PRESS RELEASE **27 February 2019**

SKIPTON ANNOUNCES ANOTHER STRONG PERFORMANCE AND HAS GROWN ITS MEMBERSHIP TO OVER ONE MILLION

Skipton Building Society today announces its annual results for the year ended 31 December 2018.

The UK's fourth largest building society produced another strong performance for 2018, increasing its membership to over one million. Underlying Group profit before tax[1] increased by 12.3% to £186.1m, with statutory profits reducing by 5.9% to £188.2m, and the Common Equity Tier 1 ratio of 32.9% was maintained at a strong level.

The Society, which provides mortgages, savings, investments and pensions advice, is the head of a group which includes a significant presence in estate agency, a mortgage and savings provider based in Guernsey, two subsidiaries with mortgage portfolios in run-off and a small investment portfolio. The Society merged with Holmesdale Building Society on 1 October 2018, welcoming almost 7,000 new members.

Performance highlights in 2018 include:

- The Society continued to grow with a 91,366 (9.9%) increase in members to 1,010,426;
- The growth in members was driven by the success of the Society's Cash Lifetime ISA, the first such product launched by any provider in response to the Government's savings initiative, which attracted 85,948 new members during the year;
- Total balances held by Cash LISA customers were £602.4m at the end of 2018 (2017: £74.9m), and these customers benefitted from £116.1m of government bonuses paid during the year;
- Group profit before tax (PBT) was £188.2m, 5.9% below 2017 (£200.1m);
- However underlying Group PBT increased by 12.3% to £186.1m (2017: £165.7m);
- At a divisional level trading profits have not moved significantly year-on-year, however the 2018 results have benefitted from a £4.2m credit (2017: £9.7m charge), which is held centrally, in relation to the long term management incentive scheme in place for senior managers within the Group's Estate Agency division and reflects the ongoing subdued housing market;
- Group gross mortgage lending was £4.3bn (2017: £4.5bn), the reduction being a reflection of the intensity of competition within the mortgage market, together with the impact of more stringent customer affordability criteria the Society introduced towards the end of 2017;
- Mortgage balances grew by £1.6bn to £18.2bn, a growth rate of 10.0% (2017: by £1.3bn, a growth rate of 8.3%), including £139m of balances arising on the merger with Holmesdale Building Society;

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1 Underlying Group PBT excludes items within the statutory profit figure that are not generated from the Group's core strategic operations to give greater transparency of the performance of the Group's ongoing trading activities. The underlying Group PBT excludes Financial Services Compensation Scheme charges / credits, gains and losses on disposal of Group undertakings, gains and losses on disposal of mortgage assets and impairment of Group undertakings. From 1 January 2018 it also excludes fair value movements in relation to the Group's equity release portfolio, following adoption of new accounting standard IFRS 9 which resulted in a reclassification of this portfolio, as well as fair value movements in equity share investments following the adoption of IFRS 9. See page 8 of this document for a full reconciliation of statutory Group PBT to underlying Group PBT.

- The number of Group residential mortgages in arrears by three months or more has reduced to 0.29% (2017: 0.36%). Excluding non-UK lending the number of Group residential mortgages in arrears by three months or more has reduced to 0.30% (2017: 0.37%) and compares to an industry average of 0.79%[2];
- Savings balances grew by £1.1bn to £16.1bn, a growth rate of 7.7% (2017: by £0.9bn to £15.0bn, a growth rate of 6.2%), including £122m of balances arising on the merger with Holmesdale Building Society;
- In April, the Society raised £400m of funding over a five-year term through a Sterling covered bond transaction. In October it issued its first Euro denominated covered bond, which raised €500m of five-year funding;
- Group total assets increased by 10.4% during the year to £23.2bn (2017: 10.5% to £21.0bn);
- The Group net interest margin remained relatively stable at 1.09% (2017: 1.10%), whilst net interest income increased to £241.2m (2017: £220.6m), an increase of £20.6m (or 9.3%);
- Group administrative expenses decreased by £2.1m or 0.4% to £521.0m (2017: increase of £24.0m or 4.8% to £523.1m);
- The loan impairment charge on residential and commercial mortgages was £2.3m; the impairment methodology changed on 1 January 2018 following the implementation of a new accounting standard (IFRS 9). For the year ended 31 December 2017 loan impairment was calculated under the previous accounting standard, IAS 39, and on residential and commercial loans was a credit of £2.4m;
- The Common Equity Tier 1 (CET 1) ratio at 31 December 2018 was 32.9% on a transitional basis (2017: 33.2%);
- The leverage ratio, on an end-point basis, was 6.2% (2017: 6.1%), comfortably ahead of the regulator's expected minimum of 3%; and
- The Liquidity Coverage Ratio was 203% (2017: 179%).

David Cutter, Skipton's Group Chief Executive, said:

"Today's results show that 2018 was another year of strong performance for Skipton Building Society in many ways, from increasing our underlying Group profits to growing our membership to over one million members.

In 2018 we continued to enable more people to save for their future and finance their own home. And we are proud of our award-winning achievements in 2018 that demonstrate our commitment to this; we became a Which? 'Recommended' provider for both savings and mortgages (one of only two firms to do so) and we were named 'Best National Building Society' by What Mortgage? for the fifth year running, a tremendous achievement.

We are continually working hard to ensure our customers have the best experience during any interaction with the Society to ensure they achieve their dream of having their own home or saving for their future. Our colleagues are committed to putting the customer first and providing excellent service.

One of the achievements that we are most proud of over the past 12 months is Skipton's success at the prestigious UK Customer Experience Awards 2018, winning gold in three categories, which included the 'Best customers at the heart of everything' award. This category showcases organisations in all sectors who ensure that, at every step of the way, customers are at the forefront of their thinking.

In addition, for the fifth year in a row the Society was included in *The Sunday Times* Top 100 Companies to Work For."

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2 Source: UK Finance (previously CML), industry arrears data (UK residential mortgages in arrears by more than three months) at 31 December 2018.

Enabling our members to achieve home ownership and save for their life ahead aspirations

- The Group's net residential UK mortgage lending accounted for 4.0% of the growth in the UK residential mortgage market (2017: 3.0%), compared to our 1.2%[3] share of UK residential mortgage balances;
- The Society helped 26,734 homeowners (2017: 25,979) to purchase or remortgage their properties, including 5,516 first time buyers (2017: 4,540) and 1,036 (2017: 1,498) through participation in the Government's Help to Buy equity loan scheme;
- The Society entered the shared ownership market during the year, whilst in July 2018 it re-entered the 95% loan-to-value market, giving more people, including first time buyers, the opportunity to step onto the housing ladder sooner than they may have expected;
- £949.8m, or 21.9%, of the Group's gross lending during the year was on buy-to-let mortgages (2017: £824.1m or 18.4%);
- The growth in the Society's savings balances in the year accounted for 2.5% of the growth in the UK deposit savings market (2017: 1.9%), compared to our market share of savings balances of 1.1%[4];
- The Society paid an average savings rate of 1.29% during the year (2017: 1.21%), which was on average 0.59% higher than the market average for banks and building societies during 2018 (2017: 0.52% higher)[5];
- We have continued to invest in our member offering and, through Skipton Link, we are now one of the few high street financial services providers to offer full mortgage and financial advice video appointments from branch, head office or home;
- We have also continued to refurbish our branches and every branch colleague is now fully competent in identifying financial advice needs;
- The Society achieved a net customer satisfaction rating of 94%[6] (2017: 92%); and
- During the first six months of 2018, 22% of customer complaints against the Society which were referred to the Financial Ombudsman Service were changed in the customer's favour. This compares with an average of 30%[7] for the financial services industry for the same period, being the latest available comparable market data.

Mortgages and Savings division

- The division produced a PBT of £114.3m, compared to £89.1m in 2017, an increase of £25.2m (or 28.3%), predominantly as a result of the £15.0m loss on disposal of non-performing or recently non-performing loans recorded in 2017;
- The division reported an underlying PBT of £112.7m, up from £105.3m in 2017, an increase of 7.0%;
- When expressed as a percentage of mean assets, the Group net interest margin (which is almost entirely generated from the Mortgages and Savings division) remained relatively stable at 1.09% (2017: 1.10%), whilst net interest income for the division increased by £19.2m which is a key driver in the increase in PBT in the division;
- The division's administrative costs increased by 4.8% to £148.7m from £141.9m in 2017 as the Society continues to invest in various areas of the business to meet customers' expectations and support growth;
- The cost income ratio of the division was 56.3% (2017: 57.1%), whilst the management expense ratio of the division was 0.68% (2017: 0.72%)[8];

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3 Source: Bank of England statistics, 'Lending secured on dwellings' for the 12 months to 31 December 2018.

4 Source: Bank of England statistics, 'UK deposits from households' for the 12 months to 31 December 2018.

5 Source: CACI Current Account & Savings Database for the 12 months to 31 December 2018.

6 As measured from an independent third party survey of 2,400 Society members. The net customer satisfaction score is calculated by subtracting the percentage of customers who are dissatisfied (those scoring satisfaction with the Society as 1-3 on a scale of 1-7) from the percentage of customers who are satisfied (those scoring satisfaction as 5-7 on the same scale).

7 Source: Financial Ombudsman Service (FOS) complaints data (resolved cases) for the financial services industry for the 6 months to 30 June 2018.

8 Administrative expenses as a percentage of mean total assets. Mean total assets is the average of the 2018 and 2017 total assets as shown within the Statement of Financial Position.

- The Society remains primarily funded by retail savings, which represented 81.6% of total funding (2017: 84.6%);
- The division also accepts deposits through its Guernsey-based subsidiary, Skipton International Limited (SIL). Offshore deposits increased by 9.9% to £1.5bn from £1.4bn at 31 December 2017;
- SIL increased PBT by £2.1m (11.7%) to £20.1m from £18.0m in 2017;
- The Group's prudent approach to lending is demonstrated by the number of Group residential mortgages in arrears by three months or more. These represent only 0.29% of mortgage accounts (2017: 0.36%);
- The Society's three months or more residential arrears levels fell further to 0.24% at 31 December 2018 (2017: 0.29%). The quality of the SIL mortgage book remains very strong with only one account in arrears by three months or more (31 December 2017: one);
- The percentage of cases in Amber Homeloans and North Yorkshire Mortgages in arrears by three months or more were 1.92% and 1.08% respectively (2017: 2.51% and 0.78%). Both books are closed to new business and have been in run-off since 2008;
- The average indexed loan-to-value of residential mortgages across the division at 31 December 2018 (calculated on a valuation weighted basis) was 46.1% (2017: 47.2%);
- The Society drew down £1,000m of funding under the Government's Term Funding Scheme (TFS) during the year (2017: £1,100m) and at the end of the year had an amount outstanding of £1,850m (2017: £1,400m) having also repaid £550m during the period; and
- At 31 December 2018, the Liquidity Coverage Ratio was 203% (2017: 179%).

Estate Agency division

- Connells, our estate agency division, reported profits of £56.9m (2017: £65.7m excluding a gain on the disposal of shares in ZPG Plc);
- Underlying PBT was £59.7m (2017: £64.9m), reflecting a robust performance in a continuing difficult UK housing market;
- The volume of housing transactions in the UK fell again in 2018 and consequently the number of house sales arranged by Connells fell by 7% during the year (2017: fall of 4%). However, lettings income increased by 5% (2017: 9%), financial services income by 10% (2017: 13%) and survey and valuation income by 2% (2017: 5%), reflecting the diverse revenue generating activities carried out by the Connells group;
- At 31 December 2018, Connells operated 586 branches (2017: 591). Connells continues to seek to grow its business, both organically and through acquisitions, and during 2018 made four further modest acquisitions of estate agency and lettings businesses, each of which will complement and add to Connells' proposition; and
- Connells has continued to invest in its financial services proposition and increased the number of mortgages it arranged by 9% year-on-year, generating £10.6bn worth of lending for UK mortgage providers.

Today, Connells also announces its annual results for 2018 and further details can be found here.

Other subsidiaries

- Skipton Business Finance, a provider of debt factoring and invoice discounting to small and medium-sized enterprises, recorded a PBT of £3.8m (2017: £3.5m); and
- Jade Software Corporation, the provider of the Society's core database and software development language, and provider of digital solutions and large enterprise IT solutions to a number of other clients, recorded a PBT of £3.8m (2017: £1.2m).

Giving something back to our communities

- We continued to support the Alzheimer's Society and Alzheimer Scotland through our charity partnership, and in September 2018 we held a festival of fundraising. Colleagues took part in Skipton's

own Miles for Memories challenge, which saw colleagues from across the branch network and head office match the mileage covered by two senior leaders as they visited every one of our branches on motorbikes. Colleagues were encouraged to get involved by running, cycling, walking, kayaking and other challenges. Colleague engagement was fantastic and through their innovation and creativity we raised an incredible £79,194;
- Through our award-winning Grassroots Giving community funding programme, in 2018 we gave 165 donations of £500 to small community groups voted for by the public, bringing the total donated since the scheme launched to £487,500;
- In 2018 the Society donated more than £150,000 to the Skipton Building Society Charitable Foundation, which enabled the Foundation to support registered charities involved in helping people of all ages; and
- We continued to support a number of key community partners, including the Skipton Building Society Camerata.

Delivering through our people
- A key factor in the Society's strong performance seen during the period, and the ongoing high satisfaction of our customers, is our people. The Society is focused on ensuring its people are highly engaged and motivated to deliver a great experience for our customers both now and in the future;
- In June 2018, the Society achieved an employee engagement score of 89%[9] (2017: 88%), well above financial services industry norms;
- The Society retained its Investors in People Platinum standard which is the highest level of the accreditation with only 2% of accredited organisations in the UK achieving this as at 1 February 2019; and
- For the fifth year in a row the Society was included in *The Sunday Times* Top 100 Companies to Work For.

David Cutter, Skipton's Group Chief Executive, added:

"These are yet another set of strong results for Skipton, and I'm really proud that we now serve over one million members. We also saw continued good growth in our mortgage and savings balances whilst maintaining a strong capital base.

Looking after people's savings and enabling home ownership is at the very heart of what the Society does as a mutual building society. I firmly believe that our long term focus of being there to help people plan for their life ahead is resonating with our members.

The more competitive mortgage environment coincides with a continuous period of increased political uncertainty, as the UK is in the midst of withdrawing from the European Union. Should there be a no-deal Brexit there would be no immediate significant impact on the Society but we would be cautious regarding the potential medium to longer term implications arising from possible movements in house prices, unemployment or bank base rates.

We currently anticipate that profits in 2019 will be lower than 2018 due to a combination of ongoing pressures on mortgage and savings margins, and the continuation of a subdued housing market. However, the political and economic uncertainty highlighted above makes forecasting difficult and creates a need for caution.

We remain vigilant regarding potential economic headwinds, but with the strong capital and liquidity position we have continued to build during 2018, the Society is well placed to manage the risks that we may face and to capitalise upon any opportunities that may arise for the benefit of our members"

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

ENDS

For further information, or to arrange interviews, please contact the Skipton Press Office on 03456 017247, email newsline@skipton.co.uk or visit the press section of our website at www.skipton.co.uk.

Follow us on Twitter: @SkiptonBS_press

Stacey Stothard, Head of Corporate Communications
If outside Press Office hours (8.30am – 5pm, Monday to Friday), please call 07793 699 878.

Editors' notes

1. Skipton is the UK's fourth largest building society, with over one million members, £23bn of assets and a national presence represented by its network of 88 branches. Skipton offers mortgages, savings and restricted financial advice. It heads the Skipton Building Society Group, whose subsidiary companies include Skipton International Limited and significant interests in estate agency and related businesses through the Connells group.
2. In October 2018, Skipton Building Society received a Gold award at the UK Customer Experience Awards for 'Best Financial Services – Banking and Investments'.
3. Skipton Building Society was also named as a Which? recommended provider of mortgages and savings for 2018.
4. Skipton Building Society is rated by two major credit rating agencies. Moody's assigns a long term local and foreign currency bank deposit rating of Baa1 with a positive outlook and a short term rating of P-2. Fitch assigns the long-term Issuer Default Rating (IDR) as A- with a stable outlook and a short-term IDR rated F1.

Skipton Building Society
Results for the year ended 31 December 2018

Consolidated income statement

	2018	2017
	£m	£m
Interest receivable and similar income:		
Calculated using the effective interest rate method	**488.5**	472.5
On financial instruments at fair value through profit or loss	**(14.7)**	(72.5)
Total interest receivable and similar income	**473.8**	400.0
Interest payable and similar charges	**(232.6)**	(179.4)
Net interest receivable	**241.2**	220.6
Fees and commissions receivable	**480.9**	477.9
Fees and commissions payable	**(7.6)**	(8.1)
Fair value gains / (losses) on financial instruments mandatorily held at fair value through profit or loss (FVTPL):		
Hedging instruments and hedged items	**1.5**	1.5
Other derivatives (note 1)	**18.1**	-
Equity release portfolio (note 1)	**(17.1)**	-
Other financial instruments	**(0.3)**	-
Profit on disposal of treasury assets held at available-for-sale	**-**	2.7
Loss on disposal of mortgage assets held at amortised cost	**-**	(15.0)
Profit on disposal of subsidiary undertakings	**3.3**	11.3
Profit on disposal of joint ventures	**-**	0.9
Profit on disposal of equity share investments	**-**	38.5
Dividend income from equity share investments	**-**	0.6
Share of profits from joint ventures	**0.8**	2.0
Other income	**3.7**	2.7
Total income	**724.5**	735.6
Administrative expenses	**(521.0)**	(523.1)
Operating profit before impairment and provisions	**203.5**	212.5
Impairment (losses) / credit on loans and advances to customers	**(2.5)**	4.0
Impairment losses on debt securities	**(0.1)**	-
Impairment losses on equity share investments	**-**	(0.1)
Realised losses on the equity release portfolio	**(0.7)**	-
Provisions for liabilities	**(12.0)**	(16.3)
Profit before tax	**188.2**	200.1
Tax expense	**(40.6)**	(41.9)
Profit for the financial year attributable to members of Skipton Building Society	**147.6**	158.2

Note

1. Following the introduction of new accounting standard IFRS 9 with effect from 1 January 2018, the equity release portfolio is now held at fair value (previously amortised cost). The fair value movements in the value of the portfolio are included in the 'Equity release portfolio' line above and movements in fair value of the associated swaps are included in the 'Other derivatives' line above.

Underlying Group PBT for 2018 was £186.1m (2017: £165.7m) as follows:

	2018	2017
	£m	£m
Total Group profit before tax	**188.2**	200.1
Less fair value gains in relation to the equity release portfolio	**(1.0)**	-
Less profit on disposal of subsidiary undertakings	**(3.3)**	(11.3)
Less profit on disposal of other Group undertakings	**-**	(39.4)
Add back loss on disposal of mortgage assets	**-**	15.0
Add back impairment of goodwill and equity share investments	**2.5**	0.1
Add back fair value losses on equity share investments	**0.3**	-
Less / add back FSCS levy	**(0.6)**	1.2
Underlying Group profit before tax	**186.1**	165.7

Skipton Building Society
Results for the year ended 31 December 2018

Consolidated statement of comprehensive income

	2018	2017
	£m	£m
Profit for the financial year	**147.6**	158.2
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Remeasurement (losses) / gains on defined benefit obligations	**(3.1)**	10.2
Income tax on items that will not be reclassified to profit or loss	**1.0**	(1.9)
	(2.1)	8.3
Items that may be reclassified subsequently to profit or loss:		
Movement in available-for-sale reserve:		
Valuation gains taken to equity	**-**	8.1
Realised gains transferred to Income Statement	**-**	(43.0)
Movement in cash flow hedging reserve:		
Losses taken to equity	**(0.3)**	(0.7)
Realised gains transferred to Income Statement	**-**	(1.9)
Gains reclassified to Income Statement	**-**	(1.7)
Movement in fair value reserve (debt securities):		
Losses taken to equity	**(2.3)**	-
Impairment loss allowance on debt securities held at fair value through other comprehensive income	**0.1**	-
Movement in cost of hedging reserve:		
Losses taken to equity	**(0.5)**	-
Exchange differences on translation of foreign operations	**-**	(0.4)
Income tax on items that may be reclassified to profit or loss	**0.6**	7.1
	(2.4)	(32.5)
Other comprehensive expense for the year, net of tax	**(4.5)**	(24.2)
Total comprehensive income for the year attributable to members of Skipton Building Society	**143.1**	134.0

Skipton Building Society
Results for the year ended 31 December 2018

Consolidated statement of financial position

	2018 **£m**	2017 £m
Assets		
Cash in hand and balances with the Bank of England	**2,395.7**	2,396.9
Loans and advances to credit institutions held at amortised cost	**422.7**	345.3
Debt securities	**1,383.1**	791.1
Derivative financial instruments	**72.3**	94.2
Loans and advances to customers held at amortised cost	**18,127.0**	16,972.7
Loans and advances to customers held at FVTPL	**1.9**	-
Equity release portfolio held at FVTPL (note 1)	**410.9**	-
Deferred tax asset	**41.6**	30.4
Investments in joint ventures	**12.2**	12.8
Equity share investments	**0.8**	0.4
Property, plant and equipment	**77.9**	78.2
Investment property	**12.0**	14.4
Intangible assets	**161.4**	164.4
Other assets	**84.9**	122.8
Total assets	**23,204.4**	21,023.6
Liabilities		
Shares	**16,113.5**	14,985.8
Amounts owed to credit institutions	**1,878.0**	1,483.2
Amounts owed to other customers	**1,690.4**	1,805.1
Debt securities in issue	**1,420.3**	666.4
Derivative financial instruments	**279.4**	318.5
Current tax liability	**18.6**	19.9
Other liabilities	**56.9**	110.4
Accruals	**48.9**	50.5
Deferred income	**2.7**	3.7
Provisions for liabilities	**24.3**	26.1
Deferred tax liability	**5.5**	7.4
Retirement benefit obligations	**99.5**	100.2
Subscribed capital	**41.6**	41.6
Total liabilities	**21,679.6**	19,618.8
Members' interests		
General reserve	**1,518.7**	1,396.4
Available-for-sale reserve	**-**	3.1
Fair value reserve	**1.6**	-
Cash flow hedging reserve	**(0.2)**	0.1
Cost of hedging reserve	**(0.5)**	-
Translation reserve	**5.2**	5.2
Attributable to members of Skipton Building Society	**1,524.8**	1,404.8
Total members' interests and liabilities	**23,204.4**	21,023.6

Note

1. Following the introduction of new accounting standard IFRS 9 with effect from 1 January 2018, the equity release portfolio has been reclassified from loans and advances to customers held at amortised cost to a separate classification as shown above.

Skipton Building Society
Results for the year ended 31 December 2018

Consolidated statement of cash flows

	2018	2017
	£m	£m
Cash flows from operating activities		
Profit before tax	**188.2**	200.1
Adjustments for:		
Impairment charge / (credit) on loans and advances to customers	**2.5**	(4.0)
Loans and advances written off, net of recoveries	**(1.7)**	(2.3)
Impairment losses on debt securities	**0.1**	-
Impairment losses on trade receivables	**0.8**	0.6
Impairment of goodwill	**2.5**	-
Depreciation and amortisation	**21.1**	21.0
Impairment of property, plant and equipment and investment property	**2.3**	0.1
Impairment losses on equity share investments	**-**	0.1
Fair value losses on equity share investments	**0.3**	-
Dividend income from equity share investments	**-**	(0.6)
Interest on subscribed capital and subordinated liabilities	**4.5**	6.8
Profit on sale of property, plant and equipment, investment property and intangible assets	**(0.3)**	(1.6)
Profit on treasury assets	**-**	(2.7)
Loss on disposal of mortgage assets	**-**	15.0
Share of profits from joint ventures	**(0.8)**	(2.0)
Fair value losses on equity release portfolio	**17.1**	-
Profit on disposal of joint ventures	**-**	(0.9)
Profit on disposal of equity share investments	**-**	(38.5)
Profit on disposal of subsidiary undertakings	**(3.3)**	(11.3)
Realised losses on the equity release portfolio	**0.7**	-
Other non-cash movements	**(16.4)**	5.7
	217.6	185.5
Changes in operating assets and liabilities:		
Movement in prepayments and accrued income	**(2.4)**	(0.7)
Movement in accruals and deferred income	**15.7**	(4.2)
Movement in provisions for liabilities	**(1.8)**	3.7
Movement in fair value of derivatives	**(17.2)**	(71.9)
Movement in fair value adjustments for hedged risk	**(8.2)**	59.7
Movement in fair value of debt securities	**4.3**	10.5
Movement in loans and advances to customers	**(1,501.4)**	(1,487.7)
Disposal of mortgage assets	**-**	197.3
Purchase of mortgage assets	**-**	(19.7)
Movement in shares	**1,018.0**	888.7
Income Statement (credit) / charge for fair value of subsidiary management incentive scheme liability	**(4.2)**	9.7
Net movement in amounts owed to credit institutions and other customers	**260.3**	1,138.6
Net movement in debt securities in issue	**746.8**	136.7
Net movement in loans and advances to credit institutions	**(107.1)**	49.5
Net movement in other assets	**36.5**	(4.2)
Net movement in other liabilities	**(37.3)**	(9.8)
Income taxes paid	**(40.4)**	(41.5)
Net cash flows from operating activities	**579.2**	1,040.2

Consolidated statement of cash flows (continued)

	2018	2017
	£m	£m
Net cash flows from operating activities	**579.2**	1,040.2
Cash flows from investing activities		
Purchase of debt securities	**(1,763.2)**	(666.5)
Proceeds from disposal of debt securities	**1,166.9**	922.9
Purchase of property, plant and equipment	**(14.5)**	(17.5)
Purchase of intangible assets	**(4.9)**	(6.0)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets	**1.5**	4.8
Dividends received from equity share investments	**-**	0.6
Exercise of share options in subsidiary management incentive scheme	**(9.8)**	(6.5)
Exercise of put options held by non-controlling interests	**(0.3)**	-
Proceeds from disposal of equity share investments	**-**	40.8
Proceeds from disposal of joint ventures	**-**	1.0
Dividends received from joint ventures	**1.4**	1.6
Purchase of subsidiary undertakings, net of cash acquired	**-**	(0.6)
Cash acquired on transfer of engagements	**12.9**	-
Purchase of non-controlling interest	**-**	(6.6)
Contingent consideration received following disposal of subsidiary undertaking (net of costs)	**5.4**	-
Cash paid on disposal of subsidiary undertaking	**-**	(1.5)
Investment in equity share investments	**(0.7)**	(0.1)
Purchase of other business units	**(0.6)**	(1.1)
Deferred consideration paid in respect of prior year acquisitions of subsidiary undertakings and business assets	**(1.6)**	(1.8)
Net cash flows from investing activities	**(607.5)**	263.5
Cash flows from financing activities		
Repurchase of subordinated liabilities	**-**	(65.4)
Repurchase of subscribed capital	**-**	(50.0)
Redemption of subordinated liabilities	**-**	(10.0)
Interest paid on subordinated liabilities	**-**	(2.6)
Interest paid on subscribed capital	**(4.5)**	(6.3)
Net cash flows from financing activities	**(4.5)**	(134.3)
Net (decrease) / increase in cash and cash equivalents	**(32.8)**	1,169.4
Cash and cash equivalents at 1 January	**2,455.0**	1,285.6
Adjustment on initial adoption of IFRS 9	**(0.3)**	-
Cash and cash equivalents at 31 December	**2,421.9**	2,455.0

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

	2018	2017
	£m	£m
Cash in hand and balances with the Bank of England	**2,395.7**	2,396.9
Mandatory reserve deposit with the Bank of England	**(46.9)**	(26.3)
	2,348.8	2,370.6
Loans and advances to credit institutions	**73.1**	84.4
Cash and cash equivalents at 31 December	**2,421.9**	2,455.0

Skipton Building Society

Key ratios

	2018	2017
	%	%
Group net interest margin	**1.09**	1.10
Mortgages and Savings division management expenses / mean total assets	**0.68**	0.72
Group profit after tax / mean total assets	**0.67**	0.79
Total asset growth	**10.4**	10.5
Group loans and advances growth	**10.0**	8.3
Group share account growth	**7.7**	6.2
Liquidity Coverage Ratio	**203**	179
Funding ratio	**81.6**	84.6
Gross capital ratio	**7.42**	7.64
Free capital ratio	**6.23**	6.44
Group Common Equity Tier 1 (CET 1) capital ratio	**32.9**	33.2
Total capital ratio	**33.8**	34.3
Leverage ratio	**6.2**	6.1

Definitions

Mean total assets is the average of the 2018 and 2017 total assets as shown within the Statement of Financial Position.

Management expenses represent administrative expenses.

The Liquidity Coverage Ratio measures the proportion of highly liquid assets held by financial institutions in order to ensure their ongoing ability to meet short term obligations. The regulatory limit is 100%.

The funding ratio 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 gross capital ratio measures gross capital as a percentage of shares, deposits and borrowings. Gross capital represents the general reserve together with the fair value reserve, cash flow hedging reserve, translation reserve and subscribed capital, as shown within the Statement of Financial Position.

The free capital ratio measures free capital as a percentage of shares, deposits and borrowings. 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 Statement of Financial Position.

The Group CET 1 capital ratio measures CET 1 capital as a percentage of risk weighted assets at a prudential consolidation group[10] level. CET 1 capital consists primarily of internally generated capital from retained profits less intangible assets and goodwill. This ratio is the same under both the transitional and end-point basis.

The total capital ratio measures total regulatory capital resources as a percentage of risk weighted assets. Total regulatory capital resources comprises CET 1 capital plus other securities in issue which qualify as additional Tier 1 and Tier 2 capital. This ratio is the same under both the transitional and end-point basis.

The leverage ratio measures total Tier 1 capital as a percentage of total exposure i.e. total assets per the prudential consolidated position (subject to some regulatory adjustments). This ratio is calculated on an end-point basis.

Skipton Building Society, Principal Office, The Bailey Skipton, BD23 1DN

10 The prudential consolidation group comprises the entire Group except Connells and a small number of other entities whose activities are not closely aligned with the core business. This is the key level at which the Society is regulated.