# Half-Yearly Financial Report 2016

SKIPTON
BUILDING SOCIETY
For life ahead

# Contents



**Forward-looking statements**

This half-yearly financial report may contain forward-looking statements based on current expectations of, and assumptions and forecasts made by, Group management. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation, development or performance of the Group and the estimates and historical results given herein. Undue reliance should not be placed on forward-looking statements which apply only as of the date of this document.

The Group accepts no obligation to publicly revise or update these forward-looking statements or adjust them for future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

# Group Chief Executive's Review of the Half Year

I'm very pleased to report we've delivered another strong performance in the first half of 2016. We've increased the size of our customer base by more than 20,000 to over 858,000 customers (an increase of 2.4%), recorded a Group profit before tax of £76.8m and maintained employee engagement at 90%.

As a mutual, Skipton is owned by and run for the benefit of its members, both current and future. The performance of a building society can be judged on the health of its membership base and whether, over the long run, mortgage and savings balances are each growing in a sustainable manner for the benefit of both the business and its members. Our mortgage and savings balances each increased at a faster rate than the market in the five months to 31 May 2016 (being the latest date at which market data is available).

### Key highlights over the first half of 2016 include:

- Total Group profit before tax (PBT) was £76.8m (six months ended 30 June 2015: £72.1m), including contingent consideration of £9.6m recognised following the disposal of Homeloan Management Limited in 2014;
- Underlying Group PBT (prior to Financial Services Compensation Scheme (FSCS) charges and gains or losses on the disposal of subsidiary, associate and equity share investments) was £72.1m (six months ended 30 June 2015: £78.2m), with the year-on-year decrease due mainly to a fall in profits in the core Mortgages and Savings division;
- The Mortgages and Savings division saw a fall in profits from £49.1m to £46.6m due to increased competition in the mortgage market and continued investment in our customer proposition. Group net interest income fell from £113.3m to £107.2m (a fall of 5.4%), resulting in a net interest margin of 1.18% (six months ended 30 June 2015: 1.39%);
- We carried out £1.9bn of new lending across the Group (compared to £1.9bn in the same period last year), resulting in our mortgage book increasing by 3.8% from the end of 2015 to £14.7bn. The Society helped 11,627 homeowners purchase or re-mortgage their properties, including 1,705 first time buyers, and 13.4% of the Society's new lending was on buy-to-let mortgages;
- We saw a £1.1bn growth in savings balances from the end of 2015 to £13.9bn (a growth rate of 8.7%) as we continued to offer a suite of competitive and award-winning products;
- Our customer base grew by 20,389 to 858,476 in the period;
- We continue to achieve high net customer satisfaction scores (92%), a reflection of the excellent level of service we always strive to deliver;
- The quality of the products we offer resulted in receiving 136 independent 'best-buy' mentions and featuring in best-buy tables for 22 weeks of the period;
- Employee engagement in the Society was maintained at 90% (2015: 90%);
- Our estate agency business Connells produced pre-tax profits of £31.3m compared to £27.3m in the same period last year (an increase of 14.7%);

# Group Chief Executive's Review of the Half Year *(continued)*

- Group administrative expenses increased by 12.6% to £243.0m (six months ended 30 June 2015: £215.8m) due to increased activity across the mortgage and savings business and continued investment in our customer proposition, risk management framework, processes and people, together with Connells' continued investment in their business;
- This increased activity was reflected in the growth in customer numbers and savings balances outlined above and the management expense ratio of the Mortgages and Savings division improved to 0.61% from 0.63% in the same period last year;
- The cost income ratio of the Mortgages and Savings division increased to 52.57% from 44.06% in the same period last year, mainly due to a reduction in the net interest margin but also due to the increase in costs noted above;
- The Group Common Equity Tier 1 (CET 1) ratio, calculated on the Standardised Approach, increased from 16.80% at 31 December 2015 to 16.97% at 30 June 2016; and
- The leverage ratio remains strong and was 6.0% (30 June 2015: 6.0%; 31 December 2015: 6.1%).

Further details on our Group performance can be found in the Business Review on pages 5 to 11.

### Other achievements during the period

It was very pleasing in May for Skipton's continued strong performance and sustainable growth to also be recognised by global credit ratings agency Fitch – which upgraded the Society's long term and short term ratings to A- and F1 respectively. In their assessment Fitch recognised the Society's strong liquidity, our simplified business model and the confidence they have in the management strategy we have in place.

But it isn't just what we do, but how we do it that is important to us, believing that it is our behaviours and strong values that will help us succeed in the long run. So we were proud to have climbed 11 places to 47th position in *The Sunday Times* 100 Best Companies to Work For listing, and for being named Best Cash ISA Savings Provider and Best Savings Account Provider in the 2016 MoneySuperMarket 'Supers' awards.

### Economic and market backdrop

Despite the continued pleasing performance, we are not complacent and recognise that challenges do exist. Over the past year or so we have seen the impact of some of the large mortgage lenders returning to the market, together with new entrants. This increased competition means consumers have the choice of more mortgage products at historically low rates. More recently we have also seen an increase in some lenders expanding into less mainstream areas – such as higher loan-to-value lending and new-build mortgages. This overall increase in competition has placed further pressure on the Group's net interest margin.

This gradual reduction in the margin, which has been anticipated, has meant we have continued to focus on increasing the operating efficiency of the Society, whilst also making sure we continue to invest in our people and processes to ensure we deliver good value products and excellent service across our branch, telephone and online channels.

### Looking ahead

We have previously announced our plan to integrate our financial advice subsidiary, Skipton Financial Services (SFS), with Skipton Building Society and this will occur from 1 August 2016. Looking forward, we are committed to providing financial advice to our members. We have financial planning managers in most branches offering face-to-face advice on savings and long term investments, as well as assistance in most inheritance tax planning matters and pensions which we believe are very important to our customers.

The integration of SFS into the Society will deliver a more seamless customer journey for all financial planning matters and enable our financial services offering to leverage off the digital, IT and brand investment being made by the Society.

The first six months of 2016 have continued to deliver a strong performance for Skipton Building Society. However, the economic uncertainty that has arisen since the EU referendum makes it more difficult to forecast trading conditions in the short to medium term, in particular any movements in Bank Base Rate and any impact on housing transactions and house prices which impacts the Mortgages and Savings division and Connells.

The number of new and second hand houses sold (subject to contract) in any period by Connells, our Estate Agency division, is a key leading indicator of the overall state of the housing market. It is difficult to quantify the recent impact on future house sales from either the increase in stamp duty introduced on 1 April 2016 on investment properties and second homes, or from the EU referendum held on 23 June 2016. In comparison to previous periods in 2015 on a like-for-like basis, the number of houses sold by our Estate Agency division in the first quarter was 5.7% higher than the prior year, in the second quarter was 3.3% lower than the prior year, and our latest estimate is that sales in July 2016 will be approximately 9.0% lower than July 2015.

We remain vigilant regarding potential economic headwinds, but 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.

David Cutter

**David Cutter**
**Group Chief Executive**
26 July 2016

# Business Review

## Business Model and Group Structure

Skipton Building Society is the UK's fourth largest building society, with £18.9bn of assets and 95 branches. The Society is at the head of the Skipton Group, whose business model centres on providing a secure home for our growing number of customers' savings, which they can access through a choice of channels. These funds allow us to lend to borrowers to enable home ownership.

Our strategic objectives are to grow our mortgage and savings business, provide high quality financial advice, and maintain a significant presence in estate agency through the Connells group, in order to generate profits that can be used to strengthen the Society's capital position for the benefit of members. In addition, the Group holds interests in a few small companies comprising the Investment Portfolio.

Further details on the Group's strategic priorities, which remained unchanged during the six months ended 30 June 2016, can be found in the Strategic Report in the 2015 Annual Report and Accounts.

The Group's operating results are reviewed regularly by the Board in the following reportable segments (divisions):

- Mortgages and Savings – principally the Society, but also includes specialist mortgage businesses Amber Homeloans Limited (Amber) and North Yorkshire Mortgages Limited (NYM) (which are closed to new business and are in run-off), as well as deposit taking and mortgage lending in the Channel Islands and the UK through Skipton International Limited (SIL). The division also includes the Group's special purpose vehicles (SPVs) formed to acquire funds from the wholesale markets and the intermediate holding company Skipton Group Holdings Limited (SGHL).
- Estate Agency – includes property sales, surveys and valuations, conveyancing, lettings, asset management and mortgage and insurance broking carried out through the Connells group.
- Financial Advice – through Skipton Financial Services Limited (SFS) and, prior to its disposal during 2015, Pearson Jones plc (included in the division's 2015 results to the date of disposal). From 1 August 2016 the assets and business of SFS will be hived-up into the Society.
- Investment Portfolio – includes a small number of trading companies that do not fall within the core operating segments.

## Key Performance Indicators (KPIs)

The Board and senior management continue to use the KPIs listed on page 6 to monitor business performance against the Group's strategic objectives. These are reported to the Board on an ongoing basis and are key to the Board's management of the business and to its decision making process.

***Our customer strategy*** is to put the customer at the heart of our business, providing a compelling and differentiated proposition that resonates with them and makes them want to become and remain Skipton customers. A key measure of success of a mutual is the sustainable growth of its customer base and savings and mortgage balances. In the first half of 2016 the Society's customer base grew by 20,389 to 858,476 compared to 838,087 at the end of 2015. Our savings balances increased to £13.9bn compared to £12.8bn at the end of 2015 and our mortgage book grew to £14.7bn compared to £14.2bn at the end of last year.

***Our people strategy*** requires people who are able to deliver our strategy and a culture which enables them to do so. We ensure that we have the right people, with the right skills and knowledge, who are highly engaged and perform well to consistently deliver a great experience to our customers. The success of our people strategy is primarily measured by employee engagement and the ongoing focus is to maintain employee engagement at a level of more than 85% over the coming years. In July 2016 we maintained the Society's employee engagement score at 90% (2015: 90%).

***Our proposition*** seeks to provide good value products and consistently deliver excellent service to our customers however they choose to interact with us. We monitor the success of this by measuring our net customer satisfaction score. For the first half of the year, our net customer satisfaction score was 92% (six months ended 30 June 2015: 88%; year ended 31 December 2015: 88%), demonstrating the continued delivery of high quality products and services to our customers. The good value we provide was also evidenced by receiving 136 independent 'best-buy' mentions during the first six months of the year (six months ended 30 June 2015: 347; year ended 31 December 2015: 541), and by featuring in best-buy tables for 22 weeks of the period.

***Our financial strength*** objective is to maintain our strong capital position for the benefit of our members over the long term. A more detailed review of our financial performance and position can be found on pages 7 to 10.

# Business Review *(continued)*

| Key Performance Indicator (KPI) | Purpose | **Unaudited 6 months to 30.06.16** | Unaudited 6 months to 30.06.15 | Unaudited 12 months to 31.12.15 |
|---|---|---|---|---|
| **Our Customers** | | | | |
| Growth in customer numbers (Society only) | To ensure we are attracting and retaining customers | **20,389** | 25,520 | 43,348 |
| Increase in customer savings balances (Society only) | To help more customers save for their future | **£1,117m** | £629m | £1,367m |
| Group gross mortgage advances | To enable us to meet our goal of enabling home ownership through prudent and controlled lending | **£1,949m** | £1,919m | £3,675m |
| Group net mortgage growth | To enable us to meet our goal of enabling home ownership through prudent and controlled lending | **£544m** | £987m | £1,508m |
| **Our People** | | | | |
| Employee engagement (Society only) (note 1) | To ensure our people are passionate, loyal and committed | **90%** | 90% | 90% |
| **Our Proposition** | | | | |
| Society net customer satisfaction score (note 2) | To ensure we are putting the customer at the heart of our business | **92%** | 88% | 88% |
| **Our Financial Strength** | | | | |
| Total Group profit before tax | To ensure we generate the necessary capital to enable the business to develop | **£76.8m** | £72.1m | £146.9m |
| Underlying Group profit before tax (as defined on page 7) | To ensure we generate the necessary capital to enable the business to develop regardless of any non-recurring or one-off costs or benefits | **£72.1m** | £78.2m | £153.3m |
| Group net interest margin (% of mean assets) | To demonstrate the earnings of our core Mortgages and Savings division | **1.18%** | 1.39%* | 1.33% |
| Mortgages and Savings division cost income ratio | To maintain a manageable cost base to ensure the business is cost efficient | **52.57%** | 44.06% | 47.97% |
| Mortgages and Savings division management expense ratio | To maintain a manageable cost base to ensure the business is cost efficient | **0.61%** | 0.63% | 0.67% |
| Group residential mortgages in arrears by three months or more | To manage and monitor our arrears and credit risk management | **0.81%** | 1.00% | 0.91% |
| Liquidity as a % of shares, deposits and borrowings | To ensure we hold sufficient levels of overall liquidity | **19.32%** | 17.77% | 16.95% |
| Group retail funding as a % of total funding | To ensure we fund the majority of our mortgages through retail savings, in line with our customer proposition | **88.83%** | 84.72% | 87.78% |
| Group Common Equity Tier 1 ratio (note 3) | To ensure the Group remains financially strong by having a strong (risk weighted) capital base | **16.97%** | 16.33%* | 16.80% |
| Group leverage ratio | To ensure the Group remains financially strong by having a strong (non-risk weighted) capital base | **6.0%** | 6.0%* | 6.1%^ |

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b). The comparative figures for the Common Equity Tier 1 and leverage ratios also reflect a reclassification of fair value adjustments under CRD IV rules, whilst the comparative figure for the leverage ratio also reflects a reduction in exposures for collateral the Society has provided against derivative liabilities, in accordance with CRD IV rules.

^ The comparative figure has been restated to reflect a reduction in exposures for collateral the Society has provided against derivative liabilities, in accordance with CRD IV rules.

**Notes**
1. As measured by Willis Towers Watson, an independent company that provides benchmarking on employee surveys in both the UK and globally.
2. As measured from an independent survey by KPMG Nunwood of 1,200 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).
3. The Group Common Equity Tier 1 ratio is calculated on the Standardised Approach.

## Financial performance

Total Group profit before tax (PBT) for the first half of the year was £76.8m (six months ended 30 June 2015: £72.1m; year ended 31 December 2015: £146.9m). Further information can be found in the Income Statement on page 12.

Underlying Group PBT for the six months ended 30 June 2016 was £72.1m (six months ended 30 June 2015: £78.2m; year ended 31 December 2015: £153.3m) as follows:

| | **Unaudited 6 months to 30.06.16 £m** | Unaudited 6 months to 30.06.15 £m | Unaudited 12 months to 31.12.15 £m |
|---|---|---|---|
| Total Group profit before tax | **76.8** | 72.1 | 146.9 |
| Less profit / add back loss on disposal of subsidiary undertakings | **(9.4)** | 0.5 | 0.4 |
| Add back loss / less profit on full or part disposal of associate and equity share investments | **0.9** | (1.2) | (1.4) |
| Add back FSCS levy | **3.8** | 6.8 | 7.4 |
| **Underlying Group profit before tax** | **72.1** | 78.2 | 153.3 |

## Performance by business area

The Group's results by business area were as follows:

| | **Unaudited 6 months to 30.06.16 £m** | Unaudited 6 months to 30.06.15 £m | Unaudited 12 months to 31.12.15 £m |
|---|---|---|---|
| Mortgages and Savings | **46.6** | 49.1 | 104.8 |
| Estate Agency | **31.3** | 27.3 | 62.5 |
| Financial Advice | **(0.9)** | (0.9) | (1.8) |
| Investment Portfolio | **(3.4)** | 1.6 | 1.4 |
| Sundry, including inter-divisional adjustments* | **3.2** | (5.0) | (20.0) |
| **Profit before tax** | **76.8** | 72.1 | 146.9 |

* Sundry, including inter-divisional adjustments relates primarily to the elimination of inter-divisional trading, the cost of the management incentive scheme for senior managers of Connells Limited and, for 2016, contingent consideration recognised following the disposal of Homeloan Management Limited in 2014 which comprised the Mortgage Services division prior to its disposal.

A more detailed breakdown of the results of each business area can be found in note 17.

### Mortgages and Savings

Gross mortgage advances in the first half of the year increased by 1.6% to £1,949m (six months ended 30 June 2015: £1,919m; year ended 31 December 2015: £3,675m), whilst net lending was £544m (six months ended 30 June 2015: £987m; year ended 31 December 2015: £1,508m). This increase in lending, achieved without increasing our credit risk appetite, was a result of our strong relationships with our intermediary partners and our competitive offerings across a range of mortgage products.

Despite Bank Base Rate remaining at 0.5% we continue to offer competitive rates to our savers. The Society saw a growth in savings customers of 16,358 (17,809 in the six months ended 30 June 2015) and has seen its savings balances increase by £1,117m since the end of 2015, representing growth of 8.7% (six months ended 30 June 2015: 5.5%).

Net interest income, which is the main source of income for the division, is the amount earned on assets (mortgages, other loans and advances and liquidity), less that paid on liabilities (retail savings, wholesale funding and subscribed and subordinated capital). The division's net interest income amounted to £104.4m for the first half of the year (six months ended 30 June 2015: £112.1m; year ended 31 December 2015: £219.8m).

The net interest margin measures net interest income as a percentage of average total assets and at Group level this was 1.18% for the first half of 2016 (six months ended 30 June 2015: 1.39%; year ended 31 December 2015: 1.33%). The reduction in margin was mainly the result of increased competition in the mortgage market, and we expect the pressure on margins to continue for the foreseeable future.

A key focus within the division is on managing our cost base, in particular the increasing costs of regulatory compliance, whilst making investments in our customer proposition and developing our people. Despite these investments, the ratio of administrative expenses to average assets for the division, a traditional building society measure of efficiency, improved in the first half of the year to 0.61% (six months ended 30 June 2015: 0.63%; year ended 31 December 2015: 0.67%).

As a result of the pressures on margins and increased costs outlined above, the cost income ratio at a Mortgages and Savings division level increased to 52.57% (six months ended 30 June 2015: 44.06%; year ended 31 December 2015: 47.97%).

The total number of mortgages in arrears across the division has reduced, with the number of residential mortgages in arrears by three months or more falling to 0.81% (30 June 2015: 1.00%; 31 December 2015: 0.91%). Group arrears compare favourably to the Council of Mortgage Lenders (CML) industry average for mortgages in arrears by more than three months of 1.04% (CML figures as at 31 March 2016).

The level of mortgage arrears within the closed books of Amber and NYM continues to reduce and the run-off of these portfolios is managed through efficient and proactive collection processes, including a number of appropriate forbearance measures for borrowers in difficulty. The aggregate size of these two portfolios continues to reduce, reducing by 5.6% since 31 December 2015. The number of mortgages in arrears by three months or more has also reduced in the first six months of 2016, reducing to 6.44% for Amber (30 June 2015: 7.25%; 31 December 2015: 6.64%) and to 5.10% for NYM (30 June 2015: 5.80%; 31 December 2015: 5.54%).

The fall in arrears across the Group as outlined above, together with an increase in house prices during the period, resulted in a credit to the Income Statement in respect of residential loan impairment of £1.0m (six months ended 30 June 2015: £5.3m charge; year ended 31 December 2015: £0.6m charge). The quality of the Society and SIL residential mortgage portfolios remains high.

No charge was recognised in the period against the equity release book (six months ended 30 June 2015: £2.5m; year ended 31 December 2015: £6.5m), which was acquired when we merged with the Scarborough Building Society in 2009.

Losses on this portfolio arise from the 'no negative equity guarantee' provided to customers (as described in note 16b)), and are predominantly a function of the actual and projected interrelationship between market-wide long term house prices and retail price inflation, as well as the specific behaviour of this portfolio.

Arrears levels within our commercial lending portfolio (closed to new business in 2008) remain low. There was a net credit to the Income Statement in the period of £0.3m (six months ended 30 June 2015: £0.2m charge; year ended 31 December 2015: £1.3m charge) due to a number of specific cases where the provision requirement has fallen since the end of 2015.

SIL, our Channel Islands operation, performed well over the first half of the year, reporting an increase in pre-tax profits to £7.1m (six months ended 30 June 2015: £6.8m; year ended 31 December 2015: £13.7m). SIL also reported significant increases in both its mortgage and savings books, which increased to £947.4m and £1,106.2m respectively (31 December 2015: £890.9m and £1,080.9m respectively), representing growth of 6.3% in the mortgage book and 2.3% growth in savings balances since the year end. The quality of the mortgage book remains good, with no loans three months or more in arrears.

Provisions for liabilities in the division predominantly consist of the Society's share of the costs of the Financial Services Compensation Scheme (FSCS). The majority of the Group's FSCS charge is in the Mortgages and Savings division and the division's charge to the Income Statement amounted to £3.5m (six months ended 30 June 2015: £6.4m; year ended 31 December 2015: £6.7m).

## Estate Agency

The Connells group achieved a pre-tax profit of £31.3m for the first six months of 2016 compared to £27.3m for the six months ended 30 June 2015.

Total income across the division increased by 18.6% compared to the first half of 2015 to £196.9m. The Connells group retains a good spread of revenue generating activities and has seen significant increases in lettings (24.1%), mortgage services (23.2%) and surveying income (16.3%), with an increase in income from second hand house sales of 15.5%. Costs increased by 19.0% as Connells continues to invest for the future by expanding its lettings footprint and increasing the number of mortgage services consultants and surveyors.

## Financial Advice

In January 2016, we announced that Skipton Financial Services Limited (SFS) would be integrated with the Society. This will occur from 1 August 2016, and following integration we will continue to provide advice on pensions and investments, including inheritance planning, under a single Skipton Building Society brand.

Following a restructure in late 2015, SFS incurred a small loss of £(0.9)m in the first half of 2016 (six months ended 30 June 2015: £(0.5)m; year ended 31 December 2015: £(1.7)m). SFS continued to attract new customers in the first half of 2016 with a particular increase in pensions related advice. Funds under management totalled £2.90bn at 30 June 2016, compared to £2.87bn at 31 December 2015, with around 90% relating to SFS' ongoing service proposition - Monitored Informed Investing ('*M*II') - which continues to generate recurring income. Cost control has continued following the restructure, however some minor costs associated with the integration have also been incurred.

## Investment Portfolio

Skipton Business Finance Limited (a provider of debt factoring and invoice discounting to small and medium-sized enterprises) performed well during the first half of the year, producing a pre-tax profit of £1.5m (six months ended 30 June 2015: £1.4m; year ended 31 December 2015: £3.2m). Although Jade Software Corporation (a software solutions provider based in New Zealand that specialises in digital solutions, large enterprise solutions and logistics) has delivered encouraging year-on-year sales growth, it continues to trade at a small loss of £(0.5)m (six months ended 30 June 2015: £(0.7)m; year ended 31 December 2015: £(1.3)m) as investment is made for future growth.

We continued to hold our investment in Wynyard Group Limited (also based in New Zealand where it is listed on the stock exchange) as an associate investment up to 20 June 2016, based on the opinion of the Directors that the Group exercised significant influence to that date principally because a member of the Group's senior management was on the board of Wynyard. Our share of Wynyard's losses, based on a publicly-available forecast, in this period amounted to £(2.4)m (six months ended 30 June 2015: £(0.9)m; year ended 31 December 2015: £(2.3)m). In addition, an impairment charge of £(1.1)m was recognised as a result of a deterioration in the share price leading to the market value of our shareholding falling below the carrying value. On 20 June 2016, the individual noted above stood down from the board of Wynyard and as a result of this, and consideration of other factors involved, the Directors concluded that the Group no longer held significant influence over Wynyard. Consequently the shareholding is now accounted for as an equity share investment by reference to the quoted share price, with any gains or losses recognised in the available-for-sale reserve. The change to accounting treatment resulted in a loss of £(0.9)m recognised on the deemed disposal of the associate investment.

## Sundry, including inter-divisional adjustments

The cost for the first six months of 2016 of the management incentive scheme for the senior managers of Connells Limited was £3.3m (six months ended 30 June 2015: £3.7m; year ended 31 December 2015: £15.9m). During the period a number of managers in the scheme also exercised a proportion of their options which resulted in total payments of £10.0m being made. Further details of the scheme, including the calculation of the liability and the assumptions used, can be found in note 25 in the 2015 Annual Report and Accounts.

During 2014, the Group sold its subsidiary Homeloan Management Limited (HML), which comprised the Mortgage Services division. The sale of HML included contingent consideration dependent on HML's performance over a period following the disposal. During the first half of 2016

Computershare Limited, the ultimate parent company of HML, announced that its UK subsidiary had been appointed by UK Asset Resolution (UKAR) to undertake its mortgage servicing activities. This will result in contingent consideration being receivable by the Group between 2018 and 2022, and the amount recognised in the period of £9.6m (six months ended 30 June 2015: £nil; year ended 31 December 2015: £nil) is based on the Directors' best estimate of the present value of an element of the contingent consideration that can be reliably estimated at this stage. An additional element may become due, albeit the amount cannot be reliably estimated at present. The amount recognised in the period is included in the 'Profit on disposal of subsidiaries' line in the Income Statement.

Inter-divisional adjustments during the period, which relate primarily to the elimination of inter-divisional trading between Group entities, amounted to £(3.1)m (six months ended 30 June 2015: £(1.3)m; year ended 31 December 2015: £(4.1)m).

### Other comprehensive income

During the period, the Group recognised £(11.9)m (net of tax) of other comprehensive income (six months ended 30 June 2015: £14.5m; year ended 31 December 2015: £11.9m). The remeasurement of retirement benefit obligations to reflect latest market conditions resulted in a loss of £(29.4)m (before tax) through other comprehensive income (six months ended 30 June 2015: gain of £9.6m; year ended 31 December 2015: gain of £5.7m). This was offset in part by gains of £4.4m (gross of tax) (six months ended 30 June 2015: £13.1m; year ended 31 December 2015: £7.3m) arising from an increase in the market value of Connells' equity shareholding in Zoopla Property Group Plc. The gain is based on the share price as at 30 June 2016 and has been recognised in the available-for-sale reserve. Various other movements in the Society's available-for-sale and cash flow hedging reserves account for the majority of the remainder of the overall movement in the Group's other comprehensive income.

## Financial position

### Loans and advances to customers

The Group has again increased its lending during the period and continues to lend through the Society and SIL in a controlled manner. Gross mortgage advances in the period increased to £1,949m across the Group compared with £1,919m in the same period in 2015 (year ended 31 December 2015: £3,675m). Group mortgage balances totalled £14.7bn, up from £14.2bn at the end of 2015, an increase of 3.8%.

Our new lending remains prudent and the mortgage book is well diversified by product type and geographical location. During the first half of the year, the Society helped a broad spectrum of borrowers, house movers and first time buyers by offering our customers a variety of products, such as loans that only require a 10% deposit and longer term deals offering payment certainty for up to five years.

Our well-managed spread of risk ensures that the quality of the Group's lending remains high. As at 30 June 2016, the average indexed loan-to-value (LTV) of the residential mortgage book was 48.4% (30 June 2015: 50.8%; 31 December 2015: 48.5%).

### Liquidity

The Group continues to hold healthy levels of liquid assets to support the business and to counter economic uncertainty, with the liquidity ratio (as a percentage of shares, deposits and borrowings) increasing from 16.95% at the end of 2015 to 19.32% as at 30 June 2016. The higher level of liquidity at the half year resulted from high inflows from retail savings in the first half of the year in order to prudently prepare for the result of the EU referendum.

The Liquidity Coverage Ratio (LCR), a new regulatory measure introduced in 2015, is designed to ensure that financial institutions have sufficient high quality liquid assets available to meet their liquidity needs for a 30 day liquidity stress scenario. Financial institutions throughout the UK are required to have a minimum LCR position of 80% under the transitional arrangements, however the Group's internal limit is a minimum of 100%. The Group's actual LCR has been maintained well above both the regulatory and internal limit set by the Board throughout the period.

The Group's treasury investments are held to provide liquidity and at the end of the reporting period 99.8% (30 June 2015: 99.9%; 31 December 2015: 99.9%) of the Group's treasury investments were rated A3 or better. The Society continues to carry out regular liquidity stress testing in accordance with the Prudential Regulation Authority's (PRA) liquidity guidelines and the Board remains satisfied that the Group has sufficient liquid assets at its disposal in order to meet its obligations as they fall due.

### Funding

As a building society, the Group is required to obtain the majority of its funding through retail deposits. The Society retains a strong retail base, placing significantly less reliance on the wholesale markets.

#### *Retail funding*

The launch of the Government's Funding for Lending Scheme (FLS) in August 2012 had an impact on price competition for retail funding across the industry. However, although we have participated in the FLS, as a mutual building society our focus has always been on offering competitive products to secure and retain savings as the prime source of a stable funding base.

As at 30 June 2016, £14.0bn (30 June 2015: £12.1bn; 31 December 2015: £12.8bn) of our funding came from retail savings, representing 88.8% (30 June 2015: 84.7%; 31 December 2015: 87.8%) of total funding.

In addition to our UK retail funding, the Group also accepts deposits through our Guernsey-based subsidiary SIL. SIL has maintained a stable funding base, with its deposits growing to £1,106.2m as at 30 June 2016 (30 June 2015: £1,012.4m; 31 December 2015: £1,080.9m).

#### *Wholesale funding*

The remainder of the Group's funding comes from the wholesale markets. At 30 June 2016 our wholesale funding balances amounted to £1,618.0m (30 June 2015: £2,050.2m;

31 December 2015: £1,653.0m), a decrease of £35.0m during the six month period. The Group's wholesale funding ratio reduced slightly to 11.2% as at 30 June 2016 (30 June 2015: 15.3%; 31 December 2015: 12.2%).

As at 30 June 2016 we had drawn a total of £880m (30 June 2015: £855m; 31 December 2015: £880m) under the FLS scheme.

## Capital

Capital comprises the Group's general reserve, subscribed capital provided through Permanent Interest Bearing Shares (PIBS) and subordinated liabilities. Capital is ultimately held for the protection of depositors and other creditors by providing a buffer against unexpected losses.

The key capital consolidation level is the regulated prudential consolidation group. This consists of the entire Group except Connells and a small number of entities whose activities are not closely aligned with the core financial services businesses.

Total capital has increased by £51.7m from 31 December 2015 to £1,148.4m under the fully loaded definition of CRD IV (30 June 2015: £1,039.5m (restated); 31 December 2015: £1,096.7m). The fully loaded position represents the CRD IV end-point definition applicable from 1 January 2022. Under the fully loaded rules, existing Tier 1 and Tier 2 instruments that will become ineligible capital are excluded in full.

The capital ratios for the prudential group, calculated on the Standardised Approach, are set out below:

| | Fully loaded | | |
|---|---|---|---|
| | **Unaudited as at 30.06.16** | Unaudited as at 30.06.15 Restated* | Unaudited as at 31.12.15 |
| | **%** | % | % |
| Common Equity Tier 1 ratio | **16.97** | 16.33 | 16.80 |
| Tier 1 ratio | **16.97** | 16.33 | 16.80 |
| Total capital ratio | **17.60** | 17.04 | 17.47 |

| | Transitional | | |
|---|---|---|---|
| | **Unaudited as at 30.06.16** | Unaudited as at 30.06.15 Restated* | Unaudited as at 31.12.15 |
| | **%** | % | % |
| Common Equity Tier 1 ratio | **16.97** | 16.33 | 16.80 |
| Tier 1 ratio | **17.80** | 17.36 | 17.80 |
| Total capital ratio | **18.83** | 18.38 | 18.75 |

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings (fully loaded and transitional) and a reclassification of fair value adjustments under CRD IV rules (which applies to the fully loaded position only). Further details are provided in note 1b).

## Leverage ratio on a CRD IV basis

The leverage ratio is defined as Tier 1 capital divided by total exposure, i.e. total assets per the Statement of Financial Position (subject to some regulatory adjustments such as the deduction of intangible assets). The fully loaded leverage ratio as at 30 June 2016 was 6.0% (30 June 2015: 6.0% (restated); 31 December 2015: 6.1% (restated)).

## Principal risks and uncertainties

The Directors do not consider that the principal risks and uncertainties affecting the Group have (i) changed materially since the publication of the 2015 Annual Report and Accounts, with the exception of the potential impact of the result of the EU referendum or (ii) changed as a result of the new area of critical accounting estimate and judgement referred to in note 1c). The principal risks were categorised in the 2015 Annual Report and Accounts as follows:

- Credit risk, which is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group. The Group faces credit risk from its lending to individuals, businesses and wholesale counterparties, and manages this risk through maintaining a prudent approach to new lending and through the presence of a robust risk management framework. Economic conditions in the UK have remained relatively benign during the first half of 2016, leading to a reduction in arrears within the Group's mortgage portfolio.
- Liquidity risk, which is the risk that the Group is unable to meet its obligations as they fall due, or is only able to do so at excessive cost. The Group maintains a high quality liquidity portfolio and continues to hold liquidity well in excess of the regulatory minimum.
- Market risk, which is the risk that the value of, or income arising from, the Group's assets and liabilities changes as a result of changes in market prices. The Group continues to manage market risk through the use of appropriate financial instruments (including derivatives), with established risk limits in place.
- Conduct and operational risk – conduct risk is the risk of delivering poor or inappropriate outcomes for customers, while operational risk is the risk of financial loss or reputational damage arising from inadequate or failed internal processes or systems or human error. Each of these risks is managed through the Group's conduct and operational risk management framework.
- Model risk, which is the risk that, as a result of weaknesses or failures in the design or use of a model, a financial loss occurs or a poor business or strategic decision is made. This is mitigated by a formal review forum, provided by the Model Governance Committee, for managing model risk.
- Pension obligation risk is managed by the Trustees of the Group's two defined benefit schemes, and is the risk that the value of the schemes' assets, together with ongoing contributions, will be insufficient to cover their obligations over time.

- Taxation risk, which is the risk associated with changes in or the interpretation of tax law. The Group has effective, well-documented and controlled processes in place to manage this risk.
- Business risk, which broadly is the risk of changes in the environment in which the Group operates. These risks are addressed in the Group's corporate plan, approved annually by the Board, and by associated stress testing carried out on these plans.
- Management of capital. The Internal Capital Adequacy Assessment Process (ICAAP) is conducted at least annually and is used to assess the Group's capital adequacy and determine the levels of capital required to mitigate where possible the current and future risks in the business as identified in the Group's corporate plan.

A more detailed explanation of the risks above, which are common to most financial services firms in the UK, and how the Group seeks to mitigate them, can be found on pages 50 to 56 of the 2015 Annual Report and Accounts.

The Group Chief Executive's Report on pages 3 and 4 also provides some context to the current state of the UK economy and the challenges currently facing the Group, the risks from which we are confident we remain well placed to manage. As stated therein, the vote in June for the UK to leave the EU has created some economic uncertainty, making it more difficult to forecast short and medium term trading conditions. We have, therefore, taken a prudent view of any forward-looking assumptions or judgements made by management which impact these half-yearly results. As noted above, the Group is exposed to the UK economy and, in particular, the housing market.

Bobby Ndawula

**Bobby Ndawula**
**Group Finance Director**
26 July 2016

# Condensed Consolidated Income Statement

**For the half year ended 30 June 2016**

| | Notes | **Unaudited 6 months to 30.06.16 £m** | Unaudited 6 months to 30.06.15 £m | Audited 12 months to 31.12.15 £m |
|---|---|---|---|---|
| Interest receivable and similar income | 3 | **219.9** | 217.8 | 439.5 |
| Interest payable and similar charges | 4 | **(112.7)** | (104.5) | (216.2) |
| **Net interest receivable** | | **107.2** | 113.3 | 223.3 |
| Fees and commissions receivable | 5 | **219.8** | 193.5 | 409.1 |
| Fees and commissions payable | | **(4.8)** | (4.0) | (10.1) |
| Fair value (losses) / gains on financial instruments | | **(4.7)** | (1.8) | 4.0 |
| Profits on treasury assets | | **0.3** | - | 0.1 |
| Profit / (loss) on disposal of subsidiary undertakings | | **9.4** | (0.5) | (0.4) |
| Profit on part disposal of equity share investments | | **-** | - | 0.3 |
| (Loss) / profit on full or part disposal of associate | | **(0.9)** | 1.2 | 1.1 |
| Dividend income from equity share investments | | **0.7** | 0.3 | 0.3 |
| Share of profits from joint ventures | | **1.1** | 1.2 | 2.5 |
| Share of losses from associate | | **(2.4)** | (0.9) | (2.3) |
| Other income | | **1.0** | 2.9 | 3.6 |
| **Total income** | | **326.7** | 305.2 | 631.5 |
| Administrative expenses | 6 | **(243.0)** | (215.8) | (464.4) |
| **Operating profit before impairment losses and provisions** | | **83.7** | 89.4 | 167.1 |
| Impairment credit / (losses) on loans and advances to customers | 7 | **1.3** | (8.0) | (8.4) |
| Impairment losses on associate investments | | **(1.1)** | - | - |
| Provisions for liabilities | 9 | **(7.1)** | (9.3) | (11.8) |
| **Profit before tax** | | **76.8** | 72.1 | 146.9 |
| Tax expense | | **(17.5)** | (14.1) | (33.5) |
| **Profit for the period** | | **59.3** | 58.0 | 113.4 |
| | | | | |
| **Profit for the period attributable to:** | | | | |
| Members of Skipton Building Society | | **59.6** | 58.3 | 114.0 |
| Non-controlling interests | | **(0.3)** | (0.3) | (0.6) |
| | | **59.3** | 58.0 | 113.4 |

Segmental performance of the Group is shown in note 17.

The notes on pages 20 to 36 form an integral part of this condensed consolidated half-yearly financial report.

# Condensed Consolidated Statement of Comprehensive Income

**For the half year ended 30 June 2016**

| | **Unaudited 6 months to 30.06.16 £m** | Unaudited 6 months to 30.06.15 £m | Audited 12 months to 31.12.15 £m |
|---|---|---|---|
| **Profit for the period** | **59.3** | 58.0 | 113.4 |
| **Other comprehensive income:** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Remeasurement (losses) / gains on defined benefit obligations | **(29.4)** | 9.6 | 5.7 |
| Movement in reserves attributable to non-controlling interests | **0.6** | (0.4) | (0.3) |
| Income tax on items that will not be reclassified to profit or loss | **6.7** | (1.9) | - |
| | **(22.1)** | 7.3 | 5.4 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Available-for-sale investments: valuation gains taken to equity | **4.5** | 12.7 | 6.0 |
| Available-for-sale investments: realised gains transferred to Income Statement | **(0.4)** | - | (0.3) |
| Cash flow hedges: gains / (losses) taken to equity | **7.2** | (2.4) | 1.0 |
| Cash flow hedges: realised (gains) / losses transferred to Income Statement | **(0.4)** | 1.2 | 1.3 |
| Exchange differences on translation of foreign operations | **1.2** | (2.4) | (1.0) |
| Translation loss transferred to Income Statement on deemed disposal of associate | **0.5** | 0.3 | 0.1 |
| Income tax on items that may be reclassified to profit or loss | **(2.4)** | (2.2) | (0.6) |
| | **10.2** | 7.2 | 6.5 |
| **Other comprehensive (expense) / income for the period, net of tax** | **(11.9)** | 14.5 | 11.9 |
| **Total comprehensive income for the period** | **47.4** | 72.5 | 125.3 |
| **Total comprehensive income attributable to:** | | | |
| Members of Skipton Building Society | **47.1** | 73.2 | 126.2 |
| Non-controlling interests | **0.3** | (0.7) | (0.9) |
| | **47.4** | 72.5 | 125.3 |

The notes on pages 20 to 36 form an integral part of this condensed consolidated half-yearly financial report.

# Condensed Consolidated Statement of Financial Position

**As at 30 June 2016**

| | Notes | **Unaudited as at 30.06.16 £m** | Unaudited as at 30.06.15 Restated* £m | Audited as at 31.12.15 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash in hand and balances with the Bank of England | | **1,588.8** | 1,196.0 | 1,180.8 |
| Loans and advances to credit institutions | | **419.5** | 329.3 | 352.6 |
| Debt securities | 8 | **1,224.2** | 1,165.1 | 1,104.4 |
| Derivative financial instruments | | **139.9** | 102.1 | 95.1 |
| Loans and advances to customers | 11 | **15,054.0** | 13,796.6 | 14,363.2 |
| Deferred tax asset | | **26.2** | 20.1 | 21.6 |
| Investments in joint ventures | | **11.7** | 9.2 | 10.8 |
| Investments in associates | | **-** | 11.9 | 11.5 |
| Equity share investments | | **56.7** | 46.0 | 40.9 |
| Property, plant and equipment | | **73.9** | 64.7 | 67.8 |
| Investment property | | **15.5** | 20.1 | 15.9 |
| Intangible assets | | **163.4** | 142.1 | 153.2 |
| Other assets | | **121.1** | 106.7 | 93.6 |
| **Total assets** | | **18,894.9** | 17,009.9 | 17,511.4 |
| | | | | |
| **Liabilities** | | | | |
| Shares | | **14,006.0** | 12,081.5 | 12,828.2 |
| Amounts owed to credit institutions | | **705.3** | 1,022.6 | 735.6 |
| Amounts owed to other customers | | **1,371.8** | 1,320.0 | 1,389.5 |
| Debt securities in issue | 12 | **647.1** | 720.0 | 608.8 |
| Derivative financial instruments | | **456.5** | 277.9 | 296.9 |
| Current tax liability | | **15.8** | 13.3 | 16.8 |
| Other liabilities | | **128.5** | 112.1 | 139.8 |
| Accruals and deferred income | | **36.5** | 34.1 | 43.2 |
| Provisions for liabilities | 9 | **28.8** | 35.8 | 26.5 |
| Deferred tax liability | | **12.7** | 14.7 | 11.3 |
| Retirement benefit obligations | | **90.7** | 62.7 | 65.2 |
| Subordinated liabilities | | **77.0** | 96.6 | 78.5 |
| Subscribed capital | | **93.2** | 93.8 | 93.5 |
| **Total liabilities** | | **17,669.9** | 15,885.1 | 16,333.8 |
| | | | | |
| **Members' interests** | | | | |
| General reserve | | **1,183.2** | 1,092.6 | 1,146.3 |
| Available-for-sale reserve | | **35.1** | 36.6 | 31.7 |
| Cash flow hedging reserve | | **1.9** | (6.2) | (3.2) |
| Translation reserve | | **6.1** | 3.2 | 4.4 |
| **Attributable to members of Skipton Building Society** | | **1,226.3** | 1,126.2 | 1,179.2 |
| Non-controlling interests | | **(1.3)** | (1.4) | (1.6) |
| **Total members' interests** | | **1,225.0** | 1,124.8 | 1,177.6 |
| | | | | |
| **Total members' interests and liabilities** | | **18,894.9** | 17,009.9 | 17,511.4 |

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

The notes on pages 20 to 36 form an integral part of this condensed consolidated half-yearly financial report.

# Condensed Consolidated Statement of Changes in Members' Interests

**Unaudited for the half year ended 30 June 2016**

| | General reserve £m | Available-for-sale financial assets £m | Cash flow hedges £m | Translation of foreign operations £m | Sub total £m | Non-controlling interests £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | **1,146.3** | **31.7** | **(3.2)** | **4.4** | **1,179.2** | **(1.6)** | **1,177.6** |
| Profit / (loss) for the period | 59.6 | - | - | - | **59.6** | (0.3) | **59.3** |
| **Other comprehensive income:** | | | | | | | |
| Remeasurement losses on defined benefit obligations | (22.7) | - | - | - | **(22.7)** | - | **(22.7)** |
| Net gains from changes in fair value | - | 3.7 | 5.4 | - | **9.1** | - | **9.1** |
| Available-for-sale: realised gains transferred to Income Statement on sale | - | (0.3) | - | - | **(0.3)** | - | **(0.3)** |
| Cash flow hedges: realised gains transferred to Income Statement | - | - | (0.3) | - | **(0.3)** | - | **(0.3)** |
| Exchange differences on translation of foreign operations | - | - | - | 1.2 | **1.2** | - | **1.2** |
| Translation loss transferred to Income Statement on deemed disposal of associate | - | - | - | 0.5 | **0.5** | - | **0.5** |
| Movement in reserves attributable to non-controlling interests | - | - | - | - | **-** | 0.6 | **0.6** |
| **Total other comprehensive income** | **(22.7)** | **3.4** | **5.1** | **1.7** | **(12.5)** | **0.6** | **(11.9)** |
| **Total comprehensive income for the period** | **36.9** | **3.4** | **5.1** | **1.7** | **47.1** | **0.3** | **47.4** |
| **Balance at 30 June 2016** | **1,183.2** | **35.1** | **1.9** | **6.1** | **1,226.3** | **(1.3)** | **1,225.0** |

# Condensed Consolidated Statement of Changes in Members' Interests *(continued)*

Unaudited for the half year ended 30 June 2015

| | General reserve £m | Available-for-sale financial assets £m | Cash flow hedges £m | Translation of foreign operations £m | Sub total £m | Non-controlling interests £m | Total £m |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2015 (previously published) | 1,046.2 | 26.4 | (5.3) | 5.3 | 1,072.6 | (0.7) | 1,071.9 |
| Change in accounting policy adjustment* | (19.6) | - | - | - | (19.6) | - | (19.6) |
| Balance at 1 January 2015 (restated)* | 1,026.6 | 26.4 | (5.3) | 5.3 | 1,053.0 | (0.7) | 1,052.3 |
| Profit / (loss) for the period | 58.3 | - | - | - | 58.3 | (0.3) | 58.0 |
| Other comprehensive income: | | | | | | | |
| Remeasurement gains on defined benefit obligations | 7.7 | - | - | - | 7.7 | - | 7.7 |
| Net gains / (losses) from changes in fair value | - | 10.2 | (1.9) | - | 8.3 | - | 8.3 |
| Cash flow hedges: realised losses transferred to Income Statement | - | - | 1.0 | - | 1.0 | - | 1.0 |
| Exchange differences on translation of foreign operations | - | - | - | (2.4) | (2.4) | - | (2.4) |
| Translation loss transferred to Income Statement on deemed disposal of associate | - | - | - | 0.3 | 0.3 | - | 0.3 |
| Movement in reserves attributable to non-controlling interests | - | - | - | - | - | (0.4) | (0.4) |
| Total other comprehensive income | 7.7 | 10.2 | (0.9) | (2.1) | 14.9 | (0.4) | 14.5 |
| Total comprehensive income for the period | 66.0 | 10.2 | (0.9) | (2.1) | 73.2 | (0.7) | 72.5 |
| Balance at 30 June 2015 (previously published) | 1,112.2 | 36.6 | (6.2) | 3.2 | 1,145.8 | (1.4) | 1,144.4 |
| Change in accounting policy adjustment* | (19.6) | - | - | - | (19.6) | - | (19.6) |
| Balance at 30 June 2015 | 1,092.6 | 36.6 | (6.2) | 3.2 | 1,126.2 | (1.4) | 1,124.8 |

* The comparative figures have been restated due to a change in accounting policy relating to dividend payments to non-controlling shareholders of subsidiary undertakings. Further details are provided in note 1b).

# Condensed Consolidated Statement of Changes in Members' Interests *(continued)*

Audited for the year ended 31 December 2015

| | General reserve £m | Available-for-sale financial assets £m | Cash flow hedges £m | Translation of foreign operations £m | Sub total £m | Non-controlling interests £m | Total £m |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2015 | 1,026.6 | 26.4 | (5.3) | 5.3 | 1,053.0 | (0.7) | 1,052.3 |
| Profit / (loss) for the year | 114.0 | - | - | - | 114.0 | (0.6) | 113.4 |
| Other comprehensive income: | | | | | | | |
| Remeasurement gains on defined benefit obligations | 5.7 | - | - | - | 5.7 | - | 5.7 |
| Net gains from changes in fair value | - | 5.5 | 1.1 | - | 6.6 | - | 6.6 |
| Available-for-sale: realised gains transferred to Income Statement on sale | - | (0.2) | - | - | (0.2) | - | (0.2) |
| Cash flow hedges: realised losses transferred to Income Statement | - | - | 1.0 | - | 1.0 | - | 1.0 |
| Exchange differences on translation of foreign operations | - | - | - | (1.0) | (1.0) | - | (1.0) |
| Translation loss transferred to Income Statement on deemed disposal of associate | - | - | - | 0.1 | 0.1 | - | 0.1 |
| Movement in reserves attributable to non-controlling interests | - | - | - | - | - | (0.3) | (0.3) |
| Total other comprehensive income | 5.7 | 5.3 | 2.1 | (0.9) | 12.2 | (0.3) | 11.9 |
| Total comprehensive income for the year | 119.7 | 5.3 | 2.1 | (0.9) | 126.2 | (0.9) | 125.3 |
| Balance at 31 December 2015 | 1,146.3 | 31.7 | (3.2) | 4.4 | 1,179.2 | (1.6) | 1,177.6 |

The notes on pages 20 to 36 form an integral part of this condensed consolidated half-yearly financial report.

# Condensed Consolidated Statement of Cash Flows

**For the half year ended 30 June 2016**

| | Notes | **Unaudited 6 months to 30.06.16 £m** | Unaudited 6 months to 30.06.15 £m | Audited 12 months to 31.12.15 £m |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before tax | | **76.8** | 72.1 | 146.9 |
| Adjustments for: | | | | |
| Impairment (credit) / losses on loans and advances to customers | 7 | **(1.3)** | 8.0 | 8.4 |
| Loans and advances written off, net of recoveries | | **(1.3)** | (2.5) | (5.5) |
| Depreciation and amortisation | | **9.9** | 8.2 | 16.9 |
| Impairment of investment property and property, plant and equipment | | **-** | 0.4 | 4.0 |
| Impairment losses on associate investments | | **1.1** | - | - |
| Dividend income from equity share investments | | **(0.7)** | (0.3) | (0.3) |
| Interest on subscribed capital and subordinated liabilities | | **5.7** | 6.1 | 12.1 |
| Profit on sale of property, plant and equipment, investment property and intangible assets | | **-** | (0.2) | (0.2) |
| Realised gains on treasury assets | | **(0.3)** | - | (0.1) |
| Share of losses / (profits) from joint ventures and associates | | **1.3** | (0.3) | (0.2) |
| Loss / (profit) on full or part disposal of associate | | **0.9** | (1.2) | (1.1) |
| Profit on part disposal of equity share investments | | **-** | - | (0.3) |
| (Profit) / loss on disposal of subsidiary undertakings | | **(9.4)** | 0.5 | 0.4 |
| Remeasurement (losses) / gains on defined benefit obligations | | **(29.4)** | 9.6 | 5.7 |
| Other non-cash movements | | **9.0** | (0.7) | (0.8) |
| | | **62.3** | 99.7 | 185.9 |
| Changes in operating assets and liabilities: | | | | |
| Movement in prepayments and accrued income | | **(8.3)** | (3.5) | 2.7 |
| Movement in accruals and deferred income | | **(20.2)** | (20.0) | 2.3 |
| Movement in provisions for liabilities | | **2.3** | 3.4 | (5.9) |
| Movement in fair value of derivatives | | **114.8** | 1.9 | 27.9 |
| Movement in fair value adjustments for hedged risk | | **(85.1)** | 4.6 | (30.5) |
| Fair value movements in debt securities | | **(17.9)** | 5.1 | 5.3 |
| Movement in loans and advances to customers | | **(543.2)** | (990.4) | (1,513.5) |
| Movement in shares | | **1,131.4** | 643.4 | 1,366.9 |
| Income Statement charge for fair value of management incentive scheme liability | | **3.3** | 3.7 | 15.9 |
| Net movement in amounts owed to credit institutions and other customers | | **(49.9)** | 407.0 | 191.6 |
| Net movement in debt securities in issue | | **38.1** | (10.6) | (122.4) |
| Net movement in loans and advances to credit institutions | | **(67.8)** | 20.0 | (2.9) |
| Net movement in other assets | | **(11.1)** | (19.7) | (8.7) |
| Net movement in other liabilities | | **18.5** | 4.7 | 13.0 |
| Income taxes paid | | **(18.1)** | (19.1) | (36.6) |
| **Net cash flows from operating activities** | | **549.1** | 130.2 | 91.0 |

# Condensed Consolidated Statement of Cash Flows *(continued)*

**For the half year ended 30 June 2016**

| | Notes | **Unaudited 6 months to 30.06.16 £m** | Unaudited 6 months to 30.06.15 £m | Audited 12 months to 31.12.15 £m |
|---|---|---|---|---|
| **Net cash flows from operating activities** | | **549.1** | 130.2 | 91.0 |
| | | | | |
| **Cash flows from investing activities** | | | | |
| Purchase of debt securities | 8 | **(599.5)** | (386.9) | (500.3) |
| Proceeds from disposal of debt securities | | **497.9** | 369.3 | 543.3 |
| Purchase of property, plant and equipment and investment property | | **(11.6)** | (5.8) | (13.9) |
| Purchase of intangible assets | | **(1.8)** | (0.9) | (2.4) |
| Proceeds from disposal of property, plant and equipment, investment property and intangible assets | | **0.4** | 1.5 | 2.3 |
| Dividends received from equity share investments | | **0.7** | 0.3 | 0.3 |
| Exercise of share options in management incentive scheme | | **(10.0)** | - | - |
| Proceeds from disposal of equity share investments | | **-** | - | 0.3 |
| Dividends received from joint ventures | | **2.2** | 1.2 | 3.2 |
| Purchase of subsidiary undertakings, net of cash acquired | | **(4.3)** | - | (4.8) |
| Further investment in subsidiary undertakings | | **-** | (0.9) | (0.9) |
| Investment in joint ventures and equity share investments | | **(0.4)** | (0.3) | (1.2) |
| Investment in associate | | **(2.5)** | - | - |
| Purchase of other business units | | **(7.4)** | (0.8) | (1.2) |
| Cash received from sale of subsidiary undertakings, net of cash disposed of | | **-** | 3.0 | 3.4 |
| **Net cash flows from investing activities** | | **(136.3)** | (20.3) | 28.1 |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Redemption of subordinated liabilities | | **-** | - | (18.0) |
| Interest paid on subordinated liabilities | | **(1.5)** | (1.9) | (3.7) |
| Interest paid on subscribed capital | | **(4.2)** | (4.2) | (8.4) |
| **Net cash flows from financing activities** | | **(5.7)** | (6.1) | (30.1) |
| | | | | |
| Net increase in cash and cash equivalents | | **407.1** | 103.8 | 89.0 |
| Cash and cash equivalents at 1 January | | **1,291.6** | 1,202.6 | 1,202.6 |
| **Cash and cash equivalents at end of period** | | **1,698.7** | 1,306.4 | 1,291.6 |

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

| | **Unaudited 6 months to 30.06.16 £m** | Unaudited 6 months to 30.06.15 £m | Audited 12 months to 31.12.15 £m |
|---|---|---|---|
| Cash in hand and balances with the Bank of England | **1,588.8** | 1,196.0 | 1,180.8 |
| Mandatory reserve deposit with the Bank of England | **(23.7)** | (20.6) | (22.0) |
| | **1,565.1** | 1,175.4 | 1,158.8 |
| Loans and advances to credit institutions | **133.6** | 131.0 | 132.8 |
| **Cash and cash equivalents at end of period** | **1,698.7** | 1,306.4 | 1,291.6 |

The notes on pages 20 to 36 form an integral part of this condensed consolidated half-yearly financial report.

# Notes to the Condensed Consolidated Financial Statements

## 1. Introduction

These financial statements show the financial performance of the Group for the half year ended 30 June 2016 and the financial position of the Group as at that date.

### a) Basis of preparation

This half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the European Union (EU), and should be read in conjunction with the Group's last annual financial statements for the year ended 31 December 2015.

Details of new accounting standards adopted during the period are provided in note 18. Other than these new standards, which have had no impact on these financial statements, the accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited financial statements, which were prepared in accordance with IFRS as adopted by the EU.

### b) Change to accounting policy

Within a small number of subsidiary undertakings where the Group previously held or still holds less than 100% ownership, an option ('put option') existed or exists for the non-controlling shareholders to require the Group to purchase their shares at some future date(s). In accordance with IAS 32 *Financial Instruments: Presentation*, a financial obligation, representing the present value of the put options at the reporting date, is recognised.

Prior to the year ended 31 December 2015, dividends paid to the holders of these put options were accounted for as a reduction to the put option liability, which was an acceptable treatment reflecting management's assessment that value had left the business in the short term. However, in late 2015 the Directors concluded that a more appropriate treatment would be to record the dividend to the non-controlling shareholders as an expense through the Income Statement, which is considered to be a more accurate representation of the economic substance of the transaction, that is, a discretionary distribution to minority shareholders that is both non-contractual and not in settlement of the put option liability. Further details can be found in note 1b) to the 2015 Annual Report and Accounts.

In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Group has applied this change in accounting policy retrospectively and the 2015 half year comparatives have been restated accordingly, as shown below:

| **Statement of Financial Position as at 30.06.15** | Previously published<br>£m | Change in accounting policy adjustment<br>£m | **Restated**<br>**£m** |
|---|---|---|---|
| Intangible assets | 161.7 | (19.6) | **142.1** |
| Total assets | 17,029.5 | (19.6) | **17,009.9** |
| General reserve | 1,112.2 | (19.6) | **1,092.6** |
| Members' interests attributable to members of Skipton Building Society | 1,145.8 | (19.6) | **1,126.2** |
| Total members' interests | 1,144.4 | (19.6) | **1,124.8** |
| Total members' interests and liabilities | 17,029.5 | (19.6) | **17,009.9** |

The impact of the above restatement on the Statement of Changes in Members' Interests is presented on page 16. There is no impact on the Income Statement, the Statement of Comprehensive Income or the Statement of Cash Flows for the six months ended 30 June 2015.

This restatement also impacts the Group's key capital adequacy measures. The restated comparative figures are set out on page 10 in the Business Review.

### c) Critical accounting estimates and judgements in applying accounting policies

Note 1t) to the 2015 Annual Report and Accounts sets out the key estimates, assumptions and judgements made by the Group which affect the amounts recognised in the financial statements.

With the exception of the item below, there have been no changes to the areas of significant judgement and estimate from those disclosed in the 2015 Annual Report and Accounts.

Following a recent Court of Appeal judgment regarding a company's power to vary the rate of interest payable on a tracker mortgage, the Board considered whether its decision, in 2010, to remove the ceiling on its Standard Variable Rate ('SVR') could result in future cash outflows, and concluded that the probability of this remains remote.

## 1. Introduction *(continued)*

### d) Going concern

The Group's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance are set out in the Business Review on pages 5 to 11.

In common with many financial institutions, the Group meets its day-to-day liquidity requirements through managing both its retail and wholesale funding sources, and is required to maintain sufficient buffers over regulatory liquidity and capital requirements in order to continue to be authorised to carry on its business. The Group's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Group should be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

Consequently, after reviewing the Group's forecasts and the key risks it faces, the Directors are satisfied that there are no material uncertainties that may cast significant doubt over the Group's ability to continue as a going concern for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, the Group continues to adopt the going concern basis in preparing the half-yearly financial report.

The Directors' Report in the 2015 Annual Report and Accounts included a statement of longer term viability, which stated that the Directors had a reasonable expectation that the Group would be able to continue in operation until at least the end of 2020. The Directors determined that a five year period is an appropriate period over which to provide the viability statement, based on the Group's five year corporate planning period. A full assessment of longer term viability has not been carried out as at the half year, however nothing has come to the attention of the Directors during the first six months of 2016 that would suggest that this assertion is no longer valid.

## 2. Other information

The half-yearly financial report information set out in this announcement is unaudited and does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The comparative figures for the year ended 31 December 2015 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditor and the report of the auditor was (i) unqualified and (ii) did not include a reference to matters to which the auditor drew attention by way of emphasis without qualifying their report.

A copy of this half-yearly financial report has been placed on the website of Skipton Building Society. The Directors are responsible for the maintenance and integrity of information on the Society's website. Copies of the 2015 Annual Report and Accounts and this half-yearly financial report are available at www.skipton.co.uk/about-us/financial-results.

Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The half-yearly financial report for the six months ended 30 June 2016 was approved by the Board of Directors on 26 July 2016.

## 3. Interest receivable and similar income

| | **Unaudited 6 months to 30.06.16 £m** | Unaudited 6 months to 30.06.15 £m | Audited 12 months to 31.12.15 £m |
|---|---|---|---|
| On financial assets not at fair value through profit or loss: | | | |
| On loans fully secured on residential property | **237.8** | 232.3 | 472.0 |
| On other loans and advances | **5.2** | 5.3 | 10.8 |
| On debt securities | **8.5** | 7.8 | 15.4 |
| On other liquid assets | **4.0** | 2.6 | 5.8 |
| | **255.5** | 248.0 | 504.0 |
| On financial assets at fair value through profit or loss: | | | |
| Net expense on derivative financial instruments held for hedging assets | **(35.6)** | (30.2) | (64.5) |
| | **219.9** | 217.8 | 439.5 |

# Notes to the Condensed Consolidated Financial Statements *(continued)*

## 4. Interest payable and similar charges

| | **Unaudited 6 months to 30.06.16 £m** | Unaudited 6 months to 30.06.15 £m | Audited 12 months to 31.12.15 £m |
|---|---|---|---|
| On financial liabilities not at fair value through profit or loss: | | | |
| On shares held by individuals | **110.2** | 103.7 | 214.6 |
| On shares held by others | **0.6** | 0.6 | 1.4 |
| On subscribed capital | **4.2** | 4.2 | 8.4 |
| On deposits and other borrowings: | | | |
| Subordinated liabilities | **1.5** | 1.9 | 3.7 |
| Wholesale and other funding | **16.9** | 14.8 | 30.1 |
| Finance (credit) / charge on unwind of put option liability | **-** | (0.1) | 0.1 |
| | **133.4** | 125.1 | 258.3 |
| On financial liabilities at fair value through profit or loss: | | | |
| Net income on derivative financial instruments held for hedging liabilities | **(20.7)** | (20.6) | (42.1) |
| | **112.7** | 104.5 | 216.2 |

## 5. Fees and commissions receivable

| | **Unaudited 6 months to 30.06.16 £m** | Unaudited 6 months to 30.06.15 £m | Audited 12 months to 31.12.15 £m |
|---|---|---|---|
| Mortgage origination related fees | **15.3** | 11.2 | 26.2 |
| Other mortgage related fees | **0.9** | 1.1 | 2.0 |
| General insurance fees | **23.3** | 20.1 | 41.4 |
| Commissions earned on property sales | **81.8** | 69.8 | 154.4 |
| Commissions earned on property lettings | **26.3** | 21.2 | 44.5 |
| Survey and valuation services | **27.2** | 23.9 | 47.7 |
| Financial advice fees | **14.2** | 18.5 | 33.4 |
| Other fees and commissions | **30.8** | 27.7 | 59.5 |
| | **219.8** | 193.5 | 409.1 |

## 6. Administrative expenses

| | **Unaudited 6 months to 30.06.16 £m** | Unaudited 6 months to 30.06.15 £m | Audited 12 months to 31.12.15 £m |
|---|---|---|---|
| Employee costs: | | | |
| Wages and salaries | **143.2** | 123.8 | 261.0 |
| Social security costs | **14.0** | 11.9 | 25.2 |
| Pension costs: | | | |
| Defined contribution arrangements | **3.8** | 3.4 | 7.0 |
| | **161.0** | 139.1 | 293.2 |
| Other administrative expenses | **82.0** | 76.7 | 171.2 |
| | **243.0** | 215.8 | 464.4 |

## 7. Impairment losses on loans and advances to customers

| | **Unaudited 30.06.16 £m** | Unaudited 30.06.15 £m | Audited 31.12.15 £m |
|---|---|---|---|
| Impairment (credit) / charge for the period: | | | |
| Loans fully secured on residential property | **(1.0)** | 5.3 | 0.6 |
| Loans fully secured on land | **(0.3)** | 0.2 | 1.3 |
| Fair value movements of embedded derivatives on equity release loans | **-** | 2.5 | 6.5 |
| | **(1.3)** | 8.0 | 8.4 |
| Impairment provision at the end of the period: | | | |
| Loans fully secured on residential property | **22.9** | 32.4 | 25.2 |
| Loans fully secured on land | **11.7** | 11.2 | 12.0 |
| Other loans and advances | **0.6** | 0.8 | 0.6 |
| Fair value of embedded derivatives on equity release loans | **24.0** | 20.0 | 24.0 |
| | **59.2** | 64.4 | 61.8 |

The 'no negative equity guarantee' provided to equity release customers is accounted for as an embedded derivative due to its economic characteristics (as described in note 16b)). The losses on this portfolio represent the fair value movement of these embedded derivatives, and are a function of the actual and projected interrelationship between market-wide long term house prices and retail price inflation and the specific characteristics of this portfolio.

## 8. Debt securities

Movements in debt securities during the period are summarised as follows:

| | **Unaudited as at 30.06.16 £m** | Unaudited as at 30.06.15 £m | Audited as at 31.12.15 £m |
|---|---|---|---|
| At 1 January | **1,104.4** | 1,152.6 | 1,152.6 |
| Additions | **599.5** | 386.9 | 500.3 |
| Disposals | **(497.6)** | (369.3) | (543.2) |
| Changes in fair value | **17.9** | (5.1) | (5.3) |
| At end of period | **1,224.2** | 1,165.1 | 1,104.4 |

## 9. Provisions for liabilities

| | **Unaudited as at 30.06.16 £m** | Unaudited as at 30.06.15 £m | Audited as at 31.12.15 £m |
|---|---|---|---|
| Provision for the costs of surplus properties | **4.5** | 4.5 | 4.7 |
| Financial Services Compensation Scheme (FSCS) | **7.4** | 11.0 | 3.6 |
| Commission clawbacks / rebates | **5.4** | 4.9 | 5.1 |
| Survey and valuation claims | **9.1** | 11.7 | 10.3 |
| Customer compensation | **1.9** | 2.1 | 2.2 |
| Other provisions | **0.5** | 1.6 | 0.6 |
| | **28.8** | 35.8 | 26.5 |

The movement in provisions in the period has resulted in an Income Statement charge of £7.1m for the period (six months ended 30 June 2015: £9.3m; year ended 31 December 2015: £11.8m).

## 10. Tax expense

The effective tax rate for the period was 22.4% (six months ended 30 June 2015: 19.6%; year ended 31 December 2015: 22.8%). This differs from the standard rate of corporation tax in the UK as, from 1 January 2016, the Society's profits above £25m are subject to the 8% banking companies surcharge, whilst the effective tax rate is also impacted by disallowable expenditure, offset by non-taxable income, and prior period tax adjustments.

## 11. Loans and advances to customers

The table below shows an analysis of the Group's loans and advances to customers:

| | **Unaudited as at 30.06.16** | | Unaudited as at 30.06.15 | | Audited as at 31.12.15 | |
|---|---|---|---|---|---|---|
| | **£m** | **%** | £m | % | £m | % |
| Total residential mortgages* | **14,285.7** | **96.9** | 13,200.4 | 96.5 | 13,730.0 | 96.7 |
| Commercial loans^ | **339.5** | **2.3** | 369.7 | 2.7 | 354.0 | 2.5 |
| Other lending: | | | | | | |
| Debt factoring advances | **73.6** | **0.5** | 62.9 | 0.5 | 71.6 | 0.5 |
| Other loans | **45.0** | **0.3** | 45.6 | 0.3 | 44.5 | 0.3 |
| **Gross balances** | **14,743.8** | **100.0** | 13,678.6 | 100.0 | 14,200.1 | 100.0 |
| Impairment provisions (note 7) | **(59.2)** | | (64.4) | | (61.8) | |
| Fair value adjustment for hedged risk | **369.4** | | 182.4 | | 224.9 | |
| | **15,054.0** | | 13,796.6 | | 14,363.2 | |

* Including equity release portfolio.
^ Also known as loans fully secured on land.

### a) Residential mortgages

The majority of loans and advances to customers are secured on UK residential properties and are geographically diverse.

The Group's portfolio of loans fully secured on residential properties includes lending by the Society, by Skipton International Limited (which lends in the Channel Islands and to a limited extent in the UK), and the specialist mortgage books of Amber Homeloans Limited and North Yorkshire Mortgages Limited (both closed to new lending since 2008). It also includes the equity release mortgage portfolio. The credit risk appetite explicitly considers geographical regions to manage concentration risk.

The average indexed loan-to-value (LTV) of Group residential mortgages at 30 June 2016 is 48.4% (30 June 2015: 50.8%; 31 December 2015: 48.5%).

The table below provides further information on residential loans and advances by payment due status:

| | **Unaudited as at 30.06.16** | | Unaudited as at 30.06.15 | | Audited as at 31.12.15 | |
|---|---|---|---|---|---|---|
| | **£m** | **%** | £m | % | £m | % |
| Neither past due nor individually impaired | **14,021.3** | **98.1** | 12,897.2 | 97.7 | 13,447.4 | 98.0 |
| Past due but not impaired: | | | | | | |
| Up to 3 months | **127.7** | **0.9** | 142.1 | 1.1 | 131.7 | 1.0 |
| | **14,149.0** | **99.0** | 13,039.3 | 98.8 | 13,579.1 | 99.0 |
| Individually impaired: | | | | | | |
| Low risk | **62.0** | **0.4** | 42.3 | 0.3 | 59.1 | 0.4 |
| High risk | **67.1** | **0.5** | 109.0 | 0.8 | 86.2 | 0.6 |
| Possessions | **7.6** | **0.1** | 9.8 | 0.1 | 5.6 | - |
| | **14,285.7** | **100.0** | 13,200.4 | 100.0 | 13,730.0 | 100.0 |

Individually impaired accounts in the table above relate only to accounts in arrears by three months or more. Low risk accounts in the table above relate to loans with an indexed LTV of less than or equal to 70%. High risk accounts relate to loans with an indexed LTV of more than 70%.

## 11. Loans and advances to customers *(continued)*

### b) Commercial loans

The commercial mortgage portfolio (also known as loans fully secured on land) was closed to new business in November 2008. Loans secured on commercial property are well diversified by both industry type and geographical location. The table below provides further information on commercial loans and advances by payment due status:

| | **Unaudited as at 30.06.16** | | Unaudited as at 30.06.15 | | Audited as at 31.12.15 | |
|---|---|---|---|---|---|---|
| | **£m** | **%** | £m | % | £m | % |
| Neither past due nor individually impaired | **329.7** | **97.1** | 361.3 | 97.7 | 343.6 | 97.0 |
| Past due but not impaired: | | | | | | |
| Up to 3 months | **6.3** | **1.9** | 6.2 | 1.7 | 9.4 | 2.7 |
| | **336.0** | **99.0** | 367.5 | 99.4 | 353.0 | 99.7 |
| Individually impaired: | | | | | | |
| Low risk | **0.4** | **0.1** | 0.3 | 0.1 | 0.3 | 0.1 |
| High risk | **3.1** | **0.9** | 1.9 | 0.5 | 0.7 | 0.2 |
| | **339.5** | **100.0** | 369.7 | 100.0 | 354.0 | 100.0 |

Individually impaired accounts in the table above relate only to accounts in arrears by three months or more. The non-standard nature of the properties within the commercial mortgage portfolio means that there are also a number of loans that are not past due or are past due by less than three months at the reporting date, but where objective evidence indicates that losses are likely (e.g. due to significant financial difficulty of the borrower), as described in the Group's accounting policy in note 1g) of the 2015 Annual Report and Accounts. A total individual impairment provision of £9.7m (30 June 2015: £10.4m; 31 December 2015: £11.4m) is held against these accounts and the individually impaired loans in the table above. The total gross balances against which this individual impairment provision has been made are £35.9m (30 June 2015: £41.0m; 31 December 2015: £40.3m).

Low risk accounts in the table above relate to loans with an LTV of less than or equal to 70%. High risk accounts relate to loans with an LTV of more than 70%.

### c) Forbearance

Where appropriate for customers, the Group applies a policy of forbearance. The Group's approach to forbearance is described in note 36 to the 2015 Annual Report and Accounts and our approach to, and the extent of, forbearance remained materially unchanged in the period. At 30 June 2016, the percentage of residential mortgage balances that have been subject to forbearance, which is where terms have been renegotiated during the last two years, is 0.9% (30 June 2015: 1.0%; 31 December 2015: 1.0%). For commercial balances the percentage is 5.5% (30 June 2015: 5.1%; 31 December 2015: 5.2%).

## 12. Debt securities in issue

| | **Unaudited as at 30.06.16 £m** | Unaudited as at 30.06.15 £m | Audited as at 31.12.15 £m |
|---|---|---|---|
| Certificates of deposit | **10.1** | 17.1 | 21.1 |
| Floating rate notes | **637.0** | 702.9 | 587.7 |
| | **647.1** | 720.0 | 608.8 |
| Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows: | | | |
| In not more than one year | **157.6** | 211.6 | 181.9 |
| In more than one year | **489.5** | 508.4 | 426.9 |
| | **647.1** | 720.0 | 608.8 |

## 13. Related party transactions

Transactions with related parties are entered into in the normal course of business. The Group has had no related party transactions during the half year ended 30 June 2016 that have materially affected the financial position or the performance of the Group during that period.

## 13. Related party transactions *(continued)*

Related party transactions for the half year ended 30 June 2016 are similar in nature to those for the year ended 31 December 2015. Full details of the Group's related party transactions for the year ended 31 December 2015 can be found in note 9 *Related party transactions* in the 2015 Annual Report and Accounts.

## 14. Subsequent events

There have been no material post balance sheet events between 30 June 2016 and the approval of this half-yearly financial report by the Board.

## 15. Other financial commitments and contingent liabilities

a) The Society has given a legal undertaking agreeing to discharge the liabilities of Skipton International Limited insofar as it is unable to discharge them out of its own assets whilst it remains a subsidiary of Skipton Building Society. Additionally, the Society has confirmed it will provide continuing support to those subsidiary undertakings that have net liabilities or which rely on it for ongoing funding.

b) In common with all regulated deposit takers, the Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. This consists of two parts: a Management Expense Levy which covers the interest cost of borrowings from the Government and the costs of running the scheme, and capital levies which may be raised from time to time to cover any shortfalls arising within failed institutions when the level of assets realised is not sufficient to cover loans made by the Government to these institutions.

   As there is uncertainty over the level of assets that will be realised from these institutions, a further capital shortfall may arise that member firms may be required to fund. The Management Expense Levy is also subject to change. As such, the Society's ultimate FSCS contribution is uncertain and there is further potential exposure to future levies.

## 16. Financial instruments

### a) Classification and measurement

The table below summarises the classification of the carrying amounts of the Group's financial assets and liabilities:

| | Unaudited as at 30.06.16 | | | |
|---|---|---|---|---|
| | Amortised cost £m | Held at fair value as available-for-sale assets £m | Fair value through profit or loss £m | Total £m |
| Cash in hand and balances with the Bank of England | 1,588.8 | - | - | **1,588.8** |
| Loans and advances to credit institutions | 419.5 | - | - | **419.5** |
| Debt securities | 1.7 | 1,222.5 | - | **1,224.2** |
| Derivative financial instruments | - | - | 139.9 | **139.9** |
| Loans and advances to customers | 15,078.0 | - | (24.0) | **15,054.0** |
| Equity share investments | - | 56.7 | - | **56.7** |
| Trade receivables | 35.5 | - | - | **35.5** |
| Other assets | 9.6 | - | - | **9.6** |
| **Total financial assets** | **17,133.1** | **1,279.2** | **115.9** | **18,528.2** |
| Non-financial assets | | | | **366.7** |
| **Total assets** | | | | **18,894.9** |
| | | | | |
| Shares | 14,006.0 | - | - | **14,006.0** |
| Amounts owed to credit institutions and other customers | 2,077.1 | - | - | **2,077.1** |
| Debt securities in issue | 647.1 | - | - | **647.1** |
| Derivative financial instruments | - | - | 456.5 | **456.5** |
| Trade payables | 7.9 | - | - | **7.9** |
| Fair value of put option obligation | - | - | 12.3 | **12.3** |
| Subordinated liabilities and subscribed capital | 170.2 | - | - | **170.2** |
| **Total financial liabilities** | **16,908.3** | **-** | **468.8** | **17,377.1** |
| Non-financial liabilities | | | | **292.8** |
| **Total liabilities** | | | | **17,669.9** |

## 16. Financial instruments *(continued)*

| | Unaudited as at 30.06.15 | | | |
|---|---|---|---|---|
| | Amortised cost £m | Held at fair value as available-for-sale assets £m | Fair value through profit or loss £m | Total £m |
| Cash in hand and balances with the Bank of England | 1,196.0 | - | - | 1,196.0 |
| Loans and advances to credit institutions | 329.3 | - | - | 329.3 |
| Debt securities | 1.7 | 1,163.4 | - | 1,165.1 |
| Derivative financial instruments | - | - | 102.1 | 102.1 |
| Loans and advances to customers | 13,816.6 | - | (20.0) | 13,796.6 |
| Equity share investments | - | 46.0 | - | 46.0 |
| Trade receivables | 33.0 | - | - | 33.0 |
| Total financial assets | 15,376.6 | 1,209.4 | 82.1 | 16,668.1 |
| Non-financial assets (restated*) | | | | 341.8 |
| Total assets | | | | 17,009.9 |
| | | | | |
| Shares | 12,081.5 | - | - | 12,081.5 |
| Amounts owed to credit institutions and other customers | 2,342.6 | - | - | 2,342.6 |
| Debt securities in issue | 720.0 | - | - | 720.0 |
| Derivative financial instruments | - | - | 277.9 | 277.9 |
| Trade payables | 5.5 | - | - | 5.5 |
| Fair value of put option obligation | - | - | 6.2 | 6.2 |
| Subordinated liabilities and subscribed capital | 190.4 | - | - | 190.4 |
| Total financial liabilities | 15,340.0 | - | 284.1 | 15,624.1 |
| Non-financial liabilities | | | | 261.0 |
| Total liabilities | | | | 15,885.1 |

* The comparative figures have been restated as described in note 1b).

## 16. Financial instruments *(continued)*

| | Audited as at 31.12.15 | | | |
|---|---|---|---|---|
| | Amortised cost £m | Held at fair value as available-for-sale assets £m | Fair value through profit or loss £m | Total £m |
| Cash in hand and balances with the Bank of England | 1,180.8 | - | - | 1,180.8 |
| Loans and advances to credit institutions | 352.6 | - | - | 352.6 |
| Debt securities | 1.7 | 1,102.7 | - | 1,104.4 |
| Derivative financial instruments | - | - | 95.1 | 95.1 |
| Loans and advances to customers | 14,387.2 | - | (24.0) | 14,363.2 |
| Equity share investments | - | 40.9 | - | 40.9 |
| Trade receivables | 29.8 | - | - | 29.8 |
| Total financial assets | 15,952.1 | 1,143.6 | 71.1 | 17,166.8 |
| Non-financial assets | | | | 344.6 |
| Total assets | | | | 17,511.4 |
| | | | | |
| Shares | 12,828.2 | - | - | 12,828.2 |
| Amounts owed to credit institutions and other customers | 2,125.1 | - | - | 2,125.1 |
| Debt securities in issue | 608.8 | - | - | 608.8 |
| Derivative financial instruments | - | - | 296.9 | 296.9 |
| Trade payables | 4.9 | - | - | 4.9 |
| Fair value of put option obligation | - | - | 11.9 | 11.9 |
| Subordinated liabilities and subscribed capital | 172.0 | - | - | 172.0 |
| Total financial liabilities | 15,739.0 | - | 308.8 | 16,047.8 |
| Non-financial liabilities | | | | 286.0 |
| Total liabilities | | | | 16,333.8 |

### b) Valuation of financial instruments carried at fair value

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

### Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs used in measuring fair value.

**Level 1**

The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Group's Level 1 portfolio mainly comprises gilts, fixed rate bonds and floating rate notes for which traded prices are readily available.

**Level 2**

These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. Examples of Level 2 instruments are certificates of deposit and interest rate swaps.

**Level 3**

These are valuation techniques for which one or more significant input is not based on observable market data.

Valuation techniques include deriving the net present value by way of discounted cash flow models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, similar market products, foreign currency exchange rates and equity index prices. Critical judgement is applied by management in utilising unobservable inputs including expected price volatilities, expected mortality rates and prepayment rates, based on industry practice or historical observation. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's-length.

## 16. Financial instruments *(continued)*

The following tables provide an analysis of financial assets and liabilities held within the Group Statement of Financial Position at fair value, grouped into Levels 1 to 3 of the fair value hierarchy.

| | **Unaudited as at 30.06.16** | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1) £m** | **Valuation techniques using observable inputs (Level 2) £m** | **Valuation techniques using significant unobservable inputs (Level 3) £m** | **Total £m** |
| **Financial assets** | | | | |
| Financial assets held at fair value as available-for-sale: | | | | |
| Debt securities | 871.6 | 350.9 | - | **1,222.5** |
| Equity share investments | 55.6 | - | 1.1 | **56.7** |
| Financial assets at fair value through profit or loss: | | | | |
| Derivative financial instruments | - | 132.3 | 7.6 | **139.9** |
| Embedded derivatives within loans and advances to customers | - | - | (24.0) | **(24.0)** |
| | **927.2** | **483.2** | **(15.3)** | **1,395.1** |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss: | | | | |
| Derivative financial instruments | - | 228.8 | 227.7 | **456.5** |
| Fair value of put option obligation | - | - | 12.3 | **12.3** |
| | **-** | **228.8** | **240.0** | **468.8** |
| | **927.2** | **254.4** | **(255.3)** | **926.3** |

| | Unaudited as at 30.06.15 | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) £m | Valuation techniques using observable inputs (Level 2) £m | Valuation techniques using significant unobservable inputs (Level 3) £m | Total £m |
| Financial assets | | | | |
| Financial assets held at fair value as available-for-sale: | | | | |
| Debt securities | 830.3 | 333.1 | - | 1,163.4 |
| Equity share investments | 45.3 | - | 0.7 | 46.0 |
| Financial assets at fair value through profit or loss: | | | | |
| Derivative financial instruments | - | 93.1 | 9.0 | 102.1 |
| Embedded derivatives within loans and advances to customers | - | - | (20.0) | (20.0) |
| | 875.6 | 426.2 | (10.3) | 1,291.5 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss: | | | | |
| Derivative financial instruments | - | 103.5 | 174.4 | 277.9 |
| Fair value of put option obligation | - | - | 6.2 | 6.2 |
| | - | 103.5 | 180.6 | 284.1 |
| | 875.6 | 322.7 | (190.9) | 1,007.4 |

## 16. Financial instruments *(continued)*

| | Audited as at 31.12.15 | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) £m | Valuation techniques using observable inputs (Level 2) £m | Valuation techniques using significant unobservable inputs (Level 3) £m | Total £m |
| Financial assets | | | | |
| Financial assets held at fair value as available-for-sale: | | | | |
| Debt securities | 759.9 | 342.8 | - | 1,102.7 |
| Equity share investments | 40.2 | - | 0.7 | 40.9 |
| Financial assets at fair value through profit or loss: | | | | |
| Derivative financial instruments | - | 90.0 | 5.1 | 95.1 |
| Embedded derivatives within loans and advances to customers | - | - | (24.0) | (24.0) |
| | 800.1 | 432.8 | (18.2) | 1,214.7 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss: | | | | |
| Derivative financial instruments | - | 96.2 | 200.7 | 296.9 |
| Fair value of put option obligation | - | - | 11.9 | 11.9 |
| | - | 96.2 | 212.6 | 308.8 |
| | 800.1 | 336.6 | (230.8) | 905.9 |

### Transfers between different levels of the fair value hierarchy

The Group makes transfers between different levels of the fair value hierarchy where the inputs used to measure the fair value of the financial instruments in question no longer satisfy the conditions required to be classified in a certain level within the hierarchy. Any such transfer between different levels of the fair value hierarchy is made at the date the event in question that results in a change in circumstances occurs.

There have been no transfers between different levels of the fair value hierarchy during the six months ended 30 June 2016, nor in the six months ended 30 June 2015 or year ended 31 December 2015.

### Movements in the Level 3 portfolio

The tables below analyse the movements in the Level 3 portfolio during the period:

| | **Unaudited as at 30.06.16** | | | | |
|---|---|---|---|---|---|
| | **Equity share investments £m** | **Embedded derivatives £m** | **Derivative financial instruments £m** | **Fair value of put option obligation £m** | **Total £m** |
| At 1 January | **0.7** | **(24.0)** | **(195.6)** | **(11.9)** | **(230.8)** |
| Loss recognised in Income Statement | - | - | (24.5)[1] | - | **(24.5)** |
| Additions | 0.4 | - | - | (0.4) | **-** |
| At end of period | **1.1** | **(24.0)** | **(220.1)** | **(12.3)** | **(255.3)** |

**Note**

1. Included in the 'Fair value (losses) / gains on financial instruments' line in the Income Statement. As noted below, the majority of these derivatives are held to hedge the Group's equity release mortgage book and a gain, largely offsetting the above amount, was recognised through the same line in the Income Statement in respect of the underlying mortgages that are being hedged. However some hedge ineffectiveness resulted during the period and this resulted in an overall charge to the Income Statement of £2.7m.

## 16. Financial instruments *(continued)*

| | Unaudited as at 30.06.15 | | | | |
|---|---|---|---|---|---|
| | Equity share investments £m | Embedded derivatives £m | Derivative financial instruments £m | Fair value of put option obligation £m | Total £m |
| At 1 January | 0.7 | (17.5) | (159.6) | (7.5) | (183.9) |
| (Loss) / credit recognised in Income Statement | - | (2.5)[1] | (5.8)[2] | 0.1[3] | (8.2) |
| Disposals | - | - | - | 0.3 | 0.3 |
| Exercise of put options by non-controlling shareholders | - | - | - | 0.9 | 0.9 |
| At end of period | 0.7 | (20.0) | (165.4) | (6.2) | (190.9) |

**Notes**

1. Included in the 'Impairment credit / (losses) on loans and advances to customers' line in the Income Statement.
2. Included in the 'Fair value (losses) / gains on financial instruments' line in the Income Statement. As noted below, the majority of these derivatives are held to hedge the Group's equity release mortgage book and a gain, largely offsetting the above amount, was recognised through the same line in the Income Statement in respect of the underlying mortgages that are being hedged. However some hedge ineffectiveness resulted during the period and this resulted in an overall credit to the Income Statement of £0.1m.
3. Included in the 'Interest payable and similar charges' line in the Income Statement and arises from the unwind of the liability and changes to exercise dates.

| | Audited as at 31.12.15 | | | | |
|---|---|---|---|---|---|
| | Equity share investments £m | Embedded derivatives £m | Derivative financial instruments £m | Fair value of put option obligation £m | Total £m |
| At 1 January | 0.7 | (17.5) | (159.6) | (7.5) | (183.9) |
| Loss recognised in Income Statement | - | (6.5)[1] | (36.0)[2] | (0.1)[3] | (42.6) |
| Revaluation of market values | - | - | - | 0.1 | 0.1 |
| Disposals | - | - | - | 0.3 | 0.3 |
| Acquisition of subsidiary undertakings | - | - | - | (5.6) | (5.6) |
| Exercise of put options by non-controlling shareholders | - | - | - | 0.9 | 0.9 |
| At end of period | 0.7 | (24.0) | (195.6) | (11.9) | (230.8) |

**Notes**

1. Included in the 'Impairment credit / (losses) on loans and advances to customers' line in the Income Statement.
2. Included in the 'Fair value (losses) / gains on financial instruments' line in the Income Statement. As noted below, the majority of these derivatives are held to hedge the Group's equity release mortgage book and a gain, largely offsetting the above amount, was recognised through the same line in the Income Statement in respect of the underlying mortgages that are being hedged. However some hedge ineffectiveness resulted during the year and this resulted in an overall credit to the Income Statement of £1.3m.
3. Included in the 'Interest payable and similar charges' line in the Income Statement and arises from the unwind of the liability and changes to exercise dates.

### Equity share investments

The Group's equity share investments represent a 4.0% holding in Zoopla Property Group Plc (30 June 2015: 3.9%; 31 December 2015: 4.0%), a 17.7% holding in Wynyard Group Limited (30 June 2015: 18.1%; 31 December 2015: 17.8%), a 13.9% holding in Hearthstone Investments Limited (30 June 2015: 16.5%; 31 December 2015: 16.1%) and a 7.1% holding in Tactile Limited (30 June 2015: nil; 31 December 2015: nil). As noted on page 8 in the Business Review, Wynyard was held as an associate investment up to 20 June 2016, but is now held as an equity share investment for the reasons outlined in the Business Review.

The Group's holdings in Zoopla and Wynyard are measured based on the fair value of the shareholdings by reference to a quoted share price in an active market and therefore represent a Level 1 fair value measurement. Any movement in the fair value of the Group's holdings in these investments is recognised in the available-for-sale reserve. At 30 June 2016 the cumulative balance recognised in the available-for-sale reserve in respect of Zoopla, gross of tax, is £41.2m (30 June 2015: £42.9m; 31 December 2015: £36.8m) and the cumulative balance recognised in the available-for-sale reserve in respect of Wynyard, gross of tax, is £0.4m (30 June 2015: £nil; 31 December 2015: £nil).

The carrying values of the Group's investments in Hearthstone and Tactile are £0.7m and £0.4m respectively. The Directors have reviewed the carrying values of these investments at the half year and have concluded that their current carrying values are equivalent to their fair values as, in the absence of any observable inputs or other relevant information, the fair value of our

## 16. Financial instruments *(continued)*

shareholding in these companies cannot be reliably measured. The Directors do not consider that any reasonably possible alternative valuation assumptions exist.

### Embedded derivatives

The Group holds an equity release mortgage book under the terms of which the Group is required to provide a 'no negative equity guarantee' to its customers. This guarantee means that the Group's maximum return is limited to the value of the customer's property on redemption.

In accordance with the Group accounting policy, this guarantee is accounted for as an embedded derivative as the characteristics and risks of the guarantee are not closely related to the economic characteristics and risks of the underlying mortgages. The guarantee is impacted by the interaction of a number of factors, not all of which also impact on the performance of the underlying equity release book. These factors include future expected house prices, future expected inflation, mortality rates and estimated redemption profiles. As a result the embedded derivatives are bifurcated from the underlying mortgage book and measured at fair value, with any changes in fair value recognised within the 'Impairment credit / (losses) on loans and advances to customers' line in the Income Statement. As certain of these inputs are not market observable, the fair value of the embedded derivatives is regarded as a Level 3 valuation technique.

The following table outlines the impact of reasonably possible alternative assumptions of certain inputs outlined above. Each sensitivity considers one change in isolation and the combined impact on the valuation of the embedded derivatives of all sensitivities occurring would not necessarily be equal to the sum of the impact of the individual sensitivities.

| **Assumption** | **Change to current assumption** | **Unaudited as at 30.06.16 (Decrease) / increase in impairment provision £m** | Unaudited as at 30.06.15 (Decrease) / increase in impairment provision £m | Audited as at 31.12.15 (Decrease) / increase in impairment provision £m |
|---|---|---|---|---|
| Future change in house prices | +/-10% in any one year* | **(5.8) / 8.9** | (5.7) / 8.2 | (6.4) / 9.6 |
| Redemption rates | +/-1% pa | **(2.5) / 3.0** | (1.4) / 1.5 | (2.9) / 3.4 |
| Retail Price Index (RPI) | +/-0.1% pa | **1.8 / (1.6)** | 1.6 / (1.5) | 2.1 / (1.9) |

* For example, a 13% increase or 7% fall in house prices compared to an assumption of a 3% increase.

There would be a corresponding (credit) / charge to the Income Statement within 'Impairment credit / (losses) on loans and advances to customers' arising from the (decrease) / increase in the impairment provision shown in the table above.

### Derivative financial instruments

The majority of the Level 3 derivative financial instruments included in the tables on pages 29 and 30 comprise derivatives which are used to hedge the Group's interest rate risk arising from the equity release mortgage book (this is separate to the 'no negative equity guarantee' described above, i.e. the embedded derivative, for which the Group holds no natural hedging instrument). These derivatives that hedge the equity release mortgages are valued using discounted cash flow models using market observable benchmark rates consistent with accepted economic methodologies for pricing financial instruments, and, as the notional values of the derivatives are intended to match the balance of the underlying mortgage assets, also include estimated redemption profiles that are based on historical data and reviewed periodically to ensure forecasts remain broadly in line with actual data.

These redemption profiles are not market observable, therefore these derivatives are categorised as Level 3 financial instruments within the fair value hierarchy.

Two of the derivative financial instruments described above contain contractual 'boundaries', within which any change in fair value of the derivatives will be offset by a corresponding but opposite change in the value of the associated hedged item within loans and advances to customers. These boundaries exist in order to alleviate risk to the counterparty. If the boundaries are crossed, then hedge ineffectiveness and therefore Income Statement volatility can arise and this resulted in an Income Statement charge of £2.7m during the period (six months ended 30 June 2015: £0.1m credit; year ended 31 December 2015: £1.3m credit), which is included in the 'Fair value (losses) / gains on financial instruments' line in the Income Statement. In addition, as described above, certain inputs into the valuation of these derivatives are not market observable and the effect on the fair value of these derivatives of reasonably possible alternative valuation assumptions of certain of these inputs is outlined below.

Each sensitivity considers one change in isolation and the combined impact on the valuation of the derivatives of all sensitivities occurring would not necessarily be equal to the sum of the impact of the individual sensitivities.

## 16. Financial instruments *(continued)*

| Assumption | Change to current assumption | **Unaudited as at 30.06.16 Increase / (decrease) in liability £m** | Unaudited as at 30.06.15 Increase / (decrease) in liability £m | Audited as at 31.12.15 Increase / (decrease) in liability £m |
|---|---|---|---|---|
| Retail Price Index (RPI) | +/-0.1% pa | **6.9 / (6.8)** | 6.4 / (6.3) | 7.7 / (7.5) |
| Redemption rates | +/-1% pa | **(22.0) / 26.9** | (18.7) / 23.0 | (24.3) / 31.2 |

Any change in fair value of the derivative liabilities would be largely offset by a corresponding but opposite change in the value of the associated hedged item within loans and advances to customers. The increase / (decrease) in fair value of the derivative liabilities arising from a change to the current assumption of RPI would have no impact on the Income Statement. However, some ineffectiveness would arise from the changes to redemption rates shown above. A 1% increase in redemption rates would result in an Income Statement charge of £1.0m (30 June 2015: £0.7m; 31 December 2015: £0.7m), whilst a 1% decrease in redemption rates would result in an Income Statement credit of £0.8m (30 June 2015: £0.6m; 31 December 2015: £0.1m).

As can be seen, the valuation of these derivatives is sensitive to the underlying assumptions, however as described above, changes in fair value of these derivatives are generally offset to a significant degree by changes in fair value of the associated hedged item within loans and advances to customers.

### Fair value of put option obligation

Key inputs into the calculation of the fair value of the put option obligation include an estimate of the market value of the non-controlling shareholding and an estimate of when the put option will be exercised by the non-controlling shareholders. As these inputs are based on the judgement of senior management, the valuation of the put option obligation is considered to be a Level 3 valuation technique.

### c) Fair values of financial assets and liabilities not carried at fair value

The table below summarises the carrying values and fair values of those financial assets and liabilities not held within the Statement of Financial Position at fair value.

| | **Unaudited as at 30.06.16** | | Unaudited as at 30.06.15 | | Audited as at 31.12.15 | |
|---|---|---|---|---|---|---|
| | **Carrying value £m** | **Fair value £m** | Carrying value £m | Fair value £m | Carrying value £m | Fair value £m |
| **Financial assets** | | | | | | |
| Cash in hand and balances with the Bank of England | **1,588.8** | **1,588.8** | 1,196.0 | 1,196.0 | 1,180.8 | 1,180.8 |
| Loans and advances to credit institutions | **419.5** | **419.5** | 329.3 | 329.3 | 352.6 | 352.6 |
| Debt securities | **1.7** | **1.7** | 1.7 | 1.7 | 1.7 | 1.7 |
| Loans and advances to customers | **15,078.0** | **14,873.5** | 13,816.6 | 13,801.2 | 14,387.2 | 14,300.0 |
| Trade receivables | **35.5** | **35.5** | 33.0 | 33.0 | 29.8 | 29.8 |
| Other assets | **9.6** | **9.6** | - | - | - | - |
| | **17,133.1** | **16,928.6** | 15,376.6 | 15,361.2 | 15,952.1 | 15,864.9 |
| **Financial liabilities** | | | | | | |
| Shares | **14,006.0** | **14,112.0** | 12,081.5 | 12,196.2 | 12,828.2 | 12,938.3 |
| Amounts owed to credit institutions | **705.3** | **715.6** | 1,022.6 | 1,021.0 | 735.6 | 734.5 |
| Amounts owed to other customers | **1,371.8** | **1,378.7** | 1,320.0 | 1,325.4 | 1,389.5 | 1,395.2 |
| Debt securities in issue | **647.1** | **649.4** | 720.0 | 726.9 | 608.8 | 612.2 |
| Trade payables | **7.9** | **7.9** | 5.5 | 5.5 | 4.9 | 4.9 |
| Subordinated liabilities and subscribed capital | **170.2** | **188.8** | 190.4 | 212.2 | 172.0 | 183.0 |
| | **16,908.3** | **17,052.4** | 15,340.0 | 15,487.2 | 15,739.0 | 15,868.1 |

The methodology and assumptions for determining the fair values of those financial assets and liabilities not presented on the balance sheet at fair value are set out on page 160 of the 2015 Annual Report and Accounts, and remained materially unchanged in the period.

## 17. Group segmental reporting

The Group's structure and reportable segments are outlined in the Business Review on page 5.

Transactions between the segments are on normal commercial terms and conditions. The accounting policies of the reportable segments are consistent with the Group's accounting policies.

No geographical analysis is presented because substantially all of the Group's activities are conducted within the UK. Of the total external income, £14.3m (six months ended 30 June 2015: £15.8m; year ended 31 December 2015: £32.0m) was generated outside the UK.

**Unaudited 6 months to 30.06.16**

| | Mortgages and Savings £m | Estate Agency £m | Financial Advice £m | Investment Portfolio £m | Sundry incl. inter-divisional adjustments £m | Total £m |
|---|---|---|---|---|---|---|
| Net interest income | 104.4 | 0.3 | - | 0.9 | 1.6 | **107.2** |
| Net non-interest income | 3.3 | 194.8 | 11.4 | 11.5 | (5.0) | **216.0** |
| Fair value losses on financial instruments | (4.7) | - | - | - | - | **(4.7)** |
| Realised gains on treasury assets | 0.3 | - | - | - | - | **0.3** |
| (Loss) / profit on disposal of Group undertakings | - | - | - | (0.9) | 9.4 | **8.5** |
| Dividend income from equity share investments | - | 0.7 | - | - | - | **0.7** |
| Share of profits / (losses) from joint ventures and associates | - | 1.1 | - | (2.4) | - | **(1.3)** |
| **Total income** | **103.3** | **196.9** | **11.4** | **9.1** | **6.0** | **326.7** |
| Administrative expenses | (54.3) | (162.7) | (11.8) | (11.4) | (2.8) | **(243.0)** |
| Impairment losses and provisions for liabilities | (2.4) | (2.9) | (0.5) | (1.1) | - | **(6.9)** |
| **Profit / (loss) before tax** | **46.6** | **31.3** | **(0.9)** | **(3.4)** | **3.2** | **76.8** |
| Taxation | (11.1) | (6.7) | 0.2 | (0.4) | 0.5 | **(17.5)** |
| **Profit / (loss) after tax** | **35.5** | **24.6** | **(0.7)** | **(3.8)** | **3.7** | **59.3** |
| | | | | | | |
| **Total assets** | **18,633.2** | **290.6** | **10.6** | **146.2** | **(185.7)** | **18,894.9** |
| **Total liabilities** | **17,506.1** | **151.5** | **4.4** | **130.6** | **(122.7)** | **17,669.9** |

Total income can be analysed as follows:

| | Mortgages and Savings £m | Estate Agency £m | Financial Advice £m | Investment Portfolio £m | Sundry incl. inter-divisional adjustments £m | Total £m |
|---|---|---|---|---|---|---|
| External income | 100.3 | 191.2 | 13.9 | 9.5 | 11.8 | **326.7** |
| Income from other segments | 3.0 | 5.7 | (2.5) | (0.4) | (5.8) | **-** |
| **Total income** | **103.3** | **196.9** | **11.4** | **9.1** | **6.0** | **326.7** |

## 17. Group segmental reporting *(continued)*

Unaudited 6 months to 30.06.15

| | Mortgages and Savings £m | Estate Agency £m | Financial Advice £m | Investment Portfolio £m | Sundry incl. inter-divisional adjustments £m | Total £m |
|---|---|---|---|---|---|---|
| Net interest income | 112.1 | 0.5 | - | 0.8 | (0.1) | 113.3 |
| Net non-interest income | 4.1 | 164.3 | 16.0 | 10.1 | (2.1) | 192.4 |
| Fair value losses on financial instruments | (1.8) | - | - | - | - | (1.8) |
| (Loss) / profit on disposal of Group undertakings | - | (0.3) | (0.8) | 1.8 | - | 0.7 |
| Dividend income from equity share investments | - | 0.3 | - | - | - | 0.3 |
| Share of profits / (losses) from joint ventures and associates | - | 1.2 | - | (0.9) | - | 0.3 |
| Total income | 114.4 | 166.0 | 15.2 | 11.8 | (2.2) | 305.2 |
| Administrative expenses | (50.4) | (136.7) | (15.6) | (10.3) | (2.8) | (215.8) |
| Impairment losses and provisions for liabilities | (14.9) | (2.0) | (0.5) | 0.1 | - | (17.3) |
| Profit / (loss) before tax | 49.1 | 27.3 | (0.9) | 1.6 | (5.0) | 72.1 |
| Taxation | (9.5) | (5.4) | - | (0.4) | 1.2 | (14.1) |
| Profit / (loss) after tax | 39.6 | 21.9 | (0.9) | 1.2 | (3.8) | 58.0 |
| | | | | | | |
| Total assets (restated*) | 16,762.0 | 272.7 | 12.7 | 123.9 | (161.4) | 17,009.9 |
| Total liabilities | 15,748.9 | 122.7 | 4.8 | 112.6 | (103.9) | 15,885.1 |

* The comparative figures have been restated as described in note 1b).

Total income can be analysed as follows:

| | Mortgages and Savings £m | Estate Agency £m | Financial Advice £m | Investment Portfolio £m | Sundry incl. inter-divisional adjustments £m | Total £m |
|---|---|---|---|---|---|---|
| External income | 111.5 | 163.3 | 17.6 | 12.0 | 0.8 | 305.2 |
| Income from other segments | 2.9 | 2.7 | (2.4) | (0.2) | (3.0) | - |
| Total income | 114.4 | 166.0 | 15.2 | 11.8 | (2.2) | 305.2 |

## 17. Group segmental reporting *(continued)*

Audited 12 months to 31.12.15

| | Mortgages and Savings £m | Estate Agency £m | Financial Advice £m | Investment Portfolio £m | Sundry incl. inter-divisional adjustments £m | Total £m |
|---|---|---|---|---|---|---|
| Net interest income | 219.8 | 0.6 | - | 1.9 | 1.0 | 223.3 |
| Net non-interest income | 8.1 | 351.4 | 28.5 | 20.9 | (6.3) | 402.6 |
| Fair value gains on financial instruments | 4.0 | - | - | - | - | 4.0 |
| Realised gains on treasury assets | 0.1 | - | - | - | - | 0.1 |
| (Loss) / profit on disposal of Group undertakings | - | - | (0.8) | 1.8 | - | 1.0 |
| Dividend income from equity share investments | - | 0.3 | - | - | - | 0.3 |
| Share of profits / (losses) from joint ventures and associates | - | 2.5 | - | (2.3) | - | 0.2 |
| Total income | 232.0 | 354.8 | 27.7 | 22.3 | (5.3) | 631.5 |
| Administrative expenses | (111.3) | (289.0) | (28.5) | (20.9) | (14.7) | (464.4) |
| Impairment losses and provisions for liabilities | (15.9) | (3.3) | (1.0) | - | - | (20.2) |
| Profit / (loss) before tax | 104.8 | 62.5 | (1.8) | 1.4 | (20.0) | 146.9 |
| Taxation | (20.7) | (13.8) | 0.2 | (0.8) | 1.6 | (33.5) |
| Profit / (loss) after tax | 84.1 | 48.7 | (1.6) | 0.6 | (18.4) | 113.4 |
| | | | | | | |
| Total assets | 17,276.4 | 280.1 | 11.4 | 129.5 | (186.0) | 17,511.4 |
| Total liabilities | 16,201.9 | 135.6 | 4.4 | 119.2 | (127.3) | 16,333.8 |

Total income can be analysed as follows:

| | Mortgages and Savings £m | Estate Agency £m | Financial Advice £m | Investment Portfolio £m | Sundry incl. inter-divisional adjustments £m | Total £m |
|---|---|---|---|---|---|---|
| External income | 226.3 | 346.9 | 32.5 | 23.0 | 2.8 | 631.5 |
| Income from other segments | 5.7 | 7.9 | (4.8) | (0.7) | (8.1) | - |
| Total income | 232.0 | 354.8 | 27.7 | 22.3 | (5.3) | 631.5 |

## 18. Adoption of new and revised International Financial Reporting Standards and interpretations

Disclosed below are the new amendments to IFRS which have been adopted during the period, all of which are EU endorsed and effective for accounting periods starting on or after 1 January 2016.

- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. These amendments clarify acceptable methods of depreciation and amortisation and have had no impact on these condensed consolidated financial statements.
- Amendments to IFRS 11 *Joint Arrangements*. These amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business and have had no impact on these condensed consolidated financial statements.
- Amendments to IAS 1 *Presentation of Financial Statements*. These amendments include a number of key clarifications and have had no impact on these condensed consolidated financial statements.

# Responsibility Statement of the Directors in respect of the Half-Yearly Financial Report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the European Union; and
- the half-yearly financial report includes a fair review of the information required by:

  DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year.

The current Board of Directors represents those individuals responsible for the half-yearly financial report.

The Directors who served during the period are listed below:

| | |
|---|---|
| Mr M H Ellis | (Chairman) |
| Mr G E Picken | (Deputy Chairman) |
| Mrs C Black | (resigned 25 April 2016) |
| Mr A P Bottomley* | (appointed 1 January 2016) |
| Miss A J Burton | (appointed 3 May 2016) |
| Ms M Cassoni | |
| Mrs D P Cockrem | |
| Mr I M Cornelius* | |
| Mr D J Cutter* | (Group Chief Executive) |
| Mr R D East | |
| Mr M J Lund | (appointed 25 April 2016) |
| Mr R S D M Ndawula* | |
| Ms H C Stevenson | |
| Mr P J S Thompson | (resigned 25 April 2016) |

* Executive Directors

Signed on behalf of the Board by

**Mike Ellis**
**Chairman**
26 July 2016

# Independent Review Report to Skipton Building Society

***Introduction***

We have been engaged by the Society to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 which comprises the condensed consolidated income statement, the condensed consolidated statement of financial position, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in members' interests and the condensed consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society in accordance with the terms of our engagement to assist the Society in meeting the requirements of the *Disclosure and Transparency Rules* ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the Society those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society for our review work, for this report, or for the conclusions we have reached.

***Directors' responsibilities***

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1a), the annual financial statements of the Society are prepared in accordance with IFRS as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

***Our responsibility***

Our responsibility is to express to the Society a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

***Scope of review***

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

**Jonathan Holt**
**for and on behalf of KPMG LLP**
*Chartered Accountants*
Leeds
26 July 2016

Talk to us today
**0345 850 1700** | Visit **skipton.co.uk**