PRESS RELEASE **26 February 2020**

SKIPTON DELIVERS A ROBUST PERFORMANCE WITH STRONG GROWTH IN MEMBERSHIP, MORTGAGES AND SAVINGS

The UK's fourth largest building society announces its results for 2019 as it continues to grow its membership, helping over one million members into homes and to save for their future.

The Society has increased its mortgage balances by 10.3% since the end of 2018, helping 29,727 people to purchase or remortgage their properties in 2019. The Society also increased its savings balances by 7.6% and paid 0.54% above the rest of market average rate[1] to its savers during the year.

The Society is committed to continue to invest into its business to ensure first rate customer service, with a revised financial advice proposition and customer mobile app both launched in the year.

Key performance highlights in 2019 include:

- Continued membership growth, with member numbers increasing by 35,868 to 1,046,294 (31 December 2018: 1,010,426);
- Group gross mortgage lending was up 13.1% to £4.9bn (2018: £4.3bn), with mortgage balances growing by 10.3% since the end of 2018 (2018: 10.0%);
- Society savings balances grew by 7.6% (2018: 7.7%) to £17.4bn by the end of 2019;
- Group total assets increased by 9.9% during the year to £25.5bn (2018: £23.2bn);
- The Group net interest margin was 0.98% (2018: 1.09%); the expected decrease is a reflection of the previously signalled intense competition in the mortgage market;
- Despite the challenging environment, the Group recorded underlying profits before tax (as defined on page 6) of £155.2m (2018: £186.6m). The Mortgages and Savings division reported an underlying PBT of £103.9m (2018: £113.2m). Although the Group has seen a £3.1m fall in its net interest income due to the pressures outlined above, it is important that we continue to invest in our proposition and service to our members and customers – this resulted in costs in the Mortgages and Savings division increasing by £7.9m. The Group also incurred a charge of £1.8m (2018: £4.2m credit), 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. The Estate Agency division recorded underlying profits of £50.1m, being £9.6m below the prior year primarily due to the subdued UK property market;
- Total profit before tax (PBT) was £153.2m (2018: £188.7m). The decrease in total Group profits was due to the reduction in underlying profits referred to above but also includes fair value losses of £3.4m (2018: fair value gains of £1.0m) relating to the Society's legacy equity release portfolio which was acquired on merger with Scarborough Building Society in 2009 and has a balance at the end of 2019 of £410.0m (2018: £410.9m). These fair value losses are driven by changes in market expectations of long-term interest rates, inflation and house price growth;

[1] Source: CACI Current Account & Savings Database Stock for the 12 months to 31 December 2019.

- Group administrative expenses increased by £17.5m (or 3.3%) to £554.0m, with the investments referred to above made by the Mortgages and Savings division and the charge for the long term management incentive scheme being key drivers of this increase. Connells' administrative expenses decreased by 0.4% from £374.8m to £373.4m;
- The Group loan impairment charge on residential and commercial mortgages was £0.3m (2018: £2.3m);
- The Society's capital base remained strong with its Common Equity Tier 1 (CET 1) ratio at 31 December 2019 at 39.1% (2018: 32.8%) and the leverage ratio at 6.0% (2018: 6.1%). Following changes in the Society's IRB approach in 2019 risk weighted assets (RWAs) have decreased, resulting in the increase seen in the CET 1 ratio. The key driver for the decrease in RWAs is a refinement to the Society's IRB Loss Given Default Model, resulting in an improved estimation technique for predicting house price deflation in an economic downturn; and
- The Liquidity Coverage Ratio was 207% (2018: 203%) and the liquidity ratio (as a percentage of shares and deposit liabilities) was 19.5% (2018: 19.9%).

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

"This is a solid and balanced performance which has seen us increase our membership and increase our mortgage and our savings balances at rates above our natural market share, despite a subdued housing market and highly competitive mortgage market.

"In the face of a challenging operating environment, Skipton has continued to deliver first class service and value to its members. We have continued to invest in our business for the benefit of current and future members, we have launched an app for our customers, which saw 100,000 registrations during the year, and we have made some major changes to our financial advice offering, making it more personal, affordable and straightforward and hence accessible and relevant to more people.

"Since 1853, our purpose has been to help more people into homes and save for their future. Our strong capital position and diversified business has enabled us to continue to successfully and sustainably deliver for our members today and we are well positioned to do so in the future."

Enabling our members to achieve home ownership and save for the future

- The Group's net residential UK mortgage lending accounted for 4.0% of the growth in the UK residential mortgage market (2018: 4.0%), compared to our 1.3%[2] share of UK residential mortgage balances;
- The Society helped 29,727 homeowners (2018: 26,734) to purchase or remortgage their properties, including 5,923 first time buyers (2018: 5,516) and 7,878 (2018: 7,350) buy-to-let borrowers;
- 2019 has seen continued success in attracting LISA customers to the Society, bringing the total number of LISA customers to 158,850 (31 December 2018: 129,707) and total balances to £876.5m (31 December 2018: £602.4m) including government bonuses of £89.0m received by our customers during 2019;
- The Society's financial advisers have advised 3,909 customers (2018: 4,146) on how to achieve their financial goals;
- Funds under management grew by 6.3% during the year to £3.4bn (2018: £3.2bn);
- The growth in the Society's savings balances in the year accounted for 1.9% of the growth in the UK deposit savings market (2018: 2.5%), compared to our market share of savings balances of 1.1%[3];
- The Society paid an average savings rate of 1.29% during the year (2018: 1.29%), which was on average 0.54% above the rest of industry average[4] for which comparable data is available (2018: 0.59% higher); and

2 Source: Bank of England statistics, 'Lending secured on dwellings' for the 12 months to 31 December 2019.
3 Source: Bank of England statistics, 'UK deposits from households' for the 12 months to 31 December 2019.

- The Society achieved a net customer satisfaction rating of 86%[5] (2018: 94%), reflecting a new approach to capturing customer responses.

Mortgages and Savings division

- The division produced an underlying PBT of £103.9m (2018: £113.2m). The key drivers for the decrease are the pressures on net interest margin outlined above and the Society's continued investment in its strategic priorities;
- Statutory PBT was £100.8m, compared to £114.8m in 2018, driven principally by the reduction in underlying profits outlined above, and the aforementioned fair value losses on our equity release portfolio;
- Skipton International Limited continues to make a strong contribution to the division's profits, with PBT of £21.2m (2018: £20.0m) and mortgage balances increasing from £1.2bn to £1.4bn;
- The management expense ratio of the division was 0.65% (2018: 0.68%)[6] and the cost income ratio was 60.2% (2018: 56.2%). In view of a declining net interest margin, careful management of costs is a key strategic priority, however investments continue to be made for the long term benefit of members, including developing online services, continuing to invest in branches, delivering a mobile app and a revised financial advice proposition;
- The Group's UK residential mortgages in arrears by three months or more represent only 0.25% of mortgage accounts (31 December 2018: 0.30%) which compares to an industry average of 0.72%[7];
- In March 2019, the Society successfully raised £600m of wholesale funding through a covered bond transaction with a term of five years, and a further €500m in September 2019 through a five year Euro covered bond transaction, further diversifying the Society's wholesale funding base; and
- The Society has repaid £200m of funding from the Government's Term Funding Scheme (TFS) during the year and at the end of the year had an amount outstanding of £1,650m (2018: £1,850m).

Estate Agency division

- In a subdued UK property market, Connells, the Group's estate agency division, continued to perform well, delivering reported and underlying profits before tax of £50.1m (2018: £56.9m reported, £59.7m underlying);
- The Connells group maintained its focus on winning new instructions and produced a creditable performance during the year;
- The volume of UK housing transactions in the UK fell again in 2019 and consequently the number of house sales (exchanges) arranged by Connells in the period fell by 7%; and
- The land and new homes, lettings, mortgage services, conveyancing and survey and valuations divisions within Connells all contributed well in the period, further demonstrating the benefits of Connells' diversified business model.

Other subsidiaries

- Skipton Business Finance, a provider of debt factoring and invoice discounting to small and medium-sized enterprises, recorded a PBT of £4.0m (2018: £3.8m); and

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4 Source: CACI's Current Account & Savings Database Stock, latest available comparable market data for the 12 months ended 31 December 2019.

5 As measured from an in-house survey of Society customers with 5,338 responses. 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). This replaces the previous third party hosted survey with 2,400 customers responses on which the 2018 comparative results are based.

6 Administrative expenses as a percentage of mean total assets. Mean total assets is the average of total assets as at 31 December 2019 and 31 December 2018 as shown within the Statement of Financial Position.

7 Source: UK Finance industry arrears data (residential mortgages in arrears by more than three months) as at 31 December 2019.

- Jade Software Corporation, the provider of the Society's core database and software development language, and provider of digital business solutions to a number of other clients, broke even in the year (2018: £3.8m profit).

Supporting our communities and our people

- In 2019 the Society introduced matched funding and topped up our people's fundraising efforts by an additional £33,460, donated to 63 different charities and community groups, and the Skipton Building Society Charitable Foundation donated over £160,000 to a wide range of charities;
- The Society's volunteering policy has been reviewed and refreshed, and colleagues can now spend up to three days per year volunteering in the local community;
- The Society continues to support accessibility and, following Skipton becoming the first financial services organisation to partner with AccessAble in December 2018, the Society has continued this work in 2019 by creating online guides that contain helpful information about the accessibility of its branches;
- In 2018 the Society launched its sustainability strategy aligned to the United Nations Sustainable Development Goals, focusing on four goals where it feels it can have the greatest impact, and during 2019 has made good progress towards targets set against each of these goals;
- A specific goal of the Society is to support homeless people and, in 2019, 40 charities and community groups nominated by the Society's mortgage brokers each received a donation of £1,000, to support their work helping homeless people or people living in poverty;
- The Society has also continued its focus on building a sustainable Society, signing up to an exciting initiative with the Woodland Trust to plant 15,000 trees in the Northern Forest to help mitigate the Society's carbon footprint;
- The Society has signed the Women in Finance Charter during the year. As part of this focus 65.5% of colleagues participating in talent programmes since 2012 have been female, well above the Society's commitment to offer at least 50% of places to females;
- The employee engagement score was 89% (2018: 89%), well above financial services industry norms; and
- For the first time the Society has been named in the *Sunday Times 25 Best Big Companies to Work For.*

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

"In a challenging operating environment, with intense competition and ultra-low interest rates, these results are solid and reflective of a balanced performance. I'm proud that we have continued to increase our membership and increase our mortgage and savings balances at rates above our natural market share, whilst remaining relevant to new and existing customers and offering them great experiences with Skipton.

"After stagnation and political impasses following the Brexit referendum, the UK left the EU on 31 January 2020, however negotiations over future arrangements will shortly commence and are likely to mean significant uncertainty for the foreseeable future. Whilst the economic environment remains uncertain we start in a good place to face the coming years, with high customer satisfaction levels, leading employee engagement scores and being well-capitalised.

"We anticipate the factors influencing interest margins to continue in 2020 and, whilst we are responding to these in a number of ways, we expect to see reduced profitability. The Society does however remain in a strong position, with strong capital and liquidity ratios, healthy and sustainable growth seen in mortgage and savings balances and strong underlying profitability, further strengthened by subsidiary earnings. We remain vigilant regarding potential economic headwinds and we are 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."

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

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Editors' notes

1. Skipton is the UK's fourth largest building society, with over one million members, £25bn 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. Skipton is the UK's biggest Cash Lifetime ISA provider (LISA), with 158,850 LISA customers, account balances of over £875m and government bonuses paid during the year of £89.0m.
3. Skipton was named *Best National Building Society* for the sixth year running in the 2019 What Mortgage awards and *Five star mortgage lender* in the Financial Adviser Services Awards 2019.
4. Included in the Sunday Times 25 Best Big Companies to work for list in 2020, Skipton is also *Investors in People Platinum* (IIP) accredited, joining the elite 2% of IIP accredited organisations in achieving platinum status.
5. Skipton 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 stable 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 2019

Consolidated income statement

	2019	2018* Restated^
	£m	£m
Interest receivable and similar income:		
Accounted for using the effective interest rate method	**510.0**	470.1
On financial instruments at fair value through profit or loss (FVTPL)	**4.9**	3.7
Total interest receivable and similar income	**514.9**	473.8
Interest payable and similar charges	**(276.8)**	(232.6)
Net interest receivable	**238.1**	241.2
Fees and commissions receivable	**492.4**	496.4
Fees and commissions payable	**(8.2)**	(7.6)
Fair value gains / (losses) on financial instruments:		
Hedging instruments and hedged items	**1.2**	2.0
Other derivatives	**2.6**	18.1
Equity release portfolio	**(6.0)**	(17.1)
Other financial instruments	**-**	(0.3)
Realised profits on treasury assets held at fair value through other comprehensive income (FVOCI)	**2.4**	-
Profit on disposal of subsidiary undertakings	**1.1**	3.3
Share of profits from joint ventures	**1.7**	0.8
Other income	**0.8**	3.7
Total income	**726.1**	740.5
Administrative expenses	**(554.0)**	(536.5)
Operating profit before impairment and provisions	**172.1**	204.0
Impairment losses on loans and advances to customers	**(0.5)**	(2.5)
Impairment credit / (losses) on liquid assets	**0.2**	(0.1)
Realised losses on equity release portfolio	**(0.5)**	(0.7)
Provisions for liabilities	**(18.1)**	(12.0)
Profit before tax	**153.2**	188.7
Tax expense	**(30.8)**	(40.7)
Profit for the financial year attributable to members of Skipton Building Society	**122.4**	148.0

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated.

^ The comparative figures have been restated following a review of the presentation of certain lines of revenue within the Connells group resulting in an increase in 2018 of £15.5m to both ‘Fees and commissions receivable’ and ‘Administrative expenses’; there is no impact on profits nor on opening reserves for either of the comparative periods. The 2018 comparative figures have also been restated to reflect a change in the recognition of the fair value of hedged items on entering a hedge relationship, which is now amortised over the life of the hedge, resulting in a £0.5m benefit to the ‘Fair value gains on hedging instruments and hedged items’ line, and an £8.2m decrease in 2019 opening reserves.

Underlying Group PBT for 2019 was £155.2m (2018: £186.6m) as shown below:

	2019	2018
	£m	£m
Total Group profit before tax	**153.2**	188.7
Less profit on disposal of subsidiary undertakings	**(1.1)**	(3.3)
Add back fair value losses / less fair value gains in relation to the equity release portfolio	**3.4**	(1.0)
Add back fair value losses on equity share investments	**-**	0.3
Add back impairment of goodwill	**-**	2.5
Less credit for FSCS levy	**(0.3)**	(0.6)
Underlying Group profit before tax	**155.2**	186.6

Skipton Building Society
Results for the year ended 31 December 2019

Consolidated statement of comprehensive income

	2019 £m	2018* Restated^ £m
Profit for the financial year	**122.4**	148.0
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Remeasurement gains / (losses) on defined benefit obligations	**0.5**	(3.1)
Income tax on items that will not be reclassified to profit or loss	**0.3**	1.0
	0.8	(2.1)
Items that may be reclassified subsequently to profit or loss:		
Movement in cash flow hedging reserve:		
Gains taken to equity	**3.1**	1.2
Realised gains transferred to Income Statement	**(6.9)**	-
Movement in fair value reserve (debt securities):		
Losses taken to equity	**(0.3)**	(2.3)
Impairment loss allowance on debt securities held at FVOCI	**(0.1)**	0.1
Movement in cost of hedging reserve:		
Losses taken to equity	**(5.2)**	(0.5)
Exchange differences on translation of foreign operations	**(0.7)**	-
Income tax on items that may be reclassified to profit or loss	**2.5**	0.3
	(7.6)	(1.2)
Other comprehensive expense for the year, net of tax	**(6.8)**	(3.3)
Total comprehensive income for the year attributable to members of Skipton Building Society	**115.6**	144.7

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated.
^ The comparative amounts have been restated to reflect the change in approach to the recognition of the fair value of hedged items on entering a hedge relationship, which is now amortised over the life of the hedge.

Consolidated statement of financial position

	2019	2018* Restated^
	£m	£m
Assets		
Cash in hand and balances with the Bank of England	**1,793.1**	2,395.7
Loans and advances to credit institutions	**546.6**	422.7
Debt securities	**2,182.9**	1,383.1
Derivative financial instruments	**38.5**	72.3
Loans and advances to customers held at amortised cost	**20,065.6**	18,119.0
Loans and advances to customers held at FVTPL	**1.5**	1.9
Equity release portfolio held at FVTPL	**410.0**	410.9
Current tax asset	**1.0**	-
Deferred tax asset	**38.6**	37.1
Investments in joint ventures	**12.5**	12.2
Equity share investments	**1.5**	0.8
Property, plant and equipment	**75.7**	77.9
Right-of-use assets*	**67.4**	-
Investment property	**9.4**	12.0
Intangible assets	**162.6**	161.4
Other assets	**82.5**	84.9
Total assets	**25,489.4**	23,191.9
Liabilities		
Shares	**17,364.1**	16,113.5
Amounts owed to credit institutions	**1,678.3**	1,878.0
Amounts owed to other customers	**1,816.9**	1,690.5
Debt securities in issue	**2,302.6**	1,420.3
Derivative financial instruments	**361.1**	279.4
Current tax liability	**16.0**	18.5
Lease liabilities*	**66.6**	-
Other liabilities	**52.6**	56.9
Accruals	**42.3**	48.9
Deferred income	**2.7**	2.7
Provisions for liabilities	**23.7**	24.3
Deferred tax liability	**1.7**	1.2
Retirement benefit obligations	**87.0**	99.5
Subscribed capital	**41.6**	41.6
Total liabilities	**23,857.2**	21,675.3
Members' interests		
General reserve	**1,633.9**	1,510.7
Fair value reserve	**1.4**	1.6
Cash flow hedging reserve	**(3.3)**	(0.4)
Cost of hedging reserve	**(4.3)**	(0.5)
Translation reserve	**4.5**	5.2
Attributable to members of Skipton Building Society	**1,632.2**	1,516.6
Total members' interests and liabilities	**25,489.4**	23,191.9

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated.

^ The comparative figures for deferred tax assets and deferred tax liabilities have been restated to, where appropriate, present deferred tax on a net basis. This has resulted in a decrease to both deferred tax assets and deferred tax liabilities of £4.3m with corresponding decreases to total assets and total liabilities.

In addition, the comparative figures for loans and advances to customers held at amortised cost (£8.0m decrease), deferred tax asset (further £0.2m decrease), amounts owed to other customers (£0.1m increase), current tax liability (£0.1m decrease) general reserve (£8.0m decrease) and cash flow hedging reserve (£0.2m decrease) have been restated to reflect the change in approach to the recognition of the fair value of hedged items on entering a hedge relationship, which is now amortised over the life of the hedge.

Skipton Building Society
Results for the year ended 31 December 2019

Consolidated statement of cash flows

	2019	2018* Restated^
	£m	£m
Cash flows from operating activities		
Profit before tax	**153.2**	188.7
Adjustments for:		
Impairment charge / (credit) on loans and advances to customers	**0.5**	2.5
Loans and advances written off, net of recoveries	**(2.2)**	(1.7)
Impairment (credit) / losses on liquid assets	**(0.2)**	0.1
Impairment (credit) / losses on trade receivables	**(0.1)**	0.8
Impairment of goodwill	**-**	2.5
Depreciation and amortisation	**37.7**	21.1
Impairment of property, plant and equipment and investment property	**0.5**	2.3
Income Statement charge / (credit) for fair value of subsidiary management incentive scheme liability	**1.8**	(4.2)
Fair value losses on equity share investments	**-**	0.3
Interest on subscribed capital	**4.5**	4.5
Interest on lease liabilities	**1.4**	-
Profit on disposal of property, plant and equipment, investment property and intangible assets	**(0.6)**	(0.3)
Profit on disposal of treasury assets	**(2.4)**	-
Share of profits from joint ventures	**(1.7)**	(0.8)
Profit on disposal of subsidiary undertakings	**(1.1)**	(3.3)
Fair value losses on equity release portfolio	**6.0**	17.1
Realised losses on equity release portfolio	**0.5**	0.7
Other non-cash movements	**(17.7)**	(12.3)
	180.1	218.0
Changes in operating assets and liabilities:		
Movement in prepayments and accrued income	**(4.4)**	(2.4)
Movement in accruals and deferred income	**(4.0)**	15.7
Movement in provisions for liabilities	**-**	(1.8)
Movement in fair value of derivatives	**115.5**	(17.2)
Movement in fair value adjustments for hedged risk	**(93.6)**	(10.1)
Fair value movements in debt securities	**0.7**	4.3
Movement in loans and advances to customers	**(1,866.4)**	(1,501.4)
Movement in shares	**1,231.5**	1,018.0
Net movement in amounts owed to credit institutions and other customers	**(74.1)**	260.3
Net movement in debt securities in issue	**919.1**	746.8
Net movement in loans and advances to credit institutions	**(98.1)**	(107.1)
Remeasurement gains / (losses) on defined benefit obligations	**0.5**	(3.1)
Net movement in other assets	**(2.1)**	36.9
Net movement in other liabilities	**(9.2)**	(37.3)
Income taxes paid	**(32.7)**	(40.4)
Net cash flows from operating activities	**262.8**	579.2

Consolidated statement of cash flows (continued)

	2019 £m	2018* Restated^ £m
Net cash flows from operating activities	**262.8**	579.2
Cash flows from investing activities		
Purchase of debt securities	**(2,611.5)**	(1,763.2)
Proceeds from disposal of debt securities	**1,813.4**	1,166.9
Purchase of property, plant and equipment	**(12.7)**	(14.5)
Purchase of intangible assets	**(7.7)**	(4.9)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets	**3.7**	1.5
Dividends received from joint ventures	**1.4**	1.4
Cash acquired on transfer of engagements	**-**	12.9
Contingent consideration received following disposal of subsidiary undertaking (net of costs)	**6.2**	5.4
Investment in equity share investments	**(0.7)**	(0.7)
Purchase of other business units	**(0.3)**	(0.6)
Deferred consideration paid in respect of prior year acquisitions of subsidiary undertakings and business assets	**(0.1)**	(1.6)
Net cash flows from investing activities	**(808.3)**	(597.4)
Cash flows from financing activities		
Exercise of share options in subsidiary management incentive scheme	**(9.3)**	(9.8)
Share options issued in subsidiary management incentive scheme	**0.7**	-
Exercise of put options held by non-controlling shareholders	**(0.6)**	(0.3)
Interest paid on subscribed capital	**(4.5)**	(4.5)
Interest paid on lease liabilities	**(1.4)**	-
Payment of lease liabilities	**(16.3)**	-
Net cash flows from financing activities	**(31.4)**	(14.6)
Net decrease in cash and cash equivalents	**(576.9)**	(32.8)
Cash and cash equivalents at 1 January	**2,421.9**	2,455.0
Adjustment on initial adoption of IFRS 9**	**-**	(0.3)
Decrease in impairment loss allowance on cash and cash equivalents	**0.1**	-
Cash and cash equivalents at 31 December	**1,845.1**	2,421.9

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated.
^ The comparative amounts have been restated to reflect the change in approach to the recognition of the fair value of hedged items on entering a hedge relationship, which is now amortised over the life of the hedge.
** In the cash flow statement for 2018 the adjustment on initial adoption of IFRS 9 of £(0.3)m was not separately presented but was included within cash flows from operating activities.

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

	2019 £m	2018 £m
Cash in hand and balances with the Bank of England	**1,793.1**	2,395.7
Mandatory reserve deposit with the Bank of England	**(57.8)**	(46.9)
	1,735.3	2,348.8
Loans and advances to credit institutions	**109.8**	73.1
Cash and cash equivalents at 31 December	**1,845.1**	2,421.9

Skipton Building Society

Key ratios

	2019	2018 Restated*
	%	%
Group net interest margin	**0.98**	1.09
Mortgages and Savings division management expenses / mean total assets	**0.65**	0.68
Mortgages and Savings division cost income ratio*	**60.2**	56.2
Group profit after tax / mean total assets	**0.50**	0.67
Total asset growth	**9.9**	10.4
Group loans and advances growth	**10.3**	10.0
Group share account growth	**7.6**	7.7
Liquidity Coverage Ratio	**207**	203
Funding ratio	**79.8**	81.6
Gross capital ratio*	**7.23**	7.38
Free capital ratio*	**5.87**	6.19
Group Common Equity Tier 1 (CET 1) capital ratio*	**39.1**	32.8
Total capital ratio*	**40.1**	33.7
Leverage ratio*	**6.0**	6.1

* The comparatives for the ratios marked above have been restated to reflect the change in approach to the recognition of the fair value of hedged items detailed previously.

Definitions

Mean total assets are the average of the 2019 and 2018 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, cost of 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, right-of-use assets, 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 level (the key level at which the Society is regulated). 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.