PRESS RELEASE **Wednesday 1 March 2017**

RECORD LENDING AND INCREASED CUSTOMER NUMBERS AS SKIPTON BUILDING SOCIETY REPORTS ANOTHER STRONG YEAR

Skipton Building Society today announces its annual results for the year ended 31 December 2016.

The UK's fourth largest building society continues to build on the strong performance seen in recent years. Group gross residential mortgage lending in the year of £4.0bn is the highest in the Group's history, and total assets rose to £19.0bn.

The Society, which provides mortgages, savings, investments and pensions advice, is the head of a group whose subsidiaries include two mortgage portfolios in run-off, a mortgage and savings provider based in Guernsey, a significant presence in estate agency and a small investment portfolio.

The Society has continued to grow its customer base, strengthen its capital position and deliver excellent customer service. Its long term focus remains to help people to plan for their life ahead. Performance highlights in 2016 include:

- The Society continued to grow with a 22,316 increase in customers to 860,403;
- Group gross mortgage lending increased by 8.0% to £4.0bn (2015: £3.7bn);
- The mortgage book grew by £1.3bn to £15.5bn, a growth rate of 9.1% (2015: by £1.5bn, a growth rate of 11.9%);
- Savings balances grew by £1.3bn to £14.1bn, a growth rate of 10.0% (2015: by £1.4bn, a growth rate of 11.9%);
- Group total assets increased by 8.6% during the year to £19.0bn (2015: £17.5bn);
- Total Group profit before tax (PBT) increased by 15.0% to £168.9m (2015: £146.9m);
- Underlying Group PBT[1] decreased by 1.2% to £151.5m (2015: £153.3m);
- Group net interest margin reduced to 1.16% (2015: 1.33%) and amounted to £212.4m (2015: £223.3m), a reduction of £10.9m (or 4.9%);
- Group administrative expenses increased by £34.7m or 7.5% to £499.1m (2015: £464.4m), of which £337.7m relates to the Connells estate agency group (2015: £289.0m);
- Loan loss provisions continued to reduce, resulting in a net credit of £0.3m, from an £8.4m charge in 2015;
- Charges for provisions and liabilities reduced to £10.9m (2015: £11.8m) and included a levy of £2.1m payable to the Financial Services Compensation Scheme (FSCS) (2015: £7.4m);
- The Society now reports its capital ratios using the Internal Ratings Based (IRB) approach and its Common Equity Tier 1 (CET 1) ratio[2] at 31 December 2016 was 23.9%. Had the Society remained on

[1] Underlying Group PBT excludes Financial Services Compensation Scheme charges, gains and losses on disposal of subsidiary, associate and equity share investments and impairment of associate and equity share investments. The reconciliation of underlying Group PBT to total Group PBT is found on page 7 of this document.

[2] The CET 1 and leverage ratios are calculated on the PRA regulated prudential group basis. The prudential group is the full Group excluding Connells, Jade Software Corporation, Northwest Investments NZ Limited and Skipton Trustees Limited. These ratios are reported under CRD IV (which is a set of EU legislative requirements covering prudential rules for banks, building societies and

the standardised approach, its CET 1 ratio as at 31 December 2016 would have been 17.3% (2015: 16.8%);

- The leverage ratio[2], calculated on an IRB basis, was strong at 5.9%, comfortably ahead of the regulator's expected minimum. On a standardised basis, the ratio would have been 6.3% and was 6.1% at 31 December 2015; and
- In May 2016, the ratings agency Fitch upgraded the Society's long term rating to A- (from BBB+) with a stable outlook and its short term rating was upgraded to F1 (from F2). In October 2016, Moody's maintained its long and short term rating of Baa2 and P-2 respectively but changed its outlook from stable to positive.

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

"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.

"Being a 'trusted helper', coupled with excellent customer service, has led to the Society delivering a strong performance in 2016, achieving a net customer satisfaction rating of 90%[3], and an employee engagement score of 90%[4]. Group profit after tax increased by 14.5% to £129.8m and, being a mutual, this money is held in reserves and available to be reinvested back into the business, not paid out to shareholders."

Unwavering focus on our members and our people

During 2016 the Society introduced a range of measures to ensure we continue to meet the evolving needs of our members, including the integration of Skipton Financial Services (SFS) into the building society.

David commented: "SFS was set up in 1988 after identifying a growing customer need for high quality, face-to-face financial planning. Nearly 30 years on, and in an increasingly complex financial world, I am convinced this need is greater than ever. In 2016 we integrated our financial advice subsidiary into the Society and in doing so will make it easier and more cost effective to meet our customers' changing needs. This enables us to offer a one-stop-shop for all financial planning matters through a seamless customer experience, without duplicating branding, digital and online investment."

In addition, in 2016 the Society also:

- Achieved a net customer satisfaction rating of 90% (2015: 88%);
- Saw 21% of customer complaints referred to the Financial Ombudsman Service changed in the customer's favour compared with an average of 45%[5] for the financial services industry;
- Achieved in June 2016 an employee engagement level of 90% (June 2015: 90%), significantly ahead of industry norms; and
- Was listed, for the third year running, in *The Sunday Times* 100 Best Companies To Work For.

Good performance in the Mortgages and Savings division

- The division produced a PBT of £96.6m, compared to £103.1m in 2015, a reduction of £6.5m (or 6.3%);

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investment firms) on a 'fully loaded' basis. The fully loaded position represents the CRD IV end-point definition applicable from 1 January 2022.

[3] As measured from an independent third party survey of 2,393 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).

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

[5] Source: Financial Ombudsman Service (FOS) complaints data (resolved cases) for the financial services industry for the 12 months to 31 December 2016.

- When expressed as a percentage of mean assets, the Group net interest margin decreased by 17bps to 1.16% from 1.33%. A low interest rate environment, increased competition in the mortgage market and a higher propensity for existing borrowers to switch to a new mortgage product contributed to this reduction in margin;
- In spite of strong balance sheet growth and continued investment in customer propositions, the division's administrative costs of £135.9m were £1.2m lower than the prior year, a 0.9% reduction;
- The cost income ratio of the Mortgages and Savings division was 57.3% (2015: 53.3%), whilst the management expense ratio of the division was 0.75% (2015: 0.83%)[6];
- The Group remains primarily funded by retail savings, representing 89.59% of total funding (2015: 87.78%);
- In addition, the division also accepts deposits through its Guernsey based subsidiary, Skipton International Limited (SIL). Offshore deposits increased by 9.6% to £1.2bn from £1.1bn;
- SIL increased PBT by £1.5m (10.9%) to £15.2m from £13.7m;
- 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 0.73% of mortgage accounts (2015: 0.91%) and compares to an industry average of 1.00%[7] (2015: 1.12%);
- The Society's three months or more arrears levels fell from 0.44% at 31 December 2015 to 0.38% at 31 December 2016. The quality of the SIL mortgage book remains excellent with nil cases in arrears by three months or more (2015: nil);
- The percentage of cases in Amber Homeloans and North Yorkshire Mortgages in arrears by three months or more at 31 December 2016 were 5.95% and 4.31% respectively (2015: 6.64% and 5.54%), a significant improvement. Both books are closed and in run-off;
- The average indexed loan-to-value of residential mortgages across the division reduced to 47.9% (2015: 48.5%);
- At 31 December 2016, the Society had drawn down £980m under the Government's Funding for Lending Scheme (2015: £880m) and £300m under the Term Funding Scheme (2015: £nil); and
- At 31 December 2016, liquidity amounted to 15.90% of shares, deposits and borrowings (2015: 16.95%).

Enabling our members to achieve their life ahead aspirations

- The Group's net residential UK mortgage lending accounted for 3.5% of the growth in the UK residential mortgage market, compared to our 1.1%[8] share of UK residential mortgage balances;
- The Society helped 23,666 homeowners (2015: 23,094) to purchase or remortgage their properties, including 4,327 first time buyers (2015: 3,847) and 1,292 (2015: 618) through participation in the Government's Help to Buy equity loan scheme;
- £588.0m or 14.8% of the Group's gross lending during the year was on buy-to-let mortgages (2015: £467.2m or 12.7%);
- Our award-winning range of competitive savings products saw retail deposit balances grow by £1.3bn to £14.1bn, an annual growth rate of 10.0% (2015: 11.9%);
- The growth in the Society's savings balances accounted for 1.6% of the growth in the UK deposit savings market[9] (2015: 2.1%), compared to our market share of savings balances of 1.0%;

[6] Administrative expenses as a percentage of mean total assets. Mean total assets is the average of the 2016 and 2015 total assets as shown within the Statement of Financial Position. Both the cost income and management expense ratios, including the comparative figures, assume that the Group's financial advice activities previously carried out by SFS, which were integrated into the Society on 1 August 2016, have always been part of the Mortgages and Savings division. In previous reporting periods, SFS was shown as being outside the division. For example, and to illustrate the impact of this adjustment, for the six months ended 30 June 2016, the Mortgages and Savings division's cost income ratio was previously reported as being 52.6% and its management expense ratio as being 0.61%.

[7] Source: Council of Mortgage Lenders, industry arrears data (mortgages in arrears by more than three months) at 31 December 2016.

[8] Source: Bank of England statistics, 'Lending secured on dwellings' for the 12 months to 31 December 2016.

[9] Source: Bank of England statistics, 'UK deposits from households' for the 12 months to 31 December 2016.

- The average savings rate paid across all of our accounts reduced by 0.19% during the 12 month period, but nevertheless averaged 1.50% during the year, compared to an average Bank Base Rate during the period of 0.40%; and
- The Society paid on average 0.58% higher interest than the market average for banks and building societies during the 11 month period to 30 November 2016 (11 months to 30 November 2015: 0.49%), being the latest available comparable market data[10].

Robust performance from estate agency in a challenging market

- Connells, our estate agency division, reported PBT of £73.4m, compared to £62.5m in 2015, an increase of 17.4%. This includes a gain of £17.0m on the part disposal of shares in Zoopla Property Group Plc (2015: £0.3m). Excluding these gains, PBT in 2016 amounted to £56.4m, a 9.3% reduction compared to 2015;
- In February 2016, Connells acquired 95% of the shares in the 16-branch estate agency Rook Matthews Sayer and in March 2016 acquired the business of Andersons & Associates, increasing surveyor headcount by 14;
- Total house sales (exchanges) by Connells increased by 8% compared to 2015 and increased by 1% on a like-for-like basis (i.e. excluding the impact of acquisitions of subsidiary undertakings in the current and prior period);
- The UK housing market was adversely impacted around the date of the EU referendum but gradually improved in the second half of the year. Like-for-like second hand house sales (sold subject to contract), having been 12% higher in the first five months of 2016 compared to the previous year, were 8% lower in quarter 3 and 7% lower in quarter 4;
- Income increased by 21% from lettings, by 18% from mortgage services and by 16% from surveys and valuations. Properties under management increased by 23%, mortgage sign ups increased by 10% and survey and valuation cases increased by 8% compared to 2015; and
- At 31 December 2016, Connells operated 583 branches (2015: 542).

Today, Connells Limited also announces its annual results for 2016 and further details can be found at Connells Group Financial Results 2016.

Other subsidiaries

- Skipton Business Finance recorded a PBT of £3.3m (2015: £3.2m);
- Jade Software Corporation, the provider of the Society's core database and software development language and 56.4% owned by the Group, recorded a loss before tax of £0.4m (2015: loss of £1.3m);
- The Group owns 17.7% of Wynyard Group Limited, a provider of software development services that was spun out of Jade Software Corporation and floated on the NZ stock exchange in July 2013. In October 2016, Wynyard was placed into voluntary administration, and subsequently entered liquidation in February 2017. The Group recognised a loss of £15.0m during 2016 on Wynyard related activities, including a £10.6m impairment charge against the whole of its investment; and
- In 2014, the Group sold its 100% shareholding in Homeloan Management Limited, a provider of mortgage services, for £56.6m with a right to contingent consideration based on performance. Although the performance period has not yet ended, in 2016 the Group has recognised £9.9m of contingent consideration (2015: £nil). In addition, the Group's reported profits for 2016 have benefitted by £5.8m following expiry of the indemnity period relating to the disposal (2015: £nil). Both of these items are excluded from underlying PBT.

[10] Source: CACI Savings Market Database.

Giving something back to our communities

- Through our award winning Grassroots Giving community funding programme, in 2016 we gave 163 donations of £500 to small community groups voted for by the public, bringing the total donated since the scheme launched to £323,000;
- Colleagues from across the Society also raised over £76,000 for good causes right across the UK;
- In 2016 the Society donated £150,000 to the Skipton Building Society Charitable Foundation, which enabled the Foundation to support registered charities, involved in helping people of all ages;
- We continued to support a number of key community partners, including the Great Yorkshire Show and Skipton Building Society Camerata; and
- During the year, the Group incurred UK taxes of £69.9m (2015: £72.4m), including corporation tax, business rates, employer's national insurance, and the new 8% bank corporation tax surcharge amounting to £4.5m (2015: £nil).

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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, Senior Corporate Communications Manager
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 860,000 customers, £19bn of assets and a national presence represented by its network of 95 branches and 3 agencies. 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's mortgages and savings were independently endorsed with 181 independent media best-buy table mentions in 2016.

3. 2017 saw Skipton named for the third year running as one of the UK's Top 100 Companies to Work For. The Sunday Times list is widely acknowledged as the most searching and extensive research into employee engagement carried out in the country.

4. In 2016 Skipton achieved a double success at the MoneySuperMarket Supers awards - being named Best Cash ISA Savings Provider and Best Savings Account Provider. The Society was also named a Trusted Savings Account Provider in the 2016 Moneywise Customer Service Awards. In June Skipton Intermediaries scooped a Five Star Award at the FT Adviser Service Online Innovation and Service Awards. In July 2016, Skipton was declared the Best National Building Society 2016 in the What Mortgage Awards and was also named Best Online Cash ISA Provider in the Yourmoney.com awards. In November, Skipton Intermediaries proudly achieved a Five Star Rating in the Financial Adviser Service Awards.

5. 2016 also saw the Society awarded a long service award from Investors in People in recognition of twenty years accreditation. Investors in People is recognised worldwide and holding Gold standard puts Skipton in the top 7% of all accredited organisations.

6. In May 2016, global ratings agency Fitch upgraded Skipton's long term Issuer Default Rating (IDR) to A- (from BBB+) with a stable outlook and its short term IDR was upgraded to F1 (from F2). Skipton Building Society is also rated by Moody's (Baa2/P-2 with a positive outlook).

Skipton Building Society

Results for the year ended 31 December 2016

Consolidated income statement

	2016	2015
	£m	£m
Interest receivable and similar income	**427.0**	439.5
Interest payable and similar charges	**(214.6)**	(216.2)
Net interest receivable	**212.4**	223.3
Fees and commissions receivable	**452.9**	409.1
Fees and commissions payable	**(9.6)**	(10.1)
Fair value (losses) / gains on financial instruments	**(3.7)**	4.0
Profit on treasury assets	**4.6**	0.1
Profit / (loss) on disposal of subsidiary undertakings	**15.8**	(0.4)
(Loss) / profit on full or part disposal of associate	**(0.9)**	1.1
Profit on part disposal of equity share investments	**17.0**	0.3
Dividend income from equity share investments	**0.7**	0.3
Share of profits from joint ventures	**1.8**	2.5
Share of losses from associate	**(2.4)**	(2.3)
Other income	**2.4**	3.6
Total income	**691.0**	631.5
Administrative expenses	**(499.1)**	(464.4)
Operating profit before impairment losses and provisions	**191.9**	167.1
Impairment credit / (charge) on loans and advances to customers	**0.3**	(8.4)
Impairment losses on associate	**(1.1)**	-
Impairment losses on equity share investments	**(11.3)**	-
Provisions for liabilities	**(10.9)**	(11.8)
Profit before tax	**168.9**	146.9
Tax expense	**(39.1)**	(33.5)
Profit for the financial year	**129.8**	113.4
Profit for the financial year attributable to:		
Members of Skipton Building Society	**130.1**	114.0
Non-controlling interests	**(0.3)**	(0.6)
	129.8	113.4

Skipton Building Society

Results for the year ended 31 December 2016

Underlying Group PBT for 2016 was £151.5m (2015: £153.3m) as follows:

	2016	2015
	£m	£m
Total Group profit before tax	**168.9**	146.9
Less profit / add back loss on disposal of subsidiary undertakings	**(15.8)**	0.4
Less profit on full or part disposal of associate and equity share investments	**(16.1)**	(1.4)
Add back impairment of associate and equity share investments	**12.4**	-
Add back FSCS levy	**2.1**	7.4
Underlying Group profit before tax	**151.5**	153.3

Skipton Building Society
Results for the year ended 31 December 2016

Consolidated statement of comprehensive income

	2016	2015
	£m	£m
Profit for the financial year	**129.8**	113.4
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Remeasurement (losses) / gains on defined benefit obligations	**(50.0)**	5.7
Movement in reserves attributable to non-controlling interests	**0.9**	(0.3)
Income tax on items that will not be reclassified to profit or loss	**10.2**	-
	(38.9)	5.4
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale investments: valuation gains taken to equity	**6.5**	6.0
Available-for-sale investments: realised gains transferred to Income Statement	**(6.2)**	(0.3)
Cash flow hedges: gains taken to equity	**8.9**	1.0
Cash flow hedges: realised (gains) / losses transferred to Income Statement	**(0.2)**	1.3
Exchange differences on translation of foreign operations	**1.7**	(1.0)
Translation loss transferred to Income Statement on deemed disposal of associate	**0.5**	0.1
Income tax on items that may be reclassified to profit or loss	**(2.2)**	(0.6)
	9.0	6.5
Other comprehensive (expense) / income for the year, net of tax	**(29.9)**	11.9
Total comprehensive income for the year	**99.9**	125.3
Total comprehensive income attributable to:		
Members of Skipton Building Society	**99.3**	126.2
Non-controlling interests	**0.6**	(0.9)
	99.9	125.3

Skipton Building Society

Results for the year ended 31 December 2016

Consolidated statement of financial position

	2016	2015
	£m	£m
Assets		
Cash in hand and balances with the Bank of England	**1,212.7**	1,180.8
Loans and advances to credit institutions	**409.6**	352.6
Debt securities	**1,055.1**	1,104.4
Derivative financial instruments	**116.1**	95.1
Loans and advances to customers	**15,781.6**	14,363.2
Deferred tax asset	**30.4**	21.6
Investments in joint ventures	**12.5**	10.8
Investments in associates	**-**	11.5
Equity share investments	**36.4**	40.9
Property, plant and equipment	**77.8**	67.8
Investment property	**15.0**	15.9
Intangible assets	**164.8**	153.2
Other assets	**107.7**	93.6
Total assets	**19,019.7**	17,511.4
Liabilities		
Shares	**14,152.5**	12,828.2
Amounts owed to credit institutions	**655.3**	735.6
Amounts owed to other customers	**1,493.2**	1,389.5
Debt securities in issue	**534.2**	608.8
Derivative financial instruments	**412.3**	296.9
Current tax liability	**19.7**	16.8
Other liabilities	**106.2**	139.8
Accruals and deferred income	**52.6**	43.2
Provisions for liabilities	**23.3**	26.5
Deferred tax liability	**12.2**	11.3
Retirement benefit obligations	**110.9**	65.2
Subordinated liabilities	**77.2**	78.5
Subscribed capital	**92.6**	93.5
Total liabilities	**17,742.2**	16,333.8
Members' interests		
General reserve	**1,236.6**	1,146.3
Available-for-sale reserve	**32.0**	31.7
Cash flow hedging reserve	**3.3**	(3.2)
Translation reserve	**6.6**	4.4
Attributable to members of Skipton Building Society	**1,278.5**	1,179.2
Non-controlling interests	**(1.0)**	(1.6)
Total members' interests	**1,277.5**	1,177.6
Total members' interests and liabilities	**19,019.7**	17,511.4

Skipton Building Society

Results for the year ended 31 December 2016

Consolidated statement of cash flows

	2016	2015
	£m	£m
Cash flows from operating activities		
Profit before tax	**168.9**	146.9
Adjustments for:		
Impairment (credit) / charge on loans and advances to customers	**(0.3)**	8.4
Loans and advances written off, net of recoveries	**(4.7)**	(5.5)
Depreciation and amortisation	**20.6**	16.9
Impairment of property, plant and equipment and investment property	**-**	4.0
Impairment losses on associate	**1.1**	-
Impairment losses on equity share investments	**11.3**	-
Dividend income from equity share investments	**(0.7)**	(0.3)
Interest on subscribed capital and subordinated liabilities	**11.4**	12.1
Profit on sale of property, plant and equipment, investment property and intangible assets	**(0.1)**	(0.2)
Profit on treasury assets	**(4.6)**	(0.1)
Share of losses / (profits) from joint ventures and associates	**0.6**	(0.2)
Loss / (profit) on full or part disposal of associate	**0.9**	(1.1)
Profit on part disposal of equity share investments	**(17.0)**	(0.3)
(Profit) / loss on disposal of subsidiary undertakings	**(15.8)**	0.4
Net gains from changes in fair value of cash flow hedges	**8.9**	1.0
Remeasurement (losses) / gains on defined benefit obligations	**(50.0)**	5.7
Other non-cash movements	**7.3**	(1.8)
	137.8	185.9
Changes in operating assets and liabilities:		
Movement in prepayments and accrued income	**(4.2)**	2.7
Movement in accruals and deferred income	**7.4**	2.3
Movement in provisions for liabilities	**(3.4)**	(5.9)
Movement in fair value of derivatives	**94.4**	27.9
Movement in fair value adjustments for hedged risk	**(79.9)**	(30.5)
Movement in fair value of debt securities	**(9.6)**	5.3
Movement in loans and advances to customers	**(1,298.4)**	(1,513.5)
Movement in shares	**1,284.6**	1,366.9
Income Statement charge for fair value of subsidiary management incentive scheme liability	**1.0**	15.9
Net movement in amounts owed to credit institutions and other customers	**25.5**	191.6
Net movement in debt securities in issue	**(74.5)**	(122.4)
Net movement in loans and advances to credit institutions	**(94.9)**	(2.9)
Net movement in other assets	**1.4**	(8.7)
Net movement in other liabilities	**24.3**	13.0
Income taxes paid	**(37.0)**	(36.6)
Net cash flows from operating activities	**(25.5)**	91.0

Consolidated statement of cash flows (continued)

	2016	2015
	£m	£m
Net cash flows from operating activities	**(25.5)**	91.0
Cash flows from investing activities		
Purchase of debt securities	**(1,130.2)**	(500.3)
Proceeds from disposal of debt securities	**1,193.7**	543.3
Purchase of property, plant and equipment and investment property	**(22.6)**	(13.9)
Purchase of intangible assets	**(5.7)**	(2.4)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets	**1.3**	2.3
Dividends received from equity share investments	**0.7**	0.3
Exercise of share options in subsidiary management incentive scheme	**(10.0)**	-
Proceeds from disposal of equity share investments	**18.2**	0.3
Dividends received from joint ventures	**2.1**	3.2
Purchase of subsidiary undertakings, net of cash acquired	**(6.6)**	(4.8)
Further investment in subsidiary undertakings	**-**	(0.9)
Investment in joint ventures and equity share investments	**(0.4)**	(1.2)
Investment in associate	**(2.5)**	-
Purchase of other business units	**(7.1)**	(1.2)
Cash received from sale of subsidiary undertakings, net of cash disposed of	**-**	3.4
Net cash flows from investing activities	**30.9**	28.1
Cash flows from financing activities		
Redemption of subordinated liabilities	**-**	(18.0)
Interest paid on subordinated liabilities	**(3.0)**	(3.7)
Interest paid on subscribed capital	**(8.4)**	(8.4)
Net cash flows from financing activities	**(11.4)**	(30.1)
Net (decrease) / increase in cash and cash equivalents	**(6.0)**	89.0
Cash and cash equivalents at 1 January	**1,291.6**	1,202.6
Cash and cash equivalents at 31 December	**1,285.6**	1,291.6

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

	2016	2015
	£m	£m
Cash in hand and balances with the Bank of England	**1,212.7**	1,180.8
Mandatory reserve deposit with the Bank of England	**(25.4)**	(22.0)
	1,187.3	1,158.8
Loans and advances to credit institutions	**98.3**	132.8
Cash and cash equivalents as at 31 December	**1,285.6**	1,291.6

Skipton Building Society
Key ratios

	2016	2015
	%	%
Group net interest margin	**1.16**	1.33
Group management expenses / mean total assets	**2.73**	2.77
Group profit after tax / mean total assets	**0.71**	0.68
Total asset growth	**8.6**	9.7
Group loans and advances growth	**9.1**	11.9
Group share account growth	**10.0**	11.9
Liquidity ratio	**15.90**	16.95
Funding ratio	**10.41**	12.22
Gross capital ratio	**8.60**	8.67
Free capital ratio	**7.28**	7.39
Group Common Equity Tier 1 (CET 1) capital ratio (note 1)	**23.9**	16.8
Total capital ratio (note 1)	**24.7**	17.5

Note
1. The 2016 Common Equity Tier 1 (CET 1) ratio and total capital ratio are calculated on an Internal Ratings Based (IRB) basis, rather than standardised as is the case for the comparative figures, following IRB status approval during the year. Had the Society remained on the standardised approach its CET 1 ratio at 31 December 2016 would have been 17.3% (2015: 16.8%) and its total capital ratio would have been 17.9% (2015: 17.5%).

Definitions

Mean total assets is the average of the 2016 and 2015 total assets as shown within the Group Statement of Financial Position.

Management expenses represent administrative expenses.

The liquidity ratio measures liquid assets as a percentage of shares, deposits and borrowings. 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. 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 adjustment for hedged risk.

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 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.

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 Group Statement of Financial Position.