June 2014 (2015 includes a profit of £0.3m on a further sale of shares). Excluding these, Connells profits were up 19.4% year-on-year. The group's continuing investment in all parts of the business, including in the digital / online arena, coupled with a number of business acquisitions, continues to generate returns to drive forward the financial results of the business. Notably, in October 2015 Connells acquired Gascoigne Halman, an established and successful 18 branch estate agency business in South Manchester and Cheshire; and in November added the online estate agency hatched.co.uk Limited - Connells' venture into online estate agency.

Following a downturn in the UK housing market during the second half of 2014, Connells entered 2015 with a residential sales pipeline 6% lower than the previous year. However, the UK housing market continued to improve throughout 2015, and sales activity increased as the year progressed. The market is still characterised by rising property prices but a lack of properties being brought onto the market, which constrains the number of sales able to be made. Nevertheless, the number of properties Connells exchanged contracts on in the year was 1% above 2014 (excluding properties sold by Gascoigne Halman).

Despite recent tax changes on landlords announced by the UK Government, the growth of the private rented sector in the UK continues and looks set to expand further in the longer term. Connells has sought to take advantage of this and continues to invest in its lettings capability, opening a lettings capability in 50 branches during 2015 and acquiring several small lettings portfolios. As a result, Connells has increased its number of properties under management by 17% during the year.

In financial services, Connells is now reaping the benefit of the investment made in its processes following the implementation of the Mortgage Market Review regulations during 2014 and it increased the number of mortgages it arranged by 23% year-on-year. Connells continues to invest in this area of its business, ensuring that its customers continue to receive a good experience and outcome.

Connells Survey and Valuation continues to invest in surveyor numbers and roll out new technology and process improvements. The number of qualified surveyors increased by 11% from 2014 and allowed the business to undertake 12% more cases during the year. Additionally, this part of the business continues to win new panel management contracts with lenders.

Income derived from conveyancing increased by 9% during 2015 with the number of cases handled being up by 10%. The group's conveyancing service is an important aspect of offering customers a smooth property experience, in what can often be a stressful time for customers.

Financial Advice

Following the sale of Pearson Jones plc during the year, the only company remaining in the Financial Advice division is Skipton Financial Services (SFS).

SFS made a loss of £(1.7)m during the year, down from a profit of £0.2m in 2014. The company has seen a difficult year in 2015, principally driven by a lower proportion of new clients. In addition to this, some income streams have ended as a result of regulatory changes to trail income from customers, although there has been a decrease in the rebates provided to customers as part of their ongoing monitoring service proposition due to improved fund performance in the year. It is for these reasons that the decision was taken by the SFS Board to restructure the company to ensure SFS is sustainable. This resulted in a number of redundancies and restructure costs of £1.3m being incurred in late 2015, which is included in the £(1.7)m loss for the year. The Group remains fully committed to providing financial advice to its customers and on 21 January 2016 announced, subject to regulatory approval, that the assets and business of SFS will be hived-up into Skipton Building Society, in order to form one stronger organisation better aligned to meet the needs of our customers.

The total loss for the division, including the loss on disposal and the trading profits of Pearson Jones until its disposal, was a loss of £(1.8)m (2014: profit of £1.4m).

Investment Portfolio

The Investment Portfolio reported a profit before tax of £1.4m, down from £5.2m in 2014. The reduction in profits is predominantly due to the profit on disposal of The Private Health Partnership of £2.2m and the profit on deemed disposal of part of the Group's associate holding in Wynyard Group Limited of £2.3m in 2014. In 2015, there was a further deemed disposal of the Group's holding in Wynyard Group, following share issues by Wynyard to which we did not subscribe, which gave rise to a profit of £1.1m. In addition, contingent consideration was received from the sales of The Private Health Partnership Limited (sold in 2014) and Mutual One Limited (sold in 2013), totalling £0.7m.

Results for the subsidiaries that remain in this division, namely Jade Software Corporation Limited (Jade) and Skipton Business Finance Limited (SBF), were a loss of £(1.3)m and a profit of £3.2m respectively (2014: loss of £(0.7)m and profit of £2.9m respectively). SBF, an invoice discounting and debt factoring business, continued to deliver strong revenue and profit growth. It expanded its geographical footprint by opening a new Southern office in Bracknell in 2015. In contrast, Jade continued to be loss making as it invested in programming and sales resource to expand its digital offering and ports logistics software business.

Inter-divisional adjustments

Inter-divisional adjustments (which in 2015 amounted to a cost of £(20.0)m; 2014: £(11.4)m) relate primarily to the elimination of inter-divisional trading and the costs of the management incentive scheme for the senior managers at Connells Limited. For further details on the increase in the charge for the management incentive scheme in the year, refer to the administrative expenses section of the financial review on pages 20 and 21; and for details of the calculation of the liability and the assumptions used see note 25 to the Accounts.

Other inter-divisional adjustments during the period amounted to £(4.1)m (2014: £(6.0)m).

Principal risks and uncertainties

As a result of its normal business activities, the Group is exposed to a variety of risks. The Group has established a number of committees and policies to successfully manage these risks. These principal risks and uncertainties are set out in the Risk Management Report on pages 50 to 56 and in notes 34 to 36 to the Accounts.

This Strategic Report was approved by the Board of Directors on 23 February 2016 and signed on behalf of the Board by:

David Cutter

David Cutter
Group Chief Executive

Bobby Ndawula

Bobby Ndawula
Group Finance Director

Corporate Responsibility Report

Introduction

Understanding our corporate responsibility is an important element in how the Society operates. We aim to act responsibly with regard to the environment and communities in which we operate and provide opportunities to our customers, our people and our communities to let us know how we are performing. We believe it is only with their support that we can make a positive difference.

Our Customers

The Society seeks feedback from customers through a number of surveys, including some which are undertaken by third parties, with each focusing on a particular aspect of a customer's relationship with us. One of these measures net customer satisfaction. We do this quarterly, using an independent third party to ask our customers about their levels of satisfaction with the service they have received. In 2015 net customer satisfaction was 88% (2014: 88%), demonstrating the continued delivery of high quality products and services to our customers.

The Society also achieved an impressive rank of seventh in the KPMG Nunwood Customer Experience Excellence survey, and was the highest rated building society. In 2014, we achieved a rank of 13th and in 2013 we were 36th. The improved results highlight how previous feedback has been listened to and acted upon. We will continue to listen and seek to improve further during 2016.

In addition, we carry out face-to-face customer forums where we can gather more detailed and personal views through deeper conversations to improve our customer experience further still.

Our People

Employee engagement

The experience our employees have at Skipton is very important to the Society as we know that engaged people enjoy their work, perform well and ultimately deliver better service to our customers. We have had a number of years of steady progress in relation to engagement, as measured by our independent annual confidential survey of employee views, seeing our employee engagement figure increase for the fifth year in succession and reach a record level at 90% this year.

For the first time, the Society was delighted to enter *The Sunday Times* 100 Best Companies To Work For. Entering this survey enables the Society to understand our people's views, benchmark our approach to investing in our people, and provides valuable external recognition, helping to attract more talented people to work for the Society.

Developing and rewarding our people

During 2015 we built on the support provided to our customer facing teams by rolling out programmes such as 'Delivering Service Excellence' and 'Managing Service Excellence' into our Head Office. For us, it is important that all our employees understand how they play a part in helping our customers, regardless of which part of the business they work in.

We continue to invest in leadership development, as we recognise our people leaders make a difference to how engaged our people feel at work and consequently how they perform, enabling them to deliver great customer experiences.

We also know that rewarding our people fairly for the work they do is important. In 2015 we have introduced some changes to our pension scheme to encourage our people to save more. In the year 918 people increased their pension contributions, resulting in 875 of them receiving greater contributions from the Society.

Apprenticeships and early careers

We launched our innovative new apprenticeship programme in 2015, offering both internal and external applicants the opportunity to work in a number of different business areas including branches, telephony-based Skipton Direct, Operations and specialist areas, whilst gaining qualifications in 'Providing Financial Services' and 'Customer Services'.

We have forged closer links with local schools in Skipton, seeking to develop work experience, university placement and other opportunities for the talented young people we have in our region.

Our Communities

The Society is committed to supporting the communities in which our members live and work. As the UK's fourth largest building society, our activities support community groups and charities right across the country.

A key priority is to provide support that offers tangible community benefits and our flagship community programmes are committed to this ethos.

BUSINESS IN THE COMMUNITY

Skipton is a member of Business in the Community (BITC), which encourages and supports organisations to develop their community and volunteering policies. They also provide opportunities for sharing best practice amongst member organisations.

Skipton branch colleague, Betsy Durham, presenting cheques to two local charities.

retiresavvy.co.uk

During the year we launched retiresavvy with a mission to create an online community to demystify retirement. Since then we have had almost 180,000 page views on the site and by December 2015 had reached 10,000 users per month, with Facebook posts reaching an average of 44,000 people a week.

We have featured a number of community bloggers from a 'stay at home dad' with retirement planning worries to a retired ex-teacher now following his dream and becoming a photographer. The site continues to grow on a daily basis and has ambitious goals for 2016.

The original Calendar Girls at the retiresavvy stand at the WI conference in Harrogate.

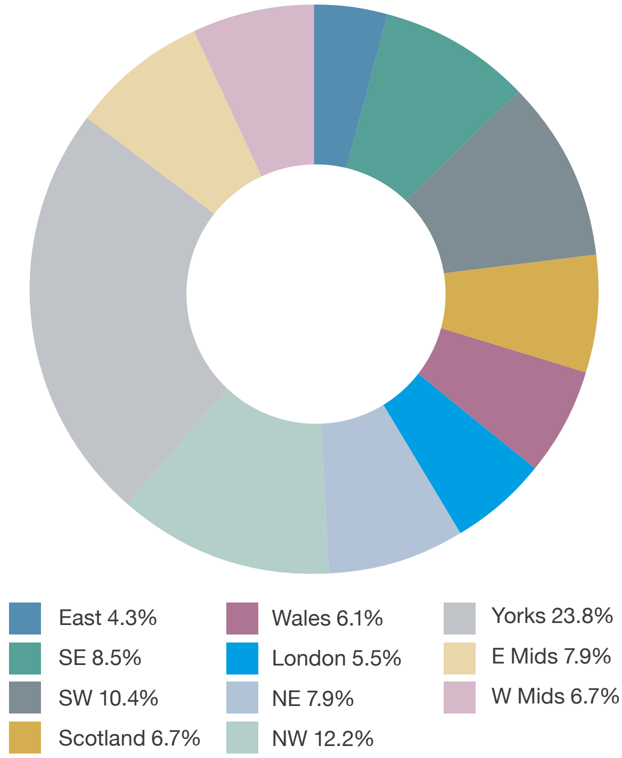
GRASSROOTS GIVING

Skiptongrg.co.uk

Grassroots Giving, our award winning community funding programme, has been helping small, local community groups since 2013. Over £240,000 has been donated so far. Grassroots Giving specifically supports small community groups, clubs and organisations that often struggle to access other mainstream funding channels. Aside from valuable funding, it also provides help in other ways; raising awareness of groups in their local areas, helping recruit volunteers and other fundraisers and providing valuable free resources.

As in previous years, the 2015 winners come from across the country, showing how Grassroots Giving has a national reach but delivers a very local positive impact.

% Winning groups by region



"This is a fantastic way of supporting, in our case, a grassroots sports club and we are really grateful for the award, which will enable us to provide indoor training facilities to the younger age groups over the winter months."

Sheffield Hillsborough Hawks - S. Yorkshire

"This is a truly worthwhile and altruistic initiative entirely consistent with a mutual society's values. Lots of small community groups will receive funding that they can't get from any other source. Well done."

Bramshott, Liphook & District Horticultural Society - Hampshire

London-based Friends of Fairy Dell, winners in Skipton's Grassroots Giving programme.

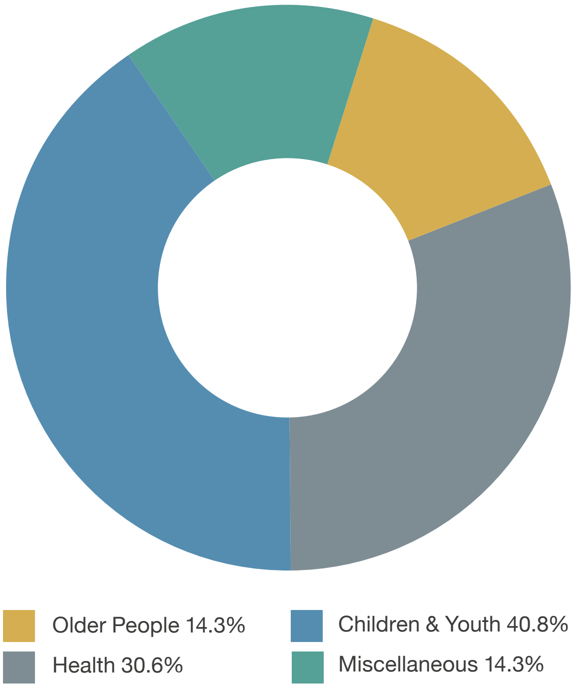
Skipton Building Society Charitable Foundation

[*skiptoncharitablefoundation.co.uk*](skiptoncharitablefoundation.co.uk)

Established in 2000, the Skipton Building Society Charitable Foundation has already donated around £1.75m to 500 groups. In 2015 we donated £150,000. Charitable sectors we supported in 2015 are shown opposite.

Aidan Walker, manager of Skipton's Bradford branch, hands over a cheque for £2,350 to Life Centre manager Rob Normington.

Number of donations by sector



Colleague volunteering

Giving something back isn't always about donating money. We support our people by enabling them to spend two days a year volunteering within their communities. This year, there has been more volunteering activity than ever, with colleagues involved in a wide range of activity with community partners such as Young Enterprise, Childline, the befriending service Silverline, the hospice Manorlands and local school Brooklands.

"The Financial Crime team is always keen to get more involved in the community. This year, we volunteered to help the Yorkshire Dales National Park restore a path at the foot of the stunning Malham Cove. It was really satisfying to be able to do this work and to tell walkers that Skipton Building Society encourages its employees to give something back."

Ian Walker – Head of Financial Crime

Skipton's Financial Crime team volunteered to repair paths at Malham Cove.

Community activities

Our 95 branches are heavily involved in supporting their local communities. From Aberdeen to Plymouth and from Norwich to Carlisle, Society colleagues across the UK have played their part. Some examples are as follows:

- Our Ivybridge branch donated £100 and the proceeds of a raffle to support their local Memory Café. This helps people diagnosed with dementia as well as their families.
- Otley branch colleagues joined their local Race for Life, a fundraising fun run organised by Cancer Research, and raised £686.
- Our Solihull branch arranged the Society's support for the St. Basil's charity 'BIG Sleep' to end youth homelessness in the West Midlands. Paul Fenn, our Branch Distribution Director, and Henry Varney, our Chief Operating Officer, joined over 20 colleagues in sleeping rough to raise vital funds for the charity.
- Our Keswick branch raised £2,000 for the Parkinson's UK Charity.

Colleagues at Otley branch took part in the Race for Life.

A further £43,000 has been raised by Society colleagues and our customers through a variety of other fundraising activities in 2015. From dress down Fridays and delicious home made cake baking stalls, to skydiving and marathon running, Society colleagues have again gone that extra mile to help others. The Society also held its first Family Fun Day at its Skipton Head Office in September and this helped raise over £3,600 which was split between two charities – Oxfam Trailtrekkers and Sue Ryder Care - Manorlands Hospice.

It was a real team effort at Skipton's first ever Family Fun Day.

The support from our customers to our fundraising has been as outstanding as ever. They have donated to a host of national fundraising schemes – including BBC Children in Need and the Macmillan World's Biggest Coffee Morning.

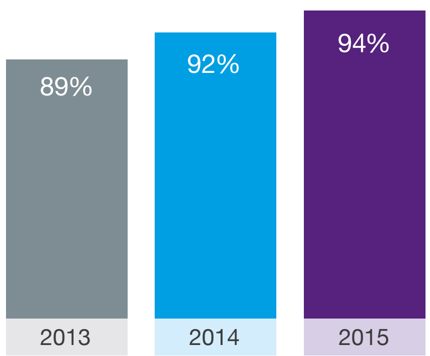
Our Environment

The Society is committed to reducing the impact on the environment from its operations, and in 2015 we have continued to make progress in this regard.

The Society has set up an environmental working group responsible for coordinating our actions to minimise our environmental impact through colleague education and 'Green Day' events.

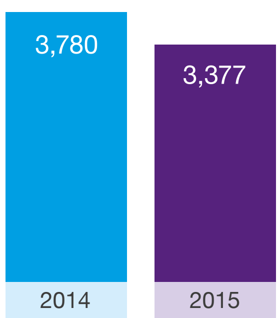
Recycling all the waste generated by the Society's operations has continued to improve and we have seen a 5% improvement rate over the last two years. In 2015 we recycled 94% of our waste and we strive to increase this figure further.

Recycling % rate



We are very conscious of the views of our customers on global climate change and to help mitigate our impact, we have been committed to reducing the CO_2 that we emit from our combined operations. Between 2014 and 2015, the Society reduced CO_2 releases by 403 tonnes, which equates to a reduction of 11%.

The Society - CO_2 tonnes emitted



We are also investigating further ways to mitigate the effect of CO_2 emissions. This includes energy efficient campaigns, the faster introduction of LED lighting where practical and the use of appliances which are the most energy efficient. In fact, the Society reduced its electrical use by 11% between 2014 and 2015.

We remain committed to supporting Skipton town's ambition to remain a Fair Trade town and we do select, wherever possible, Fair Trade goods and services for use in our restaurant and café.

The Society is also very conscious about the impact on the environment from our colleagues on their journey to work. Where appropriate, we encourage Head Office colleagues to work from home and reduce travel to meetings, thus reducing CO_2 emissions. We also participate in cycle to work, car sharing, walking and rail season ticket schemes.

Awards

This year has been a very successful one for the Society and it has received recognition in many areas for its commitment to providing the highest quality service as well as the support it provides to communities across the country.

The following awards were won in 2015:

- Institute of Customer Service UK Customer Satisfaction Awards 2015 – Customer Focus Award
- Investors in People Gold Standard 2015
- Business Moneyfacts Best Service from a Buy-to-Let Mortgage Provider 2015 (highly commended)
- Business Moneyfacts Best Cash ISA Provider 2015 (highly commended)
- Business Moneyfacts Best Building Society Savings Provider 2015 (highly commended)
- Personal Finance 2015/2016 Best Junior/Children's Savings Provider Winner (second year this award has been won)
- Legal & General Best Specialist Lender (for our new-build mortgages) – Skipton Intermediaries 2015
- Your Mortgage Best Building Society 2015
- Mortgage Finance Gazette Treating Customers Fairly 2015
- Financial Adviser Service Awards (5 stars) 2015
- Moneywise Customer Service Awards – Most Trusted Cash ISA Provider (highly commended)
- Moneywise Customer Service Awards – Most Trusted Savings Account Provider (trusted company)
- Mortgage Finance Gazette Community Award 2015 (for Grassroots Giving)
- Mortgage Finance Gazette Product Innovation (highly commended)
- Corporate Engagement Awards 2015 winner (for Grassroots Giving)
- Best Cash ISA Savings Provider and Best Savings Account Provider in the MoneySuperMarket 'Supers' Awards
- What Mortgage Best National Building Society 2015
- YourMoney.com Best Direct Junior Cash ISA Provider 2015

The Board of Directors

Mike Ellis, 64

Joined the Board 2011

Responsibilities: Chairman of the Board and the Nominations Committee.

Previous experience: Held various senior executive positions with Halifax Building Society and its successor Halifax plc. Board member of Halifax plc 1997-2001 and its successor HBOS plc, retiring at the end of 2004. Returned to HBOS plc late 2007 - Group Finance Director January 2008 to January 2009.

Other directorships: M H Ellis Consulting Limited and Leeds Theatre Trust Limited.

What I bring to the Board: Over 25 years' experience in financial services.

"I joined Skipton because it stands out for its excellent customer service and supports the local communities it serves. It's important to me that we provide financial security for our customers and are known for being an organisation that really cares. I understand the financial services industry and how we can work together to make Skipton the best it can be."

David Cutter, 54

Joined the Board 2000

Responsibilities: Group Chief Executive, Chairman of the Executive and Retail Credit Committees and member of the Asset and Liability Committee.

Previous experience: A Chartered Accountant, joined the Society as Head of Internal Audit.

Other directorships: Council member of the Building Societies Association and Trustee of the Craven Educational Trust.

What I bring to the Board: Over 20 years' experience working in many areas of the business, including periods as Operations Director and Group Corporate Development Director.

"I've been with Skipton for over 20 years and I still enjoy learning something new every day and seeing the culture of continual improvement we've developed over the years. Skipton is a trusted business which aspires to consistently provide excellent service and build strong relationships with its customers. It's important to me that I can lead a team to build a trusted, values-driven Society which inspires its people. My ambition for the business is for Skipton to thrive and be a beacon for our customers in a confusing financial world."

Marisa Cassoni, 64

Joined the Board 2012

Responsibilities: Chairman of the Audit Committee and member of the Nominations Committee.

Previous experience: Group Finance Director of John Lewis Partnership, Royal Mail Group, Britannic Assurance Group and Prudential UK Group. Member of the Accounting Standards Board 2005-2011 and the CBI Economics Committee 2001-2012. 15 years' Non-Executive experience of Directorships for listed companies in the UK and USA. Chair and Director Trustee and Governor of a number of UK charity and pension funds.

Other directorships: Non-Executive Director of AO World Plc, The People's Operator Plc, Enterprise Inns Plc and member of the Competition and Markets Commission.

What I bring to the Board: Chartered Accountant with 40 years' experience as a financial professional, 20 years as an Executive Board member across various customer facing industries, including financial services, and 15 years as a pension fund trustee, with nine years as Chair.

"Skipton has a strong and unique culture and brings important diversity to the marketplace. I believe businesses are about people. By employing the right ones, then nurturing and challenging them, you ensure success. As a former finance director with many years of practical experience, I can relate to what the teams I oversee are trying to do and offer the wider perspective which will help them to achieve their goal."

Denise Cockrem, 53

Joined the Board 2015

Responsibilities: Member of the Audit and Nominations Committees.

Previous experience: Over 20 years' experience in financial services in Barclays, RBS, Direct Line and RSA Insurance. Currently CFO for Good Energy plc, a fast growing AIM listed renewable energy supplier.

Other directorships: Good Energy plc and MacIntyre Care (charity).

What I bring to the Board: Financial experience combined with a passion for delivering excellent customer service and developing people.

"Customer service is really important to me and Skipton's reputation for this, and its investment in its people who deliver that, were strong drivers in attracting me to join. I enjoy being part of an organisation that really makes a difference to its customers and colleagues. I have experience in financial services in a variety of finance roles as well as being part of customer-centric and growing businesses."

Ian Cornelius, 47
Joined the Board 2012

Responsibilities: Commercial Director, member of the Executive, Retail Credit and Asset and Liability Committees and Chairman of the Skipton International Limited Board.

Previous experience: Commercial Director of Homeloan Management Limited, senior roles at Virgin Money, Bradford & Bingley, Capital One and Boots.

What I bring to the Board: A strong and clear focus on understanding and meeting the needs of our customers. Ensuring that we continually improve the products and services that we offer.

"I joined Skipton because it has strong values that resonate with my own and a great reputation for looking after its customers. I see my role as building on the heritage and reputation that Skipton already has, with the aim of becoming the very best place to go to for financial help and advice 'for life ahead' for both current and future generations."

Robert East, 55
Joined the Board 2011

Responsibilities: Chairman of the Risk Committee and member of the Nominations Committee.

Previous experience: 32 years with Barclays Bank including as Chief Risk Officer of Absa, South Africa and other leadership roles in retail and commercial banking. Leadership of Cattles Limited restructuring from 2009.

Other directorships: Chief Executive of Welcome Financial Services Limited and Non-Executive Director of Hampshire Trust plc.

What I bring to the Board: Extensive experience in, and understanding of, retail and commercial banking in the UK and internationally over 40 years.

"In 1976 I joined a branch of Barclays in South East London, first as the office junior and then as a cashier. Since then, I have spent 40 years working in financial services in many varied roles, seeing some of the best and some of the worst practices. This time has taught me that well-led and motivated employees will give great service to, and do the right thing for, their customers. I really believe in this. I joined Skipton because I saw a business with the same ambition and one where I could use my experience to help it deliver that ambition both now and in the future."

Bobby Ndawula, 41
Joined the Board 2015

Responsibilities: Group Finance Director, Chairman of the Asset and Liability and Model Governance Committees, member of the Executive and Retail Credit Committees and Chairman of our subsidiaries Amber Homeloans Limited and North Yorkshire Mortgages Limited.

Previous experience: A Chartered Accountant, who has held a number of senior positions in Group Finance and Financial Risk before appointment as Group Finance Director.

What I bring to the Board: 12 years' experience with the Society, including managing all aspects of financial risk and a desire to ensure that our customers' financial and service interests are safeguarded.

"Being part of an organisation which is values-led and has its members at the heart of everything it does keeps me highly motivated to do my best each and every day. I enjoy leading teams that look to embrace change and continuously improve the financial strength of the Society for the long term benefit of our members. My ambition for the business is for it to grow sustainably, so we can continue to provide more opportunities for people to save for their futures and buy their own homes."

Graham Picken, 66
Joined the Board 2012

Responsibilities: Member of the Audit, Risk and Nominations Committees and a Non-Executive Director of Connells Limited.

Previous experience: Senior positions at HSBC, including Executive Chairman of First Direct and Chief Executive of Forward Trust Group. Non-Executive Director then Chief Executive of Derbyshire Building Society 2005-2009.

Other directorships: Chairman of the FTSE listed HICL Infrastructure Company Limited and Non-Executive Chairman of Hampshire Trust plc.

What I bring to the Board: Wide experience of financial services and business management generally.

"My executive career was largely in retail banking but when I moved to non-executive duties I was attracted by Skipton's mutual ethos which demands and encourages a clear focus on the interests of the customer. I gain the greatest satisfaction from being part of, and contributing to, a growing and successful business and Skipton has more than fulfilled my expectations. Financial services never stands still and there will be new opportunities and challenges ahead. I would like to believe that by sharing my knowledge and experience of the wider industry with the Society, Skipton will maintain the momentum that has enabled it to prosper and serve its customers well."

The Board of Directors *(continued)*

Helen Stevenson, 55

Joined the Board 2013

Responsibilities: Member of the Risk, Remuneration and Nominations Committees.

Previous experience: 19 years with Mars Inc, Group Marketing Director of Lloyds TSB 2003-2006, Chief Marketing Officer of Yell Group 2006-2011.

Other directorships: Non-Executive Director of St Ives Plc, Non-Executive Director of Trinity Mirror Plc and member of Henley Business School Advisory Board.

What I bring to the Board: A passion for maintaining a strong connection in the boardroom between the customer and commercial agendas.

"I joined Skipton because I believe the mutual model serves customers particularly well in financial services and Skipton is well placed to continue to strengthen both its excellent customer service and financial stability. I am interested in creating a powerful connection between the customer and our business. I have deep experience of building strategies for businesses so that they make the right choices and continue to thrive in the context of a changing marketplace."

Cheryl Black*, 57

Joined the Board 2013

Responsibilities: Member of the Audit, Remuneration and Nominations Committees.

Previous experience: Non-Executive Director, Southern Water 2008-2015, Customer Service Director, Telefonica O2 2006-2011, Customer Service Director, Scottish Water 2002-2006, senior service and operations roles in the Telecoms and Utilities sectors.

Other directorships: Non-Executive Director at UNUM Limited and Telefonica UK Pension Trustee Limited.

Peter (Nimble) Thompson*, 69

Joined the Board 2009

Responsibilities: Deputy Chairman, Chairman of the Remuneration Committee and member of the Audit and Nominations Committees.

Previous experience: Deputy Chairman of Eversheds and Chairman of NG Bailey.

Other directorships: Deputy Chairman of the Institute of Directors, Non-Executive Director of Rushbond plc, TEP Electrical Distributors Limited and Governor of Giggleswick School.

* Cheryl and Nimble will be retiring from the Board at the conclusion of the Annual General Meeting on 25 April 2016.

Directors' Report

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31 December 2015.

The financial information given in this Directors' Report is taken from the statutory Accounts on pages 77 to 165 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Further unaudited information which allows comparison between 2015 and 2014 is set out in the Strategic Report on pages 12 to 28.

Business objectives

The business objectives of the Group are set out on pages 12 to 15 of the Strategic Report.

Business review and future developments

The Chairman's Statement on pages 6 and 7, the Group Chief Executive's Report on pages 8 to 11 and the Strategic Report on pages 12 to 28 report on the performance of the business and its future objectives.

Profits and capital

Profit before tax based on continuing operations for the year ended 31 December 2015 was £146.9m (2014: £155.8m). Total Group profit before tax was £146.9m (2014: £180.6m). Total profit after tax transferred to the general reserve was £113.4m (2014: £145.7m).

Total Group reserves at 31 December 2015 were £1,179.2m (2014: £1,053.0m) including the available-for-sale reserve of £31.7m (2014: £26.4m) and the cash flow hedging reserve of £(3.2)m (2014: £(5.3)m).

Gross capital at 31 December 2015 was £1,349.6m (2014: £1,244.6m) including £78.5m (2014: £98.0m) of subordinated liabilities and £93.5m (2014: £94.3m) of subscribed capital. The ratio of gross capital as a percentage of shares, deposits and borrowings at 31 December 2015 was 8.67% (2014: 8.81%) and the free capital ratio was 7.39% (2014: 7.38%). The Annual Business Statement on pages 166 to 170 gives an explanation of these ratios.

Mortgage arrears

Group mortgage balances at 31 December 2015 included 198 cases (2014: 272) either in possession or where payments were 12 months or more in arrears. The capital balances of these loans were £31.0m (2014: £44.7m). The total amount of arrears on these loans was £2.3m (2014: £3.4m).

Charitable donations

During the year the Group made charitable donations of £0.3m (2014: £0.2m), primarily through the Skipton Building Society Charitable Foundation. No contributions were made for political purposes (2014: £nil).

Creditor payment policy

The Group's policy concerning the payment of suppliers is to negotiate and agree terms and conditions with all suppliers and upon complete provision of goods and services, unless there is an express provision for stage payments, undertake to pay suppliers within the agreed payment period, usually 30 days. The number of trade creditor days as at 31 December 2015 for the Group was 12 days (2014: 14 days).

Principal risks and uncertainties

The principal risks and uncertainties are set out in the Risk Management Report on pages 50 to 56 and in notes 34 to 36. The risk management objectives and policies of the Group are also referenced in the Risk Management Report.

Employees

The Group remains committed to its policy of treating all employees and job applicants equally at all times. Our policy is that no employee, or potential employee, is treated less favourably on the grounds of age, race, colour, religion, nationality, ethnic origin, gender, marital status or sexual orientation. We also give all applications from disabled people full consideration in relation to the vacancy concerned and their own aptitudes and abilities. In the event of an existing employee becoming disabled, we make every effort to maintain their present position or to employ them in alternative suitable work.

We also aim to provide high quality relevant training and development opportunities to all employees, which enables them to achieve their full potential and helps the Group meet its corporate objectives.

The Board meets 10 times a year and is briefed regularly on key employee matters as they arise. There is a comprehensive internal communications structure to cascade relevant business information to employees throughout the organisation in an appropriate and timely way. The Society's subsidiary companies have similar arrangements in place to ensure that their employees are effectively managed.

The Society and certain Group companies recognise an independent employee trade union (Aegis), with which management meets regularly to consult and negotiate on a wide variety of matters and to which employees may make their views known on issues affecting their interests.

Property, plant and equipment

The Directors consider that the overall market value of the freehold and leasehold properties occupied by the Group, excluding the principal office of the Society, is in excess of the book value. In arriving at this view, the Directors have taken account of internal and external valuations of the Group's property portfolio. It is difficult to ascertain a reliable market value for the principal office of the Society, which is a special purpose facility; however the Board considers that its value in use to the Group is greater than its book value.

Directors' responsibilities in respect of the preparation of the Annual Accounts

This statement, which should be read in conjunction with the Independent Auditor's Report on pages 73 to 76, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts.

The Directors are responsible for preparing the Annual Report, Annual Business Statement, Directors' Report and the Annual Accounts in accordance with applicable laws and regulations.

The Building Societies Act 1986 (the Act) requires the Directors to prepare Group and Society Annual Accounts for each financial year. Under Article 4 of the IAS Regulation they are required to prepare the Group Annual Accounts in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Society Annual Accounts on the same basis.

The Group and Society Annual Accounts are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group and the Society; the Building Societies Act 1986 states that references to IFRS accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing these Annual Accounts, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the Annual Accounts on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

In addition to the Annual Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Group. The Annual Business Statement can be found on pages 166 to 170.

The Directors are also required by the Disclosure and Transparency Rules of the Financial Conduct Authority to include a management report containing a fair review of the business; this is set out on pages 16 to 28 of the Strategic Report, and a description of the principal risks and uncertainties facing the Group are set out in the Risk Management Report on pages 50 to 56.

The Directors have decided to prepare voluntarily a Report on Corporate Governance as if the Society were required to comply with the Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority in relation to those matters.

A copy of this Annual Report and Accounts is placed on the Society's website. Information in respect of the Capital Requirements (Country-by-Country Reporting) Regulations 2014 is included as an annex to these Annual Accounts on page 165.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society, in accordance with the Act; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibilities in respect of 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 Strategic Report on pages 12 to 28 and in the Risk Management Report on pages 50 to 56. In addition, notes 33 to 36 of the Annual Accounts include the Group's objectives, policies and processes for managing its liquidity risk, details of financial instruments and hedging activities, and its exposure to credit risk, liquidity risk and market risk.

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, which take into account potential changes in trading performance and funding retention, indicate that the Group expects to 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 and have, therefore, continued to adopt the going concern basis in preparing these Annual Accounts, as explained in note 1a).

Directors' statement of longer term viability

In accordance with revisions made to the UK Corporate Governance Code effective for accounting periods commencing on or after 1 October 2014, the Directors have assessed the viability of the Group until the end of 2020, taking into account the principal risks facing the Group as detailed in the Risk Management Report on pages 50 to 56. Specifically, the Directors have taken into account those risks which could threaten our business model, future performance, solvency and liquidity. These include the economic, regulatory and political environments.

The Directors have determined that a five year period is an appropriate period over which to provide the viability statement, based on the Group's five year corporate planning period and associated stress testing we carry out over this period. However, there is some degree of uncertainty surrounding the outer years of this financial planning period due to the inherent limitations of preparing longer term budgets.

Based on a robust assessment of the principal risks facing the Group over the next five years (until the end of 2020) as outlined in the Risk Management Report, the Directors have concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over this period. In arriving at their conclusion, the Directors have considered the following:

- The Group's business plans to the end of 2020, as well as stress testing carried out on these plans through the Group's Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process. The key economic stress test modelled reflected a market-wide fall in house prices of 30% and unemployment reaching 11% over the five year period, each of which would adversely impact on the level of losses experienced within the Group's loan portfolio.
- Reverse stress testing carried out by the Group, which considers scenarios specific to the Group that could cause the Group to fail. The Directors have concluded that any such scenarios are unlikely to materialise.
- The Risk Management Report, which includes the principal risks impacting the Group, and describes how these are mitigated and managed.
- A number of severe but plausible scenarios, arising from the principal risks, which are remote but if they arose could threaten the longer term viability of the Group.

Directors

The Directors of the Society during the year were as follows:

Mr M H Ellis	(Chairman)
Mr P J S Thompson	(Deputy Chairman)
Mrs C Black	
Ms M Cassoni	
Mrs D P Cockrem	(appointed 1 September 2015)
Mr I M Cornelius*	
Mr D J Cutter*	(Group Chief Executive)
Mr R D East	
Mr P R Hales	(retired 31 March 2015)
Mr R S D M Ndawula*	(appointed 23 February 2015)
Mr G E Picken	
Ms H C Stevenson	

* Executive Directors

Mr A P Bottomley was appointed as an Executive Director on 1 January 2016 and will stand for election to the Board at the Annual General Meeting (AGM) in April 2016.

Details of Directors' service contracts are disclosed in the Directors' Remuneration Report.

No Director of the Society had any interest in the shares of any Group undertaking as at 31 December 2015.

Auditor

In accordance with Section 77 of the Building Societies Act 1986, a resolution for the reappointment of KPMG LLP will be put to the forthcoming AGM of the Society.

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 Society's auditor is 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 Society's auditor is aware of that information.

Responsibility statement of the Directors in respect of the Annual Report and Accounts

The Directors who held office at the date of approval of this Directors' Report confirm that, to the best of their knowledge:

- the Annual Accounts, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Society; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Group's and Society's position and performance, business model and strategy.

Signed on behalf of the Board

Mike Ellis
Chairman
23 February 2016

Governance

Directors' Report on Corporate Governance

The Board believes that good governance is at the heart of a well-run business and is committed to complying with prevailing best practice. This report sets out the framework of how the Society operates and conducts its business in a prudent and well organised manner, thereby maintaining high standards of governance for the benefit of its current and future members.

Our approach is based on the principles and provisions of the UK Corporate Governance Code (the Code) published by the Financial Reporting Council (FRC) which applies to listed companies. This report benchmarks the Society against the prevailing version of the Code applicable to entities with accounting periods commencing on or after 1 October 2014. A copy of the Code is available at www.frc.org.uk.

The Board's philosophy is to comply with the Code, and the guidance issued by the Building Societies Association on it, to the extent that it is relevant to a building society. Section E of the Code requires the Chairman to discuss governance matters with major shareholders and relay their views to the Board as a whole. As a mutual organisation, owned by its members with each voting member having one vote, there are no major shareholders and hence this specific requirement is not relevant to the Society.

During 2015 the Board believes that the Society complied with the guidance issued by the Building Societies Association on the Code.

Governance framework

The Group comprises Skipton Building Society (the Society) and its direct and indirect holdings in numerous legal entities, many of which are regulated by the Financial Conduct Authority (FCA).

The Society's governance arrangements are designed to ensure that it meets the requirements and expectations of its members, employees and regulators through a framework which organises the Group into four divisions:

- Mortgages and Savings
- Estate Agency
- Financial Advice
- Investment Portfolio

The Society sits within the Mortgages and Savings division which also includes related subsidiaries Amber Homeloans Limited, North Yorkshire Mortgages Limited and Skipton International Limited, our Guernsey-based banking subsidiary.

On a day-to-day basis the Group Chief Executive, Mr Cutter, is responsible for ensuring that the Group meets its strategic and operational objectives as defined in the corporate plan. Mr Cutter is assisted by the Executive Committee, which comprises the Executive Directors and other Senior Society Executives, and which he chairs.

Each principal subsidiary of the Group is governed by a Board which normally contains at least two Society Executives as shareholder Directors (appointed by the Society) and the business' own executive management. In addition, Mr Picken, a Society Non-Executive Director, is also a Non-Executive Director of Connells Limited. These Boards are responsible for the prudent management of the business, within delegated authorities, to meet the strategic and operational objectives as defined in their corporate plans.

The Board's 'Principles of Governance', which are summarised below, provide the framework through which the Society establishes its systems and processes concerned with the overall direction, effectiveness, supervision and control of the Group.

Directors

The role of the Board

The Board's terms of reference clearly set out its responsibility for the overall stewardship of the Group within the context of the Society's 'Principles of Governance' which are:

- **Governing body** - *The Society is headed by an effective Board which is responsible for the long term success of the Group.*

  The Board formulates strategy and establishes the Society's risk appetite and balance sheet strategy. It is organised to have a proper understanding of, and competence to deal with, the current and emerging issues facing the business of the Group, exercising independent judgement and effectively reviewing and challenging the performance of management.

- **Management and oversight** - *The Society's management and oversight framework enables the Board to provide strategic guidance to, and effective oversight of, management throughout the Group.*

  The governance framework clarifies the respective roles and responsibilities of Directors and Senior Executives in order to facilitate Board and management accountability to both the Society and its members and ensures a balance of authority such that no single individual has unfettered powers. It has clear, risk-based lines of sight into activities to support challenge and oversight, enabling the Board to obtain assurance over the integrity of reporting and the adequacy of the control framework and effectiveness of control implementation.

- **Recognise and manage risk** - *The Board has a sound system of risk oversight, risk management and internal control supported by timely and transparent reporting.*

  This framework identifies, assesses, manages and monitors risk on an ongoing basis. It informs Senior Executives and the Board of material changes to the risk profile of the Society or any of its divisions and facilitates challenge of the effectiveness of actions taken to mitigate risk. It is designed to be forward looking in approach so as to reduce both the likelihood and the impact of risks crystallising.

To support delivery of this, it has established a framework of authorities which maps out the structure of high level delegation below Board level and specifies those issues which remain the responsibility of the Board. The Board also has a general duty to ensure that the Group operates within the Society's Rules, relevant laws, regulations and guidance issued by relevant regulatory authorities and that proper accounting records and effective systems of internal control are established, maintained and audited.

The Board has agreed a formal schedule of matters which are reserved to it and has also delegated authority in other matters to a number of Board Committees, as described on page 44 of this report. The Board has set clear terms of reference for each of these Committees and has established an organisational structure with clearly defined and documented delegated authority to Executive management, together with reporting systems for financial results, risk exposure and control assessment.

Board meetings

The Board meets at least 10 times per year and the Non-Executive Directors also meet, without Executive Directors present, at least once a year. The attendance record of each Director at these meetings and each Committee member at relevant Board Committee meetings is set out on page 45.

The Board also holds two strategy meetings each year, in June and December, where the Group's strategic objectives are agreed, as are the financial and operational resources to deliver these.

Each month, the Board receives a comprehensive management information pack covering financial and non-financial information (including operational, customer service and people metrics), with risk being an integral part of the reporting. The relevant Executive Director or Senior Society Executive highlights appropriate matters including the performance of particular aspects of the business against targets.

The Board agenda also includes the following:

- Minutes of Board Committee meetings held before the previous Board meeting and verbal updates from the chairmen of Board Committees on the main issues discussed and matters agreed at recent meetings for which minutes are not available. This ensures that all Board members are kept up to date on the key discussions and decisions made by the Committees;
- Reports from both the Chairman and Group Chief Executive;
- Items for decision and key matters which need to be debated, including any new business initiatives;
- Matters for review which include updates on specific areas of strategy allowing the Board to keep up to date with developments and challenge progress; and
- Matters for information aimed at drawing to the Board's attention matters it should be aware of such as proposed regulatory change.

For the Board to be effective, the relationship between the Executive and Non-Executive Directors must be constructive and one of openness and respect. The Boardroom environment at Skipton is collegiate with all encouraged to contribute. The role of the Non-Executive Directors is not only to challenge but to support the Executive team and bring their experience to bear. To this end, the Non-Executive Directors are welcomed to meetings outside of the Committee structure which develops their understanding of the business while allowing the management teams to benefit from their experience and fully understand the non-executive perspective on particular issues.

Board composition

The Society's Rules detail the appointment process for Directors and require that the Board comprises not less than six and not more than 15 Directors. At 31 December 2015 the Board comprised 11 Directors; being three Executive Directors and eight independent Non-Executive Directors. Details of the Directors are set out on pages 34 to 36. This composition is designed to be able to meet the needs of the business and allow for efficient operation of the Board's Committees.

The Board considers all the Non-Executive Directors to have been independent at the time of their appointment and to have continued to be so in accordance with the criteria set out in the Code. None have previously been employed by the Group, have any direct business relations with the Society or any of its subsidiaries and have any personal or family ties with any of the businesses' advisers, Directors or senior employees.

The Chairman regularly reviews the size and composition of the Board and its Committees and these are reviewed formally by the Nominations Committee at least annually. This ensures that there exists the required mix of skills and experience on the Board and that succession planning is adequately addressed. The Board formally agreed its approach to this by approving a Board Composition Policy, a copy of which is available on our website. The Nominations Committee aims to ensure that the Board Committees are optimally resourced and are refreshed at appropriate intervals to avoid reliance on any one individual.

Non-Executive Directors

As part of their Board responsibilities, the Non-Executive Directors are responsible for bringing independent judgement to the Board, and for constructively challenging the Executive team. The Non-Executive Directors meet, without the Executive Directors present, at least annually to discuss relevant matters, including the performance of the Executive team.

Mr Thompson (Deputy Chairman) is the Senior Independent Director on the Board. Whilst the Senior Independent Director role is more pertinent within a quoted company, the role does provide a point of contact for members and other stakeholders with concerns which have failed to be resolved or would not be appropriate to pursue through the normal channels of the Chairman, Group Chief Executive or Group Finance Director. The Senior Independent Director also provides a sounding board for the Chairman and serves as a trusted intermediary for other members of the Board, if necessary, and meets with the other Non-Executive Directors, without the Chairman present, at least annually, in order to appraise the performance of the Chairman.

One of the criteria which the Board takes into consideration when recruiting a Non-Executive Director is his or her ability to have sufficient time to take on the position. In addition, throughout their term of office with the Society, Directors are required to inform the Board in advance of any other positions that they wish to take up so that the time commitment and any potential conflict of interest can be considered. The Society's letters of appointment to Non-Executive Directors give an indication of the time commitment required, although this will depend on Board Committee memberships; typically it involves at least three days per month on Society business. For the Chairman this will usually involve an average of two days per week. The letters of appointment also identify the key responsibilities of the Non-Executive Directors in relation to:

i) Strategy – constructive challenge and contribution to the development of strategy.

ii) Performance – scrutiny of the performance of management in meeting agreed business goals and objectives.

iii) Risk – obtaining assurance that financial controls and systems of risk management are robust and allow for production of accurate financial reporting.

iv) People – determination of appropriate levels of remuneration for Executive Directors and oversight of succession planning.

Copies of the letters of appointment of each of the Non-Executive Directors are available for inspection on request from the Group Secretary.

Chairman and Group Chief Executive

The offices of the Chairman and Group Chief Executive are distinct and are held by different individuals. The role of each is set out in their role profiles and terms of appointment.

The Chairman is responsible for leading the Board and for ensuring the Board acts effectively, promoting high standards of corporate governance. The Chairman is also responsible for communicating with the Society's members on behalf of the Board. He is independent and has no conflicting relationships or circumstances that might affect his judgement.

The Group Chief Executive has overall responsibility for managing the Society and the subsidiaries. He leads the Executive team and is responsible for implementing the strategies and policies agreed by the Board.

The Board elects its Chairman and Deputy Chairman annually at the Board meeting immediately following the Annual General Meeting (AGM).

Appointments to the Board

The Nominations Committee, which comprises all the Society's Non-Executive Directors and is chaired by the Society Chairman, leads the process for Board appointments and succession planning. The Committee, at least annually, reviews the structure, size and composition (including diversity) of the Board to ensure it contains the required balance of skills, knowledge and experience relevant to the activities of the Group.

The Nominations Committee also carries out an annual review of succession planning for Directors and Senior Executives. The succession plan ensures ongoing recruitment of Directors to ensure that the Board continues to have the relevant skills and experience throughout any period of change in its composition.

Following the retirement of Mr Peter Hales from the Board on 31 March 2015 the Board accepted the recommendation of the Nominations Committee to appoint Mrs Denise Cockrem as a Non-Executive Director. Mrs Cockrem is currently Chief Financial Officer at the Good Energy Group and has also been appointed to the Audit Committee.

During 2014 recruitment commenced for the replacement of Mr Richard Twigg, formerly Group Finance Director, following his move to become Finance & Commercial Director at one of our principal subsidiaries, Connells Limited. Following a recommendation by the Nominations Committee, the Board unanimously agreed that Mr Bobby Ndawula would be appointed as Group Finance Director, with effect from 23 February 2015. Mr Ndawula, a Chartered Accountant, joined the Society in 2003 and has held a number of senior positions including General Manager, Group Finance and latterly Chief Financial Risk Officer before his appointment as Group Finance Director.

Recruitment has also been ongoing to fill the role of Distribution & Financial Services Director following the resignation of Mr Mark Fleet as Distribution Director in December 2014. The Board accepted the recommendation of the Nominations Committee to appoint Mr Andrew Bottomley to this position from the beginning of January 2016. Mr Bottomley was formerly Mortgage Director at Lloyds Bank plc having spent most of his earlier career with Halifax and then HBOS.

Subsequent to the year end, the Board appointed Mr Mark Lund as a Non-Executive Director. Mr Lund has an extensive career in financial services, having been Chief Executive Officer of St James's Place plc and is currently a Non-Executive Director of Coutts and Chairman of Equiniti Financial Services Limited.

During 2015, to support it in the appointment of Directors, the Committee has used the services of an external recruitment agency, Warren Partners, which is independent of the Society.

Induction and professional development

On appointment, new Directors receive a comprehensive and tailored induction programme on the Group's business and regulatory environment. Ongoing training and development needs are identified and addressed through regular review and usually take the form of attendance at external seminars and Board training sessions led by relevant internal and external specialists. Non-Executive Directors are encouraged to contact individual members of the Executive team to discuss any queries they may have and to undertake subsidiary, branch and department visits on an ad-hoc basis.

Through the Secretary, the Chairman ensures that Directors receive accurate, timely and clear information to facilitate effective contribution to Board discussions and decision making. As noted previously, Directors are provided with a comprehensive management information pack and Board pack containing matters for review and approval. This is normally issued several days before the meeting to ensure that it reflects the most up-to-date position of the Group whilst allowing Directors sufficient time to review the content.

Directors have access to the advice and services of the Group Secretary who is responsible for advising the Board on all governance matters and who is responsible for ensuring that Board procedures are followed. The appointment of the Group Secretary is a matter reserved to the Board.

All Directors also have access to independent professional advice, if required, at the Society's expense and have the benefit of appropriate liability insurance cover.

Board diversity

The Board considers all aspects of diversity, including gender, when reviewing its composition. In 2014 it formalised its Composition Policy which saw the Board agree to adopt the recommendations of the Davies Report and endeavour to maintain each of male and female representation at Board level of, at least, 25% of its composition. This, however, is based on the principle that all appointments shall be made on merit.

At 31 December 2015, four members (36%) of the Board and 22 members (46%) of the Society's Senior Leadership Team were female.

The Society takes into account diversity at all levels of recruitment and supports colleagues to take on various external interests, including voluntary roles such as school governorships and roles in other local voluntary organisations, to enable them to gain experience of Board roles.

Performance evaluation

The Board undertakes an annual evaluation of its performance and effectiveness, and also of its Committees. At least every three years, this review is conducted by an external facilitator. The reviews address matters including the balance of skills on the Board, its diversity, how the Board and its Committees work together and other factors relevant to its effectiveness.

The Chairman, with the support of the Secretary, led an internal Board evaluation for 2015. This took the form of a questionnaire completed by all Directors and Board attendees covering areas such as the Boardroom environment, Board reporting and meeting of Board responsibilities. A similar process was completed for the Board Risk, Audit, Nominations and Remuneration Committees. The Chairman met individually with all Directors and then presented a report with the conclusions of the exercise to the February 2016 Board.

The report in respect of 2015 concluded that the Board and its Committees were effective and operated in an open and collaborative manner, with an appropriate degree of constructive challenge to the Executive team. There was a general consensus that reporting to the Board and its Committees would benefit from being more concise to ensure Directors' focus on key points and issues. In addition, the Directors and the Executive team are to review the timing of distribution on papers for consideration by Directors in order to maximise the time available to, and therefore the input from, the Directors.

Individual Non-Executive Directors are evaluated on a one-to-one basis by the Chairman. Executive Directors are evaluated by the Group Chief Executive against agreed performance targets for their areas of responsibility and their own personal performance. The Chairman evaluates the Group Chief Executive's performance while the Deputy Chairman and Senior Independent Director leads the Board evaluation of the Chairman's performance, which also takes into account the views of Executive Directors.

Re-election policy

The Code recommends that all Directors of FTSE 350 companies should stand for annual re-election. In light of this, the Society's Rules were amended to require that Directors stand for re-election every year. Generally, Non-Executive Directors are initially appointed for a period of three years and, although subsequently not expected to serve more than six years, this may be extended to nine years in total.

Remuneration

Details relating to Directors' remuneration are contained in the Directors' Remuneration Report on pages 57 to 72.

Accountability and audit

Financial reporting

The Directors, after making appropriate enquiries and on review of internal management reports and completion of the external audit, consider that this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for members to assess the Group's performance, business model and strategy. Further details on how this conclusion has been arrived at can be found on pages 47 to 49 of the Audit Committee Report.

The responsibilities of the Directors in relation to the preparation of the Group's Annual Accounts and a statement that the Group is a going concern are contained in the statements of Directors' responsibilities on pages 37 and 38.

The revisions to the Code, effective for accounting periods starting on or after 1 October 2014, also require the inclusion of a longer term viability statement, whereby the Directors should explain in the annual report how they have assessed the future prospects of the business, over what period they have done so and why they consider that period to be appropriate. Our statement in this regard can be found on pages 38 and 39 of the Directors' Report.

Risk management and internal control

The Board is responsible for determining the Society's strategy for managing risk and overseeing its systems of internal control which includes reviewing and approving its risk appetite on, at least, an annual basis.

The Executive Directors and senior management are responsible for the continuous operation of an effective risk management framework based on a robust system of internal control. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Society's business objectives. The principal categories of risk confronting the Group are described in greater detail in the Risk Management Report on pages 50 to 56, together with an explanation of the framework adopted by the Group for managing risk.

The Board reviews the ongoing effectiveness of the systems of internal control through a combination of processes including:

- Regular reports to the Board by the chairmen of the various Board Committees (see below);
- Presentations to the Board by divisional leaders relating to the strategy and performance of business within each of the divisions, summarising business performance, key business risks, issues and strategies;
- Regular reports to the Board, through the Audit Committee, from the Internal Audit function in respect of its independent audits of risk management processes and effectiveness of internal controls across the Society and its subsidiaries. The Chief Internal Auditor has direct access to the Chairman of the Audit Committee;
- Regular reports to the Board, through the Board Risk Committee, from the Risk functions on the principal conduct, operational, credit, market, business and regulatory risks facing the Group and the strength of the controls in place to mitigate such risks; and
- Reports to the Board on a quarterly basis presented by the Chief Conduct Risk Officer and the Chief Financial Risk Officer.

The Society has a comprehensive system for reporting financial results to the Board. Each of the divisions prepares monthly results with comparisons against budget. The Board reviews these for the Group as a whole and challenges management, as appropriate, where performance is not in line with expectations.

The Society has a number of central oversight and control functions including Finance, Risk and Compliance that establish and monitor the implementation of business standards across the Group. Each of these functions is subject to review by the Internal Audit function.

The Internal Audit function is responsible for independently reviewing and reporting on the adequacy and effectiveness of internal controls operated by management throughout the Group, thereby helping to evaluate and improve the effectiveness of risk management, regulatory compliance, control and governance processes. Through its programme of work, agreed by the Audit Committee, the Internal Audit function is able to provide assurance on control effectiveness.

To ensure sufficient focus is devoted to all areas of risk, the Society maintains two Risk functions headed by the Chief Financial Risk Officer and the Chief Conduct Risk Officer. These are Senior Executive positions and both post holders are members of the Executive Committee. The Board Risk Committee and Board receive regular reports from the two Risk Officers throughout the year. The Board is satisfied that it understands the risks confronting the business and that senior management takes appropriate action to mitigate these. More detail is provided on these in the Risk Management Report on pages 50 to 56.

The Board is satisfied that during 2015 the Society maintained an adequate system of internal control and managed the risks confronting the business effectively. This was carried out in a manner that met the requirements of the Code and good business practice generally.

Board Committees

The Board has delegated certain matters to Board Committees in order that they can be considered in more detail.

The Committee structure includes:

- The **Audit Committee** – details are contained in the Audit Committee Report on pages 46 to 49;
- The **Board Risk Committee** – details are contained in the Risk Management Report on pages 50 to 56;
- The **Remuneration Committee** and **Non-Executive Directors' Remuneration Committee** – details are contained in the Directors' Remuneration Report on pages 57 to 72; and
- The **Nominations Committee** – details are contained in the section on 'Appointments to the Board' on page 42 of this report.

The terms of reference of Board Committees are available on the Society's website (www.skipton.co.uk) or from the Group Secretary, on request.

Board and Committee membership attendance record

The attendance of Directors at scheduled Board meetings and attendance of those who are also members of the Audit Committee, Nominations Committee, Remuneration Committee and Board Risk Committee at Committee meetings during the year is set out below:

	Board	Audit Committee	Nominations Committee	Remuneration Committee	Board Risk Committee
Mr M H Ellis	10/10	-	3/3	-	-
Mr P J S Thompson	10/10	6/7	2/3	9/9	-
Mrs C Black	9/10	6/7	2/3	8/9	-
Ms M Cassoni	10/10	7/7	3/3	-	-
Mrs D P Cockrem	3/3	1/1	-	-	-
Mr I M Cornelius	10/10	-	-	-	-
Mr D J Cutter	10/10	-	-	-	-
Mr R D East	10/10	-	2/3	1/1	8/8
Mr P R Hales	3/3	-	1/1	-	3/3
Mr R S D M Ndawula	9/9	-	-	-	-
Mr G E Picken	10/10	7/7	2/3	-	8/8
Ms H C Stevenson	10/10	-	3/3	8/9	7/8

The Annual General Meeting (AGM)

Each year the Society gives all eligible members at least 21 days' notice of the AGM. At the meeting, the Chairman and Group Chief Executive address members on the previous year's performance and the main developments in the business. Members have the opportunity to raise questions and put forward their views. All Directors attend the AGM, unless their absence cannot be avoided, and are available for questions both during a 'question and answer' session within the meeting and on an individual basis before and after the meeting.

All eligible members are encouraged to vote at the AGM, either in person or by voting proxy and the voting form includes a 'vote withheld' option. Members can vote either by post, in any of our branches, online at www.skipton.co.uk/agm or at the AGM itself. All votes are returned to independent scrutineers. A poll is called in relation to each resolution at the AGM and the results of the vote are published on the Society's website and in branches.

As a minimum the Society's members at the AGM are asked to vote on the Society's Annual Report and Accounts, election or re-election of the Directors, election or re-election of the external auditor and the Report on Directors' Remuneration.

Copies of this Annual Report and Accounts 2015 are available online at www.skipton.co.uk or on request in branches or by post.

In addition, the Summary Financial Statement is included as part of the AGM magazine, the format of which is aimed at making it informative and easy to read.

Relations with members and other investors

The Society's membership comprises its savers and non-corporate borrowers which is different to the shareholders of a listed company, whose owners may include institutional shareholders. The vast majority of the Society's customers are, therefore, its members and the Society encourages feedback from them on any aspect of the Society's activities and seeks to respond quickly to all enquiries received.

We conduct regular market research with members to evaluate their experience of dealing with the Society and how satisfied they are with their relationship with us. We carry out these interviews with members each year to help us understand how we can improve the service we provide to them. We also engage with members in numerous other ways, including through our Customer Forums. This consists of face-to-face sessions with customers to get their feedback on our strategies and initiatives. Small groups of customers attend each session along with Society representatives. In addition to this, we have a members' Customer Panel which we use to gather feedback on a wide range of topics including new product and proposition development.

Finally, the Society's Executive and Treasury teams hold meetings with banks and debt investors, where appropriate, to update them on the Society's performance and respond to any queries.

On behalf of the Board

Mike Ellis
Chairman
23 February 2016

Audit Committee Report

On behalf of the Committee, I am pleased to present this year's Audit Committee Report, which provides an overview of how we, as a Committee, have discharged our responsibilities, setting out the significant issues we have reviewed and concluded on during the year.

The report focuses mainly on the following three areas:

- The role and responsibilities of the Committee;
- The main activities of the Committee during the year; and
- A review of the effectiveness of the Committee.

Membership and attendees

The Audit Committee is appointed by the Board and the current members of the Committee are:

Ms M Cassoni	Non-Executive Director (Committee Chairman)
Mrs C Black	Non-Executive Director
Mrs D P Cockrem	Non-Executive Director
Mr G E Picken	Non-Executive Director
Mr P J S Thompson	Non-Executive Director

The Committee met seven times during 2015 and the attendance of its members at these meetings is set out on page 45 in the Directors' Report on Corporate Governance. We also held private discussions during the year with the external auditor, KPMG LLP ('KPMG'), the Chief Conduct Risk Officer and Secretary, the Group Finance Director, the Finance Director of Connells and the Chief Internal Auditor, to provide an opportunity for any relevant issues to be raised directly with Committee members.

In addition to its members, the Chairman, Group Chief Executive, Group Finance Director, Chief Conduct Risk Officer and Secretary, Chief Financial Risk Officer, external audit representatives and the Chief Internal Auditor regularly attend meetings, by invitation.

The Board is satisfied that the composition of the Audit Committee includes Directors with relevant, recent financial experience to provide appropriate challenge to management. As Chairman of the Committee, I have held senior finance appointments with a number of large organisations, most recently as Group Finance Director at the John Lewis Group prior to retirement in 2012. The financial expertise of the Committee was further strengthened in 2015 with the appointment of Mrs Cockrem, who is currently Chief Financial Officer at the Good Energy Group and has also held senior finance positions at RSA Group and Direct Line.

Role and responsibilities of the Committee

The responsibilities of the Committee are delegated by the Board and are set out in its written terms of reference which are available on our website at www.skipton.co.uk/about-us/governance/board-committees. These are in line with the provisions of the Financial Reporting Council's 'Guidance on Audit Committees' which was last updated in September 2012. Our primary responsibilities are:

- To keep under review the effectiveness of the Group's internal controls, including financial controls and risk management systems;
- To monitor the integrity of the Group's financial reporting process, specifically by reviewing, challenging and approving the Group's annual and interim financial statements, reviewing and approving any formal announcements relating to the Group's financial performance, and reviewing significant reporting judgements and reporting how these were addressed;
- To provide advice, where requested by the Board, on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Group's strategy, business model and performance;
- To provide oversight of the external audit process by monitoring the relationship with the external auditor, agreeing their remuneration and terms of engagement, monitoring their performance, objectivity and independence, ensuring that the policy to provide non-audit services is appropriately applied and making recommendations to the Board on their appointment, reappointment or removal;
- To review the effectiveness of the Internal Audit and Compliance Monitoring functions and review their material findings; and
- To report to the Board on how we have discharged our responsibilities.

The minutes of the Audit Committee are distributed to the Board following each meeting and, as Chairman of the Committee, I provide a verbal report to the next Board after each meeting of the Committee.

Activities of the Committee during the year

During 2015 our work fell under three main areas, in line with our responsibilities, as follows:

a) Internal controls and risk

The Group recognises the importance of good systems of internal control in the achievement of its objectives and the safeguarding of its assets. Good internal controls also facilitate the effectiveness and efficiency of operations, help to ensure the reliability of internal and external reporting and assist in compliance with applicable laws and regulations.

The Group operates in a dynamic business environment and, as a result, the risks it faces change continually. Management is responsible for designing the internal control framework to ensure thorough and regular evaluation of the nature and extent of risk and the Group's ability to react accordingly. Management is also responsible for implementing the Board's policies on risk and control, noting that all employees are responsible for internal control as part of their individual objectives.

Further details of the Group's risk management practices are provided in the Risk Management Report on pages 50 to 56.

Through the Committee, the Group's Internal Audit function provides independent assurance to the Board on the effectiveness of the internal control framework. The information received and considered by the Committee during 2015 provided assurance that there were no material breaches of control and that the Group maintained an adequate internal control framework that met the principles of the UK Corporate Governance Code.

Internal Audit is supported by external advisers who are able to provide specialist services in connection with matters such as Treasury, Information Technology and Credit Risk. The Chief Internal Auditor reports to me, and as a Committee we are responsible for ensuring that Internal Audit retains adequate skills and resource levels that are sufficient to provide the level of assurance required. The Committee is satisfied that, throughout 2015, Internal Audit had an appropriate level of resources in order to carry out its responsibilities effectively, and that it continues to do so.

The Audit Committee is also responsible for agreeing the annual budget of Internal Audit and for approving its annual plan of work. This is prepared on a risk based approach by Internal Audit, reflecting input from management and the Committee.

We review reports produced by Internal Audit and, through Internal Audit, track management actions to completion; Internal Audit then verifies these periodically after management has reported them as complete. Internal Audit provides the Committee with reports on material findings and recommendations and updates on the progress made by management in addressing their findings.

The Committee also has oversight responsibility for the Group's Compliance Monitoring function which provides second line assurance on activities regulated by the Financial Conduct Authority across the Group. The outputs of the Compliance Monitoring function's monitoring activities are reported to the Committee, together with progress updates on management's implementation of the findings. The Compliance Monitoring function's annual plan of work is also approved by the Committee.

During the year, the main areas of internal control we reviewed were as follows:

- the governance framework surrounding the further embedding of credit risk models to support the Society's strategy to move to a more advanced credit risk approach (the Internal Ratings Based approach);
- Information Technology and Cyber Security risks to ensure that the Group has robust controls, in line with good practice, in this rapidly evolving area;
- the governance framework and key controls associated with the introduction of pension advice services through Skipton Financial Services Limited;
- a number of specific areas of internal control, in particular new and emerging regulatory changes to ensure that the Group meets regulatory expectations at all times; and
- the internal controls and governance within the Connells group.

The Committee also periodically reviews the use of the confidential reporting channel in the Group. Awareness of 'whistle blowing' arrangements is maintained through internal communication and is covered as part of employees' induction and ongoing development.

As part of the external audit process, KPMG also provides us with internal control reports. During the year, they did not highlight any material control weaknesses.

The Committee requires an external 'effectiveness review' of Internal Audit at least every five years. As outlined in the 2014 Annual Report, a review was carried out during 2014 by an external firm appointed by the Committee and that review concluded that the Internal Audit function was operating effectively. An action plan to address the areas recommended for further improvement was developed and has been monitored by the Committee throughout 2015 to ensure that all recommendations are being appropriately addressed.

b) Financial reporting

The Committee considers the financial information published in the Group's annual and interim financial statements and considers the accounting policies adopted by the Group, presentation and disclosure of financial information and, in particular, the key judgements made by management in preparing the financial statements.

The Directors are responsible for preparing the Annual Report and Accounts. At the request of the Board, we considered whether the 2015 Annual Report was fair, balanced and understandable and whether it provided the necessary information for members to assess the Group's position and performance, business model and strategy. This was assessed in the following ways:

- the Chairman, Group Chief Executive and Group Finance Director were involved from an early stage in agreeing the overall tone and content of the Annual Report;
- all members of the Executive Committee and the Board have been involved in reviewing and commenting on various drafts of the Accounts, to help ensure that the final draft is fair, balanced and understandable; and
- robust verification by the Financial Reporting team took place to ensure there was appropriate supporting evidence for the content of the Annual Report.

The Committee is satisfied that, taken as a whole, the 2015 Annual Report and Accounts is fair, balanced and understandable and includes the necessary information as set out above. It has confirmed this to the Board, whose statement in this regard is set out on page 39 of the Directors' Report.

We pay particular attention to matters we consider to be important by virtue of their impact on the Group's results, and particularly those which involve a high level of complexity, judgement or estimation by management. The key areas of estimate and judgement that we considered in reviewing the 2015 financial statements are set out below:

- We have again reviewed the adoption of the going concern assumption for the Interim and Annual Accounts, adopting the same, comprehensive approach for both reporting periods. This involves rigorous consideration, based on reports produced by key risk functions around the business as requested by the Committee, of our current and projected liquidity, capital and funding positions, together with the potential risks (for example credit risk, liquidity risk, operational risk and conduct risk) which could also impact the business, as well as consideration of potential stress scenarios. Based on this review, we concluded that the adoption of the going concern assumption to prepare the financial statements remains appropriate.

- The Committee has reviewed the statement on the longer term viability of the Group on pages 38 and 39 of the Directors' Report, together with papers produced by management and key risk functions in support of this statement. This includes consideration of the Group's latest corporate plans, the impact of these plans on the Group's liquidity, capital and funding positions, and the impact of potential risks and stress scenarios. The stress scenarios included consideration of scenarios that could cause the Group to fail, and the Committee agreed that any such scenarios are considered sufficiently unlikely to materialise and thus threaten the Group's longer term viability. Based on this review, we concluded that the longer term viability statement on pages 38 and 39 is appropriate.
- We considered matters raised during the statutory external audit and the half year independent review and, through discussion with senior management of the business and the external auditor, concluded that there were no adjustments required that were material to the financial statements.
- The Committee continues to monitor loan impairment provisions and has considered the impact of forbearance adopted in the Group's mortgage portfolios, as well as various other key assumptions contained in the Group's loss provisioning model (such as house prices) on the level of provisions made and the relevant disclosure in the Accounts. As outlined in note 15 to the Accounts, the approach to residential loan impairment was enhanced during the year by incorporating Internal Ratings Based (IRB) methodologies. We have examined and challenged the assumptions adopted and, by requesting and scrutinising reports produced by management, are satisfied with the models used to calculate loan impairment provisions for both the residential and commercial mortgage portfolios. We have also reviewed the carrying value of treasury assets by scrutinising reports produced by the Market & Liquidity Risk function and consider these to be appropriate.
- The Group holds an equity release mortgage book, closed to new business, and, as outlined in note 15 to the Accounts, a 'no negative equity guarantee' is given to customers under the terms and conditions of the mortgages in this book. This guarantee is accounted for as an embedded derivative and held at fair value within 'Loans and advances to customers' in the Statement of Financial Position. The valuation is determined by, inter alia, a function of the actual and projected interrelationship between market-wide long term house prices and retail price inflation (RPI) and, as a result, judgement is required in determining the appropriate set of assumptions to derive the valuation of the embedded derivative within the Accounts.

  During the year, following a robust review of the model used to value the embedded derivative and a thorough assessment of alternative models available, management has implemented an enhanced model to determine the valuation as at the reporting date. Through reviewing and challenging reports prepared by management, together with detailed discussion at meetings of the Committee, the Committee is satisfied that the enhanced model is appropriate.

  In addition, certain assumptions have been revised during the year such as house prices, dilapidation factors and voluntary redemption rates; as a result the valuation of the 'no negative equity guarantee' embedded derivative has increased to £24.0m, resulting in a charge to the Income Statement of £6.5m. The Committee has scrutinised papers prepared by management, including the results of the fair valuation model referred to above, which provide evidence that the revised assumptions are appropriate, taking into account the specific characteristics of this portfolio, and that the valuation is appropriate. As a result, we have satisfied ourselves on the valuation of the embedded derivative and hence the carrying value of this portfolio in the Accounts.
- In October 2015, Connells Limited purchased 75% of the share capital of the estate agency business Gascoigne Halman Limited (with a proportion of the purchase price contingent on the future performance of the business), with a put obligation to acquire the remaining 25% from the minority shareholders at a future date. The accounting for this transaction required an assessment of the fair value of the identifiable net assets acquired, with a consequential impact on the amount attributed to goodwill, and also consideration of the treatment and measurement of both the put obligation and the contingent consideration. Having examined calculations prepared by management, the Committee is satisfied that the fair value of net assets acquired and the amount of goodwill arising are appropriately stated in the Accounts, and that the accounting for the transaction is appropriate.
- The Group has a small number of subsidiaries where the non-controlling interests (NCI) have put options enabling them to sell their shares to the Group at some future date. In accordance with accounting standards, these subsidiaries are consolidated by the Group as if they were 100% owned, to reflect the 100% ownership implicit in the put obligation, and a put option liability is recognised in the balance sheet.

  As described in note 1b) to the Accounts, for put options issued prior to 2010 the Group has revised its accounting treatment for dividends paid to these NCI, to better represent the economic substance of the transaction. Prior to 2010, these dividends were accounted for as a reduction to the put option liability. Under the revised accounting treatment, these dividends are recorded as an expense through the Income Statement.

The Committee has scrutinised papers prepared by management and we are satisfied that the revised accounting policy is appropriate. The Committee has reviewed the adjustments and disclosures relating to this change in accounting policy, including restatement of prior period amounts, and is satisfied that these are appropriately presented in the Accounts.

c) External auditor

The Committee assesses the effectiveness and independence of the external auditor annually, following the completion of their year end audit, and this is reported to and discussed at a meeting of the Committee shortly thereafter. This assessment is facilitated by the Group's Financial Reporting function and is made by reference to the Financial Reporting Council's 'Guidance on Audit Committees (September 2012)' which details what is expected of the Audit Committee to ensure that the annual external audit cycle is effective. The assessment covers the external audit of the previous Annual Report and Accounts, whilst the proposed approach to the next audit is also discussed at this meeting, and includes consideration of matters such as:

- whether the original audit plan was met;
- openness of communication between the external auditor and senior management;
- the skills and experience of the audit team including whether, in the opinion of the Committee, the external auditor demonstrated a sound understanding of the business by, inter alia, identifying the key risks of material misstatement to the financial statements;
- whether an appropriate degree of challenge and professional scepticism was applied by the external auditor; and
- the proposed strategy to be used in the current year audit, including the proposed level of materiality to be used.

Based on the above, senior management in the Financial Reporting function prepared a report for the Committee which outlined the principles contained within the above guidance and set out management's view on each principle, whilst at the same meeting the Committee also requested and considered feedback obtained from a survey that had been carried out by KPMG of key business contacts involved with the statutory audit process. The Committee scrutinised these reports and, together with its own experience, formed an opinion as to the effectiveness of the external auditor. During the year, we concluded that the relationship with the external auditor continues to work well and we are satisfied with their effectiveness and independence.

The Committee regularly monitors the Society's relationship with the external auditor and has adopted a framework for ensuring auditor independence and objectivity. This framework defines prohibited non-audit assignments (which include certain tax-related assignments) and procedures for approval of other non-audit assignments across the Group. All non-audit assignments are required to be pre-approved by designated mandate holders and a limit is in place above which approval can only be given by the Committee; a report detailing any approved expenditure is also sent to the Committee every six months. KPMG undertook a number of non-audit related assignments for the Group during 2015. These were conducted in accordance with the framework and are consistent with the professional and ethical standards expected of the external auditor. Details of the fees paid to the external auditor for audit and non-audit services are set out in note 6 to the Annual Accounts and during the year non-audit fees represented 76% of the total Group audit fee (2014: 33%). This increase was partly down to the acquisition of Nunwood by KPMG during 2015. KPMG Nunwood support our Commercial teams with customer feedback and insight activities. The Group is monitoring this ratio in preparation for changes to EU rules which will limit this percentage to 70% in future years and we intend to comply with these rules once they are implemented.

The Committee also reviews auditor independence by considering regular rotation of the key external audit partner. The audit partner was most recently rotated in 2014, following a five year term as responsible partner.

KPMG LLP, or its predecessor firm, has been the Society's auditor since the 1980s. The Corporate Governance Code recommends FTSE 350 companies put their external audit out to tender at least every 10 years. The Society most recently put its audit out to tender in the second half of 2014, as a result of which the Committee decided that KPMG is the most appropriate firm at this time to be the Society's external auditor. The Committee will continue to assess the need for a competitive process on an annual basis as part of its review of the external auditor's effectiveness. In accordance with EU legislation, KPMG will be required to rotate off the audit following the audit of the 2019 financial statements.

The Committee has also agreed a policy for the employment, by the Group, of former employees of the auditor which is designed to further maintain the auditor's independence.

Effectiveness of the Audit Committee

The effectiveness of the Committee is assessed as part of the annual Board and Committee effectiveness review. The 2015 review, recently completed, concluded that we operated effectively during the year.

Committee members are expected to undertake relevant training as part of their ongoing development and, periodically, the Committee as a whole receives training on current topics such as current sector challenges, regulatory developments, conduct risk issues and financial reporting 'hot topics' to ensure we remain effective in our role.

Marisa Cassoni
Chairman of the Audit Committee
23 February 2016

Risk Management Report

Risk overview

The management of the Group's business and the delivery of the Board's strategy involves the exposure of the Group to a number of potential risks. The Board has established a risk appetite designed to limit the level of risk accepted by Group entities in the normal course of business. Central to this is a management culture which promotes awareness of actual and potential risk exposures and an understanding of their impact should they crystallise.

Governance structure

The Group has a formal structure for managing risks which is documented in detailed risk management policies.

The **Board Risk Committee** is responsible for considering and recommending the Group's risk appetite, capital adequacy and liquidity management policies to the Board. It is also responsible for ensuring that the Group maintains an effective risk governance structure to ensure that internal and external risks across the Group are identified, reviewed and managed. The current members of the Committee are:

Mr East	Non-Executive Director (appointed as Committee Chairman on 1 January 2015)
Mr Picken	Non-Executive Director
Ms Stevenson	Non-Executive Director (appointed to the Committee on 1 January 2015)

In accordance with the Capital Requirements Directive (CRD) regulations, the Committee's membership comprises only Non-Executive Directors. To support the Committee in fulfilling its duties, its meetings are also attended by Mr Cutter (Group Chief Executive), Mr Ndawula (Group Finance Director) and other Senior Executives of the Society.

The Board Risk Committee also has a number of sub-committees, which have day-to-day responsibility for risk management oversight, as follows:

- **The Conduct and Operational Risk Committee (CORC)** is primarily responsible for developing and maintaining the Group's conduct and operational risk management frameworks and monitoring management of the risks arising in these areas. CORC also recommends changes to the conduct and operational risk appetites and associated policies to the Board Risk Committee. Mr Gibson (Chief Conduct Risk Officer and Secretary) chairs CORC which comprises Senior Executives from each of the divisions and the Group Operational Risk and Compliance teams.
- **The Asset and Liability Committee (ALCO)** is primarily responsible for developing and maintaining policies on structural risk management, liquidity, funding and wholesale credit, recommending changes to these policies to the Board Risk Committee, monitoring implementation to ensure that the Group operates within risk limits and that the Group has adequate liquid financial resources to meet its liabilities. Mr Ndawula (Group Finance Director) chairs ALCO which comprises the Group Chief Executive, the Commercial Director and senior management from Treasury, Finance and Risk.
- **The Retail Credit Committee (RCC)** is primarily responsible for developing and maintaining policies for monitoring and controlling the risks to the Group arising from the credit quality of its retail loan books and other assets, recommending changes to these policies to the Board Risk Committee and monitoring implementation to ensure that the Group operates within risk limits. Mr Cutter (Group Chief Executive) chairs RCC which comprises the Group Finance Director, the Commercial Director and Senior Executives from Risk and the Group's lending businesses.
- **The Model Governance Committee (MGC)** is primarily responsible for the review and approval of Credit Risk models. It will expand this to all key models over time (for example, financial models). Mr Ndawula (Group Finance Director) chairs MGC and its members include the Chief Operating Officer and Chief Financial Risk Officer, in addition to Senior Executives from across Operational areas, Finance and Credit Risk.

Risk management framework

Through the Group's risk management framework and governance structure, the Group has a formal mechanism for identifying and addressing risks throughout the business. This framework is designed to deliver the corporate plan in line with the Board's overall risk appetite and is based upon the best practice 'three lines of defence' model, as follows:

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, Market & Liquidity) and related independent Compliance functions. These functions challenge, monitor, guide and support the business in managing its risk exposure. The risk framework includes the four Board Risk Committee sub-committees described above which are responsible for recommending and monitoring the Group's adherence to policy. The independent Risk functions are represented on each of these sub-committees. The Board Risk Committee is responsible for approving changes to policy, oversight of the risk management framework and monitoring of the business risk profile against the Board approved risk appetite. The Board Risk Committee Chairman is responsible for ensuring the independence of the second line of defence from the first line of defence.

Third line of defence, provided by Internal Audit, is designed to provide independent assurance to the Board (via the Audit Committee) of the adequacy and effectiveness of control systems operating within the first and second lines in identifying and managing risk.

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

Business conditions and the economic environment

The Group is predominantly focused in the UK and is to a large extent 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;
- inflation;
- unemployment; and
- the housing market (volume of transactions and house price inflation).

The Mortgages and Savings division continues to operate in a low interest rate and relatively benign economic environment, which has been supported in recent years by government initiatives such as the Funding for Lending Scheme (FLS) introduced in 2012. These initiatives have provided market liquidity and have reduced competition for retail savings. It is anticipated that competition for retail savings will increase as FLS is repaid, leading to increased pressure on the net interest margin. However, actions taken by the Society during and since the global financial crisis have resulted in the Society achieving a higher interest margin and consequently the Society is well placed to cope with such pressures.

Whilst levels of mortgage arrears have continued to fall throughout 2015, a general downturn in the economy, increasing interest rates, higher unemployment or a material decline in house prices would impact the Mortgages and Savings division through an increase in impairment by creating higher levels of arrears and possessions, and ultimately higher credit losses. Whilst the Mortgages and Savings division specialist mortgage portfolios of Amber and NYM are likely to be more susceptible to increases in interest rates, these portfolios continue to run off and the improvement in arrears and increase in house prices seen in recent years and throughout 2015 means that the risk associated with a downturn in the economy continues to reduce.

The results of the Estate Agency division are principally driven by the volume of UK property transactions, particularly second hand property sales. This market is heavily influenced by consumer confidence, driven by the general state of the economy, level of unemployment and interest rates, together with the availability of mortgages, particularly for first time buyers. A slow down in the housing market puts pressure on Connells' income levels. However, the Estate Agency division is partially protected against the performance of its core business through its own diversification into complementary businesses such as asset management and lettings.

Skipton Financial Services Limited, a subsidiary specialising in pensions and investment advice, is also exposed to the wider UK economy, and in particular the strength of the UK equities market.

Continued global economic uncertainty may also impact the willingness of some customers to invest in longer term investment products which are not capital secure.

The Group has monitored closely the negotiations over the United Kingdom's membership of the European Union. As the UK progresses towards a referendum over membership on 23 June 2016, the Group recognises that there could potentially be some short term uncertainty in the economy and wholesale funding and housing markets.

Credit risk

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group.

The Group faces this risk from its lending to:

- individual customers (retail mortgages);
- businesses through historical (pre November 2008) commercial lending and ongoing debt factoring and invoice discounting; and
- wholesale counterparties (including other financial institutions). Credit risk within our treasury portfolio arises from the investments held by the Group in order to meet liquidity requirements and for general business purposes.

Market background

The Society retains a prudent approach to new lending, and consequently the key driver of credit risk remains a slow down in the UK economy leading to higher unemployment, deterioration in household finances and falling house prices, all of which would be likely to result in increased arrears and mortgage losses. The UK economy has continued to improve throughout 2015 and house prices have increased reflecting a shortage of housing stock. This has led to a reduction in the loan-to-value exposure of the Society's lending portfolio and reduced the level of arrears as a proportion of the total portfolio. We have also seen the continued reduction in our specialist lending portfolios Amber and NYM. The Group is monitoring carefully trends relating to the affordability of house prices, particularly in London and the South East of England, and in the rapid growth in the buy-to-let sector with the risk that this may amplify house price movements. Whilst the UK Government has taken steps recently which seek to reduce the growth of the buy-to-let sector, we will continue to maintain a close eye on trends in house prices whilst retaining our prudent risk appetite.

The Society has a commercial mortgage portfolio which is UK-based and was closed to new lending in November 2008. Risks associated with this portfolio relate in part to the strength of the UK economy, which has seen modest improvement in 2015, and in part to the specific circumstances of customers. Arrears levels across this portfolio remain tightly managed reflecting the close relationships established with customers showing signs of financial difficulty.

Wholesale credit exposures held by the Society will be influenced in part by the strength of wholesale credit markets. Whilst we have seen more volatile wholesale credit markets in the second half of 2015, the Society maintains a prudent risk appetite with regard to wholesale counterparties which is overseen by ALCO.

Risk mitigation

The controlled management of credit risk is critical to the Group's overall strategy. The Group has, therefore, embedded a comprehensive and robust risk management framework with clear lines of accountability and oversight as part of its overall governance framework. Substantial further investment has been made in the management of credit risk over the last 12 months as part of our application to the Prudential Regulation Authority (PRA) for Internal Ratings Based (IRB) status. The benefits of this investment and achieving IRB status are to further improve the processes and controls used by the Group to monitor, mitigate and manage credit risk and allocate capital within the Group's risk appetite.

RCC provides oversight to the effectiveness of all retail credit risk management across the Group and the controls in place ensure lending is within the Board approved credit risk appetite. ALCO, through the Wholesale Credit Committee, similarly manages treasury exposures.

The Society's commercial credit exposure is managed by a team of experienced professionals, with oversight provided by RCC. Similarly, the Wholesale Credit Committee manages treasury credit exposures, with oversight provided by ALCO.

The establishment of MGC to oversee the governance of our credit risk models, combined with investment in the Society's credit risk modelling capability, ensures that the Group has the right analytic tools to facilitate the appropriate management of credit risk.

Retail mortgage lending to customers

The Group currently lends in the prime residential UK mortgage market, including buy-to-let mortgages, through the Society.

SIL lends in the Channel Islands mortgage markets and to UK expatriates purchasing buy-to-let properties in the UK.

The Group has established comprehensive risk management processes in accordance with the Board's credit risk appetite which defines a number of limits regarding concentration risk as well as customer and collateral credit quality to which all lending activity must adhere. The Group maintains a low risk approach to new lending and will continue to do so.

The credit decision process utilises automated credit scoring and policy rules within lending policy criteria supported by manual underwriting. All aspects of the credit decision process are subject to regular independent review and development, ensuring they support decisions in line with the Board's risk appetite.

The Group also has credit exposures through Amber and NYM which comprise residential UK mortgages, including buy-to-let, across prime and non-prime lending markets. In light of the deteriorating economic conditions at the time, we ceased new lending in these portfolios in March 2008, and continue to see the size of these portfolios reduce by around 9% per annum.

The Group's collections and recoveries functions aim to provide a responsive and effective operation for the arrears management process. We seek to engage in early communication with borrowers experiencing difficulty in meeting their repayments, to obtain their commitment to maintaining or re-establishing a regular payment plan. We consider forbearance options on a case-by-case basis in line with industry guidance and best practice. The impact of any such forbearance is recognised within our provisioning policy.

Commercial lending to customers and businesses

The Society has a commercial mortgage portfolio which is UK-based and, following a reduction in the Group's risk appetite, was closed to new lending in November 2008. We have retained an appropriately skilled team of people to manage these loans. As with residential lending, we consider forbearance options on a case-by-case basis in line with industry guidance and best practice. The impact of any such forbearance is recognised within our provisioning policy.

Other loans

This relatively small portfolio is predominantly made up of advances made by our factored debt and invoice discounting business, SBF. This successful business, managed and run by a highly experienced team, continues to grow profitably in line with the Group's risk appetite.

Wholesale lending to other financial institutions

Wholesale credit risk arises from the wholesale investments made by the Society's Treasury function, which is responsible for managing this aspect of credit risk in line with the Board approved risk appetite and wholesale credit policies. Wholesale counterparty limits are reviewed monthly by the Group Wholesale Credit Committee (a sub-committee of ALCO) based on analyses of counterparties' financial performance, ratings and other market information to ensure that limits remain within our risk appetite.

Deterioration in wholesale credit markets could lead to volatility in the Group's portfolio of available-for-sale assets together with the risk of further impairment within our treasury investments portfolio.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due or is only able to do so at excessive cost. The Group has, therefore, developed comprehensive funding and liquidity policies to ensure that it maintains sufficient liquid assets to be able to meet all financial obligations as they fall due and maintain public confidence.

Market background

CRD IV defines the regulatory framework that the Society is required to operate within. The new CRD IV Liquidity regulations are in the process of being phased in, namely the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The Society has already been measuring, monitoring and forecasting these ratios and is well placed to adopt the new regulatory liquidity regime which is being phased in between October 2015 and January 2018.

Over the last few years, market liquidity has been supported by FLS funding provided by the UK Government and, although this scheme was partially extended recently, we anticipate market liquidity pressure to increase as FLS funding is gradually repaid.

Global economic uncertainty continues to impact upon the wholesale funding market and the Society continues to focus on delivering a track record of sustainable levels of profitability which we believe will further enhance our credit ratings, which have improved by two notches from each of Moody's and Fitch since September 2014, improving access to wholesale funding markets.

Risk mitigation

The Society's Treasury function is responsible for the day-to-day management of the Group's liquidity and wholesale funding. The Board sets the Group's liquidity risk appetite and 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 and Risk personnel and, additionally, a series of liquidity stress tests are performed weekly by Risk and a series of key performance risk indicators formally reported to ALCO, the Board Risk Committee and the Board to ensure that the Group maintains adequate liquidity for business purposes even under stressed conditions.

The Group continues to satisfy both the Individual Liquidity Guidance (ILG) requirement, provided by the PRA for regulatory purposes, and its own internal liquidity risk appetite. In line with the implementation of the new LCR liquidity regime, the internal liquidity appetite of the Society will be reassessed in the context of the new metrics during the course of 2016.

Liquidity stress testing is carried out against a number of scenarios including those prescribed by the PRA, considering a wide range of liquidity and economic factors. Early warning indicators are regularly assessed by a variety of functions across the Society to ensure liquidity is maintained at appropriate levels.

The Group's main source of funding is retail deposits which, at 31 December 2015, accounted for 87.8% (2014: 85.9%) of our total funding. During the year, the Group supplemented its retail funding base and wholesale funding by further utilising the FLS.

We have also maintained the quality of the Group's liquidity portfolio and, at 31 December 2015, the proportion of treasury assets rated A3 or above was 99.9% (2014: 96.7%).

Market risk

Market risk is the risk that the value of, or income arising from, the Group's assets and liabilities changes as a result of changes in market prices, the principal elements being interest rate risk (including the use of derivatives), foreign currency risk and equity risk.

The Society's Treasury function is responsible for managing the Group's exposure to all aspects of market risk (other than that within the Group's defined benefit pension schemes – see below) within the operational limits set out in the Group's Treasury policies. The Board Risk Committee approves the Group's Treasury policies and receives regular reports on all aspects of market risk exposure.

Market risk also exists within the Group's defined benefit pension schemes and is managed by the Trustee of the schemes, working closely with the sponsoring employers Skipton Building Society and Connells. Pension obligation risk is discussed later in this report on pages 55 and 56.

Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in market interest rates.

Market background

Interest rate risk arises from the mortgages, 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.

Risk mitigation

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, the Board Risk Committee and the Board. This risk is also managed, where appropriate, through the use of derivatives, with established risk limits and other control procedures.

Derivatives are only used to limit the extent to which the Group will be affected by changes in interest rates, foreign exchange rates or other indices which affect fair values or cash flows. Derivatives are therefore used exclusively to hedge risk exposures. The principal derivatives used by the Group are interest rate contracts, commonly known as interest rate swaps, interest rate options and foreign exchange contracts.

The Group's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly, in line with PRA guidance.

Currency risk

Currency risk is the risk of loss due to changes in foreign exchange rates.

Market background

The Group has equity investments in Jade Software Corporation Limited, Wynyard Group Limited and Northwest Investments NZ Limited which are denominated in New Zealand Dollars. In addition, a number of the Group's businesses undertake transactions denominated in foreign currency as part of their normal business.

Risk mitigation

The foreign currency fluctuations in relation to the above equity investments are not hedged, but are recognised in the Group's translation reserve. Any amounts outstanding at the year end in relation to other businesses are not material.

Equity risk

This is the risk of loss due to movements in equity markets.

Market background

Following its flotation in July 2013, the Group holds a 17.8% stake in Wynyard Group Limited, which is listed on the New Zealand Stock Exchange. The Group also has a shareholding in Zoopla Property Group Plc and following its Initial Public Offering on the London Stock Exchange in June 2014, Connells sold approximately 25% of its shares and retains a 4.0% shareholding.

Risk mitigation

The value of these investments can fluctuate, and therefore the Group holds capital to absorb such fluctuations in order to protect the Group's regulatory capital position. The market values of our shareholdings in Wynyard and Zoopla, based on their share prices at 31 December 2015, are £20.7m and £40.2m respectively (carrying values at 31 December 2015 are £11.5m and £40.2m respectively).

Conduct and Operational risk

Conduct risk is the risk of delivering poor or inappropriate outcomes for customers while operational risk is the risk of financial loss or reputational damage arising from inadequate or failed internal processes or systems or human error.

Market background

As a business with a retail franchise in financial services, the management of conduct and operational risk is key to the ongoing success of the Group. Central to managing this risk is maintenance of a robust product governance framework to ensure that we develop and market products and services designed to meet the needs of our target market, maintain strong control over providing advice and have efficient administration services.

As well as the core business providing advice on mortgages and general insurance, the Group owns a large estate agency business also providing advice on mortgages and general insurance, and Skipton Financial Services Limited, a subsidiary specialising in pensions and investment advice. Pearson Jones plc, which also provided these services, was sold during the year. Alert to the loss of customer trust experienced by financial services firms as a result of mis-selling scandals, the Group continues to invest in and develop its conduct and operational risk management processes and oversight arrangements.

The financial services sector also faces heightened levels of fraud and financial crime, particularly in relation to e-distribution channels, which require increasingly sophisticated controls. We are fully aware of the risk of fraud and financial crime and have developed and enhanced the key controls in place to mitigate these risks.

Given the nature of the regulated sectors in which the Group operates, another key conduct and operational risk is the potential failure to maintain ongoing compliance with relevant external regulation across the Group. Each of the regulated businesses either has an established Compliance team or utilises the Group's central resource to monitor compliance with existing legislation and consider the impact of new requirements. Oversight is provided by the Society's Compliance function which ensures best practice is adhered to and shared across the Group as appropriate.

Risk mitigation

CORC was established to ensure that an appropriate framework is in place to manage, control and mitigate the operational risks that could impact the ability of the Group to meet its business objectives and serve our customers. CORC also monitors whether Group businesses are operating within the Board-approved conduct and operational risk appetites.

Through the Conduct and Operational risk management framework, the management and oversight of the key risk exposures facing the Group are sub-divided into the following risk categories:

- Business Continuity
- Change Management
- Conduct Risk
- Financial Management and Management Information
- Financial Crime (including cyber crime)
- Information Security
- Information Technology
- Legal and Regulatory
- People
- Premises
- Processes
- Third Party Relationships

The Group's Conduct and Operational risk management framework sets out the strategy for identifying, assessing and managing these risk categories. Senior management is responsible for understanding the nature and extent of the impact on each business area and for embedding appropriate controls to mitigate those risks. The framework is updated periodically to take account of changes in business profile, new product development and the external operating environment.

CORC provides oversight and assesses the Group's exposure to conduct and operational risks based on both quantitative and qualitative considerations. The crystallisation of risks is captured through the recording and analysis of customer outcomes, operational risk events and operational losses (and near misses) which are used to identify any potential systemic weaknesses in operating processes.

The principal conduct and operational risks from the list above currently confronting the business are as follows:

Pensions and investment advice

Whilst the Group prides itself on the quality of advice offered to customers through Skipton Financial Services Limited, the provision of pensions and investment advice is inherently complex and, for various reasons, on occasion can subsequently be found not to be suitable for the customer. The liberalisation of pensions announced by the Government in 2015 has increased the complexity of this area significantly and with it the risk of providing unsuitable advice. Alert to this risk, the Group maintains a robust compliance capability which supports development of appropriate customer offerings and closely monitors the suitability of advice provided to customers.

Change management

The scale and pace of regulatory change has been significant in recent years and shows little sign of abating. Alongside this the Society has an ambitious change programme designed to ensure that our customer proposition and service delivery are aligned to customer expectations. The Board and senior management are cognisant that a large and demanding change programme which is inadequately managed can lead to the crystallisation of unforeseen risks resulting in poor service to customers. Focus and resource has been devoted to developing a robust governance regime to deliver effective oversight of projects from business case approval through to progress monitoring, implementation of a standard project lifecycle methodology and capacity planning.

Reputational risk

Reputational risk is the risk to earnings, liquidity or capital arising from negative market or public opinion. Management has considered how this might arise and what the impact could be. The consequences would adversely impact the future prospects of the Group and could expose the Group to litigation and financial loss. Reputational risk is inherent across the Group. Senior management manage this risk in the following ways:

- by maintaining and investing in control structures;
- by a continued focus on customer outcomes;
- by promoting the Society through marketing and external communications; and
- through the risk management framework which has reputational risk as a key consideration.

Regulatory risk

Regulatory risk arises from a failure or inability of the Group to fully comply with the laws, regulations or Codes of Practice applicable to the Group. Non-compliance could lead to damage to reputation, public censure, fines and increased prudential requirements. Key changes on the horizon include the results of the FCA's Cash Savings Market Study, the EU Data Protection Directive, full details of which are due to be announced in early 2016, and the Bank Recovery and Resolution Directive (BRRD) which includes the Minimum Required Eligible Liabilities requirements. In addition, the Group will be impacted in 2016 by a number of taxation changes. A reduction in tax reliefs for buy-to-let landlords and the new 3% stamp duty surcharge may impact on market growth and the Group will closely monitor any changing trends in this area. Also, the Society will be materially impacted by the introduction of the bank corporation tax surcharge of 8% which may impact the Society's capacity to lend. The Group has allocated resource to ensure continued compliance in these and other areas.

Information Technology risk

The pace of technological development is creating a period of significant change in financial services. The Society will continue to invest in its technology provision to provide an excellent level of customer service and manage risks in this area which include:

Cyber crime – Cyber risk incorporates a wide array of potential threats to Group businesses. These can include network or perimeter threats, a breach of online controls leading to increased risk of online fraud as well as data leakage. These threats are of increasing significance given the expected growth in online customer transaction levels. In response to this, Group businesses continue to focus efforts on proactively managing the evolving nature of cyber threat to ensure that the Group is best placed to protect itself and its customers.

Business resilience – Market experience has shown that executing IT change has significant risk attached to it and can lead to the loss of core systems and the ability to provide expected levels of customer care. The Society is fully aware of these inherent risks and continues to review its approach to business resilience and continuity to ensure that this is reflective of business changes over time and remains robust in the event of a disaster.

Customer expectation and demand on digital services – We expect more customers to open and service their accounts through digital channels. The Society has clearly defined plans to ensure its IT resilience and availability can meet this increased demand as it progresses its digital change programme.

Model risk

Model risk is the risk that, as a result of weaknesses or failures in the design or use of a model, a financial loss occurs or a poor business or strategic decision is made.

To mitigate this risk MGC provides a formal forum for managing and assessing model risk in the Society, ensuring that all key models:

- go through a formal review and approval process;
- have a strict change control process;
- undergo a pre-determined model development and validation process; and
- are monitored regularly and reviewed at least annually.

Although over time all key models used by the business will be covered by MGC, at present the focus is predominately on key credit risk models.

Pension obligation risk

The Group had, as at 31 December 2015, funding obligations for three defined benefit schemes which had all closed to new entrants and to future accrual of benefit by 31 December 2009. Two of the schemes were subsequently merged in January 2016. Pension risk is the risk that the value of the schemes' assets, together with ongoing contributions, will be insufficient to cover their obligations over time. The return on assets, which includes equities and bonds, will vary with movements in equity prices and interest rates. The projection of the schemes' obligations includes estimates of mortality, inflation and future salary increases, the actual outcome of which may differ from the estimates. The schemes are also exposed to possible changes in pensions legislation.

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

- The Board regularly reviews the Group's pension risk strategy;
- The Board and the pension scheme Trustee receive professional advice from different actuarial advisers;
- The pension scheme Trustee meets at least quarterly to monitor the investment performance of scheme assets and make investment decisions, liaising with the principal employer in accordance with the scheme rules and taking advice from professional investment consultants;

- The pension scheme Trustee also monitors the pension obligation position (on the Trustee's funding basis); and
- The pension obligation position (on an IAS 19 basis) is updated every six months and reported, along with key pension risk metrics, to the Board Risk Committee.

The Group also performs stress testing on the pension scheme liabilities and assets as part of the pension risk metrics for the Board Risk Committee and also in its capital planning methodologies articulated in the Internal Capital Adequacy Assessment Process (ICAAP). Note 28 of this Report and Accounts outlines the steps management has undertaken to manage the Group's pension risk exposure.

Taxation risk

Taxation risk is the risk associated with changes in tax law or in the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge. It could also lead to reputational damage or financial penalties.

The Group has effective, well-documented and controlled processes in place to ensure compliance with tax disclosure and filing obligations and employs its own tax professionals who take appropriate advice from reputable professional firms when necessary.

The Group takes a responsible approach to the management, governance and oversight of its tax affairs which is documented in a Tax Policy approved by the Board which requires tax risks to be reviewed and assessed as part of the Group's formal governance processes. In 2013 the Group re-adopted the Code of Practice on Taxation for Banks; this requires banks to have proper governance around tax, integrated into business decision making, to establish an appropriate working relationship with HMRC and to undertake tax planning only to support business operations and not to achieve unintended tax advantages. The Group will continue to be cooperative and transparent in its dealings with the tax authorities and has embedded the terms of the Code into its Tax Policy.

Business risk

Business risk is the risk of changes in the environment in which the Group operates or the occurrence of events which damage the franchise or operating economics of the Group's businesses. The Group addresses these risks within its corporate plan which is approved by the Board along with the Group's key strategies. The Board Risk Committee is also provided with the results of stress and scenario tests to assess the potential impact on the Group of a stressed business environment such as a severe economic downturn. This enables the Committee to monitor the risk impact of business strategies and to determine whether changes to these may be required to protect the sustainability of the Group. In addition, potential sources of business risk include revenue volatility due to factors such as macro-economic conditions, inflexible cost structures, uncompetitive products or pricing and structural inefficiencies.

Capital management

The Group conducts an ICAAP at least annually, which is approved by the Board. This is used to assess the Group's capital adequacy and determine the levels of capital required to support the current and future risks in the business derived from the corporate plan. The ICAAP addresses all the Group's material risks and includes Board-approved stress scenarios which are intended, as a minimum, to meet regulatory requirements. The ICAAP is reviewed by the PRA when setting the Group's Individual Capital Guidance (ICG) requirements.

The Group currently adopts the following approaches to calculate its Pillar 1 minimum capital requirements:

- Standardised approach for mortgages and other lending exposures;
- Comprehensive approach for Treasury portfolios; and
- Standardised approach for operational risk.

The Group has also developed a suite of IRB models for the assessment of the credit risk associated with our lending portfolios. The models are now in use and are used, inter alia, to inform our future capital requirements, mortgage pricing decisions and our collection strategies. However, until PRA approval of the models has been received, our capital assessment under the standardised approach will continue to form our assessment of our minimum regulatory requirement.

The CRD IV regulatory framework came into force on 1 January 2014. This introduced significant changes to the calculation of our capital adequacy as well as the introduction of new metrics, for example the leverage ratio. Many of the changes under CRD IV became effective immediately; others, including the introduction of various capital buffers, are being phased in over the period to 2022. We currently satisfy all of the current capital requirements under CRD IV.

To meet the CRD IV Pillar 3 requirements, the Group publishes further information about its exposures and risk management processes and policies on the Society's website www.skipton.co.uk.

Effectiveness of the Board Risk Committee

The effectiveness of the Committee is assessed as part of the annual Board and Committee effectiveness review. The 2015 review, recently completed, concluded that the Committee operated effectively during the year.

Committee members are expected to undertake relevant training as part of their ongoing development and, periodically, the Board as a whole receives training on current topics such as current sector challenges, regulatory developments, conduct risk issues and developments in financial markets to ensure they remain effective in their role.

Robert East
Chairman of Board Risk Committee
23 February 2016

Directors' Remuneration Report

Annual statement from the Chairman of the Remuneration Committee

I am pleased to present the Remuneration Committee's Report which sets out details of the pay, incentive payments and benefits for the Directors and the Society's Material Risk Takers (MRTs) for the year ended 31 December 2015. We constantly strive to maintain the highest standards of transparency and governance in relation to Directors' remuneration and have again this year incorporated the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 to the extent to which they apply to building societies.

The Directors' Remuneration Report (this report) is presented in two sections:

- The Remuneration Policy part of the report on pages 59 to 65 which explains how we will pay Directors from 2016 onwards.
- The Annual Report on Remuneration on pages 66 to 72 which explains how we put our existing policy into practice in 2015 and how we intend to implement our new policy in 2016.

A summary of this report will be sent to members, together with the Summary Financial Statement, ahead of the 2016 Annual General Meeting (AGM).

Revised remuneration policy for 2016

During 2015 we have been preparing for a change in the way the Remuneration Code will apply to the Society going forward. The Prudential Regulation Authority (PRA) takes into account a firm's size, internal organisation and the nature, scope and complexity of its activities when determining the code rules which are applicable. The considerable success of the Society in recent years and the consequent steady growth in our total assets means that additional requirements will apply to remuneration awarded in respect of 2016 onwards. This, together with updated regulation brought into effect by the PRA in June 2015, means that we have had to review our remuneration policy for Executive Directors.

Our review concluded that there were many features of our existing arrangements which have worked well, such as the balance of performance measures and the inclusion of team based Key Performance Indicators (KPIs). We have, wherever possible, sought to retain these features. We also concluded that the revised regulatory requirements would make retaining our existing separate short term and medium term incentive arrangements too complicated and would diminish their effectiveness as an incentive.

The key features of our proposed new policy are as follows:

- Replacement of the separate short term and medium term incentive arrangements with a single variable pay arrangement;
- The long term focus of the existing arrangements will be maintained by a requirement that at least 50% of any variable pay awarded will be deferred and will vest pro-rata over a period of five years (unless a greater proportion or a longer deferral period is required by regulation);
- Deferred payments will be subject to a sustainability assessment one year after award and can be reduced if the Committee determines that the performance which generated the award has not been sustained;
- We will rebalance remuneration between fixed and variable pay by reducing the overall variable pay opportunity for Executive Directors from 100% of salary to 50% of salary whilst at the same time increasing base salaries by around 15%. The overall impact of this change for Executive Directors is that the net present value of on-target remuneration is broadly the same, but the maximum opportunity is significantly reduced in the longer term.

In the following section we have set out our new policy for 2016 which, together with the Annual Report on Remuneration, will be put to two advisory votes at our AGM in April 2016.

Remuneration in respect of 2015

Performance in 2015 built on the strong foundations set in previous years in the context of increasing competition for both mortgages and savings. The underlying Group profit before tax (PBT) was £153.3m (2014: £150.1m), the core Mortgages and Savings division PBT reached £104.8m (2014: £98.4m) and the Common Equity Tier 1 (CET 1) ratio increased to 16.80% (2014: 16.09%).

Key decisions taken in 2015

- Within the context of good performance in 2015 and taking into account our approach to risk management, the Committee made awards under the Society's short term incentive scheme. The average award payable to the Executive Directors is 36.4% of base salary (as at 31 December 2015) out of a possible maximum 50% and to the senior managers in the Senior Leadership Incentive scheme is 22.8% of base salary. In 2014 we introduced an annual incentive scheme for the remainder of our people in the Society, the average payment for which is 5.4% of base salary for 2015.
- In 2015 we again awarded to Executive Directors and other members of the Executive Committee a Medium Term Incentive scheme (MTI) of up to 50% of salary which will operate over a three year performance period ending 31 December 2017. The MTI rewards the achievement of sustainable profit, increased customer satisfaction and growth

in customer numbers. Payments for the 2015/2017 performance period will be made in 2018, 2019 and 2020 subject to performance. Half of the amount due will be paid in 2018, one quarter in 2019 and one quarter in 2020. Due to the change of policy referred to earlier in this report, the 2014/2016 and 2015/2017 MTI schemes will continue to run until the end of their respective performance periods but a new MTI scheme will not be commenced for 2016 to 2018.

In the 2014 Directors' Remuneration Report we stated our intention to review the Committee's advisers. Our requirement for a full service provision on remuneration and related matters, combined with in-depth knowledge of current and proposed regulation, was met convincingly by PwC who are independent of the Society and were appointed as the Committee's advisers in February 2015.

Conclusion

On behalf of the Committee, I trust you will find this report useful and informative and I look forward to your feedback on our new Remuneration Policy. The Committee recommends that members vote in favour of the Directors' Remuneration Policy and the 2015 Annual Remuneration Report at the forthcoming AGM.

Nimble Thompson
Chairman of the Remuneration Committee
23 February 2016

Directors' Remuneration Policy effective from 2016

Remuneration Policy for Executive Directors

The Board's policy is designed to ensure that Executive Directors' remuneration reflects performance and enables the Group to attract, retain and motivate a sufficient number of high calibre individuals to lead and direct the organisation and deliver sustainable business performance for our members.

Development of policy

In establishing, implementing and maintaining the remuneration policy, the Committee applies a set of general remuneration principles for the Group. The general principles set out the Committee's standards with regard to remuneration, governance, risk management and the link to performance. There are additional requirements for those firms regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), which include the Society, and the general principles for these firms are set out below. The full remuneration principles are available on request from the Secretary.

In addition to these general principles, the Committee sets out requirements for the operation of variable pay, setting appropriate rules and limits around incentive related payments. Further requirements on deferral and performance adjustment apply specifically to Material Risk Takers (defined on page 173). The principles are reviewed annually.

General principles of remuneration

a. A total rewards approach to remuneration is taken which encompasses the key elements deployed to attract, engage and retain employees, namely: compensation (base and variable), benefits and the 'work experience'. The work experience includes but is not restricted to culture / environment, work / life balance, career development and recognition.

b. Remuneration at the Skipton Group encourages a high level of stewardship and corporate governance. Senior management and those responsible for drafting remuneration schemes are expected to have an understanding of the relevant prevailing regulation and to incorporate this into remuneration policy and scheme design. All schemes must comply, where applicable, with the PRA and FCA remuneration codes and guidance.

c. Remuneration policies, procedures and practices reflect sound, effective risk management and do not encourage risk taking which falls outside any of the stated Board risk appetites or the scope of Board policies. Remuneration practices are reviewed at least annually by the Risk function to ensure they do not encourage inappropriate risk taking behaviour or present conflicts of interest which may result in poor outcomes for our customers.

d. Remuneration should be competitive and sufficient to secure and retain the services of talented individuals from other companies or mutual organisations with the key skills, knowledge and expertise necessary to run Group businesses effectively, recognising the diverse nature of the Group and the nature of its stakeholders.

e. All employees will be rewarded fairly, regardless of race, colour, creed, ethnic or national origin, marital status, disability, age, gender, gender reassignment, sexual orientation, political opinion, religion, trade union or non trade union membership.

f. Remuneration should recognise the appropriate level of Group / Society and individual performance which will create a strong and sustainable business, aligning with our values, strategic objectives and the long term interests of our members.

g. Where remuneration is performance related, it will be based on the assessment of the individual / team, the business unit and overall Group performance (if appropriate). In assessing individual performance, a balance of financial and non-financial criteria will be taken into account.

h. Remuneration arrangements are transparent, consistent and fair reflecting individual responsibilities and performance. Base compensation will reflect the core role and responsibilities of the individual whereas variable compensation will reflect the achievement of agreed targets, or objectives which are over and above business as usual activities.

i. Remuneration policies, practices and procedures (including performance appraisal) should be: cost effective, free from conflicts of interest, clearly documented and straightforward to understand, communicate and administer.

j. The Remuneration Committee will review and approve remuneration for Executives with base salaries in excess of £200,000. Recommendations for salary review and incentive payments must be submitted to the Remuneration Committee prior to confirmation.

k. The Committee is to be informed of individuals earning in excess of £275,000 (including base salary, annual and any long term incentive pay out) in any one calendar year.

l. The calculation of termination payments should take account of an employee's performance over the duration of their period of service with the Group and shall be calculated in a way that is fair to both the employee and the Skipton Group and should not reward failure or misconduct.

Directors' Remuneration Report *(continued)*

The table below shows the elements of remuneration for Executive Directors, the reasons for their inclusion and the way they operate with effect from 1 January 2016.

Element How element supports our strategy	Operation	Maximum potential value	Performance conditions and assessment
Base salary • Supports the recruitment and retention of Executive Directors, reflecting their individual roles, skills and contribution.	Base salary reflects the size of the role and responsibilities, individual performance (assessed annually) and the skills and experience of the individual. In setting appropriate salary levels, the Committee takes into account data for similar positions in comparable organisations. The data is independently commissioned and the Society aims to position Executive Directors competitively within this reference group.	Increases to base salary are determined annually by the Committee taking into account: • Individual performance; • The scope of the role; • Pay levels in comparable organisations; and • Pay increases elsewhere within the Group.	None applicable, although we do take account of individual performance when considering base pay increases.
Pension • Supports recruitment and retention of Executive Directors at a cost that can be controlled by the Society.	Generally, the Society contributes to a defined contribution pension scheme for the Executive Directors. The contribution can instead be paid in cash (which is excluded from incentive calculations) if the Executive Director is likely to be affected by the limits for tax-approved pension saving.	The maximum is 20% of base salary. Mr Cutter receives 20% of base salary and the other Executive Directors between 10% and 15% of base salary.	None applicable.
Benefits • To attract, retain and provide security for Executive Directors; and • Provides a competitive level of benefits to assist Executive Directors to carry out their roles effectively.	A number of benefits are provided to Executive Directors, including a car or car allowance, private medical insurance, life insurance and disability benefits. The Committee reviews benefits from time to time and may make changes, for example, to reflect market practice or the needs of the business.	The Society bears the cost of providing benefits, which may vary from year to year.	None applicable.
Single Variable Pay Arrangement (SVPA) (from 2016) • Supports the attraction and retention of Executive Directors; • Supports the development of a high performance culture; • Rewards performance within the context of achieving corporate goals and objectives as set out in the corporate plan; and • Encourages the right behaviours in respect of sustainable performance that supports the achievement of strategic goals.	A combination of financial and non-financial measures and targets are set with a weighting which will not exceed 50% of the total incentive opportunity for financial measures and which will not exceed 60% for non-financial measures. The latter includes personal objectives (normally up to 20%). Targets are set and assessed against these criteria each year relative to the Society's strategic aims. 50% of earned incentive is normally paid in cash shortly after performance has been assessed. The remaining 50% of earned incentive is deferred over a period of one to five years and is normally paid in cash subject to performance adjustment. A greater proportion of the incentive may be deferred and a longer deferral period applied, if this is required by regulation. Current regulations also require that for those whose total remuneration exceeds £500,000 or whose variable pay (for the relevant performance year) exceeds 33% of total remuneration (de minimis threshold), 50% of the SVPA will be delivered in the form of an 'instrument' which will be subject to a further holding period (currently six months). The instrument will be subject to a write down if the CET 1 ratio falls below a prescribed level. An element of the performance assessment will be made over a period of more than one financial year to meet regulatory	The maximum incentive which may be earned for any year by the SVPA is 50% of base salary. For each performance measure, the Committee determines a threshold, target and maximum level of performance. No incentive is payable for performance below the threshold level, with varying levels of pay-out for performance between threshold and maximum. On-target performance generally attracts an incentive of 60% of the maximum.	The performance measures attached to the SVPA will be determined by the Committee from year to year, but might typically include (but are not limited to) any of the following: • Group profit; • Mortgages and Savings division profit; • Efficiency measures; • Customers (growth and satisfaction); • Risk and governance; • People; • Personal objectives (includes an element for strategy development and implementation). Performance against the measures is reviewed and approved by the Remuneration Committee. The weightings attached to the types of measure and the individual weightings attached to

Element How element supports our strategy	Operation	Maximum potential value	Performance conditions and assessment
SVPA (continued) (from 2016)	requirements and to maintain a longer term perspective in the scheme. This will be achieved by the Remuneration Committee making a sustainability assessment one year after the award of the incentive. Up to 25% of the incentive originally awarded can be reduced or cancelled as a result of this assessment. The percentage of deferred incentive, the deferral period (one to five years) and the payment instrument may be amended in response to changes in regulation. The Committee may reduce or withdraw the payment of a deferred amount in certain circumstances and has the power to reduce, cancel or recover payments under the SVPA if it believes there are circumstances where the payments are not appropriate, for example due to failure to maintain certain capital levels, evidence of systemic conduct risk, or evidence of significant control failures or weaknesses.		each individual measure may vary from year to year as determined by the Committee.
Medium Term Incentive (MTI) 2014 and 2015 schemes – to be discontinued in 2016 • Encourages the right behaviours in respect of long term, sustainable performance that supports the achievement of strategic goals; and • Provides a balance between long and short term rewards in the overall remuneration package for those Senior Executives eligible to participate.	Payments are based on performance (as determined by performance against agreed corporate plan targets) over rolling three year cycles. The corporate plan targets for each three year performance period are reviewed and agreed by the Board annually. The performance for each three year cycle is based on cumulative performance against the annual targets for the three year cycle. Payments are made over three years so that: • 50% of the incentive earned is paid immediately following completion of the three year performance period; • 25% is deferred for one year; and • 25% is deferred for two years. The Committee may reduce or withdraw the payment of a deferred amount in certain circumstances and has the power to reduce or cancel payments due under the MTI if it believes in extreme circumstances that the payments are not appropriate, for example, due to failure to maintain certain capital levels, evidence of systemic conduct risk, or evidence of significant control failures or weaknesses.	The MTI will be discontinued in 2016. The current MTI schemes for 2014/2016 and 2015/2017 will continue until completion of the performance period and will be paid as per scheme rules. The maximum incentive which may be earned for any year from the MTI scheme is 50% of salary. For each performance measure, the Committee determines a threshold, target and maximum level of performance. No MTI is payable for performance below the threshold level, with varying levels of pay-out for performance between threshold and maximum. On-target performance generally attracts an MTI of 60% of the maximum.	50% of the award is based on Group profit and 50% of the award is based on customer measures. The measures are assessed independently. Any payment from the MTI is subject to reduction, up to and including the whole payment, based on CET 1 capital levels at the end of each three year cycle. Any payment from the MTI is subject to satisfactory individual performance.

Notes to the table

Base salary

In light of the additional regulatory requirements relating to remuneration for the Society in 2016, a review has been carried out as to the most appropriate structure for remuneration. As a consequence, a change to the ratio between fixed and variable pay has been made which reduces the overall remuneration opportunity for each Executive, reduces the maximum variable pay to 50% and increases fixed pay by an average of 15% as explained in the section 'Statement of implementation of Remuneration Policy in 2016'.

Performance measures

The performance conditions attached to the SVPA scheme have been selected as they support the sustainable success of the Society. The Committee believes that the use of a range of financial and non-financial measures provides a balanced assessment of the overall performance of the Society.

The Committee considers the targets attached to the SVPA to be commercially sensitive and will not therefore disclose these at the beginning of the financial years to which they relate. The Committee will, however, disclose the weightings that will be attached to each SVPA performance measure at the beginning of the financial year to which they relate.

A summary of performance against the targets will be disclosed following the end of the relevant financial year. In setting the target and maximum payments, the Committee considers both the market position and the risk appetite of the Society and sets these levels accordingly. The weightings for 2016 are outlined in the 'Statement of implementation of Remuneration Policy in 2016' section of this report.

Changes from remuneration arrangements operated in 2015

There will be no new MTI scheme in 2016. The MTI and Short Term Incentive (STI) schemes will be replaced by the SVPA. The SVPA is a new arrangement, designed to re-balance the total reward packages for our Executive Team and to reward the achievement of sustainable performance in line with member interests over a number of years. The scheme will commence in 2016, with the first payments (based on performance in the year ending 31 December 2016) commencing from 2017. These payments are subject to the new deferral arrangements set out in the table. Payments from the 2014/2016 and 2015/2017 MTI schemes will continue to be made (subject to performance and risk adjustment) together with any deferred incentive payments from prior performance year STI schemes.

Deferral periods required by regulation

From 2016, current regulations mean that the Group Chief Executive will, in normal circumstances, have 40% of his incentive payment paid in year one (20% in quarter one and 20% subject to a six month retention period). 60% of the incentive will be paid pro-rata in years four to eight following the incentive award, subject to a six month retention period for 50% of payments in each year. For other Executive Directors above de minimis, a longer deferral period may also be required by the regulations.

Remuneration for other employees

All employees of the Society receive a base salary and benefits consistent with market practice, and are eligible to participate in the Society's pension plan and in the incentive arrangements relevant to their role.

Members of the Executive Committee and other selected senior managers may be eligible to participate in the SVPA on the same terms as the Executive Directors, subject to the discretion of the Group Chief Executive and the Committee. The award size for these individuals may be lower than for the Executive Directors.

A variable pay arrangement for all employees is in place, so that everyone employed by the Society will have the opportunity to share in the Society's success. The key measures for the scheme are aligned with those that apply for senior management.

Committee's discretion in relation to the SVPA and MTI schemes

As noted above, the Committee has the discretion to reduce, defer or recover payments under the SVPA in accordance with the Society's Policy on Malus and Clawback. Malus refers to the reduction or withdrawal of deferred awards and clawback is the repayment of amounts already paid. The Committee also has the discretion to cease or amend the operation of either arrangement where this is necessary to ensure the arrangements continue to meet the Committee's overriding remuneration principles. This might include, for example, amending the deferral arrangements to comply with changing regulation.

How the policy supports the Society's strategy

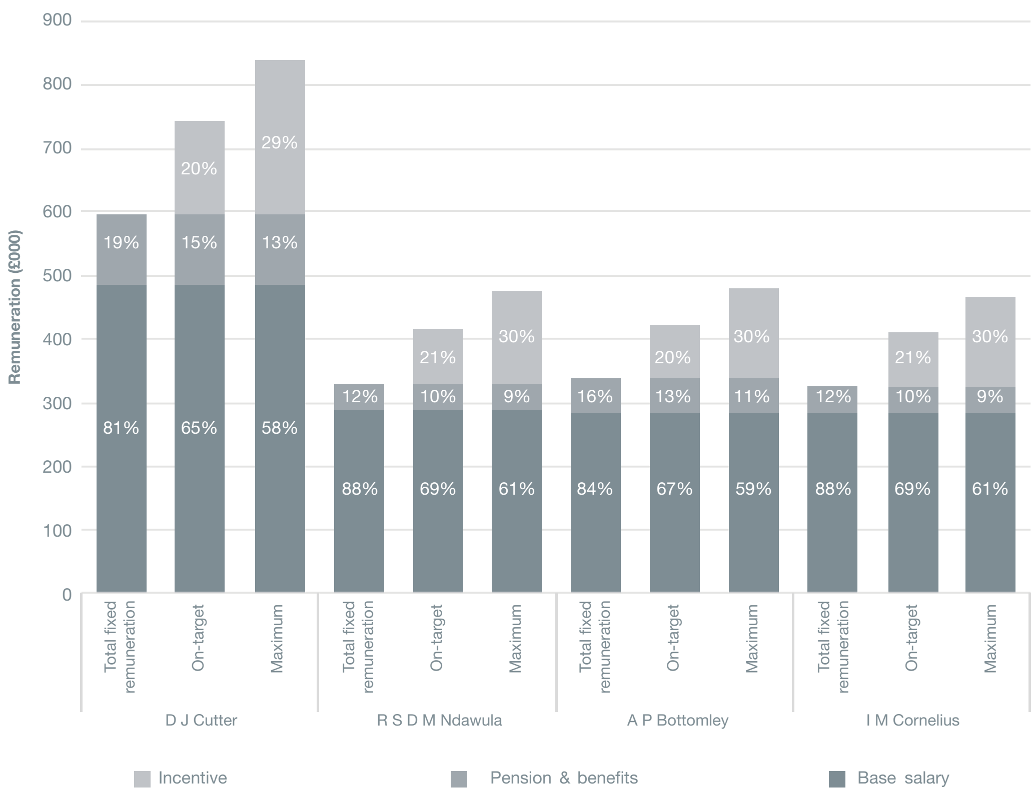
The table below shows how the variable elements of the 2016 remuneration policy support the Society's strategy.

	Generating profits for the Society…	...in a sustainable way...	…while delivering value to members and treating them fairly…	…and managing risks and processes while complying with regulation
SVPA features				
Group profit	●			
Mortgages and Savings division profit	●			
Efficiency measures	●	●	●	
Customers (growth and satisfaction)	●		●	
Risk and governance		●	●	●
People			●	
Personal objectives including strategy development and implementation		●		
Risk adjustment		●	●	●
Deferral of at least 50% of incentive		●		●
Discretion to reduce / defer / recover payments		●	●	●

Illustration of application of remuneration policy

The chart below illustrates the 2016 remuneration that would be paid to each of the Executive Directors under three different performance scenarios: (i) Minimum; (ii) On-target; and (iii) Maximum. The minimum scenario assumes that no pay-out is achieved from any variable elements of remuneration and on-target and maximum scenarios are as defined in the policy table on pages 60 and 61.

The elements of remuneration have been categorised into three components: (i) Base salary; (ii) Pensions and benefits; and (iii) Incentive (Single Variable Pay Arrangement).



Each element of remuneration is defined in the table below:

Element	Description
Base salary	Proposed base salary for 2016.
Pensions and benefits	Pension contributions or pensions allowance plus taxable benefits.
Incentive	Single Variable Pay Arrangement at on-target and maximum payment levels.

Policy on remuneration of Non-Executive Directors

The table below sets out the elements of Non-Executive Directors' remuneration and the policy on how each element is determined.

Element	Approach to determination
Base fees	Reviewed annually based on time commitment and responsibility required for Board and Board committee meetings. Review takes into account fees paid by comparable financial services organisations.
Additional fees	Additional fees are payable for additional responsibilities such as committee chairmanship or other duties.
Other items	Non-Executive Directors are not eligible to participate in any form of performance pay plans and do not receive pensions or other benefits. Travel and subsistence expenses between home and Skipton Head Office, including for attendance at Board and committee meetings, are reimbursed.

The Remuneration Committee determines the Chairman's fee while the fees of the other Non-Executive Directors are determined by the Non-Executive Directors' Remuneration Committee.

Approach to recruitment remuneration

Overall, the Committee aims to recruit Executive Directors using remuneration packages that are market-competitive and as consistent as possible with the existing remuneration structure. In doing so, the Committee seeks to pay no more than necessary to attract talented individuals to join the Society.

Newly recruited Executive Directors are eligible to receive the same remuneration elements as existing Executive Directors as set out in the policy table above, namely:

- Base salary – set at an appropriate level taking into account the experience and quality of the candidate;
- Pension and benefits – in line with our standard policy; and
- Single Variable Pay Arrangement – in line with our standard policy.

The Committee does not expect to make additional recruitment arrangements (such as signing-on bonuses) as standard practice but may (subject to regulation), from time to time, be required to do so in order to secure the appointment of the right candidate.

In addition to ongoing remuneration arrangements, the Society may, where necessary, make replacement awards to 'buy-out' any remuneration awards or opportunities that an incoming Executive Director has forfeited in order to join the Society. Where this is necessary, the Committee will ensure that the overall value does not exceed the value being given up and will take into account regulatory requirements, performance conditions and timing of payments.

Newly appointed Non-Executive Directors will receive fees in line with the policy outlined above.

Directors' service contracts and notice periods

The Executive Directors are employed on rolling service contracts which can be terminated by either the Society or the Director giving one year's notice. Unless notice to terminate is given by either party, the contracts continue automatically.

Non-Executive Directors do not have service contracts.

Policy on termination payments

The Committee's overarching aim is to treat departing Executive Directors fairly, taking into account the circumstances of their departure, but always taking care to ensure that the interests of members are considered and that there are no rewards for failure.

Executive Directors are entitled to be paid their base salary and contractual benefits (including pension contributions) during the notice period. The Society has the discretion to pay these as a lump sum benefit in lieu of notice.

The rules of the SVPA scheme and the MTI scheme* set out the treatment of awards for individuals who cease to be an employee or Director of the Society.

In the following circumstances an individual will be eligible for a payment under the SVPA scheme:

- Normal retirement;
- Death;
- Injury or disability; or
- Any other circumstances which the Committee may in its discretion determine.

In exercising discretion on eligibility for payment of annual or deferred amounts, the Committee will consider the circumstances surrounding the departure.

For the SVPA and until the outstanding MTI cycles are completed, the Society will continue to pay any payment due in respect of a completed performance year. Deferred awards for completed performance periods and for part completed performance periods will be paid on the due date, except in the event of death, when the Committee may exercise its discretion and pay the deferred amount due immediately.

Eligible leavers (as set out above) will be considered for a bonus in respect of a partially completed performance year. Such an award would be pro-rated to take account of the service completed during the year. The award would be paid at the usual time, after the end of the performance year, taking account of the outcome of any performance conditions. Any deferred element of the SVPA scheme for eligible leavers will continue to be paid on the usual payment dates.

* The rules of the MTI scheme remain unchanged from our 2014 policy and include redundancy in the eligible leaver criteria in addition to those set out for the SVPA above.

Consideration of remuneration for individuals elsewhere in the Society

The Committee is responsible for setting the remuneration of the Executive Directors and approves the policy for senior managers who have a material impact on the Society's risk profile (Material Risk Takers). In addition, the Committee reviews recommendations from the Group Chief Executive for approval of the remuneration for other key executives.

Whilst the Committee does not consult employees on remuneration policy for Directors, it considers the level of salary increases across the Society when setting salary increases for Executive Directors.

Consideration of member views

The Committee does not consult with the Society's members on its executive remuneration policy, but takes into account any feedback given by members. The Committee has, for a number of years, invited members to vote on the annual Remuneration Report, and members have always voted in favour. When considering whether to adopt, on a voluntary basis, some of the changes to remuneration reporting that apply to UK listed companies, one of the factors that the Committee took into account was the opportunity to give members a chance to vote on the Society's remuneration policy. The Committee believes this will give members an opportunity to indicate their approval for the policy and the outcome of the vote will influence the development of policy in future years.

Annual Report on Remuneration in 2015

Executive Directors' remuneration

The total remuneration for Executive Directors in 2015 is set out in the table below:

2015 Audited	**Salary**	**Benefits[1]**	**Current year annual performance pay[2]**	**Pension**	**Total**	**Prior years' deferred performance pay now released[3]**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Mr D J Cutter (note 4)	418	15	149	84	**666**	90
Mr I M Cornelius	244	12	91	21	**368**	21
Mr R S D M Ndawula (note 5)	221	10	93	19	**343**	-
	883	**37**	**333**	**124**	**1,377**	**111**

2014 Audited	Salary	Benefits[1]	Current year annual performance pay[2]	Pension	Total	Prior years' deferred performance pay now released[3]
	£000	£000	£000	£000	£000	£000
Mr D J Cutter	408	15	195	81	699	64
Mr I M Cornelius	236	12	111	19	378	21
Mr M R Fleet (note 6)	251	19	115	20	405	23
Mr R J Twigg (note 6)	76	14	46	15	151	27
	971	60	467	135	1,633	135

Notes

1. Benefits comprise the provision of a car or car allowance and private medical insurance contributions.
2. £59,718 of the 2015 Short Term Incentive for Mr Cutter has been deferred under the rules of the scheme (2014: £77,802). No amounts relating to the 2014/2016 or 2015/2017 MTI are included in the above figures, as payments will be based on performance in the stated periods and are not due to commence until 2017. For Messrs Cutter, Cornelius and Ndawula, a total of £314,877 has been accrued to 31 December 2015. This represents two thirds of the estimated payment for the 2014/2016 scheme and one third of the estimated payment for the 2015/2017 scheme based on current performance. The accrual will be reviewed at the end of each qualifying year and adjusted, as required, based on that year's performance.
3. The Incentive Scheme rules include the requirement to defer over three years a portion of the amount earned by any individual if the total amount earned by that individual is greater than £500,000, or the amount earned under the Incentive Scheme is more than 33% of his or her total remuneration.
4. Mr Cutter's 2015 pension figure includes the additional value earned in the defined benefit scheme during 2015 and a non-consolidated allowance paid in lieu of contributions. For the other Executive Directors, the figure relates to contributions to the defined contribution pension scheme and/or a non-consolidated cash allowance.
5. Mr Ndawula was appointed as Group Finance Director on 23 February 2015.
6. Mr Fleet resigned on 31 December 2014 and Mr Twigg transferred to Connells Limited on 7 April 2014.

Payments to a former Director

Mr Fleet left the Society on 31 December 2014. He was paid £390,147 in 2015, of which £252,642 was in respect of his agreed notice period and £137,505 was in respect of his short term incentive payment for 2014 (£114,800) plus a deferred payment from the 2013 STI scheme (£22,705). No payments were made in respect of the MTI scheme for either 2014 or 2015.

Base salary

Our annual salary review process for Executive Directors takes place in April each year and the following adjustments (2.5% increase) were made to the Executive Directors' base salaries effective from 1 April 2015:

	April 2015	April 2014
Mr D J Cutter	£420,250	£410,000
Mr I M Cornelius	£245,790	£239,795
Mr R S D M Ndawula (note 1)	£250,000	N/A

Note

1. Mr Ndawula's salary was increased to £250,000 on his appointment as Group Finance Director so he was not eligible for a further increase in April 2015.

Variable pay

Short Term Incentive scheme (STI)

The measures, weightings and the final payments from the 2015 STI scheme were as follows:

Director	Target bonus opportunity (% of salary)	Maximum bonus opportunity (% of salary)	Weighting				Bonus awarded	
			Group profit	Mortgages & Savings profit	Team KPIs	Personal objectives	% of salary	£000
Mr D J Cutter	30%	50%	30%	30%	20%	20%	35%	149
Mr I M Cornelius	30%	50%	30%	30%	20%	20%	37%	91
Mr R S D M Ndawula	30%	50%	30%	30%	20%	20%	37%	93

The table below summarises the outcome against the various measures underlying the annual incentive arrangement:

		Performance achieved				
Measure	Weight	Below Threshold	Between Threshold and Target	Target	Between Target and Maximum	Maximum
Group profit	30%				●	
Mortgages and Savings division profit	30%				●	
Team KPIs	20%				●	
Personal objectives (average)	20%				●	

Medium Term Incentive scheme (MTI)

The MTI scheme, as explained in the policy section above, is to be discontinued from 2016 onwards. However, the 2014/2016 and 2015/2017 schemes will continue to operate until their conclusion in 2017 and 2018 respectively. Final payments from the 2015 scheme will not be made until 2020. For 2015, as in 2014, the target percentage for both the STI and MTI is 30% with a maximum of 50% for each scheme (overall variable pay target 60%, maximum 100%).

Awards from the 2015/2017 scheme are based on a three year performance period commencing January 2015 and ending December 2017 with the first payments due in March 2018. Payments are determined on whether the performance objectives have been achieved and consideration of any risk adjustment measures which may need to be applied. The remuneration disclosed for the Executive Directors in 2015 does not include any amount for the 2014/2016 or 2015/2017 MTI schemes as these schemes have a three year performance period of which 2015 was either the first or second year. The measures and weightings for the 2015/2017 scheme are unchanged from the 2014/2016 scheme and are set out in the table below. Current progress towards these objectives for the 2015/2017 scheme is between target and maximum, but any future payments will depend on performance in 2016 and 2017. If similar progress is maintained over the three year period, the payment due would equate to 34.8% of base salary, half of which would be paid in 2018, one quarter in 2019 and one quarter in 2020.

Progress towards the 2014/2016 objectives remains between target and maximum. If similar progress is maintained in 2016, the payment due would equate to an average of 37.5% of base salary, half of which would be paid in 2017, one quarter in 2018 and one quarter in 2019.

Measure	**Weight**
Group profit	50%
Net customer satisfaction	20%
Customer satisfaction for online channel	10%
Net customer growth	20%

Directors' pension benefits

Mr Cutter is a deferred member of the Skipton Building Society Pension & Life Assurance Scheme, which is a defined benefit fund registered with HM Revenue and Customs under the Finance Act 2004. The Scheme was closed to future accrual of benefits on 31 December 2009 and no further member contributions have been made since that date. The value of his benefits in the Scheme is set out below.

Audited 2015	**Normal retirement date**	**Member's contribution for the year ended 31 December 2015 £000**	**Accrued pension entitlement at 31 December 2014 £000 pa**	**Accrued pension entitlement at 31 December 2015 £000 pa**	**Value of remuneration for the year ended 31 December 2015 £000**
Mr D J Cutter	1 January 2027	-	88	89	-

Audited 2014	Normal retirement date	Member's contribution for the year ended 31 December 2014 £000	Accrued pension entitlement at 31 December 2013 £000 pa	Accrued pension entitlement at 31 December 2014 £000 pa	Value of remuneration for the year ended 31 December 2014 £000
Mr D J Cutter	1 January 2027	-	86	88	-

Normal retirement date for members of the Scheme is when they reach the age of 65. The Scheme rules specify that this is the earliest date at which members are entitled to benefits from the Scheme:

- without consent (from the employer or the Trustee of the Scheme); and
- without actuarial reduction in the benefits;
- but disregarding any special provisions in the Scheme rules relating to a member's entitlement to early payment of their benefits on the grounds of ill health, redundancy or dismissal.

During the year Mr Cutter's accrued pension entitlement was revalued in line with the Scheme rules. The value of remuneration shown above is calculated using a modified version of HM Revenue and Customs' tax rules for pension savings, as laid out in the regulations. The additional value earned by Mr Cutter during the year due to his membership of the Scheme is included in his total remuneration.

Non-Executive Directors' remuneration

Non-Executive Directors' fees (excluding those of the Chairman) are reviewed annually by the Non-Executive Directors' Remuneration Committee, in line with the policy outlined earlier in the report. The Non-Executive Directors' Remuneration Committee makes recommendations concerning Non-Executive Directors' remuneration to the Board and in 2015 recommended that the basic Non-Executive Director fee and Deputy Chairman fee should be increased by £2,000 and £1,000 to £48,000 and £53,000 respectively with effect from 1 August 2015. The fees for chairing the Audit and Board Risk Committees were increased by £500 to £13,000 per annum. The fee for the chair of the Remuneration Committee was increased by £1,000 to £11,000 per annum to reflect the increasing complexity in the role. These fee increases were also effective from 1 August 2015.

The Chairman's fees are reviewed and approved by the Remuneration Committee. Mr Ellis' fee was agreed as £160,000 from 1 August 2014 and when reviewed by the Remuneration Committee in 2015 was increased to £165,000 with effect from 1 August 2015.

Audited	Note	2015 Fees £000	2015 Committee chair fees £000	2015 Taxable benefits[1] £000	2015 Total £000	2014 Fees £000	2014 Committee chair fees £000	2014 Taxable benefits[1] £000	2014 Total £000
Mr M H Ellis (Chairman)		162	-	5	167	157	-	4	161
Mr P J S Thompson (Deputy Chairman)	2	52	10	2	64	51	9	2	62
Mrs C Black		47	-	4	51	45	-	3	48
Ms M Cassoni	3	47	13	5	65	45	12	6	63
Mrs D P Cockrem	4	16	-	2	18	-	-	-	-
Mr R D East	5	47	13	1	61	45	-	1	46
Mr P R Hales	6	12	-	-	12	45	12	1	58
Mr G E Picken	7	72	-	4	76	70	-	4	74
Ms H C Stevenson		47	-	3	50	45	-	4	49
		502	36	26	564	503	33	25	561

Notes

1. In line with the requirements for UK listed companies, we have, this year, opted to disclose the taxable benefits paid to our Non-Executive Directors. The taxable benefits shown in the table above relate to the reimbursement of travel and subsistence expenses between home and Skipton Head Office, including for attendance at Board and committee meetings.
2. Mr Thompson is Deputy Chairman and Chairman of the Remuneration Committee.
3. Ms Cassoni is the Chairman of the Audit Committee.
4. Mrs Cockrem was appointed to the Board on 1 September 2015.
5. Mr East was appointed as Chairman of the Board Risk Committee on 1 January 2015.
6. Mr Hales stepped down as Chairman of the Board Risk Committee on 31 December 2014 and retired from the Board on 31 March 2015. Mr Hales joined the Board of SFS and received fees of £37,548 (2014: £nil) for being a member of that Board, which is not included in the above table as he is no longer a Director of the Society.
7. Mr Picken is also a Non-Executive Director of Connells Limited for which he receives an annual fee of £25,000 included in the table above.

Material Risk Takers (MRTs)

The Remuneration Code includes the principle of proportionality which means that firms are expected to comply with the remuneration requirements of the Code in relation to their size, internal organisation and the nature, scope and complexity of their activities. Accordingly, for 2015, the Society remains in Tier 3 grouped with banks and building societies with total group assets averaging less than £15bn over the last three financial years. In accordance with CRD IV and the European Banking Authority (EBA) criteria for the identification of MRTs, the Society reaffirmed the Group subsidiary companies falling within scope as Skipton Financial Services Limited (SFS) and Skipton International Limited (SIL). SIL is based in the Channel Islands and is regulated by the Guernsey Financial Services Commission. The Board of SIL agreed to follow the UK implementation of the new CRD IV remuneration requirements and to identify Material Risk Takers.

In 2015, in preparation for the implementation of the PRA and FCA Senior Manager Regime, the Society has been reviewing role responsibilities and accountability for risk at senior levels. In conjunction with this, it has reviewed the Terms of Reference and membership criteria for its Board sub-committees. This has led to a rationalisation in the number of MRTs Group-wide, which has decreased from 73 to 59. The disclosures for the MRTs in the Society are outlined in this report. The disclosures for SFS and SIL are included in the Pillar 3 document which is available on our website.

The Remuneration Committee is responsible for approving remuneration policies, maintaining oversight of the remuneration of MRTs and for ensuring that remuneration is paid to them in accordance with the relevant provisions of the PRA / FCA Codes.

Remuneration of Material Risk Takers

The basic salary of MRTs is set according to the size of the role and responsibilities, individual performance (assessed annually), salary levels of similar positions in comparable organisations and internal benchmarks. The Society uses a recognised job evaluation mechanism to determine the relative size of roles.

Salaries are reviewed annually and individual increases are awarded based on the individual's performance against personal objectives measured in accordance with the performance management framework.

In the Society, the majority of MRTs participate in the Senior Leadership Incentive scheme alongside non MRT colleagues. Targets set for MRTs in 2015 were similar to those outlined above for Executive Directors but for MRTs in risk management and internal audit functions, while profit remains an element, an increased weighting (50%) is given to the achievement of non-financial objectives.

The requirement to defer a portion of the incentive payment if it exceeds 33% of total remuneration or if total remuneration exceeds £500,000 applies to all participants in the Society's Senior Leadership Incentive scheme irrespective of whether they are MRTs.

A very small number of MRTs, who are not part of the Senior Leadership Team, participate in the All Employee Annual Incentive scheme which is based 50% on the achievement of profit and 50% on the achievement of agreed customer measures.

The table below sets out the aggregate remuneration for the Society's MRTs for the year ended 31 December 2015:

2015	**Number of beneficiaries**	**Fixed remuneration £000**	**Current year annual performance pay(1) £000**	**Total £000**	**Prior years' deferred performance pay now released £000**
Senior management (including Executive and Non-Executive Directors)	16	2,436	1,312	**3,748**	111
Other Material Risk Takers	27	2,625	588	**3,213**	-
	43	**5,061**	**1,900**	**6,961**	**111**

Note
1. Awards for the 2015/2017 MTI scheme are included in the above disclosures at the maximum award (50%). MTI scheme awards are not paid until after the end of the three year performance period. Payment is based on the extent to which performance conditions are met overall and can result in zero payments.

2014	Number of beneficiaries	Fixed remuneration £000	Current year annual performance pay(1) £000	Total £000	Prior years' deferred performance pay now released £000
Senior management (including Executive and Non-Executive Directors)	15	2,342	1,281	3,623	135
Other Material Risk Takers	43	4,006	1,144	5,150	-
	58	6,348	2,425	8,773	135

Note
1. Awards for the 2014/2016 MTI scheme are included in the above disclosures at the maximum. MTI scheme awards are not paid until after the end of the three year performance period. Payment is based on the extent to which performance conditions are met overall and can result in zero payments.

History of Group Chief Executive's remuneration

The table below shows the total remuneration of the Group Chief Executive over the last seven years, together with the bonus awarded to the Group Chief Executive as a percentage of his maximum possible bonus:

Year	**Total remuneration(1)**	**STI as % of maximum**
2015	£666,000	71%
2014	£699,000	95%
2013	£751,000	94%
2012	£617,000	60%
2011	£482,000	18%
2010	£463,000	25%
2009	£380,000	0%

Note
1. Total remuneration includes base pay, allowances, benefits and short term incentive pay. No amounts relating to the 2014/2016 or 2015/2017 MTI are included in the above figures as payments will be based on performance in the stated periods and are not due to commence until 2017. A total of £152,752 has been accrued to 31 December 2015. This represents two thirds of the estimated payment for the 2014/2016 scheme and one third of the estimated payment for the 2015/2017 scheme based on current performance. The accrual will be reviewed at the end of each qualifying year and adjusted, as required, based on that year's performance.

Comparison to the remuneration of other employees

As outlined earlier in the report, the Group Chief Executive's base salary was increased in April 2015 by 2.5%. This compares to an annual average pay award in 2015 of 3.97% for all other Society employees. The Society remuneration comparator relates to Society employees only as this is considered to be the most appropriate comparator to use due to the varying remuneration policies across the other Group subsidiaries.

Statement of implementation of Remuneration Policy in 2016

From 2016, as detailed in the policy section of this report, we will be introducing a new Single Variable Pay Arrangement (SVPA). In reviewing our remuneration policies and variable pay schemes for Executive Directors and other senior colleagues, we have taken into account member interests, market practice, the enhanced regulatory requirements for 2016 and our existing remuneration principles, including the need to attract and retain key talent within the organisation.

The new SVPA will retain many of the design elements from the existing STI and MTI schemes, including an enhanced balanced scorecard of financial and non-financial measures. The financial measures include Group profit, Mortgages and Savings division profit and its management expense ratio. The non-financial measures include customer growth and satisfaction scores, risk and governance, and people measures. For 2016, the weighting will be 50% based on financial, 30% on non-financial measures and 20% on personal objectives which include an element for strategy development and implementation.

In order to retain the longer term focus of the scheme, performance will be assessed against annual targets but will be subject to a sustainability assessment one year after the initial award has been made. The Remuneration Committee has the discretion, subject to agreed criteria, to reduce the overall award by up to 25%.

For Executive Directors (except the Group Chief Executive), 50% of the award will be paid in cash in 2017 and the remaining 50% will be deferred and paid pro-rata in 2018 to 2022 (unless a greater proportion, a longer deferral period or a retention period is required by regulations). For the Group Chief Executive, 20% of his 2016 award will be paid in cash in 2017 and 20% will be retained for a further six months subject to write down if the CET 1 ratio falls below an agreed level. The remaining 60% is deferred for three to seven years and is paid pro-rata in 2020 to 2024, again subject to the write down condition and a six month retention period for 50% of payments in each year.

The deferred payments for all participants are subject to the sustainability assessment and normal risk adjustment at the discretion of the Remuneration Committee.

The SVPA will reduce the overall maximum variable pay opportunity, from 100% to 50% of base salary. The targets and maximum for the SVPA scheme are set out below:

	Single Variable Pay Arrangement	
Director	**Target**	**Maximum**
Mr D J Cutter	30%	50%
Mr A P Bottomley	30%	50%
Mr I M Cornelius	30%	50%
Mr R S D M Ndawula	30%	50%

As part of the review of Executive remuneration, due to the significant reduction in variable pay opportunity, the Remuneration Committee proposes to increase base pay by 15% and implement retrospectively from 1 January 2016. The increase in base pay will mean that, in the longer term, the value of on-target total remuneration for the Executive Directors will remain broadly the same as the levels projected under the current STI and MTI schemes. The table below outlines the proposed base pay arrangements from January 2016:

Director	1 April 2015	Proposed
Mr D J Cutter	£420,250	£485,000
Mr A P Bottomley (note 1)	N/A	£282,500
Mr I M Cornelius	£245,790	£283,500
Mr R S D M Ndawula	£250,000	£288,500

Note
1. Mr Bottomley joined the Society on 1 January 2016 as Distribution and Financial Services Director.

Joining arrangements for Mr Bottomley

In addition to the base salary set out in the above table, Mr Bottomley will receive a payment of £165,000 and will be eligible for a pro-rata payment (two months) from the 2015 STI scheme to compensate him for loss of remuneration due in 2015 from his previous employer.

The Remuneration Committee has exercised discretion in allowing Mr Bottomley to also participate in the 2014/2016 and 2015/2017 MTI from the outset to replace the participation in such schemes that he has lost as a result of leaving his previous employer. Payments will be made in accordance with the arrangements for other participants and regulatory requirements applicable from 2016.

His ongoing arrangements are included with those of the Executive Directors in the policy section of this report on pages 59 to 65.

The Committee and its advisers

The purpose of the Remuneration Committee is to determine, on behalf of the Board, the Remuneration Policy and to:

- Ensure that remuneration policies, principles and practices are appropriate to enable the business to attract, retain and reward people with the right skills, experience, knowledge and behaviours to support achievement of business goals and objectives;
- Maintain policies which are compliant with governing laws and regulations;
- Ensure that remuneration arrangements support and encourage desired behaviours and culture; and
- Ensure appropriate governance of remuneration practices across the Society and its subsidiary companies and exercise effective oversight of these.

Amongst its other duties, the Committee specifically:

- Sets remuneration for the Chairman and the Executive Directors;
- Approves the remuneration policy for senior managers who have a material impact on the Society's risk profile ('MRTs');
- Reviews recommendations from the Group Chief Executive for approval of the remuneration for key Executives in the Group; and
- Agrees the design and overall targets for any short or longer term variable pay schemes applicable to Senior Executives and MRTs.

The Committee has established clear remuneration principles for the Society and its subsidiaries. For the PRA and FCA regulated businesses, the principles, which are reviewed annually, set appropriate standards for remuneration governance, risk management, variable pay structures (and the link to performance) and remuneration for MRTs. The Committee receives annual reports from the Group Remuneration Oversight Committee and from the Chief Conduct Risk Officer and Secretary on the implications of the remuneration policies within the Group on risk management and compliance with the principles.

The full terms of reference of the Remuneration Committee and the remuneration principles are available on request from the Group Secretary. The terms of reference are also available online at www.skipton.co.uk.

The Remuneration Committee met nine times during 2015. In discharging its duties, the Committee reviews and takes into account independently produced data in relation to similar financial services organisations. Remuneration consultants advising the Committee are independent from the Group.

The Committee currently comprises three Non-Executive Directors, Mr Thompson (Chairman), Mrs Black and Ms Stevenson. Mrs Black joined the Committee on 1 January 2015. The Chairman, Group Chief Executive, Chief Conduct Risk Officer and Secretary and Chief Human Resources Officer regularly attend meetings by invitation and external advisers are invited to attend meetings as and when appropriate.

As indicated earlier in the report, the Remuneration Committee undertook a review of its advisers in early 2015 to support the anticipated changes in the regulatory landscape. Following a selection process, PwC were selected as advisers due to the broad base of their expertise and, specifically, their ability to guide the Society through the anticipated regulatory changes. In 2015, the Committee paid £189,750 (net of VAT) in fees to PwC in respect of remuneration services.

The Non-Executive Directors' Remuneration Committee, which currently comprises Messrs Ellis (Chairman), Bottomley, Cutter, Cornelius and Ndawula, determines the level of the other Non-Executive Directors' fees.

Statement of voting at 2015 AGM

At the 2015 AGM the Directors' Remuneration Report was subject to an advisory vote of members, the results of which were as follows:

		Votes	
	For	Against	Withheld
2014 Remuneration Report	58,053 (88.87%)	7,267 (11.13%)	1,587

Nimble Thompson
Chairman of the Remuneration Committee
23 February 2016

Independent auditor's report to the members of Skipton Building Society only

Opinions and conclusions arising from our audit

1. Our opinion on the Annual Accounts is unmodified

We have audited the Group and Society Annual Accounts of Skipton Building Society for the year ended 31 December 2015 set out on pages 77 to 165. In our opinion the Annual Accounts:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of affairs of the Group and of the Society as at 31 December 2015 and of the income and expenditure of the Group and of the Society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it and, as regards the Group Annual Accounts, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the Annual Accounts, the risks of material misstatement that had the greatest effect on our audit were as follows:

Impairment of loans and advances to customers (£37.8m) (excluding equity release mortgages)

Refer to page 48 (Audit Committee Report), notes 1g) and 1t) (accounting policies), and notes 15 and 36 (financial disclosures).

The risk

Impairment of loans and advances to customers is estimated by the Directors through the exercise of judgement and use of highly subjective assumptions. Historical information on the Group's loss experience is analysed and adjusted to reflect current circumstances which requires a high degree of judgement. Due to the significance of loans and advances to customers and the related estimation uncertainty, this is considered a key audit risk.

Our response

Our audit procedures included testing the design, implementation and operating effectiveness of key controls over the underwriting, recording and monitoring of loans and advances.

We also tested the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments and assessing impairment allowances for individually assessed loans and advances to customers.

Our procedures also included testing the incorporation of Internal Ratings Based methodologies into the impairment model in 2015 (see note 15).

For both collective and individual impairment allowances, we compared the Group's assumptions to externally available industry, financial and economic data and our own assessments in relation to key inputs such as historical default rates, recovery rates, emergence periods, collateral valuation and economic factors, and considered the sensitivity of these inputs on the assessment of impairment.

For a sample of exposures that were subject to an individual impairment assessment, and focusing on those with the most significant potential impact on the financial statements, we specifically challenged the Group's assumptions on the expected future cash flows, including the value of realisable collateral based on our own industry experience and reviewing latest correspondence and valuations.

We also assessed whether the Annual Accounts disclosures adequately reflect the Group's exposure to credit risk.

Equity release no negative equity guarantee (£24.0m)

Refer to page 48 (Audit Committee Report), notes 1e) and 1t) (accounting policies) and note 37b) (financial disclosures).

The risk

The Directors assess the carrying amount of the no negative equity guarantee relating to equity release mortgages, included in loans and advances to customers, by performing a fair valuation of the guarantee provided. This fair valuation is assessed collectively with key input assumptions including house price increases, house price volatility, the retail price index, mortality, early voluntary redemption rates and the discount factor.

Due to the significant uncertainty in the fair valuations relating to the carrying value of the no negative equity guarantee and the subjectivity and sensitivity of underlying assumptions, in particular long term house prices and volatility, this is considered to be a key audit risk.

Our response

Our audit procedures included testing the methodologies, inputs and assumptions used by the Group in estimating the fair value of the no negative equity guarantee.

We compared the Group's assumptions to externally available industry, financial and economic data and our own assessments in relation to key inputs such as collateral valuation and economic factors, and considered the sensitivity of these inputs on the assessment of the carrying value of the no negative equity guarantee.

Our assessment of the appropriateness of the fair valuation methodology for the no negative equity guarantee included consideration of the volatility of key assumptions including house prices, the retail price index and the discount factor.

We also assessed whether the Annual Accounts disclosures adequately reflect the sensitivities of the fair value of the no negative equity guarantee to the assumptions used.

Provisions for liabilities (£26.5m)

Refer to note 1t) (accounting policies) and notes 26 and 32 (financial disclosures).

The risk

The recognition and measurement of provisions and the disclosure of contingent liabilities in respect of potential operational and conduct matters require significant judgement.

Operating in highly regulated sectors and providing a wide range of customer offerings across the Group heightens the risk of compliance issues and of operational litigation and claims to emerge. Due to the potential significance of provisions and the difficulty in assessing and measuring obligations resulting from legal and regulatory judgements, this is considered a key audit risk.

Our response

Our audit procedures included testing the design, implementation and operating effectiveness of key controls over the identification, evaluation and measurement of potential obligations arising from conduct and operational issues.

We considered the Group's assessment of the nature and status of claims and litigation and discussed these with the Group's senior management including in-house legal and insurance teams. We assessed the legal advice and correspondence with regulators received in connection with legal proceedings, investigations or regulatory matters which the Group is party to.

For all provisions made (see note 26), we understood and critically assessed the provisioning models and underlying assumptions used. For those underlying assumptions based on historical experience, we assessed whether these remained appropriate and the basis for any adjustments.

We also considered whether the Annual Accounts disclosures of the application of judgement in estimating provisions and contingent liabilities adequately reflected the associated uncertainties.

Revenue recognised based on the effective interest method (£472.0m)

Refer to notes 1e) and 1t) (accounting policies) and note 2 (financial disclosures).

The risk

The Group's mortgages are held at amortised cost using the effective interest method. Interest income on the Group's mortgages held at amortised cost is measured under the effective interest method as explained in note 1e). This method involves an estimation of mortgage lives which is based on observed historical data and Directors' judgement. The risk related to this estimation has increased as the Group is growing its fixed rate mortgages activity.

As the estimate of expected mortgage lives has an impact on revenue recognition, there is also a risk of fraud due to the potential for management to manipulate revenue through this estimate.

Our response

Our audit procedures included testing the methodologies, inputs and assumptions used by the Group in respect of the effective interest method calculation and the expected life estimation.

We challenged the appropriateness of expected mortgage lives by comparing these to historical trends experienced in the Group, our own expectations based on our knowledge of the Group and the industry and to those used by comparable mortgage lenders. We also assessed whether the Annual Accounts disclosures adequately reflect the sensitivities of the assumptions used.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group Annual Accounts as a whole was set at £7.5m (2014: £7.6m), determined with reference to a benchmark of Group profit before tax, of which it represents 5.0%. In 2014 materiality was 4.2% of total Group profit before tax and 5.0% after adjustment to exclude the one-off net profit on the sale of subsidiaries, associates and investments, profit from discontinued operations and to add back the FSCS levy. We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.4m (2014: £0.4m) in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. Audits for Group reporting purposes were performed by component auditors at 55 reporting components in three countries covering all of the subsidiaries and the Group's joint ventures and so covered 100% of Group total income, Group profit before tax and Group total assets. The Group audit team approved the component materialities, which ranged from £0.2m to £4.5m, having regard to the mix of size and risk profile of the Group across the components.

Detailed Group audit instructions were sent to the auditors of all the components. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. The Group audit team also organised a planning meeting and regular telephone meetings with the majority of the component audit teams.

As well as drawing up the scope, Group audit instructions and exercising overall oversight, the Group audit team performed the audit of the Society itself including work on impairment of loans and advances, valuation of financial instruments and disposal of subsidiaries and investments.

4. Our opinion on other matters prescribed by the Building Societies Act 1986 is unmodified

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- the information given in the Directors' Report for the financial year for which the Annual Accounts are prepared is consistent with the accounting records and the Annual Accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of longer term viability on pages 38 and 39, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the five years to 2020; or
- the disclosures in note 1 of the Annual Accounts concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the Annual Accounts, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and Annual Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Group's and Society's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Society; or
- the Annual Accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of the above responsibilities.

Independent auditor's report to the members of Skipton Building Society only *(continued)*

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 37 and 38, the Directors are responsible for the preparation of Annual Accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the Annual Accounts 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 Ethical Standards for Auditors.

Scope of an audit of annual accounts performed in accordance with ISAs (UK and Ireland)

A description of the scope of an audit of annual accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made subject to important explanations regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's 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 and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jonathan Holt (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Leeds
23 February 2016

Income Statements

For the year ended 31 December 2015

	Notes	Group 2015 £m	Group 2014 Restated* £m	Society 2015 £m	Society 2014 £m
Interest receivable and similar income	2	439.5	442.8	400.5	410.6
Interest payable and similar charges	3	(216.2)	(229.5)	(218.1)	(233.9)
Net interest receivable		223.3	213.3	182.4	176.7
Fees and commissions receivable	4	409.1	402.0	10.9	18.7
Fees and commissions payable		(10.1)	(10.2)	(1.6)	(1.7)
Fair value gains / (losses) on financial instruments		4.0	(2.0)	4.3	(2.6)
Realised gains / (losses) on treasury assets		0.1	(3.7)	0.8	(3.7)
Income from shares in subsidiary undertakings		-	-	30.0	64.0
(Loss) / profit on disposal of subsidiary undertakings	16b)	(0.4)	1.1	-	-
Profit on part disposal of equity share investments	16e)	0.3	10.1	-	-
Profit on part disposal of associate	16d)	1.1	2.3	-	-
Dividend income from equity share investments		0.3	1.1	-	-
Share of profits from joint ventures		2.5	2.4	-	-
Share of losses from associate	16d)	(2.3)	(2.6)	-	-
Other income	5	3.6	3.8	5.0	2.6
Total income		631.5	617.6	231.8	254.0
Administrative expenses	6	(464.4)	(427.7)	(96.5)	(83.1)
Operating profit before impairment losses and provisions		167.1	189.9	135.3	170.9
Impairment losses on loans and advances to customers	15	(8.4)	(13.3)	(7.6)	(7.5)
Impairment losses on debt securities	12	-	(2.0)	-	(2.0)
Impairment losses on equity share investments	16e)	-	(1.3)	-	-
Provisions for liabilities	26	(11.8)	(17.5)	(7.5)	(8.0)
Profit before tax		146.9	155.8	120.2	153.4
Tax expense	10	(33.5)	(34.9)	(18.9)	(20.2)
Profit for the financial year from continuing operations		113.4	120.9	101.3	133.2
Discontinued operation					
Profit from discontinued operation	16b)	-	24.8	-	-
Profit for the financial year		113.4	145.7	101.3	133.2
Profit for the financial year attributable to:					
Members of Skipton Building Society					
Profit for the financial year from continuing operations		114.0	121.3	101.3	133.2
Profit for the financial year from discontinued operations		-	24.8	-	-
		114.0	146.1	101.3	133.2
Non-controlling interests					
Loss for the financial year from continuing operations		(0.6)	(0.4)	-	-
		(0.6)	(0.4)	-	-
		113.4	145.7	101.3	133.2

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

Segmental performance of the Group is shown in note 38.

The notes on pages 84 to 164 form part of these Accounts.

Statements of Comprehensive Income

For the year ended 31 December 2015

	Notes	Group 2015 £m	Group 2014 Restated* £m	Society 2015 £m	Society 2014 £m
Profit for the financial year		113.4	145.7	101.3	133.2
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Remeasurement gains / (losses) on defined benefit obligations	28	5.7	(22.8)	2.8	(11.4)
Movement in reserves attributable to non-controlling interests		(0.3)	-	-	-
Income tax on items that will not be reclassified to profit or loss	31	-	4.6	1.3	2.3
		5.4	(18.2)	4.1	(9.1)
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale investments: valuation gains / (losses) taken to equity	31	6.0	13.5	(1.4)	8.3
Available-for-sale investments: realised (gains) / losses transferred to Income Statement	31	(0.3)	(6.6)	-	2.2
Cash flow hedges: gains taken to equity	31	1.0	4.5	1.0	4.5
Cash flow hedges: realised losses transferred to Income Statement	31	1.3	2.6	1.3	2.6
Exchange differences on translation of foreign operations	31	(1.0)	0.1	-	-
Translation loss transferred to Income Statement on deemed disposal of associate	31	0.1	-	-	-
Income tax on items that may be reclassified to profit or loss	31	(0.6)	(2.4)	0.1	(3.7)
		6.5	11.7	1.0	13.9
Other comprehensive income / (expense) for the year, net of tax		11.9	(6.5)	5.1	4.8
Total comprehensive income for the year		125.3	139.2	106.4	138.0
Total comprehensive income attributable to:					
Members of Skipton Building Society		126.2	139.6	106.4	138.0
Non-controlling interests		(0.9)	(0.4)	-	-
		125.3	139.2	106.4	138.0

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

The notes on pages 84 to 164 form part of these Accounts.

Statements of Financial Position

As at 31 December 2015

	Notes	Group 2015 £m	Group 2014 Restated* £m	Society 2015 £m	Society 2014 £m
Assets					
Cash in hand and balances with the Bank of England		1,180.8	1,076.1	1,180.8	1,076.1
Loans and advances to credit institutions	11	352.6	365.4	241.6	240.5
Debt securities	12	1,104.4	1,152.6	1,438.6	1,608.9
Derivative financial instruments	13	95.1	133.4	99.3	139.1
Loans and advances to customers	14	14,363.2	12,836.8	12,127.8	10,577.3
Deferred tax asset	27	21.6	21.7	9.6	9.1
Investments in Group undertakings	16a)	-	-	1,458.2	1,619.6
Investments in joint ventures		10.8	8.9	-	-
Investments in associates	16d)	11.5	13.2	-	-
Equity share investments	16e)	40.9	32.9	-	-
Property, plant and equipment	17	67.8	64.0	30.5	29.9
Investment property	18	15.9	22.1	15.8	22.0
Intangible assets	19	153.2	146.9	1.1	1.7
Other assets	20	93.6	88.1	8.8	11.5
Total assets		17,511.4	15,962.1	16,612.1	15,335.7
Liabilities					
Shares	21	12,828.2	11,467.5	12,828.2	11,467.5
Amounts owed to credit institutions	22	735.6	789.8	605.9	880.6
Amounts owed to other customers	23	1,389.5	1,143.2	1,576.2	1,485.1
Debt securities in issue	24	608.8	730.6	21.2	7.1
Derivative financial instruments	13	296.9	307.3	292.2	290.5
Current tax liability		16.8	18.3	9.5	12.5
Other liabilities	25	139.8	101.8	16.3	9.7
Accruals and deferred income		43.2	41.5	9.5	10.7
Provisions for liabilities	26	26.5	32.4	6.1	6.7
Deferred tax liability	27	11.3	12.1	1.6	2.4
Retirement benefit obligations	28	65.2	73.0	30.0	33.6
Subordinated liabilities	29	78.5	98.0	78.5	98.0
Subscribed capital	30	93.5	94.3	93.5	94.3
Total liabilities		16,333.8	14,909.8	15,568.7	14,398.7
Members' interests					
General reserve		1,146.3	1,026.6	1,045.1	939.7
Available-for-sale reserve		31.7	26.4	1.5	2.6
Cash flow hedging reserve		(3.2)	(5.3)	(3.2)	(5.3)
Translation reserve		4.4	5.3	-	-
Attributable to members of Skipton Building Society		1,179.2	1,053.0	1,043.4	937.0
Non-controlling interests		(1.6)	(0.7)	-	-
Total members' interests		1,177.6	1,052.3	1,043.4	937.0
Total members' interests and liabilities		17,511.4	15,962.1	16,612.1	15,335.7

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

The notes on pages 84 to 164 form part of these Accounts.

These Accounts were approved by the Board of Directors on 23 February 2016 and were signed on its behalf by:

M H Ellis	**Chairman**
D J Cutter	**Group Chief Executive**
R S D M Ndawula	**Group Finance Director**

Statements of Changes in Members' Interests

For the year ended 31 December 2015

Group	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 2015	**1,026.6**	**26.4**	**(5.3)**	**5.3**	**1,053.0**	**(0.7)**	**1,052.3**
Profit / (loss) for the financial year	114.0	-	-	-	**114.0**	(0.6)	**113.4**
Other comprehensive income							
Remeasurement gains on defined benefit obligations	5.7	-	-	-	**5.7**	-	**5.7**
Net gains from changes in fair value	-	5.5	1.1	-	**6.6**	-	**6.6**
Available-for-sale: realised gains transferred to Income Statement	-	(0.2)	-	-	**(0.2)**	-	**(0.2)**
Cash flow hedges: realised losses transferred to Income Statement	-	-	1.0	-	**1.0**	-	**1.0**
Translation loss transferred to Income Statement on deemed disposal of associate	-	-	-	0.1	**0.1**	-	**0.1**
Exchange differences on translation of foreign operations	-	-	-	(1.0)	**(1.0)**	-	**(1.0)**
Movement in reserves attributable to non-controlling interests	-	-	-	-	**-**	(0.3)	**(0.3)**
Total other comprehensive income (note 31)	**5.7**	**5.3**	**2.1**	**(0.9)**	**12.2**	**(0.3)**	**11.9**
Total comprehensive income for the year	**119.7**	**5.3**	**2.1**	**(0.9)**	**126.2**	**(0.9)**	**125.3**
Balance at 31 December 2015	**1,146.3**	**31.7**	**(3.2)**	**4.4**	**1,179.2**	**(1.6)**	**1,177.6**
Balance at 1 January 2014 (previously published)	917.3	20.5	(11.0)	5.2	932.0	2.9	934.9
Change in accounting policy adjustment*	(18.6)	-	-	-	(18.6)	-	(18.6)
Balance at 1 January 2014 (restated)*	898.7	20.5	(11.0)	5.2	913.4	2.9	916.3
Profit / (loss) for the financial year (previously published)	147.1	-	-	-	147.1	(0.4)	146.7
Change in accounting policy adjustment*	(1.0)	-	-	-	(1.0)	-	(1.0)
Profit / (loss) for the financial year (restated)*	146.1	-	-	-	146.1	(0.4)	145.7
Other comprehensive income							
Remeasurement losses on defined benefit obligations	(18.2)	-	-	-	(18.2)	-	(18.2)
Net gains from changes in fair value	-	11.1	3.7	-	14.8	-	14.8
Available-for-sale: realised gains transferred to Income Statement	-	(5.2)	-	-	(5.2)	-	(5.2)
Cash flow hedges: realised losses transferred to Income Statement	-	-	2.0	-	2.0	-	2.0
Exchange differences on translation of foreign operations	-	-	-	0.1	0.1	-	0.1
Total other comprehensive income (note 31)	(18.2)	5.9	5.7	0.1	(6.5)	-	(6.5)
Total comprehensive income for the year (previously published)	128.9	5.9	5.7	0.1	140.6	(0.4)	140.2
Change in accounting policy adjustment*	(1.0)	-	-	-	(1.0)	-	(1.0)
Total comprehensive income for the year (restated)*	127.9	5.9	5.7	0.1	139.6	(0.4)	139.2
Changes in ownership interests:							
Subsidiary share buy-back	-	-	-	-	-	(3.2)	(3.2)
Balance at 31 December 2014 (previously published)	1,046.2	26.4	(5.3)	5.3	1,072.6	(0.7)	1,071.9
Change in accounting policy adjustment*	(19.6)	-	-	-	(19.6)	-	(19.6)
Balance at 31 December 2014 (restated)*	1,026.6	26.4	(5.3)	5.3	1,053.0	(0.7)	1,052.3

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

Society

	General reserve £m	Available-for-sale financial assets £m	Cash flow hedges £m	Total £m
Balance at 1 January 2015	**939.7**	**2.6**	**(5.3)**	**937.0**
Profit for the financial year	101.3	-	-	**101.3**
Other comprehensive income				
Remeasurement gains on defined benefit obligations	4.1	-	-	**4.1**
Net (losses) / gains from changes in fair value	-	(1.1)	1.1	**-**
Cash flow hedges: realised losses transferred to Income Statement	-	-	1.0	**1.0**
Total other comprehensive income (note 31)	**4.1**	**(1.1)**	**2.1**	**5.1**
Total comprehensive income for the year	**105.4**	**(1.1)**	**2.1**	**106.4**
Balance at 31 December 2015	**1,045.1**	**1.5**	**(3.2)**	**1,043.4**
Balance at 1 January 2014	815.6	(5.6)	(11.0)	799.0
Profit for the financial year	133.2	-	-	133.2
Other comprehensive income				
Remeasurement losses on defined benefit obligations	(9.1)	-	-	(9.1)
Net gains from changes in fair value	-	6.6	3.7	10.3
Available-for-sale: realised losses transferred to Income Statement	-	1.6	-	1.6
Cash flow hedges: realised losses transferred to Income Statement	-	-	2.0	2.0
Total other comprehensive income (note 31)	(9.1)	8.2	5.7	4.8
Total comprehensive income for the year	124.1	8.2	5.7	138.0
Balance at 31 December 2014	939.7	2.6	(5.3)	937.0

The notes on pages 84 to 164 form part of these Accounts.

Statements of Cash Flows

For the year ended 31 December 2015

	Notes	**Group 2015 £m**	Group 2014 Restated* £m	**Society 2015 £m**	Society 2014 £m
Cash flows from operating activities					
Profit before tax from all operations		146.9	180.6	120.2	153.4
Adjustments for:					
Impairment losses on debt securities	12	-	2.0	-	2.0
Impairment losses on loans and advances to customers	15	8.4	13.3	7.6	7.5
Loans and advances written off, net of recoveries	15	(5.5)	(13.5)	(1.9)	(3.8)
Depreciation and amortisation	17,18,19	16.9	15.8	3.4	3.3
Impairment of property, plant and equipment and investment property	17,18	4.0	4.7	4.0	4.7
Impairment of goodwill	19	-	3.5	-	-
Impairment of other intangible assets	19	-	0.6	-	-
Impairment losses on equity share investments	16e)	-	1.3	-	-
Income from shares in subsidiary undertakings		-	-	(30.0)	(64.0)
Dividend income from equity share investments		(0.3)	(1.1)	-	-
Interest on subscribed capital and subordinated liabilities	3	12.1	12.7	12.1	12.7
Profit on sale of property, plant and equipment, investment property and intangible assets	5	(0.2)	(0.3)	(0.1)	(0.2)
Realised (gains) / losses on treasury assets		(0.1)	3.7	(0.8)	3.7
Share of (profits) / losses from joint ventures and associates		(0.2)	0.2	-	-
Profit on part disposal of associate	16d)	(1.1)	(2.3)	-	-
Profit on part disposal of equity share investments	16e)	(0.3)	(10.1)	-	-
Loss / (profit) on disposal of subsidiary undertakings	16b)	0.4	(25.8)	-	-
Other non-cash movements		4.9	(3.5)	7.1	10.7
		185.9	181.8	121.6	130.0
Changes in operating assets and liabilities:					
Movement in prepayments and accrued income		2.7	5.1	2.3	(1.2)
Movement in accruals and deferred income		2.3	4.3	(0.5)	6.6
Movement in provisions for liabilities		(5.9)	(4.9)	(0.6)	(0.6)
Movement in fair value of derivatives		27.9	35.1	41.5	51.5
Movement in fair value adjustments for hedged risk		(30.5)	(35.0)	(32.1)	(30.8)
Movement in fair value of debt securities	12	5.3	(29.5)	5.3	(29.5)
Movement in loans and advances to customers		(1,513.5)	(1,276.7)	(1,536.1)	(1,336.8)
Movement in shares		1,366.9	1,190.5	1,366.9	1,190.5
Movement in fair value of management incentive scheme liability	25	15.9	5.4	-	-
Net movement in amounts owed to credit institutions and other customers		191.6	(42.7)	(184.6)	(52.6)
Net movement in debt securities in issue		(122.4)	176.9	14.0	(42.7)
Net movement in loans and advances to credit institutions		(2.9)	(41.7)	(2.8)	(46.6)
Net movement in other assets		(8.7)	(2.6)	1.1	(1.8)
Net movement in other liabilities		13.0	23.3	2.9	11.0
Income taxes paid		(36.6)	(31.0)	(21.9)	(13.7)
Net cash flows from operating activities		91.0	158.3	(223.0)	(166.7)

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

	Notes	Group 2015 £m	Group 2014 Restated* £m	Society 2015 £m	Society 2014 £m
Net cash flows from operating activities		**91.0**	158.3	**(223.0)**	(166.7)
Cash flows from investing activities					
Purchase of debt securities	12	**(500.3)**	(831.2)	**(437.9)**	(820.5)
Proceeds from disposal of debt securities		**543.3**	897.9	**603.7**	952.5
Purchase of property, plant and equipment and investment property	17,18	**(13.9)**	(14.0)	**(2.8)**	(3.0)
Purchase of intangible assets	19	**(2.4)**	(4.3)	**(0.1)**	(0.7)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		**2.3**	2.1	**1.8**	1.1
Dividends received from group undertakings		**-**	-	**30.0**	64.0
Dividends received from equity share investments		**0.3**	1.1	**-**	-
Share options issued	25	**-**	0.2	**-**	-
Proceeds from disposal of equity share investments	16e)	**0.3**	10.6	**-**	-
Dividends received from joint ventures		**3.2**	2.7	**-**	-
Purchase of subsidiary undertakings, net of cash acquired		**(4.8)**	(14.8)	**-**	-
Further investment in subsidiary undertakings	16a)	**(0.9)**	(10.6)	**-**	-
Investment in joint ventures and equity share investments		**(1.2)**	(6.1)	**-**	-
Proceeds from disposal of joint ventures		**-**	0.1	**-**	-
Purchase of other business units	19	**(1.2)**	(1.1)	**-**	-
Cash received from sale of subsidiary undertakings, net of cash disposed of		**3.4**	64.3	**-**	-
Cash paid to non-controlling interests on subsidiary share buy-back		**-**	(3.2)	**-**	-
Net cash flows from investing activities		**28.1**	93.7	**194.7**	193.4
Cash flows from financing activities					
Redemption of subordinated liabilities		**(18.0)**	(15.0)	**(18.0)**	(15.0)
Repurchase of subordinated liabilities		**-**	(10.0)	**-**	(10.0)
Decrease in loans to subsidiary undertakings	16a)	**-**	-	**161.4**	226.1
Interest paid on subordinated liabilities		**(3.7)**	(4.4)	**(3.7)**	(4.4)
Interest paid on subscribed capital		**(8.4)**	(8.3)	**(8.4)**	(8.3)
Net cash flows from financing activities		**(30.1)**	(37.7)	**131.3**	188.4
Net increase in cash and cash equivalents		**89.0**	214.3	**103.0**	215.1
Cash and cash equivalents at 1 January		**1,202.6**	988.3	**1,077.7**	862.6
Cash and cash equivalents at 31 December		**1,291.6**	1,202.6	**1,180.7**	1,077.7

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

Analysis of the cash balances as shown within the Statements of Financial Position:

	Notes	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Cash in hand and balances with the Bank of England		**1,180.8**	1,076.1	**1,180.8**	1,076.1
Mandatory reserve deposit with the Bank of England		**(22.0)**	(20.2)	**(22.0)**	(20.2)
		1,158.8	1,055.9	**1,158.8**	1,055.9
Loans and advances to credit institutions	11	**132.8**	146.7	**21.9**	21.8
Cash and cash equivalents as at 31 December		**1,291.6**	1,202.6	**1,180.7**	1,077.7

The notes on pages 84 to 164 form part of these Accounts.

Notes to the Accounts

1. Accounting policies

The principal accounting policies applied consistently in the preparation of these consolidated Annual Accounts are set out below.

a) Basis of preparation

The Annual Accounts of the Group and the Society are prepared on a going concern basis (see page 38 of the Directors' Report) and in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and effective at 31 December 2015; and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998, and the Building Societies Act 1986 applicable to building societies reporting under IFRS.

The Annual Accounts have been prepared under the historical cost convention as modified by the revaluation of available-for-sale assets, as well as derivatives and certain other liabilities at fair value through profit or loss.

The Annual Accounts are presented in pounds Sterling and, except where otherwise indicated, have been rounded to the nearest one hundred thousand pounds.

During the year the Directors have adopted the following new or amended accounting standards and interpretations, all of which are EU endorsed:

- Amendments to IAS 19 *Employee benefits* (2011).
- Amendments to accounting standards as part of the annual improvements to IFRS 2011 - 2013 cycle.
- Amendments to accounting standards as part of the annual improvements to IFRS 2010 - 2012 cycle.

Note 40 summarises the impact of the above.

b) Change to accounting policy

Within a small number of subsidiary undertakings where the Group previously held or still holds less than 100% ownership, an option ('put option') existed or exists for the non-controlling shareholders to require the Group to purchase their shares at some future date. In accordance with IAS 32 *Financial Instruments: Presentation*, a financial obligation, representing the present value of the put options at the reporting date, is recognised (as explained in note 1c)).

Prior to the year ended 31 December 2015, dividends paid to the holders of these put options were accounted for as a reduction to the put option liability, which was an acceptable treatment reflecting management's assessment that value had left the business in the short term. However, during the year the Directors have concluded that a more appropriate treatment would be to record the dividend to the non-controlling shareholders as an expense through the Income Statement, which is considered to be a more accurate representation of the economic substance of the transaction, that is, a discretionary distribution to minority shareholders that is both non-contractual and not in settlement of the put option liability.

In line with the Group's accounting policy as described in note 1c), the Directors subsequently assessed the carrying amount of the put option liability at each reporting date. In all cases, the put option liability was remeasured at the reporting date to the carrying amount immediately prior to the dividend payment, reflecting the Directors' assessment of the value of the put option at the reporting date, resulting in a corresponding adjustment to goodwill. Had the dividend payment been expensed through the Income Statement rather than as a reduction in the put option liability, there would have been no impact on the carrying amount of the put option liability nor ultimately on goodwill. As a result, there is an impact on both the reserves of the Group and goodwill.

In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Group has applied this change in accounting policy retrospectively and the 2014 comparatives have been restated accordingly. The effect on the comparative figures is shown below:

Income statement

For the year ended 31.12.14	Group		
	Previously published	Change in accounting policy adjustment	**Restated**
	£m	£m	**£m**
Administrative expenses	(426.7)	(1.0)	**(427.7)**
Operating profit before impairment losses and provisions	190.9	(1.0)	**189.9**
Profit before tax	156.8	(1.0)	**155.8**
Profit for the financial year from continuing operations	121.9	(1.0)	**120.9**
Profit for the financial year	146.7	(1.0)	**145.7**
Profit for the financial year attributable to members of Skipton Building Society			
- Continuing operations	122.3	(1.0)	**121.3**
- Total	147.1	(1.0)	**146.1**

Statement of Comprehensive Income

For the year ended 31.12.14	Group		
	Previously published	Change in accounting policy adjustment	**Restated**
	£m	£m	**£m**
Profit for the financial year	146.7	(1.0)	**145.7**
Total comprehensive income for the year	140.2	(1.0)	**139.2**
Total comprehensive income attributable to members of Skipton Building Society	140.6	(1.0)	**139.6**

Statement of Financial Position

As at 31.12.14	Group		
	Previously published	Change in accounting policy adjustment	**Restated**
	£m	£m	**£m**
Intangible assets	166.5	(19.6)	**146.9**
Total assets	15,981.7	(19.6)	**15,962.1**
General reserve	1,046.2	(19.6)	**1,026.6**
Members' interests attributable to members of Skipton Building Society	1,072.6	(19.6)	**1,053.0**
Total members' interests	1,071.9	(19.6)	**1,052.3**
Total members' interests and liabilities	15,981.7	(19.6)	**15,962.1**

As the above changes did not have a material effect at the beginning of the preceding period, a restated Statement of Financial Position as at 31 December 2013 has not been presented in these financial statements.

The impact of the above restatement on the Group Statement of Changes in Members' Interests is presented on page 80.

1. Accounting policies (continued)

Statement of Cash Flows

For the year ended 31.12.14	Group		
	Previously published	Change in accounting policy adjustment	Restated
	£m	£m	£m
Profit before tax from all operations	181.6	(1.0)	180.6
Net cash flows from operating activities	159.3	(1.0)	158.3
Dividends paid to non-controlling interests	(1.0)	1.0	-
Net cash flows from investing activities	92.7	1.0	93.7

This restatement also impacts the Group's key capital adequacy measures. The restated comparative figures, which are unaudited, are set out on pages 25 and 26 of the Strategic Report.

c) Basis of consolidation

Subsidiary undertakings

Subsidiary undertakings are entities controlled by the Society. Control exists when the Society is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. In assessing control, only substantive rights (i.e. rights that can be practically exercised) are taken into account. The financial statements of the subsidiary undertakings are included in the results from the date that control commences until the date that control ceases. The Group Accounts consolidate the financial statements of the Society and all its subsidiary undertakings, eliminating intra-group transactions and balances.

The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the accounts of subsidiary undertakings on acquisition to bring the accounting policies in line with those used by the Group.

Within a number of subsidiary undertakings where the Group has less than 100% ownership, there is an option for the non-controlling shareholders to require the Group to purchase their shares at some point in the future. In accordance with IAS 32 *Financial Instruments: Presentation*, the Group recognises the present value of these options as a financial obligation, along with recognition of further goodwill on the future purchase of remaining non-controlling interests. Under this accounting policy the Group consolidates 100% of the results of such subsidiary undertakings to reflect the 100% implicit ownership in the recording of the future purchase of the non-controlling interests' remaining shareholdings (that is, the put option liability).

In accordance with IFRS 10 *Consolidated Financial Statements* (2011), for business combinations which have taken place from 1 January 2010 onwards, all transactions with non-controlling interests are recorded in equity if there has been no change in control. In accordance with IFRS 3 *Business Combinations* (2008), goodwill is accounted for only upon the acquisition of a subsidiary undertaking and subsequent changes in the Group's interest are recognised in equity. Any changes in the valuation of an acquired entity where a put option was issued by the Group are credited or charged through the Income Statement. All transaction or acquisition costs are written off to the Income Statement as incurred. Put options issued prior to 1 January 2010 are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements* (2003) and IFRS 3 *Business Combinations* (2004) and any adjustment to the Group's estimation of the present value of the put option liability results in an adjustment to goodwill. Dividends paid to the non-controlling interests of such put options are charged to the Income Statement.

Non-controlling interests in the net assets of non-100% consolidated subsidiary undertakings are identified separately from the Group's equity therein. Non-controlling interests comprise the amount of those interests at the date of the original business combination and the non-controlling changes in equity since that date. Losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary undertaking's equity are allocated against the interests of the Group unless the non-controlling entity has a binding obligation and is able to make an additional investment to cover those losses.

Unconsolidated structured entities

The Group invests in structured entities where the principal purpose of the structured entity is to provide investors with access to specific portfolios of assets and also provide the investor liquidity through the securitising of financial assets. A structured entity is one that has been set up so that any voting rights or similar rights are not the determining factor in deciding which party controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

A structured entity often has some or all of the following characteristics:

- Restricted activities;
- A narrow and well-defined objective;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

Third party funding entities

The Group invests in structured entities through the purchase of such issued mortgage backed securities, as disclosed in note 12. These structured funding entities are not consolidated into the Group Accounts because the Group does not have the ability to direct the activities of the entities in question and does not control these entities through voting rights, contractual rights, funding agreements or any other means. The Group's involvement is in relation to investment activity only.

Interests in unconsolidated structured entities

The Group's interests in unconsolidated structured entities refer to involvement that exposes the Group to variability of returns from the performance of the structured entities.

Income derived from involvement with unconsolidated structured entities

Interest income is recognised on funding provided to unconsolidated structured entities within interest receivable in the Income Statement.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, as well as any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the Income Statement.

Joint ventures and associates

A joint venture is an undertaking in which the Group has joint control, and has rights to the net assets of the arrangement.

An associate is a company over which the Group has significant influence and that is neither a subsidiary undertaking nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is neither control nor joint control over those policies.

The results and assets and liabilities of joint ventures and associates are accounted for in these consolidated financial statements using the equity method of accounting. Investments in joint ventures and associates are carried within the Statement of Financial Position at cost, as adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture or associate, less any impairment in the value of individual investments.

Equity share investments

An equity share investment is an investment in the share capital of a company where the Group does not have significant influence.

Equity share investments are accounted for in these consolidated financial statements as available-for-sale financial assets. As such they are initially recognised at fair value plus directly attributable transaction costs, with subsequent changes in their fair value recognised in equity, except for impairment losses which are recognised in the Income Statement.

Special purpose funding vehicles

The Society has transferred the beneficial interest in certain loans and advances to customers to special purpose funding vehicles (SPVs). These SPVs enable a subsequent raising of debt, either by the SPVs or the Society, to investors who gain the security of the underlying assets as collateral. The SPVs are fully consolidated into the Group Accounts in accordance with IFRS 10. The transfers of the beneficial interest in these loans to the SPVs are not treated as sales by the Society. The Society continues to recognise these assets within its own Statement of Financial Position after the transfer because it retains the risks and rewards of the portfolio. In the Accounts of the Society, the proceeds received from the transfer are accounted for as a deemed loan repayable to the SPVs.

1. Accounting policies (continued)

d) Intangible assets

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, joint ventures, associates or other businesses represents the excess of the fair value of consideration over the fair value of identifiable net assets and contingent liabilities acquired at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses, and is reviewed for impairment at least annually. Any impairment is recognised in the Income Statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of combination. The impairment test compares the carrying value of goodwill to its associated value in use. The value in use calculations are carried out by discounting the future cash flows of the cash generating unit (see note 19). Future cash flows are ordinarily based upon the corporate plans of the cash generating units for the next five years and assumed growth thereafter for the subsequent 10 years generally in line with long term growth rates. The Group estimates discount rates based upon the weighted average cost of capital which is adjusted to take account of the market risks associated with each cash generating unit. A 15-year time horizon has been used to reflect the fact that cash generating units are held for the long term.

Goodwill arising on the acquisition of subsidiary undertakings is included in the 'Intangible assets' line within the Statement of Financial Position. Goodwill arising on the acquisition of joint ventures, associates or other businesses is included within the carrying value of the underlying investment within the Statement of Financial Position and tested for impairment in the same manner as described above.

On the disposal of a subsidiary undertaking, the profit or loss on disposal is calculated after crediting the net book value of any related goodwill to the Statement of Financial Position.

Goodwill arising on acquisitions before the transition to IFRS on 1 January 2005 has been retained at its previous UK GAAP amount and is reviewed for impairment at least annually, as above. Goodwill written off to reserves under UK GAAP prior to 1 January 2004 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Negative goodwill arising on an acquisition is recognised directly in the Income Statement.

Computer software, databases, brands and customer contracts

In accordance with IAS 38 *Intangible Assets*, computer software, databases, brands and customer contracts are recognised as an intangible asset when the cost incurred leads to the creation of an identifiable asset and it is probable that the asset created will generate future economic benefits which will flow to the Group. Expenditure incurred to maintain existing levels of performance is recognised as an expense as incurred.

Intangible assets are initially recognised at cost and subsequently amortised from the date they are available for use using the straight line method over their estimated useful economic lives (unless deemed to have an indefinite economic life), which can be up to 10 years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets are tested for impairment at each reporting date or when there is an indication of impairment. The Group identifies impairment by comparing the future economic benefit to the Group against the carrying value of the asset.

e) Financial assets

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, the financial assets of the Group have been classified into the following four categories:

Available-for-sale

Available-for-sale assets are non-derivative financial assets that are not classified as loans and receivables, at fair value through profit or loss or held to maturity. Available-for-sale assets are initially recognised at fair value plus directly attributable transaction costs, with subsequent changes in fair value recognised in equity, except for impairment losses which are recognised in the Income Statement. Interest income is recognised in the Income Statement on an effective yield basis. When the assets are derecognised, the accumulated gains or losses within equity are reclassified to the Income Statement.

The premia and discounts arising on the purchase of these assets are amortised over the period to the maturity date of the security on an effective yield basis. Any amounts amortised are charged or credited to the Income Statement in the relevant financial periods.

The fair values of available-for-sale assets are based on quoted prices or, if these are not available, fair value valuation techniques considered appropriate by the Group. For quoted prices the bid price is used, and fair value valuation techniques include, but are not limited to, the use of discounted cash flow models, option pricing models and recent arm's-length transactions.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and advances to customers, together with certain investment securities and all other liquidity balances, are classified as loans and receivables, and are measured at amortised cost using the effective interest method. The effective interest method implies an interest rate which exactly discounts the forecast cash flows of an asset over its expected life back to its carrying value.

In accordance with the effective interest method, directly attributable upfront costs and fees such as cashbacks, mortgage premia paid on acquisition of mortgage books, higher lending charges paid by customers, procuration fees and completion fees are deferred and recognised over the expected life of mortgage assets. Mortgage discounts are also recognised over the expected life of mortgage assets. Historical and forecast mortgage redemption data and management judgement of future performance are used to estimate the expected lives of mortgage assets.

Included in loans and advances to customers of the Society are balances which have been used to secure funding issued by the Group's special purpose vehicles Darrowby No. 1 plc, Darrowby No. 2 plc, Darrowby No. 3 plc and Beckindale No. 2 Limited, which are each consolidated into the Group Accounts. The beneficial interest in the underlying loans has been transferred to these entities. The loans are retained within the Society's Statement of Financial Position however, as the Society retains substantially all the risks and rewards relating to the loans.

At fair value through profit or loss

Fair value through profit or loss financial assets are those that are designated on initial recognition as assets to be recognised at fair value and movements in fair value are recognised in the Income Statement.

The Group's derivative financial instruments (both assets and liabilities) and the put option obligation (see note 1t)) are classified as at fair value through profit or loss, and are held at fair value in the Statement of Financial Position.

The Group uses derivative financial instruments to hedge its exposure to market risks (for example, interest rate risk) arising from operational, financing and investment activities. In accordance with its treasury policy and the Building Societies Act 1986, the Group does not hold or issue derivative financial instruments for trading purposes. By applying the hedge accounting rules set out in IAS 39, the changes in fair value of derivatives used to hedge particular risks can either be offset in the Income Statement or deferred to equity.

There are two types of hedge accounting strategies that the Group undertakes and these are summarised below:

- Fair value hedges - Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability (or portion of a recognised asset or liability), or an unrecognised firm commitment, any gain or loss on the hedging instrument is recognised in the Income Statement. To the extent that there is an effective hedge relationship, the associated hedged items (for example, mortgage assets) are stated at fair value in respect of the hedged risk, with any gain or loss also recognised in the Income Statement. As a result the hedging instrument and hedged items offset each other and reduce profit volatility. Any residual fair value hedge ineffectiveness is also recognised in the Income Statement.
- Cash flow hedges - Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability (or portion of a recognised asset or liability), or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the Income Statement immediately. Once the forecast transaction has occurred, the cumulative gain or loss recognised in equity is recycled to the Income Statement in the same period in which the underlying transaction affects profit or loss. If the forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss recognised in equity is then recognised immediately in the Income Statement.

The Group discontinues hedge accounting when:

- it is evident from hedge effectiveness testing that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated or exercised; or
- the underlying item matures or is sold or repaid.

The Group may also decide to cease hedge accounting even though the hedge relationship continues to be highly effective by ceasing to designate the financial instrument as a hedge.

If the derivative no longer meets the criteria for hedge accounting or is de-designated from the hedge relationship, the associated adjustment to the carrying amount of the hedged item or the amount in the cash flow hedging reserve is amortised to the Income Statement over the remaining life of the hedged item.

1. Accounting policies (continued)

Certain derivatives are embedded in other financial instruments. These are treated as separate derivatives where the economic characteristics and risks are not closely related to the host instrument, the host instrument is not measured at fair value and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with movements in value being recognised in the Income Statement. Depending on the classification of the host instrument, the host is then measured in accordance with the relevant accounting policy.

Fair values are obtained from recent market transactions and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

In valuing derivatives used to hedge our mortgage and savings portfolios, the Group has not valued them as one net pool for market risk and credit risk management purposes as allowed under IFRS 13 *Fair Value Measurement*, but has valued each derivative individually.

Interest on derivatives is included within interest receivable where the derivative hedges an asset and within interest expense where the derivative hedges a liability, to align the recognition with its economic purpose. Other gains and losses on all derivatives, hedged items, and on the sale of available-for-sale assets are recognised in the 'Fair value gains / (losses) on financial instruments' line in the Income Statement, with the exception of cash flow hedging derivatives, where unrealised fair value gains and losses are recognised in the cash flow hedging reserve.

Any derivatives that do not qualify for hedge accounting are held at fair value with changes in fair value recognised in the Income Statement.

Held to maturity

The Group has not classified any assets as held to maturity.

f) Financial liabilities

Borrowings, including shares, deposits, debt securities in issue and subordinated liabilities held by the Group are recognised initially at fair value, being the issue proceeds, net of premia, discounts and transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method. Derivative liabilities and the fair value of the put option obligation are measured at fair value through profit or loss.

Permanent Interest Bearing Shares with no fixed maturity are classified as financial liabilities as opposed to equity instruments since their terms do not permit the Directors discretion to avoid the payment of interest. Permanent Interest Bearing Shares are carried at amortised cost.

Where financial liabilities are hedged, the Group elects to use the fair value option for those hedged financial liabilities. This designation has been adopted to reduce the volatility that would otherwise exist given that the interest rate risk element of the underlying liabilities in question is economically hedged by derivatives which are also held at fair value through profit or loss.

In applying the fair value option to the Group's financial liabilities, the Group has considered the effect of its own credit risk and considers this not to be material.

g) Impairment of financial assets

Impairment of loans and advances secured on residential property or land

The Group carries out an assessment of impairment of loans and advances to customers at each reporting date. Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession or where fraud or negligence has been identified. Objective evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, or the debt being renegotiated to reduce the burden on the borrower. The key drivers influencing this objective evidence predominantly relate to affordability issues driven by unemployment and increased costs of living. Based upon these assessments an individual impairment provision is made in one of two ways. For properties that are either in possession or where sufficient information is available to calculate a specific provision on an account-by-account basis (for example, accounts that are on a defined 'watch list'), the provision is calculated as the difference between the existing carrying value and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Alternatively, for other individual loans that have reached the point at which an impairment provision is needed but where it is not possible to specifically determine the amount ultimately likely to be received, assumptions are used from groups of loans with similar characteristics, based on historical data including the probability of possession given default and average forced sale discounts, and a provision calculated accordingly against this group of loans.

In addition, a collective impairment provision is made against the remaining portfolio of loans and advances where objective evidence indicates that credit losses have been incurred but not yet identified at the reporting date. The impairment value is calculated by applying various economic factors to pools within our mortgage portfolio that have similar characteristics. These factors take into account the Group's experience of default rates, loss emergence periods, the effect of regional movements in house prices based on a recognised index, as well as adjustments to allow for ultimate forced sales values and realisation costs.

The impairment model also takes into account the level of forbearance applied to loans such as payment reductions, term extensions, conversion to interest only and capitalisation of arrears, and reflects the relative performance of each of these pools.

Impairment provisions are recognised in the Income Statement and reflected in a separate account which is netted against the total carrying value of mortgage assets within the Statement of Financial Position. Interest on the impaired asset continues to be recognised through the unwinding of the discount on an effective interest rate basis. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is recognised through the Income Statement.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Income Statement.

Forbearance

In certain circumstances, the Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities, minimise the risk of default and ensure the best outcome for the customer. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the customer is currently in default on their debt or if there is a high risk of default, there is evidence that the customer made all reasonable efforts to pay under the original contractual terms and the customer is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity of the loan, changing the timing of interest payments or amending the terms of loan covenants. Both retail and commercial loans are subject to the forbearance policy. The Retail Credit Committee regularly reviews reports on forbearance activities.

For the purposes of disclosures in these financial statements, loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider.

Impairment of other loans and advances

Individual impairment provisions are made to reduce the value of other impaired loans and advances to the present value of the amount that the Directors consider is likely ultimately to be received, based upon objective evidence. The level of impairment provisions is assessed at each reporting date. Where a loan or advance is not recoverable, it is written off against the related provision for impairment.

Impairment of other financial assets

At each reporting date the Group assesses, on an individual basis, whether there is objective evidence that financial assets held by the Group, except those held at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired may include default or delinquency by a counterparty, the disappearance of an active market for a security, indications that a counterparty will enter bankruptcy, a significant and prolonged decline in the fair value of a security or evidence of a sovereign debt crisis.

Impairment losses on other financial assets carried at amortised cost are measured as the difference between the carrying value of the asset and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the Income Statement and reflected as a deduction against the carrying value of the asset. When a subsequent event causes the amount of impairment loss to decrease, the decrease in the impairment loss is recognised through the Income Statement.

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised directly in equity to the Income Statement. The cumulative loss that is removed from equity and recognised in the Income Statement is measured as the difference between the acquisition cost, net of any principal repayments and amortisation, and the current fair value, less any impairment loss on that asset previously recognised in the Income Statement.

If, in a subsequent period, the fair value of the asset classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed through the Income Statement.

1. Accounting policies (continued)

h) Financial assets and liabilities – derecognition and offsetting

Financial assets are derecognised when the contractual rights to receive cash flows have expired or where substantially all the risks and rewards of ownership have been transferred. The Society has not derecognised the loans transferred to the Group's special purpose funding vehicles because substantially all the risks and rewards are retained by the Society as detailed in note 1c). Financial liabilities are derecognised only when the obligation is discharged, cancelled or has expired. Regular-way purchases and sales of financial assets and liabilities are initially accounted for at the trade date.

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS.

i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the closing rate of exchange. Exchange differences are taken to the Income Statement as they arise.

On consolidation, the Income Statements of subsidiary undertakings with non-Sterling functional currencies are translated into Sterling at the monthly average rates for the period, and their assets and liabilities are translated into Sterling at the closing rate of exchange at the reporting date. Any exchange differences arising on the translation of net assets of overseas subsidiary undertakings are taken to reserves as a separate component of equity and disclosed in the Statement of Comprehensive Income, except to the extent that the translation difference is allocated to the non-controlling interests.

Where a foreign operation is disposed of in its entirety, or partially disposed of such that control is lost, the cumulative amount of translation differences recognised as a separate component of equity is reclassified to the Income Statement as part of the gain or loss on disposal.

j) Taxation

The income tax expense or credit on the profits or losses for the year comprises current tax and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity and disclosed in the Statement of Comprehensive Income.

Current tax is the expected tax payable or receivable on the taxable income or expenditure for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the Statement of Financial Position liability method, which recognises temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting profits nor taxable profits, and differences relating to investments in subsidiary undertakings, associates and joint arrangements to the extent that it is probable they will not reverse in the foreseeable future. Deferred tax 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 reporting date.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at least annually and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

k) Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The leased asset is recorded within the Statement of Financial Position as an item of property, plant and equipment and is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Future instalments under such leases, net of finance charges, are included within payables. Rentals payable are apportioned between the finance element, which is charged to the Income Statement at a constant annual rate, and the amount which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rental charges are charged to the Income Statement on a straight line basis. Assets held by the Group on which operating leases are granted are included as items of property, plant and equipment. Rents receivable under operating leases are recognised in the Income Statement on a straight line basis over the term of the lease.

Where leasehold premises cease to be occupied by the Society or its subsidiary undertakings and current market conditions are expected to preclude sub-letting for a rental sufficient to cover the rental costs, a provision is made to cover the expected deficit.

l) Employee benefits

Defined contribution pension arrangements

Obligations for contributions to defined contribution pension arrangements are recognised as an expense in the Income Statement as incurred.

Defined benefit schemes

During 2015, the Group operated three funded defined benefit pension schemes administered by a corporate Trustee, the funds of which are separate from those of the Group.

Included within the Statement of Financial Position are the Group's net obligations in respect of the defined benefit pension schemes. The obligation of each scheme is calculated separately by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods.

That benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is based on the average yield available from long-dated AA-rated corporate bonds. The calculation is performed by a qualified actuary using the projected unit credit method.

Net interest income on the defined benefit obligations comprises interest income on plan assets, less the interest cost on the scheme liabilities, and interest on the effect of the asset ceiling. Net interest income and other expenses relating to the defined benefit pension schemes are recognised in the Income Statement.

Remeasurements of the retirement benefit obligations, which comprise actuarial gains or losses (arising from the differences between previous actuarial assumptions and actual experience), the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised in the Statement of Comprehensive Income.

Past and current service costs are recognised immediately in the Income Statement. When a plan is curtailed, the resulting gain or loss on settlement is also recognised immediately in the Income Statement. The Group recognises gains or losses on the settlement of a retirement benefit obligation when the settlement occurs.

Contributions are transferred to the schemes on a regular basis to secure the benefits provided under the rules of the schemes. Pension contributions are assessed in accordance with the advice of a professionally-qualified actuary.

m) Fees and commissions

Other than those accounted for using the 'effective interest method', fees and commissions receivable are generally recognised, net of VAT (where applicable), when all contractual obligations have been fulfilled.

Estate Agency commissions earned on the sales of properties and land and auction income are recognised on the date contracts are exchanged. Property management income is recognised when the cash is received, which reflects the point at which income is earned and contractual obligations have been fulfilled. Insurance commission is recognised upon fulfilment of contractual obligations with a provision for future clawback repayment in the event of early termination by the customer.

The recognition of fees and commissions receivable from the sale of third party regulated financial services products is dependent on the market in which the adviser operates and therefore the nature of the advice provided. Revenue is recognised either when the right to consideration has been obtained through fulfilment of performance obligations, or when the provision of advice can be demonstrated by the signing of the initial suitability letter by the customer which demonstrates acceptance of the advice provided. A provision for future clawbacks is made for repayment in the event of early termination by the customer. Ongoing commission income received monthly over the life of a policy is recognised on an accruals basis over the period of the service provided, whilst commission receivable in relation to ongoing wealth management on behalf of clients is accrued by reference to the value of work performed.

Revenue from software licence fees is recognised on the transfer of significant risks and rewards of ownership of the licensed software under an agreement between the Group and the customer. Revenue from implementation and consulting services is recognised in proportion to their stage of completion, typically in accordance with the achievement of contract milestones or days expended. Customer support revenue and systems management revenue are recognised on a straight line basis over the period of the service rendered.

Fees and commissions payable are generally recognised on an accruals basis as services are received.

Notes to the Accounts *(continued)*

1. Accounting policies (continued)

n) Investments in subsidiary undertakings

The Society records investments in subsidiary undertakings at cost and carrying values are reviewed for impairment at least annually.

The impairment test compares the carrying value of each investment to its associated value in use. The value in use calculations are carried out by discounting the future cash flows of the subsidiary undertaking. Future cash flows are ordinarily based upon the corporate plans of the subsidiary for the next five years and assumed growth thereafter for the subsequent 10 years generally in line with long term growth rates. The Society estimates discount rates based upon the weighted average cost of capital which is adjusted to take account of the market risks associated with each subsidiary. A 15-year time horizon has been used to reflect the fact that subsidiaries are held for the long term.

o) Property, plant and equipment

Property, plant and equipment is measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of those items.

Depreciation is calculated to write down the cost of items of property, plant and equipment to their estimated residual values over their estimated useful lives as set out below on a straight line basis unless stated otherwise.

Freehold and long leasehold buildings	50 to 100 years
Special purpose freehold head office facilities	40 years
Refurbishment of freehold and long leasehold buildings	five to 10 years
Short leasehold buildings	period of lease
Equipment, fixtures and fittings	two to 10 years
Motor vehicles	25% of net book value

Land is not depreciated. Major items of property, plant and equipment purchased are depreciated on a monthly basis from the date the asset is available for utilisation. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted where appropriate. In accordance with IAS 36 *Impairment of Assets*, all items of property, plant and equipment are regularly reviewed for indications of impairment. Any impairment identified is charged to the Income Statement.

Subsequent expenditure on items of property, plant and equipment is capitalised only if the subsequent expenditure increases the item's revenue generating capabilities and it is probable that future economic benefits associated with the expenditure will flow to the Group.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in the Income Statement.

p) Segmental reporting

In accordance with IFRS 8 *Operating Segments*, each operating segment is determined according to distinguishable operating components of the Group for which discrete financial information is available. The chief operating decision maker, the Board, regularly reviews internal reporting for each segment to appropriately allocate resources and assess their performance. We have not aggregated any of our operating segments for the purposes of financial reporting.

Information regarding the results of each reportable segment is included in note 38.

q) Cash and cash equivalents

For the purposes of the Statements of Cash Flows, cash comprises cash in hand and unrestricted loans and advances to credit institutions repayable on demand, and excludes the mandatory deposit the Society is required to place with the Bank of England. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

The Statements of Cash Flows have been prepared using the indirect method.

r) Investment properties

Properties held by the Group for capital appreciation or which earn rentals are recognised as investment properties at cost less depreciation and impairment losses. The depreciation policy for investment properties is consistent with the policy for property, plant and equipment. Investment properties are regularly reviewed for indications of impairment. Any impairment identified is charged to the Income Statement.

Rental income from investment property is recognised over the term of the lease and is included in other income.

Any gain or loss on disposal of investment property is recognised in the Income Statement.

s) Sale and repurchase agreements

Investments and other securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained within the Statement of Financial Position when substantially all the risks and rewards of ownership remain within the Group, and the liability associated with the cash advanced is included separately within the Statement of Financial Position.

The difference between the sale and repurchase price is accrued over the life of the agreements and recognised within net interest income.

The Group has financial assets and liabilities for which there is a legally enforceable right to set off the recognised amounts, and which may be settled on a net basis. However, the netting arrangements do not result in an offset of balance sheet assets and liabilities for accounting purposes as the right to set off is not unconditional in all circumstances. Therefore, in accordance with IAS 32, there are no financial assets or liabilities which are offset with the net amount presented on the balance sheet. All financial assets and liabilities are presented on a gross basis.

t) Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

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

Estimates and judgements are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key estimates, assumptions and judgements are set out below.

Effective interest rate

The valuation of assets or liabilities measured at amortised cost is calculated using the effective interest method. The effective interest method imputes an interest rate which discounts the forecast future 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 loans and advances to customers would result in the following increases in interest income:

	2015 £m	2014 £m
Group	14.0	7.8
Society	14.0	7.8

During the year a charge of £7.9m (2014: £4.4m) for the Group and Society was recognised through interest income, following a reassessment of the expected lives of loans and advances to customers.

Impairment of mortgage loans and advances

The Group regularly reviews the performance of its residential loan portfolios to assess the level of impairment. In determining whether an impairment loss should be recorded in the Income Statement, management makes judgements as to whether there is any objective data indicating that there is a measurable impairment loss. Specifically, management regularly assesses key assumptions that contribute to the probability of an account defaulting and the likely loss incurred through forced sale or write-off as a result.

Critical estimates in calculating the eventual loss incurred in the event of sale are the movement in UK house prices, default rates and cure rates (being the proportion of accounts that go into default, but then return to their original position out of default at a later date). The following table outlines the impact of reasonably possible alternative assumptions of certain estimates used in calculating the impairment provision:

1. Accounting policies (continued)

Assumption	Change to current assumption	Group 2015 Increase in impairment provision £m	Group 2014 Increase in impairment provision £m
House price index	10% decrease in any one year*	6.1	2.9
Default rates	10% increase	0.3	1.4
Cure rates	10% decrease	2.6	1.0

* For example, a 7% fall in house prices compared to an assumption of a 3% increase.

The impact on the residential impairment provision of a 10% decrease in the house price index has increased compared to 2014. This is primarily due to enhancements made to our credit risk loan impairment models during the year which better capture the impact of certain macro-economic indicators on the provision.

The Group also holds an equity release residential mortgage portfolio and the estimates and judgements used in fair valuing the 'no negative equity guarantee', a separately identifiable embedded derivative (movements in which impact the Income Statement and are included within the 'Impairment losses on loans and advances to customers' line), together with sensitivity disclosures, are outlined in note 37b).

In respect of commercial mortgage exposures, there exists an impairment model based on a set of assumptions but, due to the non-standard nature of the properties, each account is also individually reviewed on a monthly basis and suitably qualified commercial underwriters objectively assess additional impairment provisions as required. However, one assumption contained within the commercial impairment model is an assumed 'forced sale discount', and the impact of an additional 5% discount compared to that assumed (e.g. from a forced sale discount assumption of 25% to 30%) would be to increase the total impairment provision by £0.5m (2014: £0.4m).

Impairment of treasury investments

Treasury investments are regularly reviewed for objective evidence of impairment. In determining whether objective evidence exists, the Group considers, amongst other factors, current market conditions (including the disappearance of an active market), fair value volatility (including any significant reduction in market value), any breach of contract or covenants, the financial stability or any financial difficulties of the counterparty and the country it is resident in (i.e. sovereign debt issues).

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. The following table outlines the impact of reasonably possible alternative assumptions of the market values used in calculating the liability, which is the most significant estimate involved within the calculation:

Assumption	Change to current assumption	Group 2015 Increase in put option liability £m	Group 2014 Increase in put option liability £m
Market value of subsidiary undertakings	10% increase	1.2	0.8

Management incentive scheme

In 2012 and 2014, senior management of Connells Limited purchased equity shares in that company and at the same time the Group issued options to these shareholders which require the Group to purchase these shares at some future dates. In accordance with IFRS 2 *Share-based Payment*, the Group recognises the increase in the fair value of the liability through the Income Statement, spread over the vesting period, to the dates of exercise. The fair value of this liability is dependent on the following assumptions: an estimate of when the options will be exercised by the non-controlling shareholders, as well as forecasts of EBITDA (i.e. earnings before interest, tax, depreciation and amortisation, and as adjusted under the specific scheme rules) and cash flows of Connells Limited over the period to exercise. The following table outlines the impact of reasonably possible alternative assumptions of certain estimates used in calculating the liability:

Assumption	Change to current assumption	Group 2015 Increase / (decrease) in liability* £m	Group 2014 Increase / (decrease) in liability* £m
Connells Limited EBITDA	10% increase (note 1)	3.9	3.3
Date of exercise of options	Latest possible opportunity (note 2)	(3.6)	(1.3)

* With a corresponding increase / (decrease) in the charge to the Income Statement.

Notes

1. As described above, the estimate of the liability is dependent on our assumptions of future EBITDA and cash flows of Connells Limited over the period to exercise. The above sensitivity outlines the increase that would result to the liability were we to assume that Connells' forecast EBITDA was 10% higher each year (from 2016 to the period of exercise) than that included in their corporate plans.
2. The fair value of the liability at 31 December 2015 is currently based on the assumption that management will exercise their options at the earliest available opportunity under the terms of the scheme.

Goodwill

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

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

The discount rate used to discount the future expected cash flows is based on the cost of capital assigned to each cash generating unit (see note 19) and can have a significant effect on the valuation of a cash generating unit. The cost of capital is derived from a weighted average cost of capital calculation which incorporates a number of inputs including the risk-free interest rate and a premium to reflect the inherent risk of the business being evaluated. These variables are subject to fluctuations in external markets and economic conditions which are out of management's control and therefore are established on the basis of management judgement.

The following table outlines the impact of reasonably possible alternative assumptions of certain estimates used in calculating any impairment of goodwill:

Assumption	Change to current assumption	Group 2015 Increase in impairment charge £m	Group 2014 Increase in impairment charge £m
Discount rates	10% increase	-*	2.1
Long term growth rate of subsidiary undertaking	Decrease from 2.5% to 0%	-*	1.7

* There would be no impact on impairment of goodwill in 2015 from these sensitivities due to there being sufficient headroom to cover the above scenarios.

Financials

1. Accounting policies (continued)

Fair value of financial instruments

Fair values are determined by the three tier valuation hierarchy as defined within IFRS 13 and Amendments to IFRS 7 *Financial Instruments: Disclosures*, as described in note 37.

The most reliable fair values of financial instruments are quoted market prices in an actively traded market. Where there are no active markets, valuation techniques are used. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Market observable inputs used in valuation techniques include forward risk-free and benchmark interest rates, equity index prices and the retail price index. Assumptions used in valuation techniques include expected price volatilities and mortality rates.

The Group makes transfers between the different levels of the fair value hierarchy where the inputs used to measure the fair value of the financial instruments in question no longer satisfy the conditions required to be classified in a certain level within the hierarchy. Any such transfer between different levels of the fair value hierarchy is made at the date the event in question that results in a change in circumstances occurs.

Taxation

Judgement is required in determining the provision for corporation tax. There are a number of transactions for which the final tax determination is uncertain at the reporting date. In these instances a prudent approach is taken.

As outlined in note 1j), deferred tax assets are only recognised to the extent it is probable that future taxable profits will be available against which the asset can be utilised. Based on the Group's detailed five year forecasts, the Directors consider that the carrying value of the Group and Society's deferred tax assets as at 31 December 2015 of £21.6m and £9.6m respectively (2014: £21.7m and £9.1m respectively) are supportable.

Retirement benefit obligations

The defined benefit pension schemes expose the Group to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. In conjunction with its actuaries the Group makes key financial assumptions which are used in the actuarial valuation of the defined benefit pension obligation and, therefore, changes to these assumptions have an impact on the pension obligation shown within the Statement of Financial Position and amounts reported in the Income Statement. These assumptions include inflation and discount rates, life expectancy, commutation allowances and the rate of salary growth; see note 28 for further details on these assumptions.

A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to scheme liabilities. This would impact the Statement of Financial Position adversely and may give rise to increased charges in future years' Income Statements. This effect would be partially offset by an increase in the value of the schemes' bond holdings and caps on inflationary increases also exist to protect the schemes against high levels of inflation.

Approximate sensitivities of the principal assumptions are set out in the table below which shows the increase or reduction in the pension obligations that would result. Each sensitivity considers one change in isolation.

Assumption	Change in assumption	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Discount rate	+/-0.25% pa	-/+10.0	-/+11.5	-/+5.3	-/+5.7
Rate of inflation	+/-0.5% pa	+/-8.2	+/-8.3	+/-4.0	+/-4.1
Rate of salary growth	+/-0.5% pa	-	-	-	-
Commutation allowance	+/-10% pa	+/-1.7	+/-2.0	+/-0.8	+/-0.9
Life expectancy	+1 year	+6.0	+6.6	+3.1	+3.3

The average duration of the defined benefit obligation as at 31 December 2015 is 18 years (2014: 19 years).

2. Interest receivable and similar income

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
On financial assets not at fair value through profit or loss:				
On loans fully secured on residential property	472.0	458.5	384.4	371.5
On other loans:				
To subsidiary undertakings	-	-	52.9	59.5
Other	10.8	11.2	7.6	8.0
On debt securities	15.4	27.0	15.1	26.8
On other liquid assets	5.8	5.3	5.3	4.4
	504.0	502.0	465.3	470.2
On financial assets at fair value through profit or loss:				
Net expense on derivative financial instruments held for hedging assets	(64.5)	(59.2)	(64.8)	(59.6)
	439.5	442.8	400.5	410.6

Included within interest receivable and similar income on debt securities is income from fixed income securities in the Group of £12.2m (2014: £15.4m) and in the Society of £12.0m (2014: £15.3m). Also included within interest receivable and similar income on debt securities is income from available-for-sale assets in the Group of £15.2m (2014: £22.9m) and in the Society of £14.9m (2014: £22.7m).

Included within interest receivable and similar income is interest accrued on impaired financial assets in the Group of £3.4m (2014: £5.1m) and in the Society of £1.0m (2014: £1.3m).

3. Interest payable and similar charges

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
On financial liabilities not at fair value through profit or loss:				
On shares held by individuals	214.6	230.9	214.6	230.9
On shares held by others	1.4	1.5	1.4	1.5
On subscribed capital	8.4	8.3	8.4	8.3
On deposits and other borrowings:				
Subordinated liabilities	3.7	4.4	3.7	4.4
Subsidiary undertakings	-	-	44.1	52.0
Wholesale and other funding	30.1	29.4	3.6	2.9
Finance charge / (credit) on unwind of put option liability	0.1	(0.1)	-	-
	258.3	274.4	275.8	300.0
On financial liabilities at fair value through profit or loss:				
Net income on derivative financial instruments held for hedging liabilities	(42.1)	(44.9)	(57.7)	(66.1)
	216.2	229.5	218.1	233.9

4. Fees and commissions receivable

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Mortgage origination related fees	26.2	18.3	-	-
Other mortgage related fees	2.0	5.9	2.0	5.9
General insurance fees	41.4	33.3	2.8	3.7
Commissions earned on property sales	154.4	145.6	-	-
Commissions earned on property lettings	44.5	35.1	-	-
Survey and valuation services	47.7	51.6	-	-
Financial advice fees	33.4	44.3	-	-
Other fees and commissions	59.5	67.9	6.1	9.1
	409.1	402.0	10.9	18.7

5. Other income

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Property rents receivable	2.7	2.5	1.8	1.6
Net interest on defined benefit pension obligations (note 28)	(2.5)	(2.5)	(1.3)	(1.1)
Government grants	0.2	0.2	-	-
Net profit on sale of property, plant and equipment, investment properties and intangible assets	0.2	0.3	0.1	0.2
Other	3.0	3.3	4.4	1.9
	3.6	3.8	5.0	2.6

6. Administrative expenses

	Group 2015 £m	Group 2014 Restated* £m	Society 2015 £m	Society 2014 £m
Employee costs:				
Wages and salaries	261.0	241.3	49.7	44.7
Social security costs	25.2	23.3	4.7	4.1
Pension costs:				
Defined contribution arrangements (note 28)	7.0	6.3	3.2	2.8
Settlement gain (note 28)	-	(0.4)	-	-
	293.2	270.5	57.6	51.6
Other administrative expenses	171.2	157.2	51.2	47.3
Central administrative costs recharged to Group undertakings	-	-	(12.3)	(15.8)
	464.4	427.7	96.5	83.1
Other administrative expenses comprise:				
Depreciation and amortisation (notes 17, 18 and 19)	16.9	14.2	3.4	3.3
Impairment of goodwill and other intangible assets (note 19)	-	4.1	-	-
Impairment of property, plant and equipment and investment properties (notes 17 and 18)	4.0	4.7	4.0	4.7
Amounts payable under operating leases	18.0	18.8	5.7	6.7
Other property and establishment costs	15.8	15.1	4.9	5.2
Postage and communications	17.6	15.2	4.5	3.5
IT costs	7.0	6.7	5.8	4.9
Marketing and advertising	22.4	18.8	5.0	4.8
Insurance	3.7	5.7	2.0	2.0
Legal, professional and consultancy	19.8	14.3	11.4	7.9
Training, recruitment and other employee related costs	18.3	19.1	3.8	3.5
Costs of Connells' management incentive scheme (note 25)	15.9	5.4	-	-
Other	11.8	15.1	0.7	0.8
	171.2	157.2	51.2	47.3

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

The remuneration of the external auditor[1], which is included within legal, professional and consultancy costs above, is set out below (excluding VAT):

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Audit of the Society and Group Annual Accounts	0.2	0.2	0.2	0.2
Audit of the Group's subsidiary undertakings' accounts pursuant to legislation	0.4	0.4	-	-
Audit-related assurance services	0.1	0.1	0.1	0.1
Other assurance services	0.3	0.1	0.2	-
	1.0	0.8	0.5	0.3

[1] The amounts presented above for the year ended 31 December 2014 relate to KPMG Audit Plc, being the predecessor firm of the Group's current auditor, KPMG LLP.

7. Employee numbers

The average number of full and part-time persons employed during the year (including Executive Directors) was as follows:

	Group 2015	Group 2014	Society 2015	Society 2014
Principal office	930	827	930	827
Society branches	773	695	773	695
Subsidiary undertakings	6,817	7,071	-	-
	8,520	8,593	1,703	1,522

8. Directors' emoluments

Directors' emoluments are set out within the Directors' Remuneration Report.

Total Directors' emoluments for 2015 amounted to £1.9m (2014: £2.2m).

9. Related party transactions

A number of transactions are entered into with related parties in the normal course of business; these are detailed below.

Key management personnel

Key management personnel comprises the Executive Directors and Non-Executive Directors, who are responsible for ensuring that the Society and its subsidiary undertakings meet their strategic and operational objectives.

The table below summarises the benefits paid to key management personnel in the year:

Group and Society

	2015 £m	2014 £m
Salary, benefits and annual performance pay	1.8	2.1
Employer pension contributions	0.1	0.1
	1.9	2.2

The table below sets out the outstanding balances in relation to related party transactions with key management personnel and persons who are connected with key management personnel:

	2015 £m	2014 £m
Mortgage loans outstanding at 31 December	-	-
Savings balances at 31 December	1.3	1.2

Interest receivable and payable on the above accounts during the year was as follows:

	2015 £000	2014 £000
Interest receivable	2	3
Interest payable	21	15

Loans and savings of key management personnel are at normal commercial rates. There are no provisions for impairment against these loans.

Directors' loans and transactions

At 31 December 2015 there were outstanding mortgage loans granted in the ordinary course of business amounting in aggregate to £22,000 (2014: £42,000) made to one (2014: one) Director or persons who are connected with Directors.

A register is maintained at the Principal Office of the Society which shows details of all loans, transactions and arrangements with Directors and connected persons. A statement for the current financial year of the appropriate details contained in the register will be available for inspection at the Principal Office for a period of 15 days up to and including the Annual General Meeting.

Contributions to pension schemes

During the year, the Group and Society paid contributions of £11.6m (2014: £11.5m) and £5.3m (2014: £5.9m) respectively to pension schemes, which are classified as related parties.

Related party transactions

During the year the Society had the following related party transactions with subsidiary undertakings:

	2015 £m	2014 £m
Rendering and receiving of services	5.0	7.7
Recharges of central costs	12.3	15.8
Interest receivable	52.9	59.5
Interest payable	(44.1)	(52.0)
Other income	1.8	2.4
Collateral transferred to funding vehicles	375.0	447.0
Purchase of debt securities	-	47.0
Repayment of debt securities	(129.9)	(79.5)

All the above transactions were entered into on an arm's-length basis. For details of the relationship between the Society and its principal subsidiary undertakings see note 16.

At 31 December 2015 the Society owed £1,437.9m (2014: £1,332.1m) to subsidiary undertakings and was owed £1,327.7m (2014: £1,489.1m) by subsidiary undertakings. Interest on intra-Group borrowings is charged at an appropriate market rate.

During the year the Group had the following related party transactions with joint ventures and associates:

	2015 £m	2014 £m
Services provided to the Group	2.6	2.8
Services provided by the Group	6.9	3.1

At 31 December 2015 the Group owed £nil (2014: £0.1m) to joint ventures and associates and was owed £0.4m (2014: £0.2m) by joint ventures and associates.

There are no provisions in respect of sales of goods and services or in respect of outstanding loans to or from related parties as at 31 December 2015 or 31 December 2014.

10. Tax expense

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Current tax	35.6	38.6	19.4	21.8
Deferred tax (note 27)	(2.1)	(3.7)	(0.5)	(1.6)
	33.5	34.9	18.9	20.2

A reconciliation of the tax expense on profit before tax at the standard UK corporation tax rate to the actual tax expense is as follows:

	Group 2015 £m	Group 2014 Restated* £m	Society 2015 £m	Society 2014 £m
Profit before tax from continuing operations	146.9	155.8	120.2	153.4
Share of (profits) / losses from joint ventures and associates, net of tax	(0.2)	0.2	-	-
	146.7	156.0	120.2	153.4
Tax calculated at standard UK corporation tax rate of 20.25% (2014: 21.5%)	29.7	33.5	24.3	33.0
Effects of:				
Expenses not deductible for tax purposes	5.5	4.5	1.1	1.3
Adjustment to tax expense in respect of prior periods	0.3	(0.2)	(0.2)	(0.3)
Tax assets on losses not recognised	0.4	0.3	-	-
Non-taxable income	(0.3)	(1.0)	(6.5)	(13.8)
Corporation tax rate change	(0.6)	0.1	0.2	-
Utilisation of tax losses	(0.1)	(0.6)	-	-
Effect of lower tax rates in other jurisdictions (see below)	(1.4)	(1.4)	-	-
Other	-	(0.3)	-	-
Tax expense	33.5	34.9	18.9	20.2

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

The effective tax rate for the Group from continuing operations for the year ended 31 December 2015 is 22.8% (2014: 22.4%). The major impacts on the effective rate for the year are the costs of the Connells management incentive scheme which are not deductible for tax purposes, together with other non-deductible expenditure; offset by non-taxable income and the impact of lower tax rates on profits made by our Guernsey-based retail banking operation, Skipton International Limited.

The effective tax rate for the Society for the year ended 31 December 2015 is 15.7% (2014: 13.2%). The major impact on the effective rate is the non-taxable dividend income received of £30.0m (2014: £64.0m).

11. Loans and advances to credit institutions

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Repayable on demand:				
Cash and cash equivalents	100.8	85.0	21.9	21.8
Cash pledged as collateral	196.7	195.2	196.7	195.2
	297.5	280.2	218.6	217.0
In not more than three months:				
Cash and cash equivalents	32.0	61.7	-	-
Cash pledged as collateral	1.9	-	1.9	-
Other loans and advances to credit institutions	1.2	-	1.1	-
	35.1	61.7	3.0	-
In more than one year but not more than five years:				
Cash pledged as collateral	8.6	12.1	8.6	12.1
	8.6	12.1	8.6	12.1
In more than five years:				
Cash pledged as collateral	11.4	11.4	11.4	11.4
	11.4	11.4	11.4	11.4
Total loans and advances to credit institutions	352.6	365.4	241.6	240.5
Total included within cash and cash equivalents	132.8	146.7	21.9	21.8

At 31 December 2015 £218.6m (2014: £218.7m) of cash has been pledged by the Group and Society against derivative contracts.

12. Debt securities

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Gilts	325.8	288.5	325.8	288.5
Certificates of deposit	342.7	258.4	312.7	230.8
Fixed rate bonds	175.3	231.4	175.3	226.2
Floating rate notes	90.1	166.9	85.1	156.9
Residential mortgage backed securities	170.5	207.4	539.7	706.5
	1,104.4	1,152.6	1,438.6	1,608.9
Debt securities have remaining maturities as follows:				
In not more than one year	493.8	425.2	710.0	387.4
In more than one year	610.6	727.4	728.6	1,221.5
	1,104.4	1,152.6	1,438.6	1,608.9
Transferable debt securities comprise:				
Listed on a recognised investment exchange	755.1	892.5	1,124.3	1,376.4
Unlisted	349.3	260.1	314.3	232.5
	1,104.4	1,152.6	1,438.6	1,608.9
Market value of listed transferable debt securities	755.1	892.5	1,122.3	1,377.4
Carrying value of securities pledged as collateral under sale and repurchase agreements	493.5	605.3	659.9	805.9

12. Debt securities (continued)

The Directors consider that the primary purpose of holding debt securities is prudential. The majority of debt securities held are highly liquid assets which are used on a continuing basis in the Group's activities.

Debt securities of the Group, included in the table above, with a carrying value (excluding accrued interest) of £493.5m (2014: £605.3m) have been sold under sale and repurchase agreements. These assets have not been derecognised as the Group has retained substantially all the risks and rewards of ownership.

Included in the Society's residential mortgage backed securities are £251.2m (2014: £381.1m), £71.0m (2014: £71.0m) and £47.0m (2014: £47.0m) of notes purchased by the Society from the Group's securitisation vehicles Darrowby No. 1 plc, Darrowby No. 2 plc and Darrowby No. 3 plc respectively.

The Society also holds £166.4m (2014: £87.2m) of securities, included in the table above, which are pledged as collateral with a Group subsidiary, Skipton International Limited, in a repurchase agreement. In addition, in 2014 £113.4m of securities, which had been issued by the Group's special purpose vehicle Darrowby No. 1 plc, had been pledged by the Society in a repurchase agreement. This agreement was terminated in 2015.

The Group's investments in mortgage backed securities, as shown in the table above, represent investments in unconsolidated structured entities, as described in note 1c).

The maximum exposure to losses from unconsolidated structured entities is equivalent to the book value plus accrued interest, determined by the carrying value of these investments less any unrealised gains recognised within the available-for-sale reserve, as shown below:

Group and Society	**2015**	2014
	£m	£m
Carrying value: available-for-sale financial assets	**170.5**	207.4
Cumulative unrealised gains recognised in available-for-sale reserve	**-**	(0.3)
Maximum exposure to loss at 31 December	**170.5**	207.1
Total size of unconsolidated structured entities	**170.5**	207.1

During the year, the Group and Society received interest income of £2.8m (2014: £3.0m) from its investments in unconsolidated structured entities and incurred impairment charges of £nil (2014: £2.0m). In addition, £0.3m (2014: £0.5m) of unrealised losses were recognised through the available-for-sale reserve, as shown in the 'Available-for-sale investments: Valuation gains / (losses) taken to equity' line in the Statement of Comprehensive Income.

No collateral has been received by the Group in respect of the above third party funding entities. The total size of unconsolidated structured entities as shown in the table above is determined by reference to the Group's total notional exposure to the unconsolidated structured entities in question.

The Group did not provide any non-contractual support during the year to unconsolidated structured entities and currently has no intentions to provide any such support. The Group is not required to absorb losses of any unconsolidated structured entities before other parties, and the Group did not act as a sponsor to any unconsolidated structured entities during the year. The Group would, in general, be regarded as a sponsor of an unconsolidated structured entity if market participants would reasonably associate the entity with the Group.

Movements in debt securities during the year are summarised as follows:

	Group 2015	Group 2014	**Society 2015**	Society 2014
	£m	£m	**£m**	£m
At 1 January	**1,152.6**	1,195.5	**1,608.9**	1,717.1
Additions	**500.3**	831.2	**437.9**	820.5
Disposals	**(543.2)**	(901.6)	**(602.9)**	(956.2)
Impairment losses	**-**	(2.0)	**-**	(2.0)
Changes in fair value	**(5.3)**	29.5	**(5.3)**	29.5
At 31 December	**1,104.4**	1,152.6	**1,438.6**	1,608.9

13. Derivative financial instruments

	Group 2015		Society 2015	
	Positive market value £m	Negative market value £m	Positive market value £m	Negative market value £m
Derivatives designated as fair value hedges:				
Interest rate swaps	62.3	101.4	63.7	101.5
Index swaps	-	172.5	-	172.5
	62.3	**273.9**	**63.7**	**274.0**
Derivatives designated as cash flow hedges:				
Interest rate swaps	9.3	0.8	9.8	1.0
	9.3	**0.8**	**9.8**	**1.0**
Other derivatives held at fair value:				
Interest rate swaps	12.1	10.7	14.4	5.7
Index swaps	11.4	-	11.4	-
Investment products – embedded derivatives	-	11.5	-	11.5
	23.5	**22.2**	**25.8**	**17.2**
	95.1	**296.9**	**99.3**	**292.2**

	Group 2014		Society 2014	
	Positive market value £m	Negative market value £m	Positive market value £m	Negative market value £m
Derivatives designated as fair value hedges:				
Interest rate swaps	73.9	112.1	74.9	112.3
Index swaps	-	138.2	-	138.2
	73.9	250.3	74.9	250.5
Derivatives designated as cash flow hedges:				
Interest rate swaps	5.2	1.7	6.2	1.7
Basis swaps	-	0.2	-	0.2
	5.2	1.9	6.2	1.9
Other derivatives held at fair value:				
Interest rate swaps	29.9	30.5	33.6	13.5
Index swaps	24.4	-	24.4	-
Investment products – embedded derivatives	-	24.6	-	24.6
	54.3	55.1	58.0	38.1
	133.4	307.3	139.1	290.5

All derivatives that are not accounted for under hedge accounting rules under IAS 39 are measured at fair value through the Income Statement. All derivatives are held for economic hedging purposes.

14. Loans and advances to customers

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Loans fully secured on residential property*	13,680.8	12,153.3	11,564.5	10,007.6
Other loans:				
Loans fully secured on land	342.0	370.9	342.0	370.9
Other loans and advances	115.5	108.8	0.2	0.3
Fair value adjustment for hedged risk	224.9	203.8	221.1	198.5
	14,363.2	12,836.8	12,127.8	10,577.3
The remaining maturity of loans and advances to customers from the reporting date is as follows:				
On call and at short notice	75.0	69.2	3.3	3.5
In not more than three months	26.7	26.9	17.4	12.9
In more than three months but not more than one year	72.7	64.9	44.2	33.5
In more than one year but not more than five years	527.8	615.8	353.8	388.4
In more than five years	13,722.8	12,118.9	11,751.9	10,176.1
	14,425.0	12,895.7	12,170.6	10,614.4
Less: Impairment (note 15)	(61.8)	(58.9)	(42.8)	(37.1)
	14,363.2	12,836.8	12,127.8	10,577.3

* Includes equity release portfolio.

At 31 December 2015, loans and advances to customers include £1,302.8m (2014: £1,212.6m) for both the Group and Society which have been used in secured funding arrangements, resulting in the beneficial interest in these loans being transferred to Darrowby No. 1 plc (£405.7m; 2014: £516.4m), Darrowby No. 2 plc (£247.3m; 2014: £308.0m), Darrowby No. 3 plc (£284.7m; 2014: £388.2m) and Beckindale No. 2 Limited (£365.1m; 2014: £nil) which are special purpose vehicles consolidated into the Group Accounts. The carrying value of these loans at the date the beneficial interest was transferred was £2,568.0m (2014: £2,193.0m). All the loans pledged are retained within the Society's Statement of Financial Position as the Society retains substantially all the risk and rewards relating to the loans. These loans secure £887.4m (2014: £808.6m) of funding for the Group.

15. Impairment losses on loans and advances to customers

Group

	Loans fully secured on residential property £m	Loans fully secured on land £m	Other loans and advances £m	Fair value of embedded derivatives on equity release loans £m	Total £m
At 1 January 2015					
Individual impairment	19.9	6.6	0.9	-	27.4
Collective impairment	9.4	4.6	-	17.5	31.5
	29.3	11.2	0.9	17.5	58.9
Amounts written off during the year, net of recoveries					
Individual impairment	(4.6)	(0.5)	(0.3)	-	(5.4)
Collective impairment	(0.1)	-	-	-	(0.1)
	(4.7)	(0.5)	(0.3)	-	(5.5)
Income Statement					
Impairment losses on loans and advances					
Individual impairment	1.5	2.3	-	-	3.8
Collective impairment	(0.3)	(1.0)	-	6.5	5.2
	1.2	1.3	-	6.5	9.0
Adjustment to impairment losses on loans and advances resulting from recoveries during the year					
Individual impairment	(0.6)	-	-	-	(0.6)
Charge for the year	0.6	1.3	-	6.5	8.4
At 31 December 2015					
Individual impairment	16.2	8.4	0.6	-	25.2
Collective impairment	9.0	3.6	-	24.0	36.6
	25.2	12.0	0.6	24.0	61.8
At 1 January 2014					
Individual impairment	29.9	5.4	1.1	-	36.4
Collective impairment	6.8	4.1	-	11.8	22.7
	36.7	9.5	1.1	11.8	59.1
Amounts written off during the year, net of recoveries					
Individual impairment	(11.6)	(1.4)	(0.4)	-	(13.4)
Collective impairment	(0.1)	-	-	-	(0.1)
	(11.7)	(1.4)	(0.4)	-	(13.5)
Income Statement					
Impairment losses on loans and advances					
Individual impairment	2.1	2.6	0.2	-	4.9
Collective impairment	2.7	0.5	-	5.7	8.9
	4.8	3.1	0.2	5.7	13.8
Adjustment to impairment losses on loans and advances resulting from recoveries during the year					
Individual impairment	(0.5)	-	-	-	(0.5)
Charge for the year	4.3	3.1	0.2	5.7	13.3
At 31 December 2014					
Individual impairment	19.9	6.6	0.9	-	27.4
Collective impairment	9.4	4.6	-	17.5	31.5
	29.3	11.2	0.9	17.5	58.9

15. Impairment losses on loans and advances to customers (continued)

Society	Loans fully secured on residential property £m	Loans fully secured on land £m	Other loans £m	Fair value of embedded derivatives on equity release loans £m	Total £m
At 1 January 2015					
Individual impairment	5.7	6.6	0.2	-	12.5
Collective impairment	2.5	4.6	-	17.5	24.6
	8.2	11.2	0.2	17.5	37.1
Amounts written off during the year, net of recoveries					
Individual impairment	(1.1)	(0.5)	(0.2)	-	(1.8)
Collective impairment	(0.1)	-	-	-	(0.1)
	(1.2)	(0.5)	(0.2)	-	(1.9)
Income Statement					
Impairment losses on loans and advances					
Individual impairment	0.6	2.3	-	-	2.9
Collective impairment	(0.3)	(1.0)	-	6.5	5.2
	0.3	1.3	-	6.5	8.1
Adjustment to impairment losses on loans and advances resulting from recoveries during the year					
Individual impairment	(0.5)	-	-	-	(0.5)
Charge for the year	(0.2)	1.3	-	6.5	7.6
At 31 December 2015					
Individual impairment	4.7	8.4	-	-	13.1
Collective impairment	2.1	3.6	-	24.0	29.7
	6.8	12.0	-	24.0	42.8
At 1 January 2014					
Individual impairment	7.7	5.4	0.4	-	13.5
Collective impairment	4.0	4.1	-	11.8	19.9
	11.7	9.5	0.4	11.8	33.4
Amounts written off during the year, net of recoveries					
Individual impairment	(2.2)	(1.4)	(0.1)	-	(3.7)
Collective impairment	(0.1)	-	-	-	(0.1)
	(2.3)	(1.4)	(0.1)	-	(3.8)
Income Statement					
Impairment losses on loans and advances					
Individual impairment	0.6	2.6	(0.1)	-	3.1
Collective impairment	(1.4)	0.5	-	5.7	4.8
	(0.8)	3.1	(0.1)	5.7	7.9
Adjustment to impairment losses on loans and advances resulting from recoveries during the year					
Individual impairment	(0.4)	-	-	-	(0.4)
Charge for the year	(1.2)	3.1	(0.1)	5.7	7.5
At 31 December 2014					
Individual impairment	5.7	6.6	0.2	-	12.5
Collective impairment	2.5	4.6	-	17.5	24.6
	8.2	11.2	0.2	17.5	37.1

During the year the residential loan impairment approach has been revised by incorporating Internal Ratings Based methodologies to assess the inherent risk within the Group's residential mortgage portfolios.

The 'no negative equity guarantee' provided to equity release customers is accounted for as an embedded derivative due to its economic characteristics (as described in note 37). The losses on this portfolio represent the fair value movement of these embedded derivatives and are a function of the actual and projected interrelationship between market-wide long term house prices and retail price inflation and the specific behaviour of this portfolio.

During the year the Directors have assessed the fair value of these embedded derivatives, based on the performance of the wider economy and management's assessment of the specific characteristics of the portfolio, resulting in a charge of £6.5m (2014: £5.7m).

16. Investments in Group undertakings

a) Subsidiary undertakings

Investments in subsidiary undertakings are recorded at cost.

The net movement in investments in subsidiary undertakings during the year was as follows:

Society	Shares in subsidiary undertakings		Loans to subsidiary undertakings		Total	
	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January	188.2	188.2	1,489.1	1,715.2	1,677.3	1,903.4
Additions	-	-	7.1	26.1	7.1	26.1
Repayments	-	-	(168.5)	(252.2)	(168.5)	(252.2)
Disposals	(2.2)	-	-	-	(2.2)	-
At 31 December	186.0	188.2	1,327.7	1,489.1	1,513.7	1,677.3
Provisions						
At 1 January	57.7	57.7	-	-	57.7	57.7
Disposals	(2.2)	-	-	-	(2.2)	-
At 31 December	55.5	57.7	-	-	55.5	57.7
Net book value at 31 December	130.5	130.5	1,327.7	1,489.1	1,458.2	1,619.6

In respect of loans provided by the Society to its subsidiary undertakings, limits in place define the maximum amount that can be advanced to each subsidiary and any changes to these limits are required to be pre-approved by the Group Wholesale Credit Committee.

The Society reviews the carrying value of its investments in subsidiary undertakings at each reporting date, as described in note 1n), and management has determined that no provision against the carrying value of its subsidiary undertakings was required during the current or prior year.

16. Investments in Group undertakings (continued)

At 31 December 2015, the Group held a controlling interest in the following principal trading subsidiary undertakings:

Name of subsidiary undertaking	Principal business activity	Percentage of ownership interest 2015	2014
Amber Homeloans Limited	Lending body	100.0	100.0
Beckindale No. 2 Limited	Funding vehicle	(See below)	-
Connells Limited and subsidiary undertakings*	Estate agency and related businesses	99.6	99.6
Darrowby No. 1 plc	Funding vehicle	(See below)	(See below)
Darrowby No. 2 plc	Funding vehicle	(See below)	(See below)
Darrowby No. 3 plc	Funding vehicle	(See below)	(See below)
Jade Software Corporation Limited and subsidiary undertakings	Provider of software development services	56.4	56.4
North Yorkshire Mortgages Limited	Lending body	100.0	100.0
Northwest Investments NZ Limited	Provider of software development services	100.0	100.0
Pearson Jones plc (sold during 2015)	Financial adviser	-	100.0
Skipton Business Finance Limited	Provider of debt factoring services	100.0	100.0
Skipton Financial Services Limited	Financial adviser	100.0	100.0
Skipton Group Holdings Limited (SGHL)	Intermediate holding company	100.0	100.0
Skipton International Limited	Offshore deposit taker and lender	100.0	100.0
Skipton Trustees Limited	Provider of will writing services	100.0	100.0

* Indicates where an option to purchase non-controlling interests in the future exists.

Put options exist in a number of subsidiaries within the Connells group whereby the non-controlling shareholders have options that require the Group to purchase the remaining shareholding at some future date(s). In accordance with IAS 32 and IAS 39, these options are designated as 'financial instruments'. The net present value of the estimated future payments under such put options is therefore presented as a financial liability and the Group consolidates 100% of the results of those subsidiaries where put options exist. Any adjustment to the Group's estimation of the present value of the liability will result in an adjustment to goodwill (for put options issued prior to 1 January 2010 in accordance with IAS 27 (2003) and IFRS 3 (2004)) or a profit or loss in the Income Statement (for put options issued on or after 1 January 2010 in accordance with IFRS 3 (2008 revised) and IFRS 10 (2011)). The estimate of the liability is dependent primarily on the market value and forecast performance of the relevant businesses and the expected timing of the exercise of the option. The change in fair value of the financial liability due to the accretion of the discount of the liability is expensed in the Income Statement.

On 5 June 2015, certain non-controlling shareholders of Sharman Quinney Limited, a subsidiary of Connells Limited, exercised their right to require the Connells group to purchase their minority shareholding. As such, Connells Limited purchased 7.5% of the minority shareholding for £0.9m, increasing its holding to 95%. The valuation undertaken to determine the price for the transaction resulted in a reduction in goodwill of £0.1m.

In 2014, Connells Limited purchased a 25% shareholding in Spaull Limited for £10.2m, increasing its holding to 100%, whilst Skipton Group Holdings Limited purchased the remaining shareholding in Pearson Jones plc at a cost of £0.4m, increasing its holding to 100%. The valuations undertaken to determine the prices for these transactions generated goodwill of £7.1m.

At 31 December 2015 the total financial liability for the remaining options detailed above was £11.9m (2014: £7.5m). Details of movements in the put option liability during the year are provided in note 25.

In 2012 and 2014, members of Connells Limited senior management purchased equity shares in that company for a total of £1.5m, as part of the management incentive scheme described in note 25. At the same time options were issued that require SGHL to purchase this shareholding at some future dates, with further details provided in note 25.

At 31 December 2015 the total liability for these options was £30.4m (2014: £14.5m).

All the above entities are incorporated, registered and operate in the United Kingdom except for Skipton International Limited, which is incorporated and registered in Guernsey, and operates in Guernsey, Jersey and the UK; Northwest Investments NZ Limited, which is incorporated, registered and operates in New Zealand; and Jade Software Corporation Limited, which is incorporated and registered in New Zealand, and operates worldwide.

The special purpose vehicles (SPVs) Darrowby No. 1 plc, Darrowby No. 2 plc, Darrowby No. 3 plc and Beckindale No. 2 Limited were formed with only nominal share capital, are funded through loans from the Society and their activities are carried out under the direction of the Society, in line with the transaction documentation. The Society is exposed to variable returns from these entities and has the ability to affect those returns in line with the transaction documentation and therefore these SPVs pass the test of control under IFRS 10. Consequently they are fully consolidated into the Group Accounts. The Society has no contractual arrangement or intention to provide additional financial or other support to these SPVs.

The remaining subsidiary undertakings are 100% owned except for Jade Software Corporation Limited where the Group holds a 56.4% interest (2014: 56.4%) and no put options exist.

Where the Group does not hold 100% of the share capital of a subsidiary, and no put option exists, the profits or losses attributable to the non-controlling interests of the subsidiary are shown in the Income Statement and the non-controlling interests' share of the total members' interests of the subsidiary is shown in the Statement of Financial Position.

The loss of £(0.6)m (2014: loss of £(0.4)m) attributable to non-controlling interests as shown in the Income Statement and the members' interests attributable to the non-controlling interests as shown in the Statement of Financial Position of £(1.6)m (2014: £(0.7)m) are attributable solely to the non-controlling interests of Jade Software Corporation Limited.

On 9 October 2015, Connells Limited acquired 75% of the estate agency business Gascoigne Halman Holdings Limited (Gascoigne Halman). The remaining 25% is owned by Gascoigne Halman management. The total consideration for the shares aquired is £9m, of which £3m is deferred for up to three years and is contingent on certain events, including certain of the selling shareholders remaining employed by the business for that period. Under IFRS 3, this is contingent consideration and does not comprise part of the initial business combination, and will, instead, be expensed to the Group Income Statement over three years.

In addition, the non-controlling shareholders have a put option which requires Connells to purchase their 25% shareholding in the future. The first such opportunity (exercise date) is upon finalisation of the accounts of Gascoigne Halman for the year ending 31 December 2018, when the non-controlling interests may exercise their put option over 50% of their shareholdings. Similar rights exist in subsequent years. The fair value of this put option liability forms part of the consideration for the business, and is included in the Group's total put option liability (see note 25). In line with IFRS 3, the anticipated acquisition method has been applied and 100% of the results of Gascoigne Halman have been consolidated into these financial statements from the date of acquisition. The net assets acquired have been incorporated into these financial statements at their fair values outlined below:

	Book value of assets / (liabilities) acquired £m	Fair value adjustments £m	Total £m
Cash consideration – fair value			6.0
Put option issued – fair value			4.5
Fair value of total consideration			**10.5**
Cash	1.2	-	1.2
Property, plant and equipment	0.5	-	0.5
Intangible assets	3.2	1.4	4.6
Other assets	1.1	(0.1)	1.0
Liabilities	(2.3)	(0.7)	(3.0)
Net assets	**3.7**	**0.6**	**4.3**
Goodwill			**6.2**

Where intangible assets can be separately identified, in accordance with IAS 38, these are recognised within the fair values of the assets acquired. The excess of consideration over the fair value of the net assets acquired is recognised as goodwill in the financial statements.

The valuation techniques used for determining the fair value of the intangible assets acquired were as follows:

Brands – The brand fair values were calculated using the relief-from-royalty method. This method considers the discounted cash flows that the Group would otherwise have had to pay as a royalty if it did not own the brand name. By owning the brand, the Group obtains relief from paying these royalties. Management judgement was exercised in determining the royalty rate applied on the cash flows.

Customer relationships and pipeline business – Customer relationships and pipelines were valued using the discounted cash flow method. The expected cash flows arising from each relationship or pipeline were discounted to their present value. Management determined appropriate profit margins and expected profits based on historical performance.

Connells acquired Gascoigne Halman in order to increase its market share and extend its geographical reach. Gascoigne Halman is an established, successful estate agency business with 18 branches operating in South Manchester and Cheshire

16. Investments in Group undertakings (continued)

and provides Connells with a presence in this location for the first time. The consideration paid exceeds the fair value of the net assets acquired and this premium (goodwill) arises as a result of the expected future economic benefit arising from the purchase and the expected economic synergies arising from the combined operations of Connells and Gascoigne Halman. From the date of acquisition to 31 December 2015, the amount Gascoigne Halman contributed to Group income was £2.3m and profit before tax was £0.4m.

If Connells had owned Gascoigne Halman throughout 2015, the amount it would have contributed to the Group's income during the year would have been £9.6m and the amount contributed to Group profit before tax would have been £2.0m.

In November 2015, Connells Limited purchased 75% of White Space Property Group Limited, the parent company of the online estate agent hatched.co.uk Limited (Hatched), for £0.4m. A put option exists for the non-controlling shareholders who own the remaining 25%. The acquisition of Hatched, one of the original pioneers of the online estate agency model, is aligned with Connells' growth strategy.

The Group made no further increases to its shareholdings in existing subsidiary undertakings during 2015. The reassessment of expected future payments under put option agreements did not result in any adjustment to goodwill being recognised in the year (2014: reduction of £0.8m).

In 2014, Connells Limited acquired 100% of the share capital and voting rights of the estate agency business Peter Alan Limited and its subsidiary undertakings for a cash consideration of £16.4m. The fair value of the net assets acquired was £11.1m and the transaction generated goodwill of £5.3m, as shown in the table below:

	Book value of assets / (liabilities) acquired	Fair value adjustments	Total
	£m	£m	£m
Cash consideration – fair value			16.4
Cash	1.6	-	1.6
Property, plant and equipment	1.7	0.4	2.1
Intangible assets	1.6	7.8	9.4
Other assets	1.6	(0.3)	1.3
Liabilities	(1.6)	(1.7)	(3.3)
Net assets	4.9	6.2	11.1
Goodwill			5.3

All the Group's subsidiary undertakings have prepared accounts to 31 December 2015 and their results have been included in these Group Accounts.

b) Disposals

The loss on disposal of subsidiary undertakings during the year was £(0.4)m. On 11 May 2015 the Group sold its entire shareholding in Pearson Jones plc and its subsidiary businesses for a loss of £(0.8)m. As this business was not considered a major line of business for the Group, it is not classified as a discontinued operation.

Also on 11 May 2015, Connells Limited sold its entire 75% shareholding in Connells Relocation Services Limited, resulting in a loss on disposal of £(0.3)m.

During the year the Group also received contingent consideration following the disposals of Mutual One Limited and The Private Health Partnership Limited in 2013 and 2014 respectively, totalling £0.7m.

In 2014, the Group disposed of its entire shareholdings in The Private Health Partnership Limited, Torquil Clark Limited and Homeloan Management Limited (HML) for a combined profit of £25.8m. As HML represented the entire Mortgage Services division, its results are classified as a discontinued operation in the 2014 comparative information in these financial statements. The profit attributable to HML in 2014 was £24.8m, which comprised £0.1m trading profits and a profit on disposal of £24.7m.

An analysis of the cash flows attributable to HML included within the 2014 comparative cash flow information is shown in the table below:

	5 months to 31.5.2014 £m
Net cash flows from operating activities	5.0
Net cash flows from investing activities	(1.4)
Net cash flows from financing activities	-
Net cash flows from discontinued operations	3.6

c) Joint ventures

At 31 December 2015, the Group held non-controlling interests in the following companies that are classed as joint ventures:

Name of investment	Principal business activity
TM Group (UK) Limited	Property search services
Cybele Solutions Holdings Limited	Conveyancing services
Vibrant Energy Matters Limited	Home energy, property and eco services
Home Telecom Limited	Telecommunications services

The Group's combined share of net assets and the Group's combined share of profit after tax for the above joint ventures are as shown within the Statement of Financial Position and Income Statement respectively.

d) Associates

At 31 December 2015, the Group held an interest in the following company:

		Percentage of ownership interest	
Name of investment	Principal business activity	2015	2014
Wynyard Group Limited	Provider of software development services	17.8	21.7

Wynyard Group Limited is incorporated in New Zealand.

During the year, the Group's associate holding in Wynyard was diluted from 21.7% to 17.8% following share issues in the year to which the Group did not subscribe. These deemed part disposals generated a profit of £1.1m (2014: £2.3m) for the Group. Despite holding less than 20% of the share capital of Wynyard, the Directors consider that the Group exerts significant influence over Wynyard due to the fact that the Group is the largest shareholder in the company and a member of the Group's senior management is a member of the Board of Directors of the company. Therefore the Directors consider that it is appropriate to continue to account for the Group's holding in Wynyard as an associate investment.

As at 31 December 2015 the market value of the Group's shareholding in Wynyard Group Limited was £20.7m (2014: £24.5m), which is based on a quoted share price and is therefore regarded as a Level 1 valuation technique as described in note 37b).

16. Investments in Group undertakings (continued)

An analysis of the Group's share of Wynyard's assets, liabilities, loss after tax and other comprehensive income is shown in the table below:

	Group 2015 £m	Group 2014 £m
Share of associate's		
Gross assets	7.6	7.7
Gross liabilities	(0.8)	(0.8)
Fair value adjustment in relation to initial recognition of associate investment	4.7	6.3
At 31 December	11.5	13.2
Share of associate's		
Income	3.8	2.9
Expenditure	(6.1)	(5.5)
Taxation	-	-
Share of associate's loss after tax	(2.3)	(2.6)
Share of associate's other comprehensive income	-	-

The associate is recognised within the Group's financial statements using the equity accounting method. As noted above, Wynyard is a listed company and the Group does not have access to Wynyard's management accounts. The information above therefore represents the Directors' best estimate of our share of Wynyard's results, assets and liabilities and is based on a publicly available, independently-produced forecast.

e) Equity share investments

At 31 December 2015, the Group held interests in the following companies:

Name of investment	Principal business activity	Percentage of ownership interest 2015	2014
Zoopla Property Group Plc	Property search provider	4.0	3.9
Hearthstone Investments Limited	Property fund management	16.1	17.7

Both the above investments are held as available-for-sale financial assets.

The movement in the Group's equity share investments during the period is analysed below:

	Group 2015 £m	Group 2014 £m
At 1 January	32.9	37.1
Additions	1.0	1.0
Disposals	(0.3)	(10.6)
Impairment recognised in Income Statement	-	(1.3)
Gain recognised in Other Comprehensive Income	7.3	6.7
At 31 December	40.9	32.9

An unrealised gain of £7.3m (2014: £6.7m) resulting from the change in fair value of the Group's holding in Zoopla Property Group Plc was recognised in the year, based on the increase in the quoted share price.

On 16 July 2015, Connells purchased a further 575,000 shares in Zoopla at a cost of £1.0m under a member offer agreed on flotation in 2014. Under the terms of the offer, Connells also sold 175,322 shares, which generated £0.3m of proceeds and crystallised a profit of £0.3m which has been recognised in the Income Statement.

Connells' investment in Hearthstone Investments Limited fell to 16.1% during the year (2014: 17.7%) due to Hearthstone raising further equity funding. The Directors have reviewed the carrying value of this investment, based on recent trading performance, outlook and expectations of the value of the business, and have concluded that the current carrying value of £0.7m remains the best indication of its fair value.

17. Property, plant and equipment

Group	2015			2014		
	Land and buildings	Equipment, fixtures and fittings	Total	Land and buildings	Equipment, fixtures and fittings	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January	75.2	68.3	143.5	93.5	92.2	185.7
Additions	6.3	7.6	13.9	4.4	9.4	13.8
Disposals	(0.3)	(1.9)	(2.2)	(0.9)	(16.6)	(17.5)
Acquisition of subsidiary undertakings	0.4	0.1	0.5	1.1	1.0	2.1
Disposal of subsidiary undertakings	-	(0.8)	(0.8)	-	(17.7)	(17.7)
Transfer to investment property on disposal of subsidiary undertaking	-	-	-	(22.9)	-	(22.9)
Transfer from investment property	0.7	-	0.7	-	-	-
At 31 December	82.3	73.3	155.6	75.2	68.3	143.5
Depreciation						
At 1 January	30.4	49.1	79.5	28.9	75.2	104.1
Charge for the year – continuing operations	4.1	6.1	10.2	4.0	4.7	8.7
Charge for the year – discontinued operations	-	-	-	-	0.4	0.4
Impairment charge	0.3	-	0.3	0.8	-	0.8
Disposals	(0.2)	(1.5)	(1.7)	(0.7)	(15.8)	(16.5)
Disposal of subsidiary undertakings	-	(0.5)	(0.5)	-	(15.4)	(15.4)
Transfer to investment property on disposal of subsidiary undertaking	-	-	-	(2.6)	-	(2.6)
At 31 December	34.6	53.2	87.8	30.4	49.1	79.5
Net book value at 1 January	44.8	19.2	64.0	64.6	17.0	81.6
Net book value at 31 December	47.7	20.1	67.8	44.8	19.2	64.0

17. Property, plant and equipment (continued)

Society	2015 Land and buildings £m	2015 Equipment, fixtures and fittings £m	2015 Total £m	2014 Land and buildings £m	2014 Equipment, fixtures and fittings £m	2014 Total £m
Cost						
At 1 January	44.4	28.1	72.5	42.8	27.3	70.1
Additions	1.8	1.0	2.8	1.8	1.0	2.8
Disposals	(0.3)	-	(0.3)	(0.2)	(0.2)	(0.4)
Transfer from investment property	0.7	-	0.7	-	-	-
At 31 December	46.6	29.1	75.7	44.4	28.1	72.5
Depreciation						
At 1 January	16.0	26.6	42.6	13.5	26.4	39.9
Charge for the year	2.1	0.4	2.5	1.8	0.3	2.1
Impairment charge	0.3	-	0.3	0.8	-	0.8
Disposals	(0.2)	-	(0.2)	(0.1)	(0.1)	(0.2)
At 31 December	18.2	27.0	45.2	16.0	26.6	42.6
Net book value at 1 January	28.4	1.5	29.9	29.3	0.9	30.2
Net book value at 31 December	28.4	2.1	30.5	28.4	1.5	29.9

The net book value of land and buildings comprises:

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Freehold	38.2	40.3	24.2	24.3
Long leasehold	1.0	1.2	1.0	1.0
Short leasehold	8.5	3.3	3.2	3.1
	47.7	44.8	28.4	28.4

18. Investment property

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Cost				
At 1 January	31.9	10.7	31.6	33.3
Additions	-	0.2	-	0.2
Disposals	(2.8)	(1.9)	(2.8)	(1.9)
Transfer from property, plant and equipment on disposal of subsidiary undertaking	-	22.9	-	-
Transfer to property, plant and equipment	(0.7)	-	(0.7)	-
At 31 December	28.4	31.9	28.1	31.6
Depreciation				
At 1 January	9.8	4.0	9.6	6.2
Charge for the year	0.5	0.5	0.5	0.7
Impairment charge	3.7	3.9	3.7	3.9
Disposals	(1.5)	(1.2)	(1.5)	(1.2)
Transfer from property, plant and equipment on disposal of subsidiary undertaking	-	2.6	-	-
At 31 December	12.5	9.8	12.3	9.6
Net book value at 1 January	22.1	6.7	22.0	27.1
Net book value at 31 December	15.9	22.1	15.8	22.0

All investment property relates to property purchased by the Group or Society and is either unoccupied by the Group or Society, or relates to branches where part of the property is sub-leased.

The aggregate estimated market value of investment properties is set out in the table below:

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Market value of investment property	16.9	29.0	16.6	28.7

The estimated market value of the investment properties has been determined by an appropriately qualified internal valuer, supported by external valuations where appropriate, in accordance with RICS Appraisal and Valuation Standards and is an indication of fair value. This fair value measurement is categorised as a Level 3 fair value measurement, based on the inputs to the valuation technique used as described in note 37b).

For the majority of the Group's investment properties, fair value is estimated using the market valuation approach which uses prices and other relevant information generated by market transactions involving comparable properties. Where comparable transactions may not be available, the Group may also consider a discounted cash flow technique which considers the present value of the net cash flows to be generated from the property, taking into account expected rental growth, void periods and rent-free periods. The expected net cash flows are discounted using risk-adjusted discount rates.

Following an external valuation carried out by an appropriately qualified third party valuer, this indicated that the market value of one of the Group's investment properties was below its carrying value and as such the Directors have assessed that the property in question should be written down to its current market value, resulting in £3.7m of impairment being recognised during the year (2014: £3.2m).

19. Intangible assets

	Group 2015	Group 2014 Restated*	**Society 2015**	Society 2014
	£m	£m	**£m**	£m
Goodwill	**133.9**	129.6	**-**	-
Other intangible assets	**19.3**	17.3	**1.1**	1.7
	153.2	146.9	**1.1**	1.7

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

Goodwill	**Group 2015**	Group 2014 Restated*
	£m	£m
Cost, less amortisation to 1 January 2004		
At 1 January	**149.9**	164.3
Acquisitions of subsidiary undertakings and business units	**7.8**	5.3
Additions and revaluations of put options	**(0.1)**	6.3
Disposal of subsidiary undertakings	**(16.1)**	(26.0)
At 31 December	**141.5**	149.9
Impairment losses		
At 1 January	**20.3**	26.7
Provisions for impairment losses in the year	**-**	3.5
Disposal of subsidiary undertakings	**(12.7)**	(9.9)
At 31 December	**7.6**	20.3
Net book value at 1 January	**129.6**	137.6
Net book value at 31 December	**133.9**	129.6

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

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. The carrying value of goodwill has been allocated as follows:

Operating segment		**Group 2015**	
	Cost of goodwill	**Accumulated impairment**	**Carrying value**
	£m	**£m**	**£m**
Estate Agency	**129.8**	**2.2**	**127.6**
Financial Advice	**2.9**	**0.1**	**2.8**
Investment Portfolio	**8.8**	**5.3**	**3.5**
Total goodwill	**141.5**	**7.6**	**133.9**

		Group 2014	
Operating segment	Cost of goodwill Restated*	Accumulated impairment	Carrying value Restated*
	£m	£m	£m
Estate Agency	122.3	2.2	120.1
Financial Advice	18.8	12.8	6.0
Investment Portfolio	8.8	5.3	3.5
Total goodwill	149.9	20.3	129.6

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

Based upon the Directors' assessment of recoverable amounts, the Directors have concluded that no impairment is required to be recognised in respect of goodwill in 2015 (2014: £3.5m impairment recognised against the Financial Advice division).

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 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 corporate plans for the next five years, which take into account the risks inherent in each of the businesses, and cash flows are extrapolated for subsequent years (up to an additional 10 years) based on a long term growth rate of 2.5% (2014: 2.5%) or specific growth rates where circumstances dictate.

The corporate plans are based upon the following key drivers:

Operating segment	**Key drivers**
Estate Agency	Volume of UK property transactions, house price inflation, level of unemployment and interest rates
Financial Advice	Volume of new business, recurring income and FTSE levels
Investment Portfolio	Volume of new business, level of unemployment and interest rates

These key drivers are discussed further in the Risk Management Report on pages 50 to 56.

The Group estimates discount rates based upon the weighted average cost of capital which is adjusted to take account of the market risks associated with each cash generating unit.

19. Intangible assets (continued)

The pre-tax discount rates are as follows:

Operating segment	Group 2015 %	Group 2014 %
Estate Agency	13	17
Financial Advice	9	11
Investment Portfolio	11	11

Other intangible assets	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Cost				
At 1 January	60.8	80.1	14.7	14.0
Acquisition of subsidiary undertakings	4.9	9.4	-	-
Acquisition of other business assets	1.2	1.1	-	-
Additions	2.4	4.3	0.1	0.7
Disposals	(0.4)	(0.3)	(0.3)	-
Disposal of subsidiary undertakings	(0.2)	(33.8)	-	-
At 31 December	68.7	60.8	14.5	14.7
Amortisation and impairment				
At 1 January	43.5	62.1	13.0	12.5
Charge for the year – continuing operations	6.2	5.0	0.4	0.5
Charge for the year – discontinued operations	-	1.2	-	-
Impairment charge	-	0.6	-	-
Disposals	(0.1)	(0.2)	-	-
Disposal of subsidiary undertakings	(0.2)	(25.2)	-	-
At 31 December	49.4	43.5	13.4	13.0
Net book value at 1 January	17.3	18.0	1.7	1.5
Net book value at 31 December	19.3	17.3	1.1	1.7

The net book value of other intangible assets comprises:

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Brands	5.3	2.3	-	-
Customer contracts and relationships	8.0	8.8	-	-
Computer software and databases	6.0	6.2	1.1	1.7
	19.3	17.3	1.1	1.7

20. Other assets

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Trade receivables	29.8	25.3	0.5	0.6
Prepayments	12.0	14.0	7.5	9.3
Accrued income	8.4	8.2	-	-
Undrawn advances to debt factoring clients	40.6	34.6	-	-
Other	2.8	6.0	0.8	1.6
	93.6	88.1	8.8	11.5

Undrawn advances to debt factoring clients represent the difference between the total of outstanding debts purchased by the Group under recourse agreements and the amounts already advanced to clients in relation to those debts, net of any charges and adjustments. Once recovered, these amounts are paid over to the clients in question and as a result a corresponding creditor is included within other liabilities (see note 25).

The Group has £1.3m (2014: £1.9m) of trade receivables that are individually impaired and £12.9m (2014: £12.4m) of trade receivables that are past due but not individually impaired. The Society does not have any trade receivables that are individually impaired (2014: £nil) and has no trade receivables that are past due but not individually impaired (2014: £0.2m).

21. Shares

	Group and Society	
	2015 £m	2014 £m
Held by individuals	12,694.8	11,337.0
Other shares	113.8	105.0
Fair value adjustment for hedged risk	19.6	25.5
	12,828.2	11,467.5

A maturity analysis of shares is included in note 34.

22. Amounts owed to credit institutions

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Amounts owed to subsidiary undertakings	-	-	170.3	91.0
Other	735.6	789.8	435.6	789.6
	735.6	789.8	605.9	880.6

A maturity analysis of amounts owed to credit institutions is included in note 34.

Amounts owed to credit institutions by the Group and Society includes £nil (2014: £85.1m) of external funding facilitated through the Group's special purpose vehicle Darrowby No. 1 plc. The Group amount includes £299.8m (2014: £nil) of external funding facilitated through Beckindale No. 2 Limited.

At 31 December 2015, £31.1m (2014: £44.0m) of cash collateral has been received by the Group and £34.8m (2014: £47.8m) of cash collateral has been received by the Society against derivative contracts.

23. Amounts owed to other customers

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Amounts owed to subsidiary undertakings	-	-	1,267.6	1,241.1
Other	1,389.3	1,143.1	308.6	244.0
Fair value adjustment for hedged risk	0.2	0.1	-	-
	1,389.5	1,143.2	1,576.2	1,485.1

A maturity analysis of amounts owed to other customers is included in note 34.

Amounts owed to subsidiary undertakings includes fair value adjustments of £3.8m (2014: £15.9m, which is restated to also include Darrowby No. 1 plc (£10.6m) and Darrowby No. 2 plc (£3.2m) in addition to Darrowby No. 3 plc (£2.1m) as originally included) as a result of applying the fair value option on loans to Group undertakings, in line with the accounting policy outlined in note 1f).

24. Debt securities in issue

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Certificates of deposit	21.1	7.0	21.1	7.0
Floating rate notes	587.7	723.6	0.1	0.1
	608.8	730.6	21.2	7.1

A maturity analysis of debt securities in issue is included in note 34.

Group debt securities in issue include £587.6m (2014: £723.5m) of funding secured on certain loans and advances to customers through the Group's securitisation vehicles Darrowby No. 1 plc, Darrowby No. 2 plc and Darrowby No. 3 plc.

25. Other liabilities

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Trade payables	4.9	5.2	1.2	0.6
Tax deducted at source from interest paid	2.6	3.6	2.6	3.6
Fair value of put option obligation	11.9	7.5	-	-
Fair value of liability of management incentive scheme	30.4	14.5	-	-
Debt factoring liabilities	40.6	34.6	-	-
VAT and employment taxes	15.1	14.1	1.7	2.6
Other	34.3	22.3	10.8	2.9
	139.8	101.8	16.3	9.7

The debt factoring liabilities of £40.6m (2014: £34.6m) represent the difference between the total of outstanding debts purchased by the Group under recourse agreements and the amounts already advanced to clients in relation to those debts, net of any charges and adjustments. Once recovered, these amounts are paid over to the clients in question.

Put option obligation

The movement in the fair value of the put option obligation is summarised below:

	Group 2015 £m	Group 2014 Restated* £m
At 1 January	**7.5**	13.5
Unwind of the discount factor	**0.3**	1.8
Revaluation of market values and future exercise dates	**(0.3)**	4.4
Exercise of put options by non-controlling shareholders	**(0.9)**	(10.6)
Acquisition of subsidiaries during the year	**5.6**	-
Disposal of subsidiary undertakings	**(0.3)**	(1.6)
At 31 December	**11.9**	7.5

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

During the year, a proportion of the non-controlling shareholders of Sharman Quinney Limited (a subsidiary of Connells Limited) exercised their right to require Connells to purchase their minority shareholding. As such, Connells purchased a further 7.5% of Sharman Quinney for £0.9m resulting in a reduction in the put option liability of this amount. Also during the year, Connells disposed of Connells Relocation Services Limited, which resulted in the put option liability in place of £0.3m being extinguished.

In October 2015, Connells purchased Gascoigne Halman Holdings Limited, as described in note 16. Put options were issued to the 25% non-controlling shareholders of Gascoigne Halman, resulting in an increase in the put option liability of £4.5m.

In November 2015, Connells purchased White Space Property Group Limited (the parent company of hatched.co.uk Limited), as described in note 16. Put options were issued to the 25% non-controlling shareholders of Hatched, resulting in an increase in the put option liability of £1.1m.

Management incentive scheme

Six members of Connells Limited senior management purchased equity shares in that company in 2012 and 2014. At the same time, the Group issued options to these shareholders to require SGHL to purchase their shareholdings in Connells Limited at some future dates. Five of the six options remain outstanding at the 2015 year end (2014: five of six), with the maximum option length being nine years from 31 December 2015. In accordance with IFRS 2 *Share-based Payment*, this is a cash-settled scheme in the Group Accounts, with the fair value of the liability being spread over the period to exercise. The fair value of the liability is subsequently remeasured at each reporting date with any changes in fair value recognised in the Income Statement for the year.

The movement in the fair value of the liability of the management incentive scheme is summarised below:

	Group 2015 £m	Group 2014 £m
At 1 January	**14.5**	8.9
Share options issued in the year	**-**	0.2
Movement in fair value of the scheme recognised in the Income Statement	**15.9**	5.4
At 31 December	**30.4**	14.5

26. Provisions for liabilities

The movements in provisions for liabilities during the year were as follows:

Group 2015	**Provision for the costs of surplus properties £m**	**FSCS £m**	**Commission clawbacks / rebates £m**	**Survey and valuation claims £m**	**Customer compensation £m**	**Other provisions £m**	**Total £m**
At 1 January	4.6	4.3	5.4	13.0	3.4	1.7	32.4
Charge / (credit) for the year	0.6	7.4	3.5	(0.1)	1.0	(0.6)	11.8
Utilised during the year	(0.5)	(8.0)	(3.8)	(2.7)	(0.9)	(0.5)	(16.4)
Reclassified from other liabilities	-	-	-	0.1	-	-	0.1
Disposal of subsidiaries	-	(0.1)	-	-	(1.3)	-	(1.4)
At 31 December	4.7	3.6	5.1	10.3	2.2	0.6	26.5

Group 2014							
At 1 January	5.3	5.1	5.7	11.4	6.4	3.4	37.3
Charge / (credit) for the year (gross)	-	7.8	3.9	5.0	(1.1)	0.6	16.2
Utilised during the year	(0.7)	(8.6)	(4.2)	(3.4)	(1.9)	(0.5)	(19.3)
Disposal of subsidiaries	-	-	-	-	-	(1.8)	(1.8)
At 31 December	4.6	4.3	5.4	13.0	3.4	1.7	32.4

A reconciliation of the gross charge for provisions for liabilities in the table above to the net charge in the 2014 Income Statement is as follows:

Group 2014	Provision for the costs of surplus properties £m	FSCS £m	Commission clawbacks / rebates £m	Survey and valuation claims £m	Customer compensation £m	Other provisions £m	Total £m
Charge / (credit) for the year (gross)	-	7.8	3.9	5.0	(1.1)	0.6	16.2
PI recoverability asset released during the year	-	-	-	-	1.3	-	1.3
Net charge to the Income Statement	-	7.8	3.9	5.0	0.2	0.6	17.5

Society 2015	**Provision for the costs of surplus properties £m**	**FSCS £m**	**Customer compensation £m**	**Other provisions £m**	**Total £m**
At 1 January	0.6	4.3	1.6	0.2	6.7
Charge for the year	-	6.7	0.8	-	7.5
Utilised during the year	(0.1)	(7.4)	(0.6)	-	(8.1)
At 31 December	0.5	3.6	1.8	0.2	6.1

Society 2014					
At 1 January	0.8	4.8	1.7	-	7.3
Charge for the year	-	7.3	0.5	0.2	8.0
Utilised during the year	(0.2)	(7.8)	(0.6)	-	(8.6)
At 31 December	0.6	4.3	1.6	0.2	6.7

Provision for the costs of surplus properties

The provision for the costs of surplus properties is expected to reverse over the remaining life of the leases or period to anticipated date of disposal, if sooner.

Financial Services Compensation Scheme

The Society and certain subsidiaries pay levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it as described in note 32b).

Following payment of the 2014/2015 scheme year Management Expense Levy together with the 2015/2016 scheme year Capital Levy in August 2015, the £3.6m provision at the year end relates to our share of the estimated Management Expense Levy for scheme year 2015/2016 that will be invoiced in August 2016. The Society's provision does not include management expense levies for any further scheme years, or compensation levies which may arise from any ultimate payout on future claims made under the scheme.

In addition to the annual levies to the FSCS, the Financial Advice division may also be subject to one-off levies for particular market events.

Commission clawbacks / rebates

The commission clawback provision represents an estimate of the repayment of commission to suppliers as a result of cancelled policies sold by the Financial Advice and Estate Agency divisions. These are estimated based upon anticipated cancellation rates.

Survey and valuation claims

Provision is made for professional indemnity claims and potential claims that arise during the normal course of business in relation to surveys and valuations carried out by the Connells group. The provision is based upon the expected level of future professional indemnity claims relating to services provided by the Connells group and the value provided on each claim is the lower of the professional indemnity insurance excess per claim or the estimated exposure. To assess the level of future claims, analysis is performed on the number of preliminary notifications expected to turn into future claims, and on historical claim trends to forecast the number of future claims where a notification is yet to be received. Historical data on claims success frequency and value is also used to estimate the size of the liability.

The professional indemnity claim provision is stated at the Directors' best estimate of the eventual liability, based on the information available at the time. Whilst the level of future claims is uncertain, the Group has robust processes in place that aim to restrict the number and magnitude of these.

Due to the nature of the professional indemnity claims it is difficult to indicate approximate payment timescales or claims received in future years. The provision will be utilised as individual claims are settled.

Customer compensation

The customer compensation provision includes provisions for the potential claims on payment protection insurance of £1.7m (2014: £1.4m). The Group has continued to experience a slight fall in complaint levels and, despite uphold rates remaining low, a number of cases are referred to the Financial Ombudsman Service (FOS), each incurring a £550 fee. The majority of these provisions are expected to be utilised within the next 12 months.

27. Deferred tax

Deferred tax is calculated on temporary differences under the Statement of Financial Position liability method, using the enacted tax rate that is expected to apply when these differences reverse, 26% (2014: 20%) for the Society and 18% (2014: 20%) for other Group companies.

The movement in deferred tax during the year was as follows:

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
At 1 January	9.6	3.5	6.7	4.7
Income Statement credit (note 10)	2.1	3.7	0.5	1.6
Items taken directly to Other Comprehensive Income	(1.0)	3.8	0.8	0.4
Acquired on acquisition of subsidiaries	(0.3)	(1.4)	-	-
Disposal of subsidiaries	(0.1)	-	-	-
At 31 December	10.3	9.6	8.0	6.7

Deferred tax assets and liabilities are attributable to the following items:

Deferred tax assets	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Fixed asset temporary differences	0.7	1.1	-	-
Pension obligations	14.1	14.6	7.9	6.8
Provisions	2.1	1.8	0.5	0.2
Corporation tax losses	0.1	0.3	-	-
Derivatives and loans	1.2	2.2	1.2	2.1
Other	3.4	1.7	-	-
	21.6	21.7	9.6	9.1

Deferred tax liabilities	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Fixed asset temporary differences	1.8	1.9	1.6	1.7
Derivatives and loans	0.7	1.8	-	0.7
Available-for-sale financial assets	6.6	6.0	-	-
Other	2.2	2.4	-	-
	11.3	12.1	1.6	2.4
Net deferred tax asset	10.3	9.6	8.0	6.7

The deferred tax credit in the Income Statement from continuing operations comprises the following:

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Fixed asset temporary differences	(0.1)	(0.9)	(0.1)	(0.4)
Provisions	(0.3)	(0.2)	(0.4)	0.4
Other	(1.7)	(2.6)	-	(1.6)
	(2.1)	(3.7)	(0.5)	(1.6)

Unrecognised deferred tax relating to trading losses carried forward at 31 December 2015 amounts to £4.3m (2014: £3.9m).

The majority of deferred tax assets are anticipated to be recoverable after one year. The Group's plans indicate that the Group and Society will generate sufficient taxable profits over its five year planning period to absorb the corporation tax losses included within deferred tax at the reporting date, together with those other temporary differences that are expected to reverse during that period.

28. Pensions

Defined contribution schemes

The amount charged to the Income Statement in respect of contributions to the Group's defined contribution and stakeholder pension arrangements is the contribution payable in the year. The total pension cost charged to the Income Statement from continuing operations amounted to £7.0m for the Group (2014: £6.3m) and £3.2m for the Society (2014: £2.8m).

Defined benefit schemes

The Group sponsors three funded defined benefit arrangements:

- The Skipton Building Society Pension & Life Assurance Scheme (the 'Skipton Scheme');
- The Scarborough Building Society Group Pension and Death Benefits Scheme (the 'Scarborough Scheme'); and
- The Connells (2014) Group Pension Scheme (the 'Connells (2014) Scheme'). This is a scheme established on 30 April 2014 by the merger of three existing schemes:
  - The Connells Limited Pension & Life Assurance Scheme (the 'Old Connells Scheme');
  - The Sequence (UK) Limited (1997) Pension & Life Assurance Scheme (the 'Sequence 1997 Scheme'); and
  - The Sequence (UK) Limited (South) Staff Pension Scheme (the 'Sequence Staff Scheme').

These are separate trustee administered funds holding the pension scheme assets to meet long term liabilities for current and past employees as follows:

- Skipton Scheme – 695 members
- Scarborough Scheme – 149 members
- Connells (2014) Scheme – 1,103 members

The level of retirement benefit in each scheme is principally based on salary and is linked to changes in inflation up to retirement. For all schemes the level of retirement benefit is based on salary earned in the last years of employment prior to leaving active service (this is known as Career Average Revalued Earnings (CARE)) as follows:

- Skipton Scheme – the highest annual average salary earned over three consecutive years in the last 10 years of employment prior to leaving active service or, for members employed by Skipton Financial Services Limited, the annual average salary earned in the last five years of employment prior to leaving active service.
- Scarborough Scheme – the highest (prior to 2003) or the average (post 2003) annual salary earned in the last three years of employment prior to leaving active service.
- Connells (2014) Scheme:
  - Old Connells Scheme – the highest annual average salary earned over three consecutive years in the last 10 years of employment prior to leaving active service;
  - Sequence 1997 Scheme – the annual average salary earned in the last three years of employment prior to leaving active service;
  - Sequence Staff Scheme – the greater of the annual average salary earned in the last three years and the highest annual average salary earned over three consecutive years in the last 10 years of employment prior to leaving active service.

As part of the merger of the three former pension schemes into the Connells (2014) Scheme, members' benefits in the three former pension schemes were preserved, hence the three separate benefit sections of the Connells (2014) Scheme shown above.

The schemes are all now closed to new members and to the future accrual of benefits, with the exception of the Scarborough Scheme where active members retain a link to salary (capped at 5% per annum). The Scarborough Scheme closed to future accrual of benefits, subject to the exception noted above, on 1 May 2007; the Old Connells Scheme, Sequence 1997 Scheme and Sequence Staff Scheme all closed to future accrual of benefits on 1 January 2009 and the Skipton Scheme closed to future accrual of benefits on 1 January 2010. The Connells (2014) Scheme was open to accrual for one day, on 30 April 2014. Following the closure of all the schemes, all active members left pensionable service and became entitled to deferred benefits.

The schemes are subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, sets out the framework for funding defined benefit occupational pension schemes in the UK.

The Trustee of each scheme is required to act in the best interest of the scheme's beneficiaries. The appointment of the Trustee is determined by the scheme's trust documentation.

28. Pensions (continued)

Full actuarial valuations were carried out as at the dates set out below in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of each scheme is agreed between the Group and the Trustee in line with those requirements. This legislation requires the deficit to be calculated using prudent, as opposed to best estimate, actuarial assumptions. The most recent actuarial valuations for each of the schemes showed the following:

Scheme	Valuation date	Deficit £m	Recovery Period	Annual Contribution £m
Skipton	31 March 2014	(11.2)	7 years	0.6
Scarborough	31 December 2013	(8.1)	7 years	0.8
Connells (2014)	30 April 2014	(25.7)	7 years	2.7

Scheme expenses and levies to the Pension Protection Fund are payable by the Group as and when they are due and are accounted for within the Group's administrative expenses.

For the purposes of IAS 19, the actuarial valuations, which were carried out by a qualified independent actuary, have been updated on an approximate basis to 31 December 2015. There have been no changes in the valuation methodology adopted for this year's disclosures compared to the previous year's disclosures.

The aggregate costs of the three schemes are recognised in accordance with IAS 19. Whilst the Society is the principal employer for the Skipton and Scarborough schemes, current and former employees of other Group companies are also members of these schemes and the Society makes recharges to these subsidiaries in relation to deficit contributions under an internal agreement based on the proportion of active members who were employees at the time of closure to future accrual. These companies are no longer participating employers in the schemes and account for the pension scheme on the basis of the deficit contributions paid by that company. The Society accounts for the difference between the aggregate IAS 19 costs of the scheme and the aggregate contributions paid by the other entities.

The main financial assumptions used in the actuarial valuation are as follows:

	Group and Society 2015 %	Group and Society 2014 %
Retail price inflation (RPI)	3.13	3.10
Consumer price inflation (CPI)	2.13	1.90
Discount rate	3.83	3.55
Increases to pension payment:		
in line with RPI, subject to a max of 5% pa	3.07	3.05
in line with RPI, subject to a min of 3% and max of 5% pa	3.57	3.60
in line with RPI, subject to a max of 2.5% pa	2.19	2.20
in line with CPI, subject to a max of 5% pa	2.16	2.00
in line with CPI, subject to a min of 3% and max of 5% pa	3.23	3.20
in line with CPI, subject to a max of 2.5% pa	1.77	1.60
Rate of increase for deferred pensions (in line with CPI, subject to a max of 5% pa)	2.13	1.90
Allowance for commutation of pension for cash at retirement	100% of post A day maximum	100% of post A day maximum

All the schemes' deferred pensions now accrue inflationary increases based on CPI rather than RPI, unless the scheme rules specifically refer to RPI.

The most significant non-financial assumption is the assumed rate of longevity. For the year ended 31 December 2015, this has been based on mortality rates that are 100% of the S2PMA_L or S2PFA_L tables for males and females respectively, with an allowance for projected improvements in mortality in line with CMI 2015 improvements with a 1% per annum long term rate of convergence. The tables adopted imply the following life expectancy:

	Life expectancy at age 65 (years) 2015	2014
Male retiring in the current year	23.0	23.2
Female retiring in the current year	24.1	24.3
Male retiring in 15 years' time	23.9	24.1
Female retiring in 15 years' time	25.2	25.4

The table below shows the net pension liability which is recognised within the Statement of Financial Position:

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Fair value of plan assets	163.2	171.8	87.8	88.0
Present value of defined benefit obligations	(228.4)	(244.8)	(117.8)	(121.6)
Net pension liability	(65.2)	(73.0)	(30.0)	(33.6)

The present value of scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out by the schemes using the projected unit credit method. The value calculated in this way is reflected in the net liability within the Statement of Financial Position as shown above.

The projected unit credit method is a valuation method in which each potential cash flow from the schemes (e.g. annual pension payment or potential lump sum payment on death) is multiplied by an assumed probability of payment and discounted between the valuation date and the time the payment is needed.

All remeasurements are recognised in the year in which they occur in the Statement of Comprehensive Income. As all remeasurements and assets are recognised, the deficits shown above are those recognised within the Statement of Financial Position.

IAS 19 allows an employer to recognise a surplus as an asset to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme, even if the refunds may only be available at some distant time in the future, such as after the last benefit has been paid. None of the schemes are in surplus as at 31 December 2015.

The Group has reviewed the guidance provided by IFRIC 14 and has concluded that it is not necessary to make any adjustments to the IAS 19 figures in respect of an asset ceiling or minimum funding requirement as at 31 December 2015. As the schemes remain in deficit, the asset ceiling has no impact and therefore no reconciliation is required.

The table below sets out a reconciliation of the present value of the defined benefit obligation for the year:

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
At 1 January	244.8	215.5	121.6	105.8
Current service cost	-	-	-	-
Past service cost	-	-	-	-
Interest expense	8.4	9.5	4.3	4.7
Contributions by employees	-	-	-	-
Remeasurement losses / (gains) arising from changes in:				
Scheme experience	-	2.2	-	1.2
Demographic assumptions	(1.8)	(5.7)	(0.9)	(2.8)
Financial assumptions	(8.5)	32.0	(4.5)	16.1
Actual benefit payments	(14.5)	(5.8)	(2.7)	(3.4)
Liabilities extinguished on settlements	-	(2.9)	-	-
At 31 December	228.4	244.8	117.8	121.6

There have been no settlements, plan amendments or curtailments in the period.

28. Pensions (continued)

The table below sets out the reconciliation of the fair value of scheme assets for the year:

	Group 2015 £m	Group 2014 £m	**Society 2015 £m**	Society 2014 £m
At 1 January	**171.8**	162.2	**88.0**	81.6
Interest income	**5.9**	7.0	**3.0**	3.6
Return on plan assets (excluding amounts included in interest income)	**(4.6)**	5.7	**(2.6)**	3.1
Contributions by employer	**4.6**	5.2	**2.1**	3.1
Contributions by employees	**-**	-	**-**	-
Benefits paid	**(14.5)**	(5.8)	**(2.7)**	(3.4)
Expenses paid by the schemes	**-**	-	**-**	-
Assets distributed on settlements	**-**	(2.5)	**-**	-
At 31 December	**163.2**	171.8	**87.8**	88.0

The actual return on the scheme assets over the year ended 31 December 2015 was as follows:

- Group £1.3m (2014: £12.8m)
- Society £0.4m (2014: £6.7m)

The table below sets out the fair value of the scheme assets by each major category:

	Group 2015 £m	Group 2014 £m	**Society 2015 £m**	Society 2014 £m
UK equities	**-**	-	**-**	-
Diversified growth fund [(1)]	**149.8**	129.6	**81.7**	65.4
Property	**-**	-	**-**	-
Corporate bonds	**-**	30.3	**-**	16.5
Fixed interest bonds	**-**	-	**-**	-
Index linked bonds	**-**	-	**-**	-
Liability driven investments [(2)]	**12.7**	11.0	**6.0**	5.8
Cash	**0.7**	0.9	**0.1**	0.3
	163.2	171.8	**87.8**	88.0

Notes

1. Diversified growth funds target equity-like returns with lower volatility which is achieved through dynamic diversification. Funds are invested in a diversified range of assets, including equities, bonds, property and cash and the allocation between these asset classes is actively managed by a fund manager reflecting the changing correlations and risk characteristics.
2. Liability Driven Investments (LDI) are investments in assets which are expected to behave in a similar manner to liabilities and therefore aim to provide a better match against liability movements than conventional bonds or gilts.

Each of the schemes invests in an LDI fund which aims to provide protection against interest rate and inflation movements.

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group. All of the schemes' assets have a quoted market price in an active market with the exception of the Trustee's bank account balance.

It is the policy of the Trustee and the Group to review the investment strategy at the time of each funding valuation. The Trustee's investment objectives and the processes undertaken to measure and manage the risks inherent in the scheme investment strategy are documented in the schemes' Statement of Investment Principle.

The table below sets out the amounts which have been recognised within the Income Statement. The service costs, settlements for the year and administrative expenses are recognised in 'Administrative expenses', whilst the net interest expense is recognised within 'Other income'.

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Service cost:				
Current service cost	-	-	-	-
Past service cost	-	-	-	-
Gains on settlements	-	(0.4)	-	-
Administrative expenses	-	-	-	-
Net interest expense	2.5	2.5	1.3	1.1
Total recognised in Income Statement	2.5	2.1	1.3	1.1

The table below sets out the remeasurements of retirement benefit obligations which have been recognised within the Statement of Comprehensive Income:

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Remeasurements of retirement benefit obligations:				
Actuarial (losses) / gains arising from:				
Experience adjustments	-	(2.2)	-	(1.2)
Demographic assumptions	1.8	5.7	0.9	2.8
Financial assumptions	8.5	(32.0)	4.5	(16.1)
Return on plan assets (excluding amounts included in net interest expense)	(4.6)	5.7	(2.6)	3.1
Total amount recognised in Other Comprehensive Income	5.7	(22.8)	2.8	(11.4)

The table below sets out the Group's best estimate of the aggregate contributions expected to be paid to the schemes during the year ending 31 December 2016:

	Group 2016 £m	Society 2016 £m
Estimated employer contributions	6.6	3.9
Estimated employee contributions	-	-
Estimated total contributions	6.6	3.9

On 31 January 2016, the two schemes sponsored by the Society, the Skipton and the Scarborough schemes, were merged into a new pension scheme, the Skipton (2015) Scheme, and the two existing schemes will be wound up during 2016.

At the date of the merger, the assets and liabilities of the two merged schemes transferred to the new scheme. This transfer took place at fair value such that no settlement gain or loss is reported.

As part of the merger, members' benefits in the two existing pension schemes were preserved. In addition, as part of the pension scheme merger and wind up, legislation allows members with small pension pots to take their benefits as a cash lump sum which will result in a settlement gain or loss which will be reported in 2016. The Skipton (2015) Scheme was open to accrual for one day, on 31 January 2016.

29. Subordinated liabilities

	Group and Society	
	2015	2014
	£m	£m
Subordinated fixed rate notes 2015	**-**	18.1
Subordinated fixed rate notes 2017	**10.1**	10.1
Subordinated fixed rate notes 2018	**35.5**	35.4
Subordinated fixed rate notes 2022	**31.2**	31.2
	76.8	94.8
Unamortised discount on issue	**(0.2)**	(0.2)
Fair value adjustment for hedged risk	**1.9**	3.4
	78.5	98.0

All the fixed rate notes are denominated in Sterling. Coupons are paid on a fixed basis annually, except for the notes repayable in 2017 where coupons are paid on a fixed basis semi-annually.

All the notes are repayable at maturity or earlier, at the option of the Society. In each case the option for early repayment may only be exercised with the prior consent of the Prudential Regulation Authority (PRA). The note holders' rights are subordinate to those of depositors and other creditors.

Amounts shown in the above table represent the nominal value plus accrued interest, except for 'Unamortised discount on issue' which is the difference between face values and current book values.

30. Subscribed capital

	Group and Society	
	2015	2014
	£m	£m
6.875% Permanent Interest Bearing Shares	**48.8**	47.3
8.500% Permanent Interest Bearing Shares	**15.6**	15.8
12.875% Permanent Interest Bearing Shares	**26.3**	26.3
	90.7	89.4
Fair value adjustment for hedged risk	**2.8**	4.9
	93.5	94.3

All Permanent Interest Bearing Shares are unsecured and rank pari passu with each other. They are deferred shares of the Society and rank behind the claims against the Society of all subordinated note holders, depositors, payables and investing members of the Society. These shares are measured at amortised cost.

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

	Group					
	2015			2014		
	Before-tax amount	**Tax expense**	**Net-of-tax amount**	Before-tax amount	Tax (expense) / benefit	Net-of-tax amount
	£m	**£m**	**£m**	£m	£m	£m
Available-for-sale financial assets	**5.7**	**(0.4)**	**5.3**	6.9	(1.0)	5.9
Cash flow hedges	**2.3**	**(0.2)**	**2.1**	7.1	(1.4)	5.7
Remeasurements of defined benefit obligations	**5.7**	**-**	**5.7**	(22.8)	4.6	(18.2)
Translation of foreign operations	**(0.9)**	**-**	**(0.9)**	0.1	-	0.1
Movement in reserves attributable to non-controlling interests	**(0.3)**	**-**	**(0.3)**	-	-	-
Other comprehensive income	**12.5**	**(0.6)**	**11.9**	(8.7)	2.2	(6.5)

	Society					
	2015			2014		
	Before-tax amount	Tax benefit / (expense)	Net-of-tax amount	Before-tax amount	Tax (expense) / benefit	Net-of-tax amount
	£m	£m	£m	£m	£m	£m
Available-for-sale financial assets	(1.4)	0.3	(1.1)	10.5	(2.3)	8.2
Cash flow hedges	2.3	(0.2)	2.1	7.1	(1.4)	5.7
Remeasurements of defined benefit obligations	2.8	1.3	4.1	(11.4)	2.3	(9.1)
Other comprehensive income	3.7	1.4	5.1	6.2	(1.4)	4.8

32. Other financial commitments and contingent liabilities

a) The Society has given a legal undertaking agreeing to discharge the liabilities of Skipton International Limited insofar as it is unable to discharge them out of its own assets whilst it remains a subsidiary of Skipton Building Society. Additionally, the Society has confirmed it will provide continuing support to those subsidiary undertakings that have net liabilities at 31 December 2015 or which rely on it for ongoing funding.

b) The Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. Following the failure of a number of financial institutions, the FSCS has raised borrowings from the UK Government to cover compensation in relation to protected deposits. These borrowings are anticipated to be predominantly repaid from the realisation of the assets of the failed institutions, however a shortfall may occur. The FSCS covers this shortfall through charging financial institutions a levy over a three year period which began in 2013/2014. In addition, the FSCS raises levies against financial institutions to cover the interest cost of the borrowings from the UK Government and charges ongoing management expenses as part of this levy.

   As the ongoing management expenses and interest costs are subject to change, and the Society is potentially exposed to future levies from further capital losses, the Society's ultimate FSCS contribution is uncertain.

c) Total commitments under non-cancellable operating leases are as follows:

Group	2015		2014	
	Land and buildings	Other	Land and buildings	Other
	£m	£m	£m	£m
Amounts falling due:				
Within one year	12.9	2.1	12.1	1.7
Within two to five years inclusive	33.1	2.2	30.6	2.8
Over five years	22.8	-	18.3	-
	68.8	4.3	61.0	4.5

Society	2015		2014	
	Land and buildings	Other	Land and buildings	Other
	£m	£m	£m	£m
Amounts falling due:				
Within one year	3.7	1.3	4.0	1.3
Within two to five years inclusive	10.1	1.3	11.9	2.6
Over five years	6.9	-	7.0	-
	20.7	2.6	22.9	3.9

33. Financial instruments

The Group uses financial instruments to invest liquid asset balances and raise wholesale funding. The Group also uses derivative financial instruments (derivatives) to manage the risks arising from its operations.

The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks in accordance with Section 9A (4) of the Building Societies Act 1986 and derivatives are used by the Group for economic hedging purposes only. The Group does not run a trading book.

Types of derivatives

The principal derivatives used by the Group are interest rate swaps that are used to hedge Group Statement of Financial Position exposures.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the type of derivatives which are typically used in managing such risks. These risks may also be managed using Statement of Financial Position instruments as part of an integrated approach to risk management.

Type of hedge	Risk	Activity
Interest rate swaps	Sensitivity to changes in interest rates	Fixed rate savings products, funding activities, fixed rate mortgage lending and asset investment
Equity-linked interest rate swaps	Sensitivity to changes in equity indices	Equity-linked investment products
Index swaps	Interest rates linked to retail price inflation	Equity release mortgages

Controls over financial instruments

The Group has a formal structure for managing risk, including established risk limits, reporting requirements, mandates and other control procedures. This structure is reviewed regularly by the Asset and Liability Committee (ALCO).

The accounting policies for derivatives are described in note 1e) to the Accounts.

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. Cash flow hedge accounting is used primarily for interest rate swaps taken out to pre-hedge fixed mortgage completions and fixed savings products prior to receipt of funds. The weighted average maturity of interest rate swaps being cash flow hedged at 31 December 2015 is approximately 2.4 years (2014: 2.7 years); the amounts held in the cash flow hedging reserve will be recognised in the Income Statement over this period.

Some ineffectiveness has occurred on those fair value and cash flow hedges for which hedge accounting has been achieved, resulting in a credit to the Income Statement of £1.7m (2014: £1.3m charge). As outlined in note 37b), these figures include ineffectiveness arising from swaps that are used to hedge our equity release mortgage book, and such ineffectiveness resulted in a £1.3m credit for the year (2014: £2.0m charge).

34. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost. It is an inherent part of the Group's business as long term mortgages are funded by short term retail customer balances. Mortgages typically have a contractual maturity date of around 25 years but in practice are frequently repaid early; conversely retail deposits, nominally repayable on demand or with short notice periods, actually remain with the Group beyond their contractual notice. It is this mismatch in the maturity profiles of retail assets and liabilities that creates liquidity risk.

The Group's liquidity policy is designed to ensure the maintenance of sufficient liquid assets to cover statutory, regulatory and operational requirements. This is achieved through maintaining a prudent level of liquid assets, in realisable form, to ensure the Group is able to meet its liabilities as they arise and to absorb potential cash flow requirements created by the maturity mismatches referred to above or by a liquidity stress scenario. ALCO manages liquidity under delegated authority, within risk appetite limits established by the Board, and also monitors the composition of liquidity in line with risk management objectives.

The management of the Group's liquidity is as follows:

- the Board establishes limits over the quantity and quality of the Group's portfolio of liquid assets. The portfolio is managed by the Treasury function, monitored by the Market & Liquidity Risk function and overseen by ALCO under a series of delegated authorities;
- the Group's Market & Liquidity Risk function conducts a series of daily, weekly and monthly stress tests that are designed to ensure that the Group's liquidity is sufficient to meet its cash flow needs under any one of a number of adverse scenarios should they arise. The scenarios include both Group specific and general market events, and incorporate both severe retail savings outflows and the unavailability of wholesale funding; and
- under the regulatory liquidity regime, updated in 2015, the Group is required to hold highly liquid assets (such as government and supranational debt securities and cash) to satisfy the Liquidity Coverage Ratio (LCR).

There are two key measures that the Group considers key to monitoring its liquidity position:

- LCR – which analyses daily the amount of high quality liquidity that it is necessary to hold; and
- liquidity stress tests – where, as noted above, the Group models how far its liquid asset holdings would fall under a number of different stress scenarios.

The table below analyses the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity. In practice, customer deposits, i.e. shares, amounts owed to credit institutions and amounts owed to other customers, are likely to be repaid later than on the earliest date on which repayment can be required.

Group	2015					
	Repayable on demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Assets						
Cash in hand and balances with the Bank of England	1,180.8	-	-	-	-	**1,180.8**
Loans and advances to credit institutions	297.5	35.1	-	8.6	11.4	**352.6**
Debt securities	-	350.3	143.5	452.7	157.9	**1,104.4**
Derivative financial instruments	-	6.8	9.3	71.3	7.7	**95.1**
Loans and advances to customers	74.7	26.6	72.4	525.5	13,664.0	**14,363.2**
Equity share investments	-	-	-	-	40.9	**40.9**
Trade receivables	12.9	16.9	-	-	-	**29.8**
Total financial assets	**1,565.9**	**435.7**	**225.2**	**1,058.1**	**13,881.9**	**17,166.8**
Liabilities						
Shares	3,883.0	6,290.3	1,214.3	1,425.1	15.5	**12,828.2**
Amounts owed to credit institutions	35.7	256.2	107.9	335.8	-	**735.6**
Amounts owed to other customers	230.3	378.8	601.5	178.9	-	**1,389.5**
Debt securities in issue	-	170.4	11.5	426.9	-	**608.8**
Derivative financial instruments	-	4.7	9.7	75.4	207.1	**296.9**
Trade payables	-	4.9	-	-	-	**4.9**
Fair value of put option obligation	-	0.6	5.7	5.6	-	**11.9**
Subordinated liabilities	-	-	-	45.5	33.0	**78.5**
Subscribed capital	-	-	-	-	93.5	**93.5**
Total financial liabilities	**4,149.0**	**7,105.9**	**1,950.6**	**2,493.2**	**349.1**	**16,047.8**
Net liquidity gap	**(2,583.1)**	**(6,670.2)**	**(1,725.4)**	**(1,435.1)**	**13,532.8**	**1,119.0**

Financials

34. Liquidity risk (continued)

Group	2014					
	Repayable on demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash in hand and balances with the Bank of England	1,076.1	-	-	-	-	1,076.1
Loans and advances to credit institutions	280.2	61.7	-	12.1	11.4	365.4
Debt securities	-	185.5	239.7	557.9	169.5	1,152.6
Derivative financial instruments	-	11.8	13.0	84.9	23.7	133.4
Loans and advances to customers	68.9	26.8	64.6	613.0	12,063.5	12,836.8
Equity share investments	-	-	-	-	32.9	32.9
Trade receivables	12.4	12.9	-	-	-	25.3
Total financial assets	1,437.6	298.7	317.3	1,267.9	12,301.0	15,622.5
Liabilities						
Shares	3,873.7	4,901.1	1,047.8	1,579.3	65.6	11,467.5
Amounts owed to credit institutions	32.9	574.9	133.2	48.8	-	789.8
Amounts owed to other customers	195.0	274.7	564.6	108.9	-	1,143.2
Debt securities in issue	-	3.0	5.0	722.6	-	730.6
Derivative financial instruments	-	6.4	14.2	99.8	186.9	307.3
Trade payables	-	5.2	-	-	-	5.2
Fair value of put option obligation	-	1.9	5.6	-	-	7.5
Subordinated liabilities	-	-	18.2	45.6	34.2	98.0
Subscribed capital	-	-	-	-	94.3	94.3
Total financial liabilities	4,101.6	5,767.2	1,788.6	2,605.0	381.0	14,643.4
Net liquidity gap	(2,664.0)	(5,468.5)	(1,471.3)	(1,337.1)	11,920.0	979.1

Debt securities in issue include £587.6m (2014: £723.5m) of funding obtained through the Group's securitisation programme carried out through Darrowby No. 1 plc, Darrowby No. 2 plc and Darrowby No. 3 plc. The final maturity dates of these notes are significantly out into the future, however the Group has an option to exercise call options to repurchase the outstanding notes at dates which will occur within the next 5 years, and these are expected to be exercised. As a result all such amounts have been shown within less than 5 years in the tables above.

The following table is an analysis of undiscounted gross contractual cash flows payable on financial liabilities:

Group	**2015**				
	Up to 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Liabilities	**£m**	**£m**	**£m**	**£m**	**£m**
Shares	10,174.1	1,227.6	1,540.9	16.8	**12,959.4**
Amounts owed to credit institutions, other customers and debt securities in issue	1,087.8	731.6	966.1	-	**2,785.5**
Derivative financial instruments	19.6	47.7	98.7	226.7	**392.7**
Trade payables	4.9	-	-	-	**4.9**
Fair value of put option obligation	0.6	5.8	6.2	-	**12.6**
Subordinated liabilities	0.3	2.7	54.7	34.1	**91.8**
Subscribed capital	1.6	6.3	31.7	79.3	**118.9**
	11,288.9	**2,021.7**	**2,698.3**	**356.9**	**16,365.8**

Group			2014		
	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities	£m	£m	£m	£m	£m
Shares	8,775.9	1,058.1	1,688.5	75.7	11,598.2
Amounts owed to credit institutions, other customers and debt securities in issue	1,076.2	713.9	920.1	-	2,710.2
Derivative financial instruments	17.8	53.7	125.7	276.2	473.4
Trade payables	5.2	-	-	-	5.2
Fair value of put option obligation	1.9	5.8	-	-	7.7
Subordinated liabilities	0.3	21.4	55.9	36.1	113.7
Subscribed capital	1.6	6.3	31.7	79.3	118.9
	9,878.9	1,859.2	2,821.9	467.3	15,027.3

The undiscounted gross contractual cash flows of debt securities in issue that have been issued as securitisation funding in the tables above have been calculated on the assumption that the call options referred to under the table on page 138 are exercised.

Society			**2015**		
	Up to 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Liabilities	**£m**	**£m**	**£m**	**£m**	**£m**
Shares	10,174.1	1,227.6	1,540.9	16.8	**12,959.4**
Amounts owed to credit institutions, other customers and debt securities in issue	1,083.6	316.5	834.8	-	**2,234.9**
Derivative financial instruments	18.2	48.3	102.2	226.8	**395.5**
Trade payables	1.2	-	-	-	**1.2**
Subordinated liabilities	0.3	2.7	54.7	34.1	**91.8**
Subscribed capital	1.6	6.3	31.7	79.3	**118.9**
	11,279.0	**1,601.4**	**2,564.3**	**357.0**	**15,801.7**

Society			2014		
	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities	£m	£m	£m	£m	£m
Shares	8,775.9	1,058.1	1,688.5	75.7	11,598.2
Amounts owed to credit institutions, other customers and debt securities in issue	936.3	244.7	1,227.2	-	2,408.2
Derivative financial instruments	14.9	45.2	125.3	276.3	461.7
Trade payables	0.6	-	-	-	0.6
Subordinated liabilities	0.3	21.4	55.9	36.1	113.7
Subscribed capital	1.6	6.3	31.7	79.3	118.9
	9,729.6	1,375.7	3,128.6	467.4	14,701.3

Amounts owed to other customers in the table above include deemed loans from the Group's securitisation vehicles Darrowby No. 1 plc, Darrowby No. 2 plc and Darrowby No. 3 plc, which arise from the funding transactions carried out through these entities. The undiscounted gross contractual cash flows arising on these loans have been calculated on the assumption that the call options referred to under the table on page 138 are exercised.

35. Market risk

Market risk is the risk that the value of, or income arising from, the Group's assets and liabilities changes as a result of changes in market prices, the principal elements being interest rate risk (including the use of derivatives), foreign currency risk and equity risk.

The Group's Treasury function is responsible for managing the Group's exposure to all aspects of market risk within the operational limits set out in the Group's Treasury policy, which is reviewed and recommended by ALCO and approved by the Board. The Group's Market & Liquidity Risk function measures and monitors adherence to the Treasury policy and reports regularly on all aspects of market risk exposure, including interest rate risk, foreign currency risk and equity risk.

a) Interest rate risk

The main market risk faced by the Group is interest rate risk.

The Group uses a number of different metrics to monitor interest rate risk and details of these are set out below.

The Group monitors interest rate risk exposure against limits by determining the effect on the Group's current net notional value of assets and liabilities for a parallel shift in interest rates equivalent to 2% for all maturities, in line with regulatory requirements. These results are compared to the Board limit and Operational trigger at least weekly, and are formally reported to ALCO and the Board monthly.

Other interest rate risk metrics employed by the Group incorporate earnings-at-risk and market value methodologies. The market value exposure position is calculated using at least 250 monthly yield curve movements from, approximately, the last seven years. The earnings-at-risk methodology is calculated using at least 100 stochastically generated rate paths. Both of these approaches employ 95% confidence intervals. The outputs of these interest rate risk measurement methodologies are compared to their respective Board limits and Operational triggers at least weekly, and are reported to ALCO and the Board monthly. All these measures are used to guide interest rate risk management decisions.

Although these measures provide valuable insights into the market risk to which the Group is exposed, they need to be viewed in the context of the following limitations:

- historical data is not necessarily the best guide to future events, but is a reasonable proxy;
- the use of 95% confidence levels, by definition, does not take account of changes that may occur beyond this level of confidence and therefore may not fully take into account the most extreme events; and
- exposures are calculated on static Statement of Financial Position positions and therefore future changes in the structure of the Statement of Financial Position are ignored.

The levels of Group interest rate risk exposures throughout the reporting period, based on measures taken at each month end, were as follows:

	As at 31 December 2015 £m	Average 2015 £m	High 2015 £m	Low 2015 £m	As at 31 December 2014 £m
Static earnings-at-risk	9.6	9.3	11.4	8.1	11.9
Historical value-at-risk	0.4	1.3	2.9	0.4	1.4
2% parallel interest rate shift	0.9	6.3	14.0	0.9	10.3

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.

b) Currency risk

Both at the year end and during the year, the Society and its subsidiaries had no material direct exposure to foreign currency exchange fluctuations. The currency risk appetite of the Group is low and any funding issues denominated in foreign currency are immediately swapped into Sterling.

The Group has investments in its subsidiary undertakings Jade Software Corporation Limited and Northwest Investments NZ Limited, and its associate Wynyard Group Limited, which are denominated in New Zealand Dollars. The foreign currency fluctuations in relation to these investments are not hedged, but are recognised in the Group's translation reserve.

In addition, a number of the Group's businesses undertake transactions denominated in foreign currency as part of their normal business. Any amounts outstanding at 31 December 2015 are not material.

c) Equity risk

This is the risk of loss due to movements in equity markets.

The Group currently holds a 17.8% stake in Wynyard Group Limited, which is listed on the New Zealand Stock Exchange. The Group also has a 4.0% shareholding in Zoopla Property Group Plc, which is listed on the London Stock Exchange. The equity risk in relation to these investments is not material to the Group results. The market values of our shareholdings in Wynyard Group Limited and Zoopla Property Group Plc, based on their share prices at 31 December 2015, are £20.7m and £40.2m respectively (2014: £24.5m and £32.2m respectively), whilst their carrying values at 31 December 2015 are £11.5m and £40.2m respectively (2014: £13.2m and £32.2m respectively).

d) Other price risk

The Group has a small number of savings products outstanding where the return is dependent on the performance of certain equity markets. Derivative contracts to eliminate this exposure are taken out by the Group that exactly match the terms of the savings products and the market risk on such contracts is therefore fully hedged.

36. Credit risk

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group.

The Group faces this risk from its lending to:

- individual customers (retail mortgages);
- businesses (through past commercial lending and current debt factoring / invoice discounting); and
- wholesale counterparties (including other financial institutions). Credit risk within our treasury portfolio arises from the investments held by the Group in order to meet liquidity requirements and for general business purposes.

Changes in the credit quality and the recoverability of loans and amounts due from counterparties influence the Group's exposure to credit risk. The Group's strategy is to maintain a cautious approach to credit risk and new lending. Adverse changes in the credit quality of counterparties, collateral values or deterioration in the wider economy, including rising unemployment, changes in interest rates, deterioration in household finances and any contraction in the UK property market leading to falling property values, could affect the recoverability and value of the Group's assets and influence its financial performance. An economic downturn and falls in house prices and commercial property values would affect the level of impairment losses.

The controlled management of credit risk is critical to the Group's overall strategy and there has been continued investment in the Credit Risk function during the year, including the implementation of an enhanced credit risk impairment model. The Group has therefore embedded a comprehensive risk management framework with clear lines of accountability and oversight as part of its overall governance framework.

The Group has processes and policies to monitor, control, mitigate and manage credit risk within the Group's credit risk appetite. The Retail Credit Committee and the Group Wholesale Credit Committee provide oversight to the effectiveness of all credit management across the Group and the controls in place ensure lending is within the Board approved credit risk appetite. The reporting structure ensures timely and accurate reporting of all substantive risk matters to the Board and the Board Risk Committee. The Board receives monthly updates on the credit risk profile of the Group.

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 £224.9m (2014: £203.8m) is included.

Retail mortgage lending to customers

The Group currently lends in the prime residential UK mortgage market, including buy-to-let, through the Society. Skipton International Limited lends in the Channel Islands and, to a limited extent, in the UK. The Board's credit risk appetite defines a number of limits regarding customer and collateral credit quality to which all lending activity must adhere.

The credit decision process utilises automated credit scoring and policy rules with lending policy criteria supporting manual underwriting. All aspects of the credit decision process are subject to regular independent review and development ensuring they support decisions in line with the Board's credit risk appetite.

The Group also has credit exposures through Amber Homeloans Limited and North Yorkshire Mortgages Limited which comprise residential UK mortgages, including buy-to-let, across prime and non-prime lending markets. These portfolios closed to new customer origination and lending in 2008 and are managed by adherence to clear policies in relation to mortgage servicing and credit management. The performance of these portfolios has continued to improve over the reporting period. The retail lending to customers in the Society includes the equity release mortgage portfolio. The risks relating to the specific nature of this portfolio are discussed in note 37.

36. Credit risk (continued)

Commercial lending to customers and businesses

The Society's commercial mortgage portfolio was closed to new lending in November 2008. We have retained a team of people to manage and monitor the performance of these loans.

Other loans and advances

These principally comprise advances made by our factored debt and invoice discounting business, Skipton Business Finance Limited, which continue to be managed by appropriately skilled teams.

Wholesale lending to other financial institutions

Wholesale credit risk arises from the wholesale investments held by the Society's Treasury function, which is responsible for managing this aspect of credit risk in line with Board approved credit risk appetite and wholesale credit policies. Wholesale counterparty limits are reviewed monthly by the Group Wholesale Credit Committee based on analyses of counterparties' financial performance, ratings and other market information to ensure that limits remain within our risk appetite. We regularly review and closely monitor the number of counterparties to whom we will lend and, for those counterparties whom we have lent to, we have reviewed both the amount and duration of any limits.

A deterioration in wholesale credit markets could lead to volatility in the value of the Group's portfolio of available-for-sale assets together with the risk of further impairment within our treasury investments portfolio.

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

a) Credit risk - loans and advances to customers

The table below shows the mix of the Group and Society's loans and advances to customers at the reporting date:

Loans and advances to customers	Group				Society			
	2015		2014		**2015**		2014	
	£m	**%**	£m	%	**£m**	**%**	£m	%
Total residential mortgages	**13,730.0**	**96.7**	12,200.1	96.1	**11,595.3**	**97.0**	10,033.3	96.3
Commercial mortgages*	**354.0**	**2.5**	382.1	3.0	**354.0**	**3.0**	382.1	3.7
Other lending:								
Debt factoring loans	**71.6**	**0.5**	63.8	0.5	**-**	**-**	-	-
Other loans and advances	**44.5**	**0.3**	45.9	0.4	**0.2**	**-**	0.5	-
Gross balances	**14,200.1**	**100.0**	12,691.9	100.0	**11,949.5**	**100.0**	10,415.9	100.0
Impairment provisions	**(61.8)**		(58.9)		**(42.8)**		(37.1)	
Fair value adjustment for hedged risk	**224.9**		203.8		**221.1**		198.5	
	14,363.2		12,836.8		**12,127.8**		10,577.3	

* Also known as loans fully secured on land.

i) Residential mortgages

The majority of loans and advances to customers are secured on UK residential properties and are geographically diverse.

The Group's portfolio of loans fully secured on residential property includes lending by the Society, by Skipton International Limited (which lends in the Channel Islands and to a limited extent in the UK) and the specialist mortgage lending in Amber Homeloans Limited and North Yorkshire Mortgages Limited (closed to new lending since 2008). It also includes the equity release mortgage portfolio. The credit risk appetite explicitly considers geographic regions to manage concentration risk.

The tables below provide further information on the types of lending and geographical split:

Lending analysis	Group				Society			
	2015		2014		2015		2014	
	£m	%	£m	%	£m	%	£m	%
Prime:								
Residential	10,177.1	74.2	8,717.5	71.6	9,235.0	79.6	7,798.2	77.7
Buy-to-let	2,323.1	16.9	2,146.0	17.6	1,998.8	17.2	1,851.4	18.5
Self build	58.4	0.4	67.1	0.5	19.3	0.2	23.8	0.2
Fast track	69.2	0.5	86.0	0.7	69.2	0.6	86.0	0.9
Self certified	555.9	4.0	613.8	5.0	-	-	-	-
Sub-prime:								
Residential	55.3	0.4	60.8	0.5	-	-	-	-
Buy-to-let	48.3	0.4	53.7	0.4	-	-	-	-
Self build	0.5	-	0.5	-	-	-	-	-
Self certified	169.2	1.2	180.8	1.5	-	-	-	-
Equity Release	273.0	2.0	273.9	2.2	273.0	2.4	273.9	2.7
	13,730.0	100.0	12,200.1	100.0	11,595.3	100.0	10,033.3	100.0

Geographical analysis	Group				Society			
	2015		2014		2015		2014	
	£m	%	£m	%	£m	%	£m	%
North	529.8	3.9	463.0	3.8	489.0	4.2	418.9	4.2
Yorkshire	1,329.1	9.7	1,221.8	10.0	1,234.2	10.6	1,120.6	11.2
East Midlands	936.7	6.8	834.1	6.8	847.0	7.3	736.6	7.3
East Anglia	858.2	6.3	770.2	6.3	771.5	6.7	675.1	6.7
London	1,609.0	11.7	1,381.6	11.3	1,370.3	11.8	1,141.6	11.4
South East	2,542.0	18.5	2,291.1	18.9	2,238.4	19.3	1,958.2	19.6
South West	1,225.1	8.9	1,063.9	8.7	1,118.6	9.6	949.6	9.5
West Midlands	889.0	6.5	732.9	6.0	796.9	6.9	634.1	6.3
North West	1,460.9	10.6	1,296.9	10.6	1,308.6	11.3	1,135.4	11.3
Wales	307.2	2.2	250.9	2.1	251.8	2.2	191.2	1.9
Scotland	1,197.1	8.7	1,099.1	9.0	1,139.6	9.8	1,038.0	10.3
Northern Ireland	50.1	0.4	57.1	0.5	29.4	0.3	34.0	0.3
Channel Islands	795.8	5.8	737.5	6.0	-	-	-	-
	13,730.0	100.0	12,200.1	100.0	11,595.3	100.0	10,033.3	100.0

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

Indexed loan-to-value analysis	Group				Society			
	2015		2014		2015		2014	
	£m	%	£m	%	£m	%	£m	%
<40%	1,994.9	14.5	1,599.4	13.1	1,851.6	16.0	1,472.3	14.7
40% - 50%	1,478.7	10.8	1,131.8	9.3	1,346.6	11.6	1,024.6	10.2
50% - 60%	2,190.9	16.0	1,717.7	14.1	1,927.1	16.6	1,534.7	15.3
60% - 70%	3,049.6	22.2	2,383.5	19.6	2,584.7	22.3	2,066.8	20.6
70% - 80%	2,884.0	21.0	2,749.7	22.5	2,381.7	20.5	2,250.6	22.4
80% - 90%	1,664.9	12.1	1,802.5	14.8	1,294.6	11.2	1,321.1	13.2
90% - 100%	386.4	2.8	590.7	4.8	185.1	1.6	299.0	3.0
>100%	80.6	0.6	224.8	1.8	23.9	0.2	64.2	0.6
	13,730.0	100.0	12,200.1	100.0	11,595.3	100.0	10,033.3	100.0

36. Credit risk (continued)

The indexed loan-to-value is updated on a quarterly basis to reflect changes in the Halifax house price index which is applied to the portfolio on a regional basis. The new lending policy is currently a maximum loan-to-value ratio of 90% for residential mortgages and 75% for buy-to-let lending.

At 31 December 2015, the average indexed loan-to-value of Group residential mortgages was 48.5% (2014: 50.3%) and for Society residential mortgages was 46.6% (2014: 47.8%).

The tables below provide further information on residential loans and advances by payment due status:

Group	2015		2014		2013	
	£m	%	£m	%	£m	%
Neither past due nor individually impaired	13,447.4	98.0	11,859.4	97.2	10,478.2	96.1
Past due but not impaired:						
Up to 3 months	131.7	1.0	150.9	1.2	184.9	1.7
	13,579.1	99.0	12,010.3	98.4	10,663.1	97.8
Individually impaired:						
Low risk	59.1	0.4	45.0	0.4	33.0	0.3
High risk	86.2	0.6	136.3	1.1	191.9	1.7
Possessions	5.6	-	8.5	0.1	18.8	0.2
	13,730.0	100.0	12,200.1	100.0	10,906.8	100.0

Society	2015		2014		2013	
	£m	%	£m	%	£m	%
Neither past due nor individually impaired	11,503.1	99.2	9,921.2	98.9	8,526.3	98.4
Past due but not impaired:						
Up to 3 months	42.2	0.4	56.8	0.6	81.6	0.9
	11,545.3	99.6	9,978.0	99.5	8,607.9	99.3
Individually impaired:						
Low risk	27.6	0.2	23.9	0.2	19.1	0.2
High risk	19.8	0.2	28.7	0.3	37.1	0.4
Possessions	2.6	-	2.7	-	5.7	0.1
	11,595.3	100.0	10,033.3	100.0	8,669.8	100.0

During the year the methodology for defining accounts that are regarded as individually impaired for the purposes of the tables above has been revised in order to align with the industry standard. Mortgage accounts are now regarded as individually impaired in the tables above if they are in arrears by three months or more, whereas previously they were regarded as individually impaired if they were in arrears by one month or more. The 2014 comparatives have been re-presented to remove £150.5m (2013: £177.8m) from the individually impaired amounts for Group and £56.8m (2013: £79.2m) for Society. The 2013 comparatives have also been presented to provide a full track record of performance on this basis. This adjustment has not resulted in a change to the carrying amount of loans and advances to customers or to the profit for the year for 2014 or 2013.

Low risk accounts in the tables above relate to loans with an indexed loan-to-value of less than or equal to 70%. High risk accounts relate to loans with an indexed loan-to-value of more than 70%.

Where appropriate for customers, the Group applies a policy of forbearance. This may be applied where the actual or apparent financial stress of the customer is considered to be short term with a potential to be recovered. Forbearance may involve arrears capitalisation, a reduction in the monthly payment (known as a concession), a conversion to interest only or a mortgage term extension. Forbearance is undertaken in order to achieve the best outcome for both the customer and the business through dealing with repayment difficulties at an early stage. Possession balances represent loans against which the Group has taken ownership of properties pending their sale. Possession is generally considered only as a last resort, once all other options for the customer have been exhausted. At 31 December 2015 the balance of residential loans where the property in question has been taken into possession represents less than 0.1% of total outstanding loans for the Group (2014: 0.1%), and less than 0.1% of total outstanding loans for the Society (2014: less than 0.1%). The Group does not occupy repossessed properties for business use, or use assets acquired in its operations. All customer accounts are monitored to ensure that these strategies remain appropriate.

The table below provides further information on residential mortgages at 31 December 2015 by the type of account renegotiations applied to customers over the last two years. For clarity, this table includes all accounts where the terms have been renegotiated during the last two years where the customer has encountered payment difficulties, regardless of whether the renegotiation is still in place or whether the loan has reverted to its original terms, but does not include accounts where terms have not been renegotiated in the last two years which may still be on renegotiated terms from a previous arrangement prior to this two year period.

Group 2015	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Term extension £m	Total renegotiations £m	%
Neither past due nor individually impaired	13,447.4	7.1	40.8	37.8	10.2	95.9	0.7
Past due but not impaired:							
Up to 3 months	131.7	1.5	8.7	3.1	0.7	14.0	10.6
	13,579.1	8.6	49.5	40.9	10.9	109.9	0.8
Individually impaired:							
Low risk	59.1	0.4	6.3	4.3	0.9	11.9	20.1
High risk	86.2	0.3	7.7	2.4	1.1	11.5	13.3
Possessions	5.6	-	0.4	0.4	0.1	0.9	16.1
	13,730.0	9.3	63.9	48.0	13.0	134.2	1.0
Collective impairment	(33.0)	-	(0.2)	-	-	(0.2)	0.6
Individual impairment	(16.2)	-	(1.4)	(0.5)	(0.2)	(2.1)	13.0
	13,680.8	9.3	62.3	47.5	12.8	131.9	1.0

Group 2014	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Term extension £m	Total renegotiations £m	%
Neither past due nor individually impaired	11,859.4	4.8	42.6	33.9	26.8	108.1	0.9
Past due but not impaired:							
Up to 3 months	150.9	0.2	16.5	2.8	1.3	20.8	13.8
	12,010.3	5.0	59.1	36.7	28.1	128.9	1.1
Individually impaired:							
Low risk	45.0	-	6.1	3.0	1.0	10.1	22.4
High risk	136.3	0.6	11.4	3.6	1.8	17.4	12.8
Possessions	8.5	-	0.4	0.5	-	0.9	10.6
	12,200.1	5.6	77.0	43.8	30.9	157.3	1.3
Collective impairment	(26.9)	-	-	-	-	-	-
Individual impairment	(19.9)	(0.3)	(1.9)	(0.9)	(0.2)	(3.3)	16.6
	12,153.3	5.3	75.1	42.9	30.7	154.0	1.3

36. Credit risk (continued)

Society 2015	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Term extension £m	Total renegotiations £m	%
Neither past due nor individually impaired	11,503.1	4.9	35.0	16.7	4.1	60.7	0.5
Past due but not impaired:							
Up to 3 months	42.2	0.4	5.7	1.7	0.5	8.3	19.7
	11,545.3	5.3	40.7	18.4	4.6	69.0	0.6
Individually impaired:							
Low risk	27.6	0.4	4.1	2.8	0.8	8.1	29.3
High risk	19.8	0.3	4.7	1.2	0.5	6.7	33.8
Possessions	2.6	-	0.2	0.2	-	0.4	15.4
	11,595.3	6.0	49.7	22.6	5.9	84.2	0.7
Collective impairment	(26.1)	-	(0.1)	-	-	(0.1)	0.4
Individual impairment	(4.7)	-	(0.9)	(0.3)	(0.1)	(1.3)	27.7
	11,564.5	6.0	48.7	22.3	5.8	82.8	0.7

Society 2014	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Term extension £m	Total renegotiations £m	%
Neither past due nor individually impaired	9,921.2	4.3	38.2	18.5	19.6	80.6	0.8
Past due but not impaired:							
Up to 3 months	56.8	0.2	13.0	1.8	1.2	16.2	28.5
	9,978.0	4.5	51.2	20.3	20.8	96.8	1.0
Individually impaired:							
Low risk	23.9	-	4.0	2.1	0.7	6.8	28.5
High risk	28.7	0.6	5.0	2.2	1.2	9.0	31.4
Possessions	2.7	-	0.1	0.3	-	0.4	14.8
	10,033.3	5.1	60.3	24.9	22.7	113.0	1.1
Collective impairment	(20.0)	-	-	-	-	-	-
Individual impairment	(5.7)	(0.3)	(0.9)	(0.5)	(0.1)	(1.8)	31.6
	10,007.6	4.8	59.4	24.4	22.6	111.2	1.1

During the year, the methodology for defining accounts that are regarded as individually impaired in the tables above has been revised in order to align with the industry standard. Mortgage accounts are now regarded as individually impaired in the tables above if they are in arrears by three months or more, whereas previously they were regarded as individually impaired if they were in arrears by one month or more.

The factors considered by the Group in determining the level of individual impairment to be provided are outlined in note 1g) to the Accounts. A collective impairment allowance is made against performing loans where objective evidence indicates that it is likely that credit losses have been incurred but not yet identified at the reporting date. This impairment allowance is calculated by applying various economic factors to our mortgage portfolio exposures and incorporates the relative credit risk assessment of the account renegotiation categories shown above.

Individual assessments are made of all mortgage loans where objective evidence indicates that losses are likely or the property is in possession, or where fraud or negligence has been identified.

Collateral held consists predominantly of residential properties. 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 prices or indices of similar assets.

Some properties in the Group's mortgage book are in negative equity, which increases the possibility of the Group incurring a loss if the property is taken into possession. However, one of the economic factors used to calculate impairment allowances, the Halifax house price index, has improved during the year, and so the number of properties expected to be in negative equity has reduced.

Fair value of capped collateral held	Group 2015	Group 2014	Society 2015	Society 2014
	£m	£m	£m	£m
Not individually impaired	13,512.8	11,938.8	11,472.9	9,909.2
Impaired	143.3	177.6	46.9	52.0
Possessions	5.0	7.6	2.2	2.1
	13,661.1	12,124.0	11,522.0	9,963.3

During the year, the methodology for defining accounts that are regarded as individually impaired in the table above has been revised in order to align with the industry standard. Mortgage accounts are now regarded as individually impaired in the table above if they are in arrears by three months or more, whereas previously they were regarded as individually impaired if they were in arrears by one month or more.

The fair value of residential property used to derive the figures in the table above is determined by reference to a recognised house price index (the Halifax house price index). Movements in this index to the reporting date are applied to all properties in the portfolio on a regional basis. For the majority of the Group's loans, the Group holds excess collateral however this cannot be used to offset those instances where the loan amount exceeds the collateral held. The fair value of collateral in the table above is therefore calculated, on an individual loan basis, as the lower of the value of the property and the outstanding loan amount. It does not reflect the overall value of properties against which the loans are secured.

ii) Commercial mortgages

The commercial mortgage portfolio (also known as loans fully secured on land) is currently closed to new business. An analysis of loans secured on commercial property by industry type and geography is provided below:

Industry analysis	Group and Society			
	2015		2014	
	£m	%	£m	%
Leisure and hotel	39.1	11.0	45.3	11.9
Retail	12.9	3.6	13.3	3.5
Nursing / residential homes	16.7	4.7	19.1	5.0
Offices	8.9	2.5	11.1	2.9
Commercial investment and industrial units	265.8	75.2	281.7	73.7
Miscellaneous	10.6	3.0	11.6	3.0
	354.0	100.0	382.1	100.0

36. Credit risk (continued)

Geographical analysis	Group and Society			
	2015		2014	
	£m	%	£m	%
North	18.1	5.1	19.2	5.0
Yorkshire	31.0	8.8	34.0	8.9
East Midlands	24.4	6.9	27.2	7.1
East Anglia	13.7	3.9	14.8	3.9
London	81.6	23.0	87.0	22.8
South East	68.7	19.4	75.5	19.7
South West	41.7	11.8	45.5	11.9
West Midlands	25.2	7.1	26.7	7.0
North West	36.9	10.4	39.0	10.2
Wales	7.3	2.1	7.5	2.0
Scotland	5.4	1.5	5.7	1.5
	354.0	100.0	382.1	100.0

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

Loan-to-value analysis	Group and Society			
	2015		2014	
	£m	%	£m	%
<40%	46.6	13.1	44.0	11.5
40% - 50%	39.4	11.1	37.1	9.7
50% - 60%	52.4	14.8	63.2	16.5
60% - 70%	68.6	19.4	94.2	24.7
70% - 80%	42.8	12.1	38.3	10.0
80% - 90%	28.3	8.0	30.8	8.1
90% - 100%	17.9	5.1	21.3	5.6
>100%	58.0	16.4	53.2	13.9
	354.0	100.0	382.1	100.0

At 31 December 2015 the average loan-to-value of commercial mortgages was 56.1% (2014: 56.7%). The average loan-to-value is based on the latest external valuation of the properties within the portfolio.

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

	Group and Society					
	2015		2014		2013	
	£m	%	£m	%	£m	%
Neither past due nor individually impaired	343.6	97.0	375.3	98.2	395.1	96.4
Past due but not impaired:						
Up to 3 months	9.4	2.7	4.8	1.3	6.5	1.6
	353.0	99.7	380.1	99.5	401.6	98.0
Individually impaired:						
Low risk	0.3	0.1	0.7	0.2	0.9	0.2
High risk	0.7	0.2	1.3	0.3	7.3	1.8
	354.0	100.0	382.1	100.0	409.8	100.0

During the year, the methodology for defining accounts that are regarded as individually impaired for the purposes of the table above has been revised in order to align with the industry standard. Mortgage accounts are now regarded as individually impaired in the table above if they are in arrears by three months or more, whereas previously they were regarded as individually impaired if they were in arrears by one month or more. The 2014 comparatives have been re-presented to remove £4.8m (2013: £6.5m) from the individually impaired amounts. The 2013 comparatives have also been presented to provide a full track record of performance on this basis. This adjustment has not resulted in a change to the carrying amount of loans and advances to customers or to the profit for the year for 2014 or 2013.

Individually impaired accounts in the table above relate only to accounts in arrears by three months or more. The non-standard nature of the properties within the commercial mortgage portfolio means that there are also a number of loans that are not past due or are past due by less than three months at the reporting date, but where objective evidence indicates that losses are likely (e.g. significant financial difficulty of the borrower), as described in the Group's accounting policy in note 1g). A total individual impairment provision of £8.4m (2014: £6.6m; 2013: £5.4m), as shown in note 15 to the accounts, is held against these accounts and the individually impaired loans in the above table. The total gross balances against which this individual impairment provision has been made are £25.2m (2014: £22.1m; 2013: £30.5m).

Low risk accounts in the table above relate to loans with an indexed loan-to-value of less than or equal to 70%. High risk accounts relate to loans with an indexed loan-to-value of more than 70%.

Where appropriate for customers, the Group applies a policy of forbearance. This may be applied where the actual or apparent financial stress of the customer is considered to be short term with a potential to be recovered. Forbearance may involve arrears capitalisation, a reduction in the monthly payment (known as a concession), a conversion to interest only or a mortgage term extension. Forbearance is undertaken in order to achieve the best outcome for both the customer and the business through dealing with repayment difficulties at an early stage. Possession balances represent loans against which the Group has taken ownership of properties pending their sale. Possession is generally considered only as a last resort, once all other options for the customer have been exhausted. All customer accounts are monitored to ensure that these strategies remain appropriate.

The table below provides further information on commercial mortgages at 31 December 2015 by the type of account renegotiations applied to customers over the last two years. For clarity, this table includes all accounts where we have renegotiated terms during the last two years where the customer has encountered payment difficulties, regardless of whether the renegotiation is still in place or whether the loan has reverted to its original terms, but does not include accounts where terms have not been renegotiated in the last two years which may still be on renegotiated terms from a previous arrangement prior to this two year period.

Group and Society 2015	**Total**	**Capitalisation**	**Reduced payment**	**Transfer to interest only**	**Total renegotiations**	
	£m	**£m**	**£m**	**£m**	**£m**	**%**
Neither past due nor individually impaired	343.6	1.6	-	13.9	15.5	4.5
Past due but not impaired:						
Up to 3 months	9.4	-	-	2.2	2.2	23.4
	353.0	1.6	-	16.1	17.7	5.0
Individually impaired:						
Low risk	0.3	-	-	0.3	0.3	100.0
High risk	0.7	-	0.3	-	0.3	42.9
	354.0	1.6	0.3	16.4	18.3	5.2
Collective impairment	(3.6)	-	-	(1.9)	(1.9)	52.8
Individual impairment	(8.4)	(0.8)	(0.1)	(1.4)	(2.3)	27.4
	342.0	0.8	0.2	13.1	14.1	4.1

36. Credit risk (continued)

Group and Society 2014	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Total renegotiations £m	%
Neither past due nor individually impaired	375.3	1.7	-	19.7	21.4	5.7
Past due but not impaired:						
Up to 3 months	4.8	1.0	-	-	1.0	20.8
	380.1	2.7	-	19.7	22.4	5.9
Individually impaired:						
Low risk	0.7	-	-	0.7	0.7	100.0
High risk	1.3	-	0.3	-	0.3	23.1
	382.1	2.7	0.3	20.4	23.4	6.1
Collective impairment	(4.6)	-	-	(2.0)	(2.0)	43.5
Individual impairment	(6.6)	(0.8)	(0.1)	(0.6)	(1.5)	22.7
	370.9	1.9	0.2	17.8	19.9	5.4

During the year, the methodology for defining accounts that are regarded as individually impaired in the tables above has been revised in order to align with the industry standard. Mortgage accounts are now regarded as individually impaired in the tables above if they are in arrears by three months or more, whereas previously they were regarded as individually impaired if they were in arrears by one month or more.

Individual impairment provisions are made to reduce the carrying value of commercial mortgages to the present value of the amount that the Directors consider is ultimately likely to be received, based upon objective evidence.

A collective impairment allowance is made against performing loans where objective evidence indicates that it is likely that credit losses have been incurred but not yet identified at the reporting date. This impairment allowance is calculated using third party valuation indices which are discounted further to assume a forced sale value in addition to default propensity modelling.

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

An analysis of capped collateral, where the collateral is capped to the lower of the value of the property and the amount outstanding on an individual loan basis, is shown below:

Fair value of capped collateral held	Group and Society 2015 £m	2014 £m
Not individually impaired	339.7	367.4
Individually impaired	0.7	1.8
	340.4	369.2

The fair value of commercial property used to derive the figures in the table above is determined by reference to the latest external valuation of the properties in question. During the year, the methodology for defining accounts that are regarded as individually impaired in the table above has been revised in order to align with the industry standard. Mortgage accounts are now regarded as individually impaired in the table above if they are in arrears by three months or more, whereas previously they were regarded as individually impaired if they were in arrears by one month or more.

iii) Other loans and advances

	Group			
	2015		2014	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Factored debt and invoice discounting	71.6	(0.6)	63.8	(0.7)
Other loans	44.5	-	45.9	(0.2)
	116.1	(0.6)	109.7	(0.9)

	Society			
	2015		2014	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Other loans	0.2	-	0.5	(0.2)

The balances of those assets within our factored debt and invoice discounting business that are individually impaired amount to £3.9m (2014: £3.2m). The factors considered in determining whether these assets are impaired include the existence of objective evidence to doubt ultimate recoverability of the Group's net exposure due to client insolvency.

The balances of those assets within other loans which are individually impaired amounts to £nil (2014: £0.2m) 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 majority of these loans have an original maturity of less than one year. As at 31 December 2015, there are £0.5m (2014: £0.3m) of these loans for the Group, and no such loans in either 2015 or 2014 for the Society, which are past due but not individually impaired.

b) Credit risk – debt securities and loans and advances to credit institutions

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

Collateral held for treasury assets is determined by the nature of the instrument. Loans and debt securities are generally unsecured with the exception of asset backed securities which are secured by pools of financial assets.

As at 31 December 2015, £2.5m (2014: £2.5m) of the Group's treasury portfolio exposure was either past due or impaired. A provision of £2.5m (2014: £2.5m) is held against the impaired assets in question. In assessing the potential impairment of its treasury assets, the Group considers, amongst other factors, objective evidence of deterioration in the counterparty's financial health, the normal volatility in valuation, as well as industry and sectoral performance.

As at 31 December 2015, 99.9% (2014: 96.7%) of the Group's treasury investment assets (including cash in hand and balances with the Bank of England) were rated A3 or better. The Group continues to have no exposure to emerging markets and only limited exposure to non-investment grade debt.

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

Rating	2015		2014	
	£m	%	£m	%
Aaa	344.5	13.0	430.5	16.6
Aa1	1,523.7	57.7	1,419.0	54.7
Aa2	257.4	9.8	147.8	5.7
Aa3	31.1	1.2	152.9	5.9
A1	234.8	8.9	83.8	3.2
A2	125.4	4.8	245.1	9.5
A3	117.8	4.5	28.7	1.1
Baa1	0.4	-	84.6	3.3
Unrated:				
Building societies	2.7	0.1	1.7	-
	2,637.8	100.0	2,594.1	100.0

Financials

36. Credit risk (continued)

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

Industry sector / asset class	2015		2014	
	£m	%	£m	%
Cash in hand and balances with the Bank of England	1,180.8	44.7	1,076.1	41.5
Loans and advances to banks and building societies	352.6	13.4	365.4	14.1
Gilts	325.8	12.4	288.5	11.1
Certificates of deposit	342.7	13.0	258.4	10.0
Fixed rate bonds	175.3	6.6	231.4	8.9
Floating rate notes	90.1	3.4	166.9	6.4
Residential mortgage backed securities	170.5	6.5	207.4	8.0
	2,637.8	100.0	2,594.1	100.0

Geographical exposure	2015		2014	
	£m	%	£m	%
UK	2,219.9	84.2	2,091.7	80.7
Rest of Europe	317.6	12.0	354.9	13.7
North America	39.4	1.5	86.8	3.3
Australasia	60.9	2.3	60.7	2.3
	2,637.8	100.0	2,594.1	100.0

c) Credit risk – derivative financial instruments

A credit exposure could arise in respect of derivative contracts entered into by the Group if the counterparty was unable to fulfil its contractual obligations. The Group addresses the risks associated with these activities by monitoring counterparty credit exposure and requiring additional collateral to be posted or returned as necessary. The only form of collateral accepted by the Group is cash. Derivatives are transacted under International Swaps and Derivatives Association (ISDA) Master Agreements. No Credit (CVA) or Debit (DVA) Value Adjustments have been made in respect of credit risk in the fair value of the Group's derivative financial instruments as the risk is significantly mitigated as all swaps are cash collateralised. Credit Support Annexes (CSAs) executed with certain counterparties in conjunction with the ISDA Master Agreement require collateral to be posted regularly, as required by specific terms and conditions of the arrangements. Due to the frequency of the posting of collateral, there is no material exposure from these minimal timing differences which would require CVA or DVA adjustments.

Netting arrangements do not necessarily result in an offset of Statement of Financial Position assets and liabilities, as transactions are usually settled on a gross basis. The Group's legal documentation for derivative transactions does grant legal rights of set-off for those transactions with the same counterparty. Accordingly the credit risk associated with such contracts is reduced to the extent that negative mark to market valuations on derivatives will offset positive mark to market values on derivatives, subject to an absolute exposure of zero.

37. Fair values

a) Classification and measurement

The table below summarises the classification of the carrying amounts of the Group's financial assets and liabilities:

	2015			
	Amortised cost	Held at fair value as available-for-sale assets	Fair value through profit or loss	Total
	£m	£m	£m	£m
Cash in hand and balances with the Bank of England	1,180.8	-	-	**1,180.8**
Loans and advances to credit institutions	352.6	-	-	**352.6**
Debt securities	1.7	1,102.7	-	**1,104.4**
Derivative financial instruments	-	-	95.1	**95.1**
Loans and advances to customers	14,387.2	-	(24.0)	**14,363.2**
Equity share investments	-	40.9	-	**40.9**
Trade receivables	29.8	-	-	**29.8**
Total financial assets	**15,952.1**	**1,143.6**	**71.1**	**17,166.8**
Other non-financial assets				**344.6**
Total assets				**17,511.4**
Shares	12,828.2	-	-	**12,828.2**
Amounts owed to credit institutions and other customers	2,125.1	-	-	**2,125.1**
Debt securities in issue	608.8	-	-	**608.8**
Derivative financial instruments	-	-	296.9	**296.9**
Trade payables	4.9	-	-	**4.9**
Fair value of put option obligation	-	-	11.9	**11.9**
Subordinated liabilities and subscribed capital	172.0	-	-	**172.0**
Total financial liabilities	**15,739.0**	**-**	**308.8**	**16,047.8**
Other non-financial liabilities				**286.0**
Total liabilities				**16,333.8**

37. Fair values (continued)

	2014			
	Amortised cost £m	Held at fair value as available-for-sale assets £m	Fair value through profit or loss £m	Total Restated* £m
Cash in hand and balances with the Bank of England	1,076.1	-	-	1,076.1
Loans and advances to credit institutions	365.4	-	-	365.4
Debt securities	1.7	1,150.9	-	1,152.6
Derivative financial instruments	-	-	133.4	133.4
Loans and advances to customers	12,854.3	-	(17.5)	12,836.8
Equity share investments	-	32.9	-	32.9
Trade receivables	25.3	-	-	25.3
Total financial assets	14,322.8	1,183.8	115.9	15,622.5
Other non-financial assets				339.6
Total assets				15,962.1
Shares	11,467.5	-	-	11,467.5
Amounts owed to credit institutions and other customers	1,933.0	-	-	1,933.0
Debt securities in issue	730.6	-	-	730.6
Derivative financial instruments	-	-	307.3	307.3
Trade payables	5.2	-	-	5.2
Fair value of put option obligation	-	-	7.5	7.5
Subordinated liabilities and subscribed capital	192.3	-	-	192.3
Total financial liabilities	14,328.6	-	314.8	14,643.4
Other non-financial liabilities				266.4
Total liabilities				14,909.8

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

b) Valuation of financial instruments carried at fair value

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs used in measuring fair value:

Level 1

The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Group's Level 1 portfolio mainly comprises gilts, fixed rate bonds and floating rate notes for which traded prices are readily available.

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 when no active market exists and quoted prices are available for similar instruments in active markets. Examples of Level 2 instruments are certificates of deposit and interest rate swaps.

Level 3

These are valuation techniques for which one or more significant inputs are not based on observable market data.

Valuation techniques include net present value by way of discounted cash flow models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, similar market products, foreign currency exchange rates and equity index prices. Critical judgement is applied by management in utilising unobservable inputs including expected price volatilities, expected mortality rates and prepayment rates, based on industry practice or historical observation. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's-length.

The following tables provide an analysis of financial assets and liabilities held within the Group Statement of Financial Position at fair value, grouped into Levels 1 to 3 of the fair value hierarchy.

Group	2015			
	Quoted prices in active markets (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using significant unobservable inputs (Level 3)	Total
	£m	£m	£m	£m
Financial assets				
Financial assets held at fair value as available-for-sale:				
Debt securities	759.9	342.8	-	**1,102.7**
Equity share investments	40.2	-	0.7	**40.9**
Financial assets at fair value through profit or loss:				
Embedded derivatives within loans and advances to customers	-	-	(24.0)	**(24.0)**
Derivative financial instruments	-	90.0	5.1	**95.1**
	800.1	**432.8**	**(18.2)**	**1,214.7**
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	-	96.2	200.7	**296.9**
Fair value of put option obligation	-	-	11.9	**11.9**
	-	**96.2**	**212.6**	**308.8**
	800.1	**336.6**	**(230.8)**	**905.9**

Group	2014			
	£m	£m	£m	£m
Financial assets				
Financial assets held at fair value as available-for-sale:				
Debt securities	892.5	258.4	-	1,150.9
Equity share investments	32.2	-	0.7	32.9
Financial assets at fair value through profit or loss:				
Embedded derivatives within loans and advances to customers	-	-	(17.5)	(17.5)
Derivative financial instruments	-	116.0	17.4	133.4
	924.7	374.4	0.6	1,299.7
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	-	130.3	177.0	307.3
Fair value of put option obligation	-	-	7.5	7.5
	-	130.3	184.5	314.8
	924.7	244.1	(183.9)	984.9

37. Fair values (continued)

The table below analyses the movements in the Level 3 portfolio during the year:

Group	2015				
	Equity share investments	Embedded derivatives	Derivative financial instruments	Fair value of put option obligation	Total
	£m	£m	£m	£m	£m
At 1 January	0.7	(17.5)	(159.6)	(7.5)	(183.9)
Loss recognised in Income Statement	-	(6.5)[1]	(36.0)[2]	(0.1)[3]	(42.6)
Revaluation of market values	-	-	-	0.1	0.1
Disposals	-	-	-	0.3	0.3
Acquisition of subsidiary undertakings	-	-	-	(5.6)	(5.6)
Exercise of put options by non-controlling shareholders	-	-	-	0.9	0.9
At 31 December	0.7	(24.0)	(195.6)	(11.9)	(230.8)

Notes

1. Included in the 'Impairment losses on loans and advances to customers' line in the Income Statement.
2. Included in the 'Fair value gains / (losses) on financial instruments' line in the Income Statement. As noted below, the majority of these derivatives are held to hedge the Group's equity release mortgage book and a gain, largely offsetting the above amount, was recognised through the same line in the Income Statement in respect of the underlying mortgages that are being hedged. However some hedge ineffectiveness resulted during the year and this resulted in an overall credit to the Income Statement of £1.3m.
3. Included in the 'Interest payable and similar charges' line in the Income Statement and arises from the unwind of the liability and changes to exercise dates.

Group	2014				
	Equity share investments	Embedded derivatives	Derivative financial instruments	Fair value of put option obligation Restated*	Total Restated*
	£m	£m	£m	£m	£m
At 1 January	37.1	(11.8)	(120.8)	(13.5)	(109.0)
(Loss) / credit recognised in Income Statement	-	(5.7)[1]	(38.8)[2]	0.1[3]	(44.4)
Gain recognised in Other Comprehensive Income	12.2[4]	-	-	-	12.2
Impairment	(1.3)[5]	-	-	-	(1.3)
Revaluation of market values	-	-	-	(6.3)	(6.3)
Additions	1.0	-	-	-	1.0
Disposals	(10.6)	-	-	1.6	(9.0)
Exercise of put options by non-controlling shareholders	-	-	-	10.6	10.6
Transfer to Level 1 portfolio	(37.7)[6]	-	-	-	(37.7)
At 31 December	0.7	(17.5)	(159.6)	(7.5)	(183.9)

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

Notes

1. Included in the 'Impairment losses on loans and advances to customers' line in the Income Statement.
2. Included in the 'Fair value gains / (losses) on financial instruments' line in the Income Statement. As noted below, the majority of these derivatives are held to hedge the Group's equity release mortgage book and a gain, largely offsetting the above amount, was recognised through the same line in the Income Statement in respect of the underlying mortgages that are being hedged. However some hedge ineffectiveness resulted during the year and this resulted in an overall charge to the Income Statement of £2.0m.
3. Included in the 'Interest payable and similar charges' line in the Income Statement and arises from the unwind of the liability and changes to exercise dates.
4. Included in the 'Available-for-sale investments: valuation gains / (losses) taken to equity' line in the Statement of Comprehensive Income.
5. Included in the 'Impairment losses on equity share investments' line in the Income Statement.
6. Transferred to Level 1 following the flotation of Zoopla Property Group Plc in June 2014.

Equity share investments

The Group's equity share investments represent a 4.0% (2014: 3.9%) holding in Zoopla Property Group Plc and a 16.1% (2014: 17.7%) holding in Hearthstone Investments Limited.

The Group's holding in Zoopla is measured based on the fair value of the shareholding by reference to a quoted share price in an active market and therefore represents a Level 1 fair value measurement. Any movement in the fair value of the Group's holding in Zoopla is recognised in the available-for-sale reserve. As at 31 December 2015 the cumulative balance recognised in the available-for-sale reserve in respect of Zoopla, gross of taxation, is £36.8m (31 December 2014: £29.8m).

The Group's investment in Hearthstone cost £2.0m when purchased in 2012 and its carrying value was subsequently written down to £0.7m in 2014. The Directors have reviewed the carrying value of this investment at the year end and have concluded that its current carrying value remains equivalent to its fair value. The Directors believe it is appropriate to continue to hold the Group's investment in Hearthstone at £0.7m as, in the absence of any observable inputs or other relevant information, the fair value of our shareholding in the company cannot be reliably measured, and the Directors do not consider that any reasonably possible alternative valuation assumptions exist.

Embedded derivatives

The Group holds an equity release mortgage book under the terms of which the Group is required to provide a 'no negative equity guarantee' to its customers. This guarantee means that the Group's maximum return is limited to the value of the customer's property on redemption.

In accordance with the accounting policy as described in note 1e), this guarantee is accounted for as an embedded derivative as the characteristics and risks of the guarantee are not closely related to the economic characteristics and risks of the underlying mortgages. The guarantee is impacted by the interaction of a number of factors, not all of which also impact on the performance of the underlying equity release book. These factors include future expected house prices, future expected inflation, mortality rates and estimated redemption profiles. As a result the embedded derivatives are bifurcated from the underlying mortgage book and measured at fair value, with any changes in fair value recognised within the 'Impairment charge on loans and advances to customers' line in the Income Statement. As certain of these inputs are not market observable, then the fair value of the embedded derivatives is regarded as a Level 3 valuation technique.

The following table outlines the impact of reasonably possible alternative assumptions of certain inputs outlined above. Each sensitivity considers one change in isolation and the combined impact on the valuation of the embedded derivatives of all sensitivities occurring would not necessarily be equal to the sum of the impact of the individual sensitivities.

Assumption	**Change to current assumption**	**Group 2015** (Decrease) / increase in impairment provision £m	Group 2014 (Decrease) / increase in impairment provision £m
Future change in house prices	+/-10% in any one year*	(6.4) / 9.6	(7.2) / 9.6
Redemption rates	+/-1% pa	(2.9) / 3.4	(1.9) / 2.2
Retail Price Index (RPI)	+/-0.1% pa	2.1 / (1.9)	1.9 / (1.8)

* For example, a 13% increase or 7% fall in house prices compared to an assumption of a 3% increase.

There would be a corresponding (credit) / charge to the Income Statement within 'Impairment losses on loans and advances to customers' arising from the (decrease) / increase in the impairment provision as shown in the table above.

Derivative financial instruments

Some of the derivative financial instruments included in the tables on page 156 comprise swaps which are used to hedge the Group's interest rate risk arising from its equity release mortgage book (this is separate to the 'no negative equity guarantee' described above, i.e. the embedded derivative, for which the Group holds no natural hedging instrument). These derivatives hedging equity release mortgages are valued using discounted cash flow models using market observable benchmark rates consistent with accepted economic methodologies for pricing financial instruments and, as the notional values of the derivatives are intended to match the balance of the underlying mortgage assets, also include estimated redemption profiles that are based on historical data and reviewed periodically to ensure forecasts remain broadly in line with actual data.

These redemption profiles are not market observable, therefore these derivatives are categorised as Level 3 financial instruments within the fair value hierarchy.

37. Fair values (continued)

Two of the swaps described above contain contractual 'boundaries', within which any change in fair value of the swaps will be offset by a corresponding but opposite change in the value of the associated hedged item within loans and advances to customers. These boundaries exist in order to alleviate risk to the counterparty. If these boundaries are crossed, then hedge ineffectiveness and therefore Income Statement volatility can arise and during the year this resulted in an Income Statement credit of £1.3m (2014: charge of £2.0m), which is included in the 'Fair value gains / (losses) on financial instruments' line in the Income Statement. In addition, as described above, certain inputs into the valuation of these swaps are not market observable and the effect on the fair value of these swaps of reasonably possible alternative valuation assumptions of certain of these inputs is outlined below.

Each sensitivity considers one change in isolation and the combined impact on the valuation of the derivatives of all sensitivities occurring would not necessarily be equal to the sum of the impact of the individual sensitivities.

Assumption	Change to current assumption	Group 2015 Increase / (decrease) in liability £m	Group 2014 Increase / (decrease) in liability £m
Retail Price Index (RPI)	+/-0.1% pa	7.7 / (7.5)	6.3 / (6.3)
Redemption rates	+/-1% pa	(24.3) / 31.2	(16.7) / 20.7

Any change in fair value of the derivative liabilities as shown above would be largely offset by a corresponding but opposite change in the value of the associated hedged item within loans and advances to customers. The increase / (decrease) in derivative liabilities arising from a change to the current assumption on RPI would have no impact on the Income Statement. However, some ineffectiveness would arise from the changes to redemption rates shown above. A 1% increase in redemption rates would result in an Income Statement charge of £0.7m (2014: £0.6m), whilst a 1% decrease in redemption rates would result in an Income Statement credit of £0.1m (2014: £1.3m).

As can be seen, the valuation of these swaps is very sensitive to the underlying assumptions such as redemption rates; however as described above, changes in the fair value of these swaps are generally offset to a significant degree by changes in the fair value of the associated hedged item within loans and advances to customers.

Fair value of put option obligation

Key inputs into the calculation of the fair value of the put option obligation include an estimate of the market value of the non-controlling shareholding and an estimate of when the put option will be exercised by the non-controlling shareholders. As these inputs are based on the judgement of senior management, the valuation of the put option obligation is considered to be a Level 3 valuation technique. The impact of reasonably possible alternative valuation assumptions for the fair value of the put option obligation is shown in note 1t) to the Accounts.

c) Fair values of financial assets and liabilities not carried at fair value

The tables below summarise the carrying values and fair values of those financial assets and liabilities not presented within the Statement of Financial Position at fair value.

	Group 2015		Society 2015	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Cash in hand and balances with the Bank of England	1,180.8	1,180.8	1,180.8	1,180.8
Loans and advances to credit institutions	352.6	352.6	241.6	241.6
Debt securities	1.7	1.7	370.9	368.9
Loans and advances to customers	14,387.2	14,300.0	12,151.8	12,114.0
Trade receivables	29.8	29.8	0.5	0.5
	15,952.1	**15,864.9**	**13,945.6**	**13,905.8**
Financial liabilities				
Shares	12,828.2	12,938.3	12,828.2	12,938.3
Amounts owed to credit institutions	735.6	734.5	605.9	604.8
Amounts owed to other customers	1,389.5	1,395.2	638.5	639.0
Debt securities in issue	608.8	612.2	21.2	21.2
Trade payables	4.9	4.9	1.2	1.2
Subordinated liabilities and subscribed capital	172.0	183.0	172.0	183.0
	15,739.0	**15,868.1**	**14,267.0**	**14,387.5**

	Group 2014		Society 2014	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Cash in hand and balances with the Bank of England	1,076.1	1,076.1	1,076.1	1,076.1
Loans and advances to credit institutions	365.4	365.4	240.5	240.5
Debt securities	1.7	1.7	500.8	501.8
Loans and advances to customers	12,854.3	12,779.5	10,594.8	10,549.4
Trade receivables	25.3	25.3	0.6	0.6
	14,322.8	14,248.0	12,412.8	12,368.4
Financial liabilities				
Shares	11,467.5	11,492.7	11,467.5	11,492.7
Amounts owed to credit institutions	789.8	788.6	880.6	879.4
Amounts owed to other customers	1,143.2	1,143.6	272.0	272.5
Debt securities in issue	730.6	738.6	7.1	7.0
Trade payables	5.2	5.2	0.6	0.6
Subordinated liabilities and subscribed capital	192.3	204.3	192.3	204.3
	14,328.6	14,373.0	12,820.1	12,856.5

37. Fair values (continued)

The comparative figures for the Society within 'Amounts owed to other customers' were originally reported in 2014 as a carrying value of £1,485.1m and a fair value of £1,485.6m. Included within those figures were deemed loans from the Group's securitisation companies Darrowby No. 1 plc, Darrowby No. 2 plc and Darrowby No. 3 plc with a total carrying value and total fair value of £1,213.1m. The Society has applied the fair value option to these loans, in line with the accounting policy outlined in note 1f), and these loans are held within the Society's Statement of Financial Position at fair value. The figures in the table above have therefore been re-presented to show only those amounts which are not presented within the Statement of Financial Position at fair value.

Key considerations in the calculation of fair values of those financial assets and liabilities not presented in the balance sheet at fair value are set out below unless there is no significant difference between carrying value and fair value.

Loans and advances to customers

For fixed rate and 'tracker' mortgage products, the Group has estimated the fair value of these products using discounted cash flows, and has applied relevant current market product rates as discount rates in order to also incorporate an element of future expected credit losses. Incurred losses have also been included. Fixed rate and tracker mortgages have been discounted using current market product rates that are specific to the particular market to which they relate.

Market prices will generally have moved since the fixed or tracker rate was taken out, therefore the valuation of these products will change reflecting upwards or downwards movements in market rates. The valuation includes information and expectations regarding estimated redemption profiles, which are regularly reviewed and updated in light of experience.

As these redemption profiles are not considered to be observable by the market, then the fair value of loans and advances to customers is considered to be derived by using Level 3 valuation techniques.

For standard variable rate mortgage products, the interest rate on such products is equivalent to a current market product rate and as such the Group considers the fair value of these mortgages to be equal to their carrying value.

Shares

Savings products at variable rates are at current market rates and therefore the Group regards the fair value to be equal to the carrying value.

The fair value of fixed rate savings products has been determined using discounted cash flows, discounted using a combined yield curve of cash and swap term rates.

Changes in market prices since the product was taken out will result in increases or decreases in the fair value of the fixed rate savings products. Penalties for early withdrawal on notice accounts are such as to suggest a negligible early withdrawal rate and none has therefore been applied; as a result the valuation of shares is considered to be a Level 2 valuation technique.

Amounts owed to credit institutions and other customers

Balances in these categories are valued using discounted cash flows which use only observable market inputs consisting of the combined yield curve of cash and swap term rates. All inputs to this valuation technique are market observable and as such they are categorised within Level 2 of the fair value hierarchy.

Debt securities in issue

Where securities are actively traded in a recognised market, with readily available and quoted prices, these have been used to value the securities. These securities are therefore regarded as having Level 1 fair values. Where such prices are not available, discounted cash flows are used, again using only market observable inputs consisting of a combined yield curve of cash and swap term rates. As such, these securities are categorised as having Level 2 fair values.

Subordinated liabilities and subscribed capital

Prices are quoted for these instruments in actively traded markets and, as a result, these instruments are categorised as having Level 1 fair values.

d) Fair values of non-financial assets and liabilities not carried at fair value

The fair values of certain non-financial assets and liabilities that are not carried at fair value are also disclosed in these financial statements. These relate to investments in associates (see note 16d)) and investment property (see note 18). The relevant notes contain disclosures of the valuation techniques used in estimating these fair values, together with the resulting categorisation of these valuation techniques within the fair value hierarchy.

38. Group segmental reporting

The Group's structure and reportable segments are outlined in the Strategic Report on page 12.

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, £32.0m (2014: £33.0m) was generated outside the UK.

A breakdown of the allocation of goodwill to each segmental area is included within note 19.

	2015					
	Mortgages and Savings	Estate Agency	Financial Advice	Investment Portfolio	Sundry incl. inter-divisional adjustments	Total
	£m	£m	£m	£m	£m	£m
Net interest income	219.8	0.6	-	1.9	1.0	**223.3**
Net non-interest income	8.1	351.4	28.5	20.9	(6.3)	**402.6**
Fair value gains on financial instruments	4.0	-	-	-	-	**4.0**
Realised gains on treasury assets	0.1	-	-	-	-	**0.1**
(Loss) / profit on disposal of Group undertakings	-	-	(0.8)	1.8	-	**1.0**
Dividend income from equity share investments	-	0.3	-	-	-	**0.3**
Share of profits / (losses) from joint ventures and associates	-	2.5	-	(2.3)	-	**0.2**
Total income	**232.0**	**354.8**	**27.7**	**22.3**	**(5.3)**	**631.5**
Administrative expenses	(111.3)	(289.0)	(28.5)	(20.9)	(14.7)	**(464.4)**
Impairment losses and provisions for liabilities	(15.9)	(3.3)	(1.0)	-	-	**(20.2)**
Profit / (loss) before tax	**104.8**	**62.5**	**(1.8)**	**1.4**	**(20.0)**	**146.9**
Taxation	(20.7)	(13.8)	0.2	(0.8)	1.6	**(33.5)**
Profit / (loss) after tax	**84.1**	**48.7**	**(1.6)**	**0.6**	**(18.4)**	**113.4**
Total assets	**17,276.4**	**280.1**	**11.4**	**129.5**	**(186.0)**	**17,511.4**
Total liabilities	**16,201.9**	**135.6**	**4.4**	**119.2**	**(127.3)**	**16,333.8**
Capital expenditure	**2.9**	**11.9**	**0.4**	**1.1**	**-**	**16.3**

Total income can be analysed as follows:

	2015					
	Mortgages and Savings	Estate Agency	Financial Advice	Investment Portfolio	Sundry incl. inter-divisional adjustments	Total
	£m	£m	£m	£m	£m	£m
External income	226.3	346.9	32.5	23.0	2.8	**631.5**
Income from other segments	5.7	7.9	(4.8)	(0.7)	(8.1)	**-**
Total income	**232.0**	**354.8**	**27.7**	**22.3**	**(5.3)**	**631.5**

38. Group segmental reporting (continued)

2014

	Mortgages and Savings	Estate Agency Restated*	Financial Advice	Investment Portfolio	Sundry incl. inter-divisional adjustments	Continuing operations Restated*	Dis-continued operations	Inter-divisional adjustments relating to discontinued operations	Total Restated*
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net interest income	210.6	0.7	0.1	1.8	0.1	213.3	-	-	213.3
Net non-interest income	14.0	322.9	36.6	26.4	(4.3)	395.6	24.9	(0.6)	419.9
Fair value losses on financial instruments	(2.0)	-	-	-	-	(2.0)	-	-	(2.0)
Realised losses on treasury assets	(3.7)	-	-	-	-	(3.7)	-	-	(3.7)
Profit / (loss) on disposal of Group undertakings	-	10.1	(1.1)	4.5	-	13.5	24.7	-	38.2
Dividend income from equity share investments	-	1.1	-	-	-	1.1	-	-	1.1
Share of profits / (losses) from joint ventures and associates	-	2.4	-	(2.6)	-	(0.2)	-	-	(0.2)
Total income	218.9	337.2	35.6	30.1	(4.2)	617.6	49.6	(0.6)	666.6
Administrative expenses	(97.5)	(264.6)	(33.8)	(24.6)	(7.2)	(427.7)	(24.8)	0.6	(451.9)
Impairment losses and provisions for liabilities	(23.0)	(10.4)	(0.4)	(0.3)	-	(34.1)	-	-	(34.1)
Profit / (loss) before tax	98.4	62.2	1.4	5.2	(11.4)	155.8	24.8	-	180.6
Taxation	(20.8)	(13.1)	(0.6)	(0.8)	0.4	(34.9)	-	-	(34.9)
Profit / (loss) after tax	77.6	49.1	0.8	4.4	(11.0)	120.9	24.8	-	145.7
Total assets	15,745.7	260.7	25.7	118.5	(188.5)	15,962.1	-	-	15,962.1
Total liabilities	14,790.0	133.0	9.0	105.4	(127.6)	14,909.8	-	-	14,909.8
Capital expenditure	3.8	10.5	0.5	2.1	-	16.9	1.4	-	18.3

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

Total income can be analysed as follows:

2014

	Mortgages and Savings	Estate Agency	Financial Advice	Investment Portfolio	Sundry incl. inter-divisional adjustments	Continuing operations	Dis-continued operations	Inter-divisional adjustments relating to discontinued operations	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
External income	209.8	332.6	43.1	30.8	1.3	617.6	49.6	(0.6)	666.6
Income from other segments	9.1	4.6	(7.5)	(0.7)	(5.5)	-	-	-	-
Total income	218.9	337.2	35.6	30.1	(4.2)	617.6	49.6	(0.6)	666.6

39. Capital management

Throughout the current and previous year, the Group complied with and maintained surplus capital above all externally imposed capital requirements. Further information on the Group's capital resources and capital structure can be found on pages 24 to 26 within the Strategic Report.

40. Adoption of new and revised International Financial Reporting Standards

Disclosed below are amendments to existing standards which have been adopted during the year. There have been no new standards effective and adopted during the year:

- Amendments to IAS 19 *Employee benefits* (2011) which is effective for accounting periods starting on or after 1 July 2014. These amendments have had no impact on these financial statements.
- Amendments to accounting standards as part of the annual improvements to IFRS 2011 - 2013 cycle, which are effective for accounting periods starting on or after 1 July 2014. These amendments have had no impact on these financial statements.
- Amendments to accounting standards as part of the annual improvements to IFRS 2010 - 2012 cycle, which are effective in the EU for accounting periods starting on or after 1 February 2015. The Directors have adopted these amendments early for the current accounting period, as permitted by the EU. These amendments have had no impact on these financial statements.

Amendments issued but not yet effective

The Group notes amendments to accounting standards IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment Entities – Applying the Consolidation Exception* which, subject to EU endorsement, will be effective for future reporting periods. Since these amendments have not been EU endorsed, the Group has not early adopted them in preparing these consolidated financial statements. The impact is not expected to be significant.

In addition, the Group notes a number of amendments effective for future reporting periods which have been EU endorsed during 2015. These include amendments to IAS 27 *Equity Method in Separate Financial Statements*, IAS 1 *Disclosure Initiative*, IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*, IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*, and the Annual Improvements to IFRS 2012 - 2014 cycle. These are effective for annual reporting periods beginning on or after 1 January 2016 and the Group has not early adopted these amendments in preparing these consolidated financial statements. The impact is not expected to be significant.

Standards issued but not yet effective

The Group notes a number of new accounting standards which, subject to EU endorsement, will be effective for future reporting periods. The Group has not early adopted the following new standards in preparing these consolidated financial statements.

IFRS 9 *Financial Instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is currently assessing the potential impact of IFRS 9 application on its consolidated financial statements, which is likely to be significant.

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is currently assessing the potential impact of IFRS 15 application on its consolidated financial statements; this may be significant as the timing of revenue recognition for certain Group income streams is likely to be impacted.

IFRS 16 *Leases* will require the majority of lease transactions entered into to be recognised on the balance sheet, which is currently only the case for finance leases but not operating leases (which are expensed to the Income Statement). IFRS 16 is effective for accounting periods beginning on or after 1 January 2019, with early adoption permitted. The Group is currently assessing the potential impact of IFRS 16 application on its consolidated financial statements.

41. Subsequent events

On 21 January 2016 the Society announced that the assets and business of Skipton Financial Services Limited would be hived up into Skipton Building Society, subject to regulatory approval.

As outlined in note 28 to the financial statements, two of the Group's defined benefit pension schemes, the 'Skipton scheme' and the 'Scarborough scheme' were merged into a single scheme on 31 January 2016.

On 1 February 2016, UK Asset Resolution (UKAR) announced that Computershare, the parent company of Homeloan Management Limited (HML) (sold by the Group in 2014), has been appointed the preferred bidder for a contract to service UKAR's mortgage book. As disclosed in the 2014 Annual Report and Accounts, the deal to sell HML included contingent consideration dependent on HML's performance over a period following the disposal. This may therefore result in contingent consideration being receivable by the Group.

On 15 February 2016, the Group completed its fourth securitisation transaction through Darrowby No. 4 plc, raising £300m of wholesale funds.

41. Subsequent events (continued)

On 22 February 2016, Wynyard Group Limited halted trading of its shares and announced that it was considering raising capital to support its operations. As at the date of this report, Wynyard Group Limited had requested and been granted an extension to the trading halt on its shares in order to finalise the anticipated structure of the capital raise. The Group has agreed to provide a NZ$10m short term credit facility to the company to give it sufficient capital, if required, pending receipt of proceeds of the capital raise. In addition, the Board has committed in principle to participate in a rights issue to existing Wynyard Group Limited shareholders. The carrying value of the Group's investment as at 31 December 2015 was £11.5m and the Group will continue to monitor developments during 2016.

There have been no other material subsequent events between 31 December 2015 and the date of approval of this Annual Report and Accounts by the Board.

Country by Country Reporting

Nature of the Group's activities

The Skipton Building Society Group holds an investment in a number of subsidiary undertakings. The Society and the majority of its subsidiary undertakings are incorporated in the UK, with the exception of the entities listed below. For a full list of the principal trading subsidiaries in the Group and the nature of their activities, see note 16a) of these financial statements.

Name of subsidiary undertaking	Principal business activity	Country of incorporation	% ownership interest 31.12.15
Jade Software Corporation Limited	Provider of software development services	New Zealand	56.4
Northwest Investments NZ Limited	Provider of software development services	New Zealand	100.0
Skipton International Limited	Offshore deposit taker and lender	Guernsey	100.0

Jade Software Corporation Limited also holds a 100% ownership in the following subsidiary undertakings, all of which carry out the principal business activity of the Jade group of businesses.

Name of subsidiary undertaking	Country of incorporation
Jade Direct Pty Limited	Australia
Jade Logistics Corporation USA	USA
Jade Logistics (Middle East) Limited	New Zealand
Jade Logistics (NZ) Limited	New Zealand
Jade Logistics Pty Limited	Australia
Jade Software Australia Pty Limited	Australia
Jade Software Corporation (NZ) Limited	New Zealand
Jade Software Corporation Pty Limited	Australia
Jade Software Corporation USA	USA
Jade Logistics Group Limited	New Zealand
Jade Logistics Limited	New Zealand

In addition, the Group holds a non-controlling interest of 17.8% in Wynyard Group Limited, which is incorporated in New Zealand and has subsidiaries in Australia, Canada, USA and the UK.

Country by country disclosures

An analysis of turnover, which is regarded as total income as defined below (and which excludes dividend income from subsidiaries), profit before tax, the current tax charge, corporation taxes paid, public subsidies received and the average number of employees on a full-time equivalent basis for the year ended 31 December 2015 is set out below. The information presented is at a full Group level of consolidation. Total income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable), together with all other components of operating income.

£m	UK	Australia	Guernsey	New Zealand	USA	Total
Total income - gross	612.0	0.9	17.8	12.7	0.1	**643.5**
Intra-group adjustments	(10.7)	-	(0.7)	(0.6)	-	**(12.0)**
Total income - net	601.3	0.9	17.1	12.1	0.1	**631.5**
Profit before tax - gross	143.3	0.2	13.7	(1.6)	0.1	**155.7**
Intra-group adjustments	(8.1)	-	(0.1)	(0.6)	-	**(8.8)**
Profit before tax - net	135.2	0.2	13.6	(2.2)	0.1	**146.9**
Current tax expense	34.2	0.1	1.3	-	-	**35.6**
Corporation taxes paid	35.1	0.1	1.4	-	-	**36.6**
Public subsidies received*	-	-	-	0.2	-	**0.2**
Average number of employees	7,489	11	38	175	6	**7,719**

* Public subsidies received relate to cash payments received from governments in the form of grants.

Country by Country

Annual Business Statement

1. Statutory percentages

	As at 31 December 2015 %	Statutory limit %
Lending limit	6.59	25.00
Funding limit	12.22	50.00

These percentages form part of the audited Accounts.

Explanation

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets are defined as the total assets of the Group plus provisions for impairment losses on loans and receivables, less liquid assets, intangible assets, property, plant and equipment and investment properties as shown within the Group Statement of Financial Position.

The funding limit measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals. We have taken advantage of the relief set out in SI 2007/No 860, effective from April 2007, to exclude retail offshore deposits from the total of wholesale funds.

The statutory limits are as laid down under the Building Societies Act 1986 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

	2015 %	2014 %
As a percentage of shares, deposits and borrowings:		
(i) Gross capital	8.67	8.81*
(ii) Free capital	7.39	7.38
(iii) Liquid assets	16.95	18.36
As a percentage of mean total assets:		
(i) Group profit after taxation – continuing operations	0.68	0.79*
(ii) Group management expenses – continuing operations	2.77	2.81*
(iii) Society management expenses	0.60	0.57
As a percentage of closing total assets:		
(i) Group profit after tax – continuing operations	0.65	0.76

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

These percentages form part of the audited Accounts.

Explanation

The above percentages have been calculated from the Group and Society Income Statements and Statements of Financial Position.

Shares, deposits and borrowings represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest and the fair value adjustments for hedged risk.

Gross capital represents the general reserve together with the available-for-sale reserve, cash flow hedging reserve, translation reserve, subordinated liabilities, subscribed capital and non-controlling interests, as shown within the Group Statement of Financial Position.

Free capital represents gross capital and provisions for collective impairment losses on loans and advances to customers, less property, plant and equipment, investment properties and intangible assets as shown within the Group Statement of Financial Position.

Liquid assets represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Mean total assets are the average of the 2015 and 2014 total assets.

Management expenses represent administrative expenses from continuing operations.

3. Information relating to Directors at 31 December 2015

The Board of Directors at 31 December 2015, their dates of birth and dates of appointment as a Director are as follows:

	Date of Birth	Date of Appointment
C Black	20 August 1958	1 March 2013
M Cassoni	27 December 1951	31 July 2012
D P Cockrem	15 November 1962	1 September 2015
I M Cornelius*	11 February 1969	11 June 2012
D J Cutter*	1 January 1962	1 January 2000
R D East	18 March 1960	29 November 2011
M H Ellis	4 August 1951	24 May 2011
R S D M Ndawula*	24 February 1974	23 February 2015
G E Picken	21 April 1949	17 January 2012
H C Stevenson	10 November 1960	1 March 2013
P J S Thompson	28 September 1946	1 April 2009

* Executive Directors

Documents may be served on any of the above named Directors at the following address: Addleshaw Goddard, Sovereign House, Sovereign Street, Leeds, LS1 1HQ.

Annual Business Statement *(continued)*

The Directors' business occupations and other Directorships at 31 December 2015 were:

C Black	Non-Executive Director	Bolt Learning Limited Cheryl Black & Partners Limited GSI Corporation Limited Skipton Group Holdings Limited Telefonica UK Pension Trustee Limited UNUM European Holding Company Limited UNUM Limited
M Cassoni	Non-Executive Director	AO World Plc Enterprise Inns Plc Jacob's Island (Providence Square Blocks A, B & C) Limited Skipton Group Holdings Limited The People's Operator Plc
D P Cockrem	Non-Executive Director	Good Energy Brynwhilach Solar Park Limited Good Energy Carloggas Solar Park (009) Limited Good Energy Cedar Windfarm Limited Good Energy Creathorne Farm Solar Park (003) Limited Good Energy Cross Road Plantation Solar Park (028) Limited Good Energy Delabole Windfarm Limited Good Energy Development (No.1) Limited Good Energy Development (No.2) Limited Good Energy Development (No.3) Limited Good Energy Development (No.4) Limited Good Energy Development (No.5) Limited Good Energy Development (No.6) Limited Good Energy Development (No.7) Limited Good Energy Development (No.8) Limited Good Energy Development (No.9) Limited Good Energy Development (No.10) Limited Good Energy Development (No.12) Limited Good Energy Development (No.14) Limited Good Energy Development (No.15) Limited Good Energy Development (No.16) Limited Good Energy Development (No.17) Limited Good Energy Development (No.20) Limited Good Energy Development (No.21) Limited Good Energy Development (No.22) Limited Good Energy Development (No.23) Limited Good Energy Development (No.24) Limited Good Energy Development (No.25) Limited Good Energy Development (No.26) Limited Good Energy Development (No.27) Limited Good Energy Development (No.28) Limited Good Energy Development (No.29) Limited Good Energy Development (No.30) Limited Good Energy Gas Limited Good Energy Generation Assets No. 1 Limited Good Energy Generation Limited Good Energy Group PLC Good Energy Hampole Windfarm Limited Good Energy Holding Company No. 1 Limited Good Energy Lanyon Solar Park (011) Limited Good Energy Limited Good Energy Lower End Farm Solar Park (026) Limited Good Energy Mapperton Solar Park (007) Limited Good Energy Oaklands Plantation Solar Park (031) Limited

D P Cockrem (continued)		Good Energy Rook Wood Solar Park (057) Limited Good Energy Tidal Limited Good Energy Woolbridge Solar Park (010) Limited Homegrown Energy Ltd Llangyfelach Community Solar Farm C.I.C. Macintyre Care Skipton Group Holdings Limited Worminster Down Somerset Community Solar Farm C.I.C.
I M Cornelius	Building Society Commercial Director	Skipton Financial Services Limited Skipton Group Holdings Limited Skipton International Limited Skipton Trustees Limited
D J Cutter	Building Society Group Chief Executive	Bailey Computer Services Limited Connells Limited Craven Educational Trust Leeds Share Shop Limited Malsis School Trust Northwest Investments NZ Limited Sequence (UK) Limited Skipton Financial Services Limited Skipton Group Holdings Limited Skipton Group Limited Skipton Investments Limited Skipton Limited Skipton Mortgage Corporation Limited Skipton Mortgages Limited Skipton Premier Mortgages Limited Skipton Premises Limited Skipton Share Dealing Services Limited Skipton Trustees Limited
R D East	Non-Executive Director	Cattles Holdings Limited Cattles Limited Cattles Properties (Ruddington) Limited Compass Credit Limited Dial4aloan Limited Hampshire Trust Bank Plc LGH Delta Limited Moneytopia Bank Limited Recordpoint Limited Skipton Group Holdings Limited Statusclaim Limited Supremeaccess Limited Welcome Financial Services Limited Westernissue Limited
M H Ellis	Non-Executive Director & Chairman	Leeds Theatre Trust Limited MH Ellis Consulting Limited Skipton Group Holdings Limited

Annual Business Statement *(continued)*

R S D M Ndawula	Building Society Group Finance Director	Amber Homeloans Limited Connells Limited Leeds Share Shop Limited North Yorkshire Mortgages Limited Skipton Group Holdings Limited Skipton Group Limited Skipton Limited Skipton Mortgage Corporation Limited Skipton Mortgages Limited Skipton Premier Mortgages Limited Skipton Premises Limited Skipton Share Dealing Services Limited
G E Picken	Non-Executive Director	Connells Limited Hampshire Trust Bank Plc HICL Infrastructure Company Limited Skipton Group Holdings Limited
H C Stevenson	Non-Executive Director	Henley Business School NHW Consultancy Ltd One Smart Star UK Limited Skipton Group Holdings Limited St Ives Plc Trinity Mirror Plc
P J S Thompson	Solicitor (Non-practising)	Giggleswick School Institute of Directors Rushbond Plc Skipton Group Holdings Limited TEP Electrical Distributors Limited

Messrs Cornelius, Cutter and Ndawula have service contracts entered into on 7 December 2012, 1 January 2000 and 25 February 2015 respectively which may be terminated by either party giving one year's notice.

Glossary

Set out below are the definitions of terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears	A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is overdue.
Asset backed securities (ABS)	An asset backed security is a security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. Typically these assets are pools of residential or commercial mortgages.
Basel II	Basel II was the second of the Basel Accords, issued by the Basel Committee on Banking Supervision, which defines the methods by which firms should calculate their regulatory capital requirements to retain enough capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive, and was implemented in the UK via the PRA Handbook.
Basel III	Basel III became effective in the UK on 1 January 2014 and sets out details of strengthened global regulatory standards on bank capital adequacy and liquidity.
Buy-to-let mortgages	Mortgages offered to customers purchasing residential property to be rented to others to generate a rental income.
Common Equity Tier 1 capital	Common Equity Tier 1 (CET 1) capital primarily comprises internally generated capital from retained profits. An adjustment is made to deduct intangible assets and goodwill. CET 1 capital is fully loss absorbing.
Contractual maturity	The final payment date of a loan or other financial instrument, at which point the entire remaining outstanding principal and interest is due to be repaid.
CRD IV	CRD IV comprises the Capital Requirements Regulation (CRR), which is directly applicable to firms across the EU, and the Capital Requirements Directive (CRD), which must be implemented through national law. CRD IV became effective in the UK from 1 January 2014.
Debt securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings.
Debt securities in issue	Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit.
Delinquency	A debt or financial obligation is considered to be in a state of delinquency when payments are overdue.
Derivative financial instruments	A derivative financial instrument is a type of financial instrument (or an agreement between two parties) that has a value based on the underlying asset, index or reference rate it is linked to. The Group uses derivative financial instruments to hedge its exposures to market risks such as interest rate, equity and currency risk.
Effective interest rate method (EIR)	The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period.
Fair value	Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Glossary *(continued)*

Financial Services Compensation Scheme (FSCS)	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the FCA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.
Forbearance strategies	Strategies to assist borrowers in financial difficulty, such as arrears capitalisation, a reduction in the monthly payment, a conversion to interest only or a mortgage term extension. Forbearance strategies aim, if possible, to avoid foreclosure or repossession.
Free capital	The aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment, investment properties and intangible assets.
Funding for Lending Scheme	A scheme launched by the Bank of England and HM Treasury in August 2012 which provides funding to participating banks and building societies with the aim of stimulating lending within the economy.
Funding limit	Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals. The calculation of the funding limit is explained in the Annual Business Statement.
Goodwill	Goodwill arises on the acquisition of subsidiary undertakings, joint ventures, associates or other businesses and represents the excess of the fair value of consideration over the fair value of identifiable net assets and contingent liabilities acquired at the date of acquisition.
Gross capital	The aggregate of the general reserve, translation reserve, available-for-sale reserve, cash flow hedging reserve, subscribed capital, subordinated liabilities and non-controlling interests.
Help to Buy	A government-backed scheme in the UK that aims to help first time buyers, whereby the Government effectively provides an equity loan to assist the purchase of new-build properties.
Impaired loans	Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.
Individually / collectively assessed	Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that it is likely that losses may be realised.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's own assessment, as part of regulatory requirements, of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Group's own assessment that current and projected levels of liquidity are sufficient and appropriate for the Group's plans, under a variety of stress scenarios. It also details the Group's compliance with the PRA's regulatory BIPRU 12 requirements.
Internal ratings-based approach (IRB)	An advanced approach to measuring capital requirements in respect of credit risk under Basel II and, from 1 January 2014, CRD IV. The IRB approach may only be used with permission from the PRA.

International Swaps and Derivatives Association (ISDA) Master Agreement	A standardised contract developed by ISDA and used to enter into bilateral derivatives transactions.
Investment grade	The range of credit ratings from Aaa to Baa3, as measured by external credit rating agencies.
Lending limit	Measures the proportion of business assets not in the form of loans fully secured on residential property. The calculation of the lending limit is explained in the Annual Business Statement.
Leverage ratio	The ratio of Tier 1 capital divided by total exposure, which includes on and off balance sheet assets, after netting derivatives.
Liquid assets	The total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.
Liquidity ratio	Liquid assets as a percentage of shares, deposits and borrowings.
Loan-to-value ratio (LTV)	A ratio which expresses the balance of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTVs on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in a house price index).
Loans past due / past due loans	Loans on which payments are overdue including those on which partial payments are being made.
Management expenses	Management expenses represent administrative expenses. The management expense ratio is management expenses expressed as a percentage of mean total assets.
Material Risk Takers (MRTs)	A group of employees to which the FCA's Remuneration Code applies. MRTs consist of Executive Directors, Non-Executive Directors and certain senior managers who could have a material impact on the firm's risk profile.
Mean total assets	Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
Medium term notes (MTN)	Corporate notes continuously offered by an entity to investors through a dealer.
Member	A person who has a share investment or a mortgage loan with the Society.
Mortgage backed securities (MBS)	Assets which are backed by underlying mortgage collateral.
Net interest income	The difference between interest received on assets and interest paid on liabilities.
Net interest margin	Net interest income as a percentage of mean total assets.
Permanent Interest Bearing Shares (PIBS) or subscribed capital	Unsecured, deferred shares that are a form of Tier 1 capital. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing members of Skipton Building Society.
Prime	Prime mortgages are those granted to the most credit worthy category of borrower.
Put option	Where the Group acquires a majority shareholding in a subsidiary undertaking, but grants the non-controlling shareholders an option to sell their shares to the Group at some future date, a put option obligation exists.

Glossary *(continued)*

Renegotiated loans	Loans are classed as renegotiated, with the customer's consent, when their terms have changed during the year. Loans and advances may be renegotiated whether or not the customer is experiencing financial difficulty in repaying their loan with the Group.
Repo / reverse repo	Short to medium term funding agreements which allow a borrower to sell a financial asset, such as an ABS or government bonds as security for cash. As part of the agreement the borrower agrees to repurchase the security at some later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo, which can typically be resold or repledged if desired.
Residential loans	Mortgage lending secured against residential property.
Residential mortgage backed securities (RMBS)	A category of ABS that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and / or principal).
Risk appetite	The articulation of the level of risk that the Group is willing to take (or not take) in order to safeguard the interests of the Society's members whilst achieving business objectives.
Risk weighted asset (RWA)	The value of assets, after adjustment, under CRD IV rules to reflect the degree of risk they represent.
Securitisation	A process by which a group of assets, usually loans, are aggregated into a pool which is used to back the issuance of new securities. A firm transfers these assets to a special purpose vehicle which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities. These securitisation structures use retail / residential mortgages as the asset pool.
Shares	Money deposited by non-corporate depositors in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.
Shares, deposits and borrowings	The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest and fair value adjustments for hedged risk.
Subordinated debt / liabilities	A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors and investing members (other than holders of PIBS).
Sub-prime	Loans to borrowers typically having weakened credit histories that include payment delinquencies and in some cases potentially more severe problems such as court judgements and discharged bankruptcies.
Tier 1 capital	A measure of financial strength. Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital comprises general reserves from retained profits. The book values of goodwill and other intangible assets are deducted from Common Equity Tier 1 capital and other regulatory adjustments may be made for the purposes of capital adequacy. Qualifying capital instruments such as PIBS are included in other Tier 1 capital (i.e. not Common Equity Tier 1).
Tier 2 capital	Tier 2 capital comprises regulated subordinated liabilities and PIBS that have been transitioned out of additional Tier 1 capital.
Wholesale funding	Amounts owed to credit institutions, amounts owed to other customers and debt securities in issue excluding balances deposited by offshore customers.

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Skipton Building Society is a member of the Building Societies Association and Financial Ombudsman Service. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority under registration number 153706 for accepting deposits, advising on and arranging mortgages and insurance. Principal Office, The Bailey, Skipton, North Yorkshire BD23 1DN.
*To help maintain service and quality, some telephone calls may be recorded and monitored.

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