PRESS RELEASE **28 February 2018**

SKIPTON INCREASES GROUP PROFITS TO £200M AND ANNOUNCES PLANNED MERGER WITH HOLMESDALE BUILDING SOCIETY

Skipton Building Society today announces its annual results for the year ended 31 December 2017.

The UK's fourth largest building society announces a strong performance for 2017, increasing its membership to 919,060, recording a 19% increase in Group profit before tax to £200.1m, a 9% increase in underlying Group profit before tax[1] to £165.7m, and increasing its Common Equity Tier 1 ratio to 33.2%.

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.

Performance highlights in 2017 include:

- The Society continued to grow with a 58,657 (6.8%) increase in members to 919,060;
- Group profit before tax (PBT) increased by 18.5% to £200.1m (2016: £168.9m);
- Underlying Group PBT increased by 9.4% to £165.7m (2016: £151.5m);
- The Group disposed of a £220m portfolio of non-performing or recently non-performing loans. This initiative reduced risk weighted assets (a risk measure) by £463m and resulted in a £15.0m loss on disposal;
- As a consequence, the number of Group residential mortgages in arrears by three months or more has more than halved during the year to only 0.36% of mortgage accounts (2016: 0.73%), and compares to an industry average of 0.82%[2];
- The Group also disposed of its remaining equity investment shareholding in ZPG Plc resulting in a £38.5m gain (2016: £17.0m);
- The disposal of Homeloan Management Limited to Computershare by the Group in 2014 included a right to contingent consideration based on future performance. As a consequence a further profit of £15.9m was recognised in 2017, which takes the total profit from the sale to £56.3m;
- Group gross mortgage lending increased by 12.8% to £4.5bn (2016: £4.0bn);
- Mortgage balances grew by £1.3bn to £16.8bn, a growth rate of 8.3% (2016: by £1.3bn, a growth rate of 9.1%);
- Savings balances grew by £0.9bn to £15.0bn, a growth rate of 6.2% (2016: by £1.3bn to £14.1bn, a growth rate of 10.0%);

1 Underlying Group profit before tax 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, gains and losses on disposal of Group undertakings and impairment of Group undertakings. In 2017 it also excludes the loss on sale of the portfolio of non-performing or recently non-performing loans which occurred during the period, as the sale of mortgage assets is not considered to be an ongoing trading activity of the Group. See page 8 of this document for a full reconciliation of statutory Group PBT to underlying Group PBT.

2 Source: Council of Mortgage Lenders, industry arrears data (mortgages in arrears by more than three months) at 31 December 2017.

- In June, the Society raised £350m of unsecured wholesale funding for a five year term, its first such issuance since the global financial crisis, broadening the Society's funding base and lengthening its funding maturity;
- Group total assets increased by 10.5% during the year to £21.0bn (2016: £19.0bn);
- Funds under management as part of our financial advice offering increased by 9.7% to £3.4bn (2016: £3.1bn);
- The Group net interest margin reduced to 1.10% (2016: 1.18% (restated)), whilst net interest income increased to £220.6m (2016: £215.6m (restated)), an increase of £5.0m (or 2.3%);
- Group administrative expenses increased by £24.0m or 4.8% to £523.1m (2016: £499.1m), of which £345.5m relates to the Connells estate agency group (2016: £337.7m);
- Loan loss provisions on residential mortgages (excluding the equity release portfolio) continued to reduce, resulting in a net credit of £1.3m (2016: a credit of £2.7m). The credit in respect of the Society's equity release book was £1.8m (2016: charge of £3.8m);
- Charges for provisions and liabilities were £16.3m (2016: £10.9m) and included a levy of £1.2m payable to the Financial Services Compensation Scheme (FSCS) (2016: £2.1m). A charge of £11.4m (2016: £5.7m) was recognised for commission clawbacks in the Connells group, the increase largely as a result of an increase in the volume of business written during the year. Charges of £5.7m were recognised for customer compensation provisions (2016: £2.9m). This relates predominantly to provisions for potential claims on payment protection insurance and potential future redress payable following an evaluation during 2017 of some historical terms and conditions for a small number of mortgages, mainly within our specialist mortgage lenders Amber Homeloans and North Yorkshire Mortgages, which have been closed to new business since 2008;
- The Common Equity Tier 1 (CET 1) ratio at 31 December 2017 was 33.2% (2016: 23.9%), benefiting from retained profits generated during the year and a reduction in capital requirements as a result of the disposal of the £220m portfolio of non-performing or recently non-performing loans;
- The leverage ratio was strong at 6.1% (2016: 5.9%), comfortably ahead of the regulator's expected minimum of 3%; and
- The robustness of the business was recognised by global credit rating agency Moody's, who upgraded the Society for the third time in four years.

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

"Today's results show that 2017 was another year of strong performance for Skipton Building Society, and further demonstrated that our 164-year-old core purpose of helping more people into homes and helping people save for their life ahead is still as relevant today as it was when we were founded.

In 2017 we enabled more people to save for their future and finance their own home than we ever have before. We were the first, and to date only, financial services provider to launch a cash Lifetime ISA, enabling 50,590[3] people to invest in their future by saving for their first home or for their life ahead.

The level of service experienced by our members is important to us. One of the achievements that we are most proud of over the past 12 months was leaping into the prestigious 'top ten' for customer experience excellence across 295 major UK brands and being named the UK's top building society for customer experience[4]. This excellent customer service is reflected by our growing membership numbers, which have increased by 58,657 in 2017.

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

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3 As at 31 December 2017.

4 Source: Independent 2017 Customer Experience Excellence survey, out of 295 brands.

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

- The Society was the first financial services provider to launch a cash Lifetime ISA, helping over 50,000 people from its launch in June to save for their first home or longer term financial needs;
- The Group's net residential UK mortgage lending accounted for 3.0% of the growth in the UK residential mortgage market (2016: 3.5%), compared to our 1.1%[5] share of UK residential mortgage balances;
- The Society helped 25,979 homeowners (2016: 23,666) to purchase or remortgage their properties, including 4,540 first time buyers (2016: 4,327) and 1,498 (2016: 1,292) through participation in the Government's Help to Buy equity loan scheme;
- £824.1m, or 18.4%, of the Group's gross lending during the year was on buy-to-let mortgages (2016: £588.0m or 14.8%);
- Our award-winning range of competitive savings products saw retail deposit balances grow by £0.9bn to £15.0bn, an annual growth rate of 6.2% (2016: 10.0%);
- The growth in the Society's savings balances accounted for 1.9% of the growth in the UK deposit savings market (2016: 1.6%), compared to our market share of savings balances of 1.0%[6];
- The average savings rate paid across all of our accounts reduced by 0.28% during the 12 month period, but nevertheless averaged 1.21% during the year, compared to an average Bank Base Rate during the year of 0.29%;
- The Society paid on average 0.52% higher interest than the market average for banks and building societies during 2017 (2016: 0.55%)[7];
- None of the Society's savings products currently pay less than Bank Base Rate of 0.5%;
- The Society achieved a net customer satisfaction rating of 92%[8] (2016: 90%);
- We saw 14% of customer complaints referred to the Financial Ombudsman Service, during the first six months of 2017, changed in the customer's favour compared with an average of 36%[9] for the financial services industry for the same period, being the latest available comparable market data; and
- The Society launched a retirement decumulation service to help customers make the most of their pensions, savings and investments as they progress through their retirement journey.

The Society has agreed heads of terms for a merger with Holmesdale Building Society. The merger is subject to approval by the members of Holmesdale Building Society and confirmation by the Prudential Regulation Authority. If approval and confirmation is received, the merger is expected to become effective through the transfer of all of the Holmesdale Building Society's engagements to Skipton on 1 October 2018.

Mortgages and Savings division

- The division produced a PBT of £89.1m, compared to £96.6m in 2016, a reduction of £7.5m (or 7.8%), predominantly as a result of the £15.0m loss on disposal of non-performing or recently non-performing loans as outlined above;
- The division reported an underlying PBT of £105.3m, up from £98.7m in 2016, an increase of 6.7%;
- When expressed as a percentage of mean assets, the Group net interest margin decreased by 8bps to 1.10% from 1.18% (restated), a reflection of a more competitive mortgage market and the impact of the ongoing low Bank Base Rate environment on our increasing asset base;

5 Source: Bank of England statistics, 'Lending secured on dwellings' for the 12 months to 31 December 2017.
6 Source: Bank of England statistics, 'UK deposits from households' for the 12 months to 31 December 2017.
7 Source: CACI Savings Market Database for the 12 months to 31 December 2017.
8 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).
9 Source: Financial Ombudsman Service (FOS) complaints data (resolved cases) for the financial services industry for the 6 months to 30 June 2017.

- The division's administrative costs increased by 4.4% to £141.9m from £135.9m in 2016 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 57.1% (2016: 57.3%), whilst the management expense ratio of the division was 0.72% (2016: 0.75%)[10];
- The Society remains primarily funded by retail savings, which represented 84.6% of total funding (2016: 89.6%);
- In June, the Society raised £350m of unsecured wholesale funding for a five year term, its first such issuance since the global financial crisis, broadening the Society's funding base and lengthening its funding maturity;
- The division also accepts deposits through its Guernsey based subsidiary, Skipton International Limited (SIL). Offshore deposits increased by 17.2% to £1.4bn from £1.2bn at 31 December 2016;
- SIL increased PBT by £2.8m (18.4%) to £18.0m from £15.2m in 2016;
- 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 0.36% of mortgage accounts (2016: 0.73%), the reduction benefiting from the £220m portfolio disposal of non-performing or recently non-performing loans, and compares to an industry average of 0.82%[11];
- The Society's three months or more arrears levels fell to 0.29% at 31 December 2017 (2016: 0.38%). The quality of the SIL mortgage book remains very strong with only one account in arrears by three months or more (31 December 2016: nil);
- The percentage of cases in Amber Homeloans and North Yorkshire Mortgages in arrears by three months or more were 2.51% and 0.78% respectively (2016: 5.95% and 4.31%), a significant reduction predominantly due to the aforementioned portfolio disposal. 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 2017 was 47.2% (2016: 47.9%);
- The Society drew down £1.1bn of funding under the Government's Term Funding Scheme (TFS) during the year (2016: £0.3bn) and at the end of the year had drawn a total of £1.4bn under the scheme (2016: £0.3bn). In addition the Society repaid the outstanding funding from the Government's Funding for Lending Scheme (FLS). The amount outstanding at the end of 2016 was £1.0bn;
- During the year, the Society repaid and cancelled £50.0m of its Permanent Interest Bearing Shares (PIBS) and £75.4m of its subordinated debt on their respective maturity or call dates;
- At 31 December 2017, liquidity amounted to 18.65% of shares, deposits and borrowings (2016: 15.90%); and
- In April 2017, global ratings agency Moody's upgraded the Society's long term rating to Baa1 (stable outlook) from Baa2 (positive outlook) and affirmed its short term rating of P-2. This reflects the Society's strong financial position.

Robust performance from estate agency

- Connells, our estate agency division, reported profits of £104.2m (2016: £73.4m). This includes a gain of £38.5m (2016: £17.0m) on the disposal of its remaining shareholding in ZPG Plc;
- Underlying PBT increased by 13.7% to £64.9m (2016: £57.1m);
- EBITDA[12] which is a common financial reporting measure for the estate agency industry, was £80.1m (2016: £71.7m);

10 Administrative expenses as a percentage of mean total assets. Mean total assets is the average of the 2017 and 2016 total assets as shown within the Statement of Financial Position.

11 Source: Council of Mortgage Lenders, industry arrears data (residential mortgages in arrears by more than three months) at 31 December 2017.

12 EBITDA is calculated as profit before tax, interest, depreciation, amortisation, impairment and contingent consideration. It also excludes profits on disposal of group undertakings, income from joint ventures, dividends from, and gains on, disposal of available-for-sale assets and dividends to non-controlling interests.

- The housing market became more subdued after the summer months and this resulted in a decrease in Connells' house sales during the year of 4% (2016: increase of 8%), however lettings income increased by 9% (2016: 21%), mortgage services income by 13% (2016: 18%) and surveys and valuations income by 5% (2016: 16%), demonstrating the good spread of revenue generating activities carried out by the Connells group;
- Despite the decrease in house sales, which was representative of the market as a whole, Connells continued to increase its share of the UK residential property sales market, marketing 6% of properties available for sale in the UK in 2017[13];
- The cash balance of the Connells group was £63.2m at the end of 2017 (2016: £32.9m); and
- At 31 December 2017, Connells operated 591 branches (2016: 583).

Today, Connells also announces its annual results for 2017 and further details can be found here.

Other subsidiaries

- Skipton Business Finance recorded a PBT of £3.5m (2016: £3.3m);
- Jade Software Corporation (JSC), the provider of the Society's core database and software development language, recorded a PBT of £1.2m (2016: loss of £0.4m); and
- On 30 June 2017, the Society increased its shareholding in JSC from 56.4% to 99.9%. In addition, the Group disposed of a small group of companies held by JSC, Jade Logistics Holding Company and its subsidiary undertakings, resulting in a loss on disposal of £4.9m, £0.3m of which is included in the above reported profit of JSC. The disposal of this subsidiary allows JSC to focus on further strengthening its core solutions business.

Giving something back to our communities

- In January 2017, the Society selected the Alzheimer's Society and Alzheimer Scotland as its charity partner for 2017 and 2018, which was subsequently extended to the end of 2019. As part of this partnership Skipton colleagues went through training to become 'dementia friends', helping them to better understand those living with dementia; and as a result, all of Skipton's branches now have a 'dementia friend' in them. In 2017, along with our members, we've raised over £88,000 for Alzheimer's Society and Alzheimer Scotland;
- Through our award winning Grassroots Giving community funding programme, in 2017 we gave 164 donations of £500 to small community groups voted for by the public, bringing the total donated since the scheme launched to £405,000;
- In 2017 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; 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 2017, the Society achieved an employee engagement score of 88%[14] (2016: 90%), well above financial services industry norms;
- The Society achieved Investors in People Platinum standard and is the only UK building society to hold this highest level of the accreditation. Holding Platinum standard puts Skipton in the top 0.5% of the accredited organisations in the UK; and
- For the fourth year in a row the Society was included in *The Sunday Times* Top 100 Companies to Work For.

13 Source: Rightmove property listing statistics for the period 1 January 2017 to 31 December 2017.

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

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

"These are yet another set of strong results for Skipton, and we have seen continued strong growth in our mortgage and savings balances whilst continuing to build our 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 period of increased political uncertainty, as not only is the Government in the midst of negotiating the UK's withdrawal from the European Union, but an unexpected General Election resulted in a hung Parliament. These conditions make forecasting difficult and create a need for caution. We remain vigilant regarding potential economic headwinds, but the capital and funding actions taken during 2017 by the Society mean we are well placed to manage the risks that we 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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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 900,000 members, £21bn of assets and a national presence represented by its network of 87 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 April 2017, global ratings agency Moody's upgraded Skipton's long term local and foreign currency bank deposit ratings to Baa1 with a stable outlook, and affirmed its short term ratings at P-2. Skipton Building Society is also rated by Fitch, rating the Society's long-term Issuer Default Rating (IDR) as A- with a stable outlook and its short-term IDR rated F1.
3. Skipton Building Society was also named best building society by What Mortgage in 2017.

Skipton Building Society

Results for the year ended 31 December 2017

Consolidated income statement

	2017	2016 Restated*
	£m	£m
Interest receivable and similar income	**400.0**	430.2
Interest payable and similar charges	**(179.4)**	(214.6)
Net interest receivable	**220.6**	215.6
Fees and commissions receivable	**477.9**	452.9
Fees and commissions payable	**(8.1)**	(9.6)
Fair value gains / (losses) on financial instruments	**1.5**	(3.7)
Profit on treasury assets	**2.7**	1.4
Loss on disposal of mortgage assets	**(15.0)**	-
Profit on disposal of subsidiary undertakings	**11.3**	15.8
Profit on disposal of joint ventures	**0.9**	-
Loss on disposal of associate	**-**	(0.9)
Profit on full or part disposal of equity share investments	**38.5**	17.0
Dividend income from equity share investments	**0.6**	0.7
Share of profits from joint ventures	**2.0**	1.8
Share of losses from associate	**-**	(2.4)
Other income	**2.7**	2.4
Total income	**735.6**	691.0
Administrative expenses	**(523.1)**	(499.1)
Operating profit before impairment losses and provisions	**212.5**	191.9
Impairment credit on loans and advances to customers	**4.0**	0.3
Impairment losses on associate	**-**	(1.1)
Impairment losses on equity share investments	**(0.1)**	(11.3)
Provisions for liabilities	**(16.3)**	(10.9)
Profit before tax	**200.1**	168.9
Tax expense	**(41.9)**	(39.1)
Profit for the financial year	**158.2**	129.8
Profit for the financial year attributable to:		
Members of Skipton Building Society	**158.2**	130.1
Non-controlling interests	**-**	(0.3)
	158.2	129.8

* The comparative figures have been restated due to a change in accounting policy relating to the netting of gains on and costs arising from the sale of treasury assets. The gain or loss on disposal of treasury assets was previously presented separately (in 'Profit on treasury assets') to the associated cost or benefit of unwinding the hedging instrument in relation to these assets on disposal, which was recognised through 'Interest receivable and similar income'. The gain or loss on disposal and the cost or benefit of unwinding the hedging instrument on disposal are now presented on a net basis in the Income Statement in 'Profit on treasury assets' and so the prior period has been restated accordingly, resulting in a £3.2m increase in 'Interest receivable and similar income' and a £3.2m reduction in 'Profit on treasury assets'. The restatement has not resulted in any change to profit before tax.

Underlying Group PBT for 2017 was £165.7m (2016: £151.5m) as follows:

	2017	2016
	£m	£m
Total Group profit before tax	**200.1**	168.9
Less profit on disposal of subsidiary undertakings	**(11.3)**	(15.8)
Less profit on full or part disposal of other Group undertakings	**(39.4)**	(16.1)
Add back loss on disposal of mortgage assets	**15.0**	-
Add back impairment of associate and equity share investments	**0.1**	12.4
Add back FSCS levy	**1.2**	2.1
Underlying Group profit before tax	**165.7**	151.5

Skipton Building Society
Results for the year ended 31 December 2017

Consolidated statement of comprehensive income

	2017	2016
	£m	£m
Profit for the financial year	**158.2**	129.8
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Remeasurement gains / (losses) on defined benefit obligations	**10.2**	(50.0)
Movement in reserves attributable to non-controlling interests	**-**	0.9
Income tax on items that will not be reclassified to profit or loss	**(1.9)**	10.2
	8.3	(38.9)
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale investments: valuation gains taken to equity	**8.1**	6.5
Available-for-sale investments: realised gains transferred to Income Statement	**(43.0)**	(6.2)
Cash flow hedges: (losses) / gains taken to equity	**(0.7)**	8.9
Cash flow hedges: realised gains transferred to Income Statement	**(1.9)**	(0.2)
Cash flow hedges: gains reclassified to Income Statement	**(1.7)**	-
Exchange differences on translation of foreign operations	**(0.4)**	1.7
Translation loss transferred to Income Statement on deemed disposal of associate	**-**	0.5
Income tax on items that may be reclassified to profit or loss	**7.1**	(2.2)
	(32.5)	9.0
Other comprehensive expense for the year, net of tax	**(24.2)**	(29.9)
Total comprehensive income for the year	**134.0**	99.9
Total comprehensive income attributable to:		
Members of Skipton Building Society	**134.0**	99.3
Non-controlling interests	**-**	0.6
	134.0	99.9

Skipton Building Society

Results for the year ended 31 December 2017

Consolidated statement of financial position

	2017	2016
	£m	£m
Assets		
Cash in hand and balances with the Bank of England	**2,396.9**	1,212.7
Loans and advances to credit institutions	**345.3**	409.6
Debt securities	**791.1**	1,055.1
Derivative financial instruments	**94.2**	116.1
Loans and advances to customers	**16,972.7**	15,781.6
Deferred tax asset	**30.4**	30.4
Investments in joint ventures	**12.8**	12.5
Equity share investments	**0.4**	36.4
Property, plant and equipment	**78.2**	77.8
Investment property	**14.4**	15.0
Intangible assets	**164.4**	164.8
Other assets	**122.8**	107.7
Total assets	**21,023.6**	19,019.7
Liabilities		
Shares	**14,985.8**	14,152.5
Amounts owed to credit institutions	**1,483.2**	655.3
Amounts owed to other customers	**1,805.1**	1,493.2
Debt securities in issue	**666.4**	534.2
Derivative financial instruments	**318.5**	412.3
Current tax liability	**19.9**	19.7
Other liabilities	**110.4**	106.2
Accruals	**50.5**	49.5
Deferred income	**3.7**	3.1
Provisions for liabilities	**26.1**	23.3
Deferred tax liability	**7.4**	12.2
Retirement benefit obligations	**100.2**	110.9
Subordinated liabilities	**-**	77.2
Subscribed capital	**41.6**	92.6
Total liabilities	**19,618.8**	17,742.2
Members' interests		
General reserve	**1,396.4**	1,236.6
Available-for-sale reserve	**3.1**	32.0
Cash flow hedging reserve	**0.1**	3.3
Translation reserve	**5.2**	6.6
Attributable to members of Skipton Building Society	**1,404.8**	1,278.5
Non-controlling interests	**-**	(1.0)
Total members' interests	**1,404.8**	1,277.5
Total members' interests and liabilities	**21,023.6**	19,019.7

Skipton Building Society

Results for the year ended 31 December 2017

Consolidated statement of cash flows

	2017	2016
		Restated*
	£m	£m
Cash flows from operating activities		
Profit before tax	**200.1**	168.9
Adjustments for:		
Impairment credit on loans and advances to customers	**(4.0)**	(0.3)
Loans and advances written off, net of recoveries	**(2.3)**	(4.7)
Depreciation and amortisation	**21.0**	20.6
Impairment of property, plant and equipment and investment property	**0.1**	-
Impairment losses on associate	**-**	1.1
Impairment losses on equity share investments	**0.1**	11.3
Dividend income from equity share investments	**(0.6)**	(0.7)
Interest on subscribed capital and subordinated liabilities	**6.8**	11.4
Profit on sale of property, plant and equipment, investment property and intangible assets	**(1.6)**	(0.1)
Profit on treasury assets	**(2.7)**	(1.4)
Loss on disposal of mortgage assets	**15.0**	-
Share of (profits) / losses from joint ventures and associates	**(2.0)**	0.6
(Profit) / loss on disposal of associates and joint ventures	**(0.9)**	0.9
Profit on full or part disposal of equity share investments	**(38.5)**	(17.0)
Profit on disposal of subsidiary undertakings	**(11.3)**	(15.8)
Net (losses) / gains from changes in fair value of cash flow hedges	**(0.7)**	8.9
Remeasurement gains / (losses) on defined benefit obligations	**10.2**	(50.0)
Other non-cash movements	**(3.2)**	7.8
	185.5	141.5
Changes in operating assets and liabilities:		
Movement in prepayments and accrued income	**(0.7)**	(4.2)
Movement in accruals and deferred income	**(4.2)**	7.4
Movement in provisions for liabilities	**3.7**	(3.4)
Movement in fair value of derivatives	**(71.9)**	94.4
Movement in fair value adjustments for hedged risk	**59.7**	(79.9)
Fair value movements in debt securities	**10.5**	(9.6)
Movement in loans and advances to customers	**(1,487.7)**	(1,298.4)
Disposal of mortgage assets	**197.3**	-
Purchase of mortgage assets	**(19.7)**	-
Movement in shares	**888.7**	1,284.6
Income Statement charge for fair value of subsidiary management incentive scheme liability	**9.7**	1.0
Net movement in amounts owed to credit institutions and other customers	**1,138.6**	25.5
Net movement in debt securities in issue	**136.7**	(74.5)
Net movement in loans and advances to credit institutions	**49.5**	(94.9)
Net movement in other assets	**(4.2)**	1.4
Net movement in other liabilities	**(9.8)**	25.1
Income taxes paid	**(41.5)**	(37.0)
Net cash flows from operating activities	**1,040.2**	(21.0)

* The comparative figures have been restated due to a change in accounting policy relating to the netting of gains on and costs arising from the sale of treasury assets.

Consolidated statement of cash flows (continued)

	2017	2016
		Restated*
	£m	£m
Net cash flows from operating activities	**1,040.2**	(21.0)
Cash flows from investing activities		
Purchase of debt securities	**(666.5)**	(1,130.2)
Proceeds from disposal of debt securities	**922.9**	1,190.0
Purchase of property, plant and equipment and investment property	**(17.5)**	(22.6)
Purchase of intangible assets	**(6.0)**	(5.7)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets	**4.8**	1.3
Dividends received from equity share investments	**0.6**	0.7
Exercise of share options in subsidiary management incentive scheme	**(6.5)**	(10.0)
Proceeds from full or part disposal of equity share investments	**40.8**	18.2
Proceeds from disposal of joint ventures	**1.0**	-
Dividends received from joint ventures	**1.6**	2.1
Purchase of subsidiary undertakings, net of cash acquired	**(0.6)**	(6.6)
Purchase of non-controlling interest	**(6.6)**	-
Cash paid on disposal of subsidiary undertaking	**(1.5)**	-
Investment in joint ventures and equity share investments	**(0.1)**	(0.4)
Investment in associate	**-**	(2.5)
Purchase of other business units	**(1.1)**	(7.1)
Deferred consideration paid in respect of prior year acquisitions of subsidiary undertakings and business units	**(1.8)**	(0.8)
Net cash flows from investing activities	**263.5**	26.4
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)**	(3.0)
Interest paid on subscribed capital	**(6.3)**	(8.4)
Net cash flows from financing activities	**(134.3)**	(11.4)
Net increase / (decrease) in cash and cash equivalents	**1,169.4**	(6.0)
Cash and cash equivalents at 1 January	**1,285.6**	1,291.6
Cash and cash equivalents at 31 December	**2,455.0**	1,285.6

* The comparative figures have been restated due to a change in accounting policy relating to the netting of gains on and costs arising from the sale of treasury assets.

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

	2017	2016
	£m	£m
Cash in hand and balances with the Bank of England	**2,396.9**	1,212.7
Mandatory reserve deposit with the Bank of England	**(26.3)**	(25.4)
	2,370.6	1,187.3
Loans and advances to credit institutions	**84.4**	98.3
Cash and cash equivalents at 31 December	**2,455.0**	1,285.6

Skipton Building Society

Key ratios

	2017	2016
	%	%
Group net interest margin (note 1)	**1.10**	1.18
Group management expenses / mean total assets	**2.61**	2.73
Group profit after tax / mean total assets	**0.79**	0.71
Total asset growth	**10.5**	8.6
Group loans and advances growth	**8.3**	9.1
Group share account growth	**6.2**	10.0
Liquidity ratio	**18.65**	15.90
Funding ratio	**84.58**	89.59
Gross capital ratio	**7.64**	8.60
Free capital ratio	**6.44**	7.28
Group Common Equity Tier 1 (CET 1) capital ratio	**33.2**	23.9
Total capital ratio	**34.3**	26.4
Leverage ratio	**6.1**	5.9

Note 1:
The 2016 comparative figure has been restated due to a change in accounting policy relating to the netting of gains on and costs arising from the sale of treasury assets. Further details are found on page 7.

Definitions

Mean total assets is the average of the 2017 and 2016 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.

The Group CET 1 capital ratio measures CET 1 capital as a percentage of risk weighted assets at a prudential consolidation group[15] level. CET 1 capital consists primarily of internally generated capital from retained profits less intangible assets and goodwill. This ratio is calculated on a transitional 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 calculated on a transitional 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.

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15 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.