PRESS RELEASE **Wednesday 31 July 2019**

SKIPTON CONTINUES TO GROW BY DELIVERING GOOD VALUE TO ITS MORTGAGE AND SAVINGS MEMBERS

The UK's fourth largest building society announces its results for the first half of 2019 as it continues to grow its membership and deliver on its purpose to help more people into homes, help people save for their life ahead and support long term financial well-being.

The Society has increased its mortgage balances by 6% since the end of 2018, with the Society helping 14,641 people to purchase or remortgage their properties during the period. The Group's gross lending of £2.5bn was 43% higher than the same period in 2018.

The Society also increased its savings balances by 4% and continued to pay above market average rates to its savers.

The Society continues to make investments to ensure first rate customer service, with a new financial advice proposition and customer mobile app, both of which went live this month.

For the six months to 30 June 2019 Skipton's key performance highlights include:

- Continued growth in membership, with member numbers increasing by 20,100 to 1,030,526 (31 December 2018: 1,010,426);
- Group gross mortgage lending was £2.5bn (six months ended 30 June 2018: £1.8bn), with mortgage balances growing by 5.9% since the end of 2018 (six months ended 30 June 2018: 2.8%);
- Savings balances grew by 3.6% since the end of 2018 (six months ended 30 June 2018: 3.1%);
- The Group net interest margin was 1.02% (six months ended 30 June 2018: 1.14%; year ended 31 December 2018: 1.09%); the decrease is a reflection of the intensely competitive mortgage and savings markets, placing increased pressure on margins;
- Despite the challenging environment, the Group recorded underlying profits before tax (as defined on page 5) of £84.2m (six months ended 30 June 2018: £94.9m). Total profit before tax (PBT) was £72.3m (six months ended 30 June 2018: £104.7m). The decrease in total profit is predominantly in the Mortgages and Savings division, which can be attributed primarily to fair value losses of £12.5m relating to our equity release portfolio which is closed to new business (six months ended 30 June 2018: fair value gains of £8.1m). The fair value losses are driven by changes in market expectations of long term interest rates, inflation and house price growth;
- The Society's Common Equity Tier 1 (CET 1) ratio at 30 June 2019 remained strong at 33.5% (31 December 2018: 32.9%) and the leverage ratio was 6.1% (31 December 2018: 6.2%); and
- The Liquidity Coverage Ratio was 177% (31 December 2018: 203%), well above both the regulatory limit of 100% and the internal limit set by the Board throughout the period.

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

"I'm pleased to report a further increase in the Society's membership, and strong growth in both mortgage and savings balances. Profitability remains good but the decline in net interest margin is reflective of intense competition in the mortgage market, and more latterly in the savings market. An 8% reduction in house sales reported by Connells estate agency is also reflective of a subdued housing market, but the diversification and resilience of Skipton's business model has contributed to a further improvement in the Society's very strong capital ratios."

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

- The Society helped 14,641 homeowners (six months ended 30 June 2018: 10,855) to purchase or remortgage their properties, including 2,640 first time buyers (six months ended 30 June 2018: 2,078) and 4,619 buy-to-let borrowers (six months ended 30 June 2018: 3,409);
- 2019 has seen continued success in attracting LISA customers to the Society, bringing the total number of LISA customers to 147,571 at 30 June 2019 (31 December 2018: 129,707) and total balances at 30 June 2019 to £875.7m (31 December 2018: £602.4m) including a government bonus of £65.1m received during the first half of 2019;
- The Society's financial advisers have advised 2,404 customers (six months ended 30 June 2018: 2,059) on how to achieve their financial goals; and
- For the five months ended 31 May 2019 the Society paid an average savings rate of 1.32% (five months ended 31 May 2018: 1.26%) which was 0.57% (five months ended 31 May 2018: 0.58%) above the industry average[1] for which comparable data is available.

Mortgages and Savings division

- The division produced a PBT of £44.3m, compared to £65.8m for the same period in 2018; the majority (£20.6m) of the year-on-year decrease relates to fair value losses on equity release loans and associated derivatives of £12.5m in 2019 in comparison to an £8.1m gain in the six months ended 30 June 2018. On an underlying basis (which excludes such fair value movements) the division reported PBT of £56.8m compared to £57.1m for the six months ended 30 June 2018, a decrease of just 0.5%;
- The management expense ratio was 0.65% (six months ended 30 June 2018: 0.67%)[2] and the cost income ratio was 57.2% (six months ended 30 June 2018: 54.3%). 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, delivering a mobile app and a new financial advice proposition;
- The Society's residential mortgages in arrears by three months or more represent only 0.21% of mortgage accounts (31 December 2018: 0.24%), which compares to an industry average of 0.78%[3]; and
- In March 2019, the Society successfully raised £600m of wholesale funding through a covered bond transaction with a term of five years.

Estate agency division

- In a subdued UK property market, Connells, the Group's estate agency division, continued to perform well and reported profits before tax of £26.2m (six months ended 30 June 2018: £28.9m);
- Overall numbers of transactions in the UK housing market were below the same period in 2018. The number of house sales (exchanges) arranged by Connells in the period was 8% below the comparative period in 2018. However 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.

  Today, Connells also announces its results for the first half of 2019 and further details can be found here.

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[1] Source: CACI's Current Account & Savings Database, latest available comparable market data for the five months ended 31 May 2019.
[2] Administrative expenses as a percentage of mean total assets. Mean total assets is the average of total assets as at 30 June 2019 and 31 December 2018 as shown within the Statement of Financial Position.
[3] Source: UK Finance industry arrears data (residential mortgages in arrears by more than three months) as at 31 March 2019, being the latest available comparable market data.

Supporting our communities and our people

- In the first half of this year colleagues raised over £20,000 for local charities and community groups, and the Skipton Building Society Charitable Foundation donated over £73,000 to a wide range of charities;
- The Society's volunteering policy has been reviewed and refreshed, with the number of days colleagues can spend volunteering in the local community increasing to three days per year;
- The Society continues to support accessibility, with an ongoing focus on being a Dementia Friendly organisation, the introduction of coloured overlays in branches to help customers with reading difficulties, and for the first time live subtitles were provided at the AGM;
- 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. New recycling bins have also been introduced across Head Office resulting in only 1% of waste going to landfill;
- The Society has signed the Women in Finance Charter and 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 fifth year in a row the Society was included in The Sunday Times *Top 100 Companies to Work For.*

Outlook

"These are yet another set of strong results for Skipton, and I'm really proud that we not only serve over one million members, but we're helping so many young people to save to help buy their first home.

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 prepare for their future and ensuring they're in a good place is resonating with our members.

The more competitive mortgage and savings environment coincides with a continuous period of increased political uncertainty, as the UK is in the midst of withdrawing from the European Union. Should there be a no-deal Brexit we would not expect an immediate significant impact on the Society but we would be cautious and vigilant regarding the potential medium to longer term implications arising from possible movements in house prices, unemployment or bank base rates.

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

We remain vigilant regarding potential economic headwinds, but with the strong capital and liquidity position we have maintained during the first half of 2019, the Society is well placed to manage the risks that we face and to capitalise upon 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' note

1. Skipton is the UK's fourth largest building society, with over one million members, £24bn 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.

Skipton Building Society
Results for the half year ended 30 June 2019

Consolidated income statement

	6 months to 30.06.19 £m	6 months to 30.06.18* Restated^ £m	12 months to 31.12.18* Restated^ £m
Interest receivable and similar income			
Calculated using the effective interest rate method	**260.7**	240.0	488.5
On financial instruments at fair value through profit or loss (FVTPL)	**(6.0)**	(11.8)	(14.7)
Total interest receivable and similar income	**254.7**	228.2	473.8
Interest payable and similar charges	**(134.8)**	(106.5)	(232.6)
Net interest receivable	**119.9**	121.7	241.2
Fees and commissions receivable	**246.7**	239.6	496.4
Fees and commissions payable	**(4.1)**	(2.9)	(7.6)
Fair value gains / (losses) on financial instruments:			
Hedging instruments and hedged items	**0.1**	0.1	1.5
Other derivatives	**(12.2)**	24.2	18.1
Equity release portfolio	**(0.3)**	(16.1)	(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	**0.6**	2.4	3.3
Share of profits from joint ventures	**0.9**	0.1	0.8
Other income	**0.8**	0.8	3.7
Total income	**354.8**	369.9	740.0
Administrative expenses	**(274.7)**	(257.3)	(536.5)
Operating profit before impairment and provisions	**80.1**	112.6	203.5
Impairment losses on loans and advances to customers	**-**	(1.7)	(2.5)
Impairment losses on liquid assets	**(0.6)**	(0.1)	(0.1)
Realised losses on equity release portfolio	**(0.4)**	(0.4)	(0.7)
Provisions for liabilities	**(6.8)**	(5.7)	(12.0)
Profit before tax	**72.3**	104.7	188.2
Tax expense	**(13.9)**	(22.4)	(40.6)
Profit for the period attributable to members of Skipton Building Society	**58.4**	82.3	147.6

* 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 to both 'Fees and commissions receivable' and 'Administrative expenses' (six months ended 30 June 2018: £7.6m; year ended 31 December 2018: £15.5m); there is no impact on profits nor on opening reserves for either of the comparative periods.

Underlying Group PBT for the six months ended 30 June 2019 was £84.2m (six months ended 30 June 2018: £94.9m; year ended 31 December 2018: £186.1m) as shown below:

	6 months to 30.06.19 £m	6 months to 30.06.18 £m	12 months to 31.12.18 £m
Total Group profit before tax	**72.3**	104.7	188.2
Less profit on disposal of subsidiary undertakings	**(0.6)**	(2.4)	(3.3)
Add back fair value losses / less fair value gains in relation to the equity release portfolio	**12.5**	(8.1)	(1.0)
Add back fair value losses on equity share investments	**-**	-	0.3
Add back impairment of goodwill	**-**	1.3	2.5
Less credit for FSCS levy	**-**	(0.6)	(0.6)
Underlying Group profit before tax	**84.2**	94.9	186.1

Skipton Building Society
Results for the half year ended 30 June 2019

Consolidated statement of comprehensive income

	6 months to 30.06.19 £m	6 months to 30.06.18* £m	12 months to 31.12.18* £m
Profit for the period	**58.4**	82.3	147.6
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement (losses) / gains on defined benefit obligations	**(1.6)**	2.7	(3.1)
Income tax on items that will not be reclassified to profit or loss	**0.6**	(0.4)	1.0
	(1.0)	2.3	(2.1)
Items that may be reclassified subsequently to profit or loss:			
Movement in cash flow hedging reserve:			
Losses taken to equity	**(2.9)**	(0.5)	(0.3)
Realised losses transferred to Income Statement	**0.6**	-	-
Movement in fair value reserve (debt securities):			
Gains / (losses) taken to equity	**0.2**	(0.7)	(2.3)
Impairment loss allowance on debt securities held at FVOCI	**0.2**	-	0.1
Movement in cost of hedging reserve:			
Losses taken to equity	**(1.9)**	-	(0.5)
Exchange differences on translation of foreign operations	**0.1**	(0.2)	-
Income tax on items that may be reclassified to profit or loss	**0.9**	0.2	0.6
	(2.8)	(1.2)	(2.4)
Other comprehensive (expense) / income for the period, net of tax	**(3.8)**	1.1	(4.5)
Total comprehensive income for the period attributable to members of Skipton Building Society	**54.6**	83.4	143.1

* 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.

Skipton Building Society
Results for the half year ended 30 June 2019

Consolidated statement of financial position

	As at 30.06.19 £m	As at 30.06.18* Restated^ £m	As at 31.12.18* Restated^ £m
Assets			
Cash in hand and balances with the Bank of England	**1,573.5**	2,833.4	2,395.7
Loans and advances to credit institutions held at amortised cost	**563.3**	403.0	422.7
Debt securities	**1,916.9**	1,004.7	1,383.1
Derivative financial instruments	**53.0**	82.3	72.3
Loans and advances to customers held at amortised cost	**19,279.6**	16,930.6	18,127.0
Loans and advances to customers held at FVTPL	**1.6**	-	1.9
Equity release portfolio at FVTPL	**412.0**	411.4	410.9
Deferred tax asset	**37.4**	37.5	37.3
Investments in joint ventures	**11.7**	11.5	12.2
Equity share investments held at FVTPL	**1.4**	0.8	0.8
Property, plant and equipment	**75.3**	78.5	77.9
Right-of-use assets	**64.5**	-	-
Investment property	**9.7**	13.9	12.0
Intangible assets	**161.0**	162.4	161.4
Other assets	**84.1**	87.0	84.9
Total assets	**24,245.0**	22,057.0	23,200.1
Liabilities			
Shares	**16,713.3**	15,438.1	16,113.5
Amounts owed to credit institutions	**1,698.0**	1,891.3	1,878.0
Amounts owed to other customers	**1,654.0**	1,700.3	1,690.4
Debt securities in issue	**1,927.9**	1,014.3	1,420.3
Derivative financial instruments	**347.7**	283.0	279.4
Current tax liability	**11.6**	20.7	18.6
Lease liabilities	**62.6**	-	-
Other liabilities	**53.6**	56.0	56.9
Accruals	**38.1**	38.2	48.9
Deferred income	**3.0**	2.8	2.7
Provisions for liabilities	**21.5**	25.1	24.3
Deferred tax liability	**1.1**	2.8	1.2
Retirement benefit obligations	**91.6**	93.2	99.5
Subscribed capital	**41.6**	41.6	41.6
Total liabilities	**22,665.6**	20,607.4	21,675.3
Members' interests			
General reserve	**1,576.1**	1,442.3	1,518.7
Fair value reserve	**1.9**	2.6	1.6
Cash flow hedging reserve	**(1.9)**	(0.3)	(0.2)
Cost of hedging reserve	**(2.0)**	-	(0.5)
Translation reserve	**5.3**	5.0	5.2
Total members' interests	**1,579.4**	1,449.6	1,524.8
Total members' interests and liabilities	**24,245.0**	22,057.0	23,200.1

* 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 (30 June 2018: £4.2m; 31 December 2018: £4.3m) with corresponding decreases to total assets and total liabilities for each comparative period.

Skipton Building Society
Results for the half year ended 30 June 2019

Consolidated statement of cash flows

	6 months to 30.06.19 £m	6 months to 30.06.18* £m	12 months to 31.12.18* £m
Cash flows from operating activities			
Profit before tax	**72.3**	104.7	188.2
Adjustments for:			
Impairment charge on loans and advances to customers	**-**	1.7	2.5
Loans and advances written off, net of recoveries	**(0.9)**	(1.1)	(1.7)
Impairment losses on liquid assets	**0.6**	0.1	0.1
Impairment losses on trade receivables	**0.2**	0.2	0.8
Impairment of goodwill	**-**	1.3	2.5
Depreciation and amortisation	**18.8**	10.7	21.1
Impairment of property, plant and equipment and investment property	**0.3**	-	2.3
Income Statement credit for fair value of subsidiary management incentive scheme liability	**(0.1)**	(4.0)	(4.2)
Fair value losses on equity share investments	**-**	-	0.3
Interest on subscribed capital	**2.2**	2.2	4.5
Interest on lease liabilities	**0.7**	-	-
Profit on disposal of property, plant and equipment, investment property and intangible assets	**(0.6)**	(0.3)	(0.3)
Profit on disposal of treasury assets	**(2.4)**	-	-
Share of profits from joint ventures	**(0.9)**	(0.1)	(0.8)
Profit on disposal of subsidiary undertakings	**(0.6)**	(2.4)	(3.3)
Fair value losses on the equity release portfolio	**0.3**	16.1	17.1
Realised losses on equity release portfolio	**0.4**	0.4	0.7
Other non-cash movements	**(4.9)**	(2.7)	(13.3)
	85.4	126.8	216.5
Changes in operating assets and liabilities:			
Movement in prepayments and accrued income	**1.6**	(2.0)	(2.4)
Movement in accruals and deferred income	**(23.9)**	(24.3)	15.7
Movement in provisions for liabilities	**(2.5)**	(1.0)	(1.8)
Movement in fair value of derivatives	**87.6**	(23.6)	(17.2)
Movement in fair value adjustments for hedged risk	**(57.6)**	0.7	(8.2)
Fair value movements in debt securities	**(1.3)**	2.7	4.3
Movement in loans and advances to customers	**(1,065.2)**	(454.4)	(1,501.4)
Movement in shares	**601.3**	484.9	1,018.0
Net movement in amounts owed to credit institutions and other customers	**(220.4)**	301.0	260.3
Net movement in debt securities in issue	**492.9**	348.6	746.8
Net movement in loans and advances to credit institutions	**(87.6)**	(100.4)	(107.1)
Remeasurement (losses) / gains on defined benefit obligations	**(1.6)**	2.7	(3.1)
Net movement in other assets	**(8.5)**	31.3	36.5
Net movement in other liabilities	**(1.5)**	(46.8)	(37.3)
Income taxes paid	**(19.6)**	(20.8)	(40.4)
Net cash flows from operating activities	**(220.9)**	625.4	579.2

* 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.

Skipton Building Society
Results for the half year ended 30 June 2019

Consolidated statement of cash flows (continued)

	6 months to 30.06.19 £m	6 months to 30.06.18* £m	12 months to 31.12.18* £m
Net cash flows from operating activities	**(220.9)**	625.4	579.2
Cash flows from investing activities			
Purchase of debt securities	**(1,531.7)**	(628.1)	(1,763.2)
Proceeds from disposal of debt securities	**1,001.6**	411.8	1,166.9
Purchase of property, plant and equipment and investment property	**(4.8)**	(8.2)	(14.5)
Purchase of intangible assets	**(3.0)**	(1.9)	(4.9)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets	**3.1**	1.2	1.5
Exercise of share options in subsidiary management incentive scheme	**(9.3)**	(9.8)	(9.8)
Exercise of put options held by non-controlling shareholders	**(0.2)**	(0.2)	(0.3)
Dividends received from joint ventures	**1.4**	1.4	1.4
Cash acquired on transfer of engagements	**-**	-	12.9
Contingent consideration received following disposal of subsidiary (net of costs)	**6.2**	5.3	5.4
Investment in equity share investments	**(0.6)**	(0.4)	(0.7)
Purchase of other business units	**-**	(0.5)	(0.6)
Deferred consideration paid in respect of prior year acquisitions of subsidiary undertakings and business units	**(0.1)**	(0.1)	(1.6)
Net cash flows from investing activities	**(537.4)**	(229.5)	(607.5)
Cash flows from financing activities			
Interest paid on subscribed capital	**(2.2)**	(2.2)	(4.5)
Interest paid on lease liabilities	**(0.7)**	-	-
Payment of lease liabilities	**(7.5)**	-	-
Net cash flows from financing activities	**(10.4)**	(2.2)	(4.5)
Net (decrease) / increase in cash and cash equivalents	**(768.7)**	393.7	(32.8)
Cash and cash equivalents at 1 January	**2,421.9**	2,455.0	2,455.0
Adjustment on initial adoption of IFRS 9**	**-**	-	(0.3)
Increase in impairment allowance on cash and cash equivalents	**(0.4)**	-	-
Cash and cash equivalents at end of period	**1,652.8**	2,848.7	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.
** In the cash flow statement for the 6 months to 30 June 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:

	As at 30.06.19 £m	As at 30.06.18* £m	As at 31.12.18* £m
Cash in hand and balances with the Bank of England	**1,573.5**	2,833.4	2,395.7
Mandatory reserve deposit with the Bank of England	**(51.0)**	(43.2)	(46.9)
	1,522.5	2,790.2	2,348.8
Loans and advances to credit institutions	**130.3**	58.5	73.1
Cash and cash equivalents at end of period	**1,652.8**	2,848.7	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.

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