Half-Yearly Financial Report 2018

SKIPTON
BUILDING SOCIETY
For your life ahead

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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.

The financial information in respect of the year ended 31 December 2017 has been extracted from the audited 2017 Annual Report and Accounts.

Group Chief Executive's Review of the Half Year

I'm very pleased to report another period of strong performance during the first half of 2018. We've seen an increase in the number of members to 971,902, recorded a Group profit before tax of £104.7m, an underlying Group profit before tax (as defined on page 7) of £94.9m, and a Common Equity Tier 1 ratio of 33.2%.

During the six month period savings balances increased by £0.5bn (a growth rate of 3.1% during the period) and mortgage balances increased by £0.5bn (a growth rate of 2.8% during the period).

Over 110,000 customers held a cash lifetime ISA (LISA) with Skipton Building Society at 30 June 2018, and LISA customers benefitted from £99.0m of bonuses paid by the Government during the period. The Society remains the only financial services provider to offer a cash LISA.

We also further broadened our wholesale funding base, issuing regulated public covered bonds, raising £400m over a five year term.

Key financial highlights over the first half of 2018 include:

- Total Group profit before tax (PBT) was £104.7m (six months ended 30 June 2017: £67.0m);
- Underlying Group PBT was up 8.6% at £94.9m (six months ended 30 June 2017: £87.4m);
- The Society continued to grow its membership with a 52,842 increase in members to 971,902 (six months ended 30 June 2017: increase of 25,907) as a result of the phenomenal success of the Society's cash LISA attracting 55,087 new members during the period. The movement in members during the period, excluding those opening LISA accounts, saw a reduction of 2,245;
- Group total assets increased by 4.9% since the year end to £22.1bn (31 December 2017: £21.0bn);
- Group gross mortgage lending was £1.8bn (six months ended 30 June 2017: £2.4bn), the reduction in the period being due to the intensity of competition within the mortgage market, together with the impact of more stringent customer affordability criteria we introduced towards the end of 2017;
- Mortgage balances grew by £457m to £17.0bn, a growth rate of 2.8% since the end of 2017 (six months ended 30 June 2017: by £675m, a growth rate of 4.4%);
- Savings balances grew by £471m to £15.4bn, a growth rate of 3.1% since the end of 2017 (six months ended 30 June 2017: by £525m, a growth rate of 3.7%);
- Funds under management, as part of the Society's financial advice offering, were £3.4bn (year ended 31 December 2017: £3.4bn);
- The Group net interest margin increased to 1.14% (six months ended 30 June 2017: 1.11%; year ended 31 December 2017: 1.10%);
- Group administrative expenses totalled £249.7m (six months ended 30 June 2017: £253.9m), of which £171.8m relates to the Connells estate agency group (six months ended 30 June 2017: £169.1m);
- The impairment loss charge on mortgages for the six month period was £1.7m; the impairment methodology changed during the period following the implementation of a new accounting standard (IFRS 9) with effect from 1 January 2018. For the six months ended 30 June 2017 impairment was calculated under accounting standard IAS 39 and on mortgage loans was a credit of £4.2m for the period;
- The Group's prudent approach to lending is demonstrated by the number of Group residential mortgages in arrears by three months or more. These represent only 0.34% of mortgage accounts (31 December 2017: 0.36%), which compares to an industry average of 0.81% (source: UK Finance arrears data, March 2018);
- The Society's Common Equity Tier 1 (CET 1) ratio at 30 June 2018 remained strong at 33.2% (31 December 2017: 33.2%);
- The leverage ratio was 5.9% (31 December 2017: 6.1%), comfortably ahead of the regulator's expected minimum of 3%;

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

- Liquidity as a percentage of shares, deposits and borrowings was 21.2% (31 December 2017: 18.7%); and
- In May 2018, the Society raised £400m of wholesale funding through a covered bond transaction with a term of five years.

Further details on our Group performance can be found in the Business Review on pages 5 to 13.

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

- The Society is the only financial services provider to offer a cash LISA, helping people to save for their first home or longer term financial needs. At 30 June 2018 over 110,000 customers held a cash LISA with Skipton, and £99.0m in government bonuses were paid to LISA members during the first six months of the year;
- The Society helped 10,855 homeowners (six months ended 30 June 2017: 13,118) to purchase or remortgage their properties, including 2,078 first time buyers (six months ended 30 June 2017: 2,374) and 545 (six months ended 30 June 2017: 809) through participation in the Government's Help to Buy equity loan scheme;
- We paid an average savings rate of 1.26% during the six months ended 30 June 2018 (six months ended 30 June 2017: 1.23%). For the four months ended 30 April 2018 the Society paid an average of 1.26% which was 0.58% above the industry average for which comparable data is available (source: CACI's CSDB, Savings stock, January - April 2018); and
- The Society achieved a net customer satisfaction rating of 93% for the first six months of 2018 (six months ended 30 June 2017: 92%).

Giving something back to our communities

- The Society continues to support its aim to become a dementia-friendly Society and we have 'Dementia Friends' in all of our branches. All new starters in Skipton Direct and our branches now attend a Dementia Friends information session as part of their induction;
- A group of colleagues raised over £16,000 for the Walk the Walk charity which supports those living with cancer, when they took part in the London Moonwalk in memory of Rachel Fawcett, Skipton's former Chief HR Officer;
- Skipton has continued to play a role with The Silver Line charity, which supports older people who may be lonely and isolated. In the first half of 2018, 34 of our colleagues were trained on the services offered by The Silver Line and a total of 150 colleagues as at the end of June had been trained to promote The Silver Line to people in the community;
- Through the Society's charitable foundation, over £65,000 has been donated to charities across the country during the first half of the year; and
- The Society's 2018 Grassroots Giving scheme, which supports community groups that are not registered charities, was launched with a social media competition which gave winners from previous years the chance to obtain an additional £500 of funding. This year the scheme will be giving away 165 pots of £500 to community groups across the country and as at 30 June 2018 had already been entered by over 300 community groups.

Delivering through our people

- A key factor in the Society's strong performance seen during the period and the ongoing high satisfaction of our customers is our people. The Society is focused on ensuring its people are highly engaged and motivated to deliver a great experience for our customers both now and in the future;
- In June 2018, the Society achieved an employee engagement score of 89% (2017: 88%), well above financial services industry norms;
- For the fourth year in a row the Society was included in the Sunday Times *Top 100 Companies to Work For*; and
- The Society has been shortlisted, for the second year running, for the finals of the 2018 UK Customer Experience Awards in three categories. The awards are in their ninth year and have grown to be one of the biggest customer experience awards of their kind in the world.

Outlook

The Society's performance in the first half of 2018 is pleasing, with sustainable growth in mortgage and savings balances, strong liquidity, and a growth in our net interest margin. We have continued to invest in our member offering, and Skipton is now one of the few financial services providers on the UK high street to offer full mortgage and financial advice video appointments.

Called 'Skipton Link', this popular mortgages, investments and pensions service allows our members to link up via video from home or branch with any of our UK branches, Skipton's head office or home-based financial advisers. As a mutual, we will continue re-investing in our business for the benefit of our members.

Underlying performance during the second half of 2018 is not expected to be materially different to that achieved during the first half of the year, with the exception that growth in membership numbers is forecast to moderate following the phenomenal success of cash LISAs over the last 12 months.

Following approval given by their members at their AGM on 25 July 2018, and subject to approval by the Prudential Regulation Authority, Skipton remains on track to merge with Holmesdale Building Society on 1 October 2018.

During the next six months the Brexit negotiations should have concluded, and the Society is well placed to face any outcome. The outlook for the housing market is notoriously difficult to predict, being so driven by sentiment, but at present it remains subdued. Downward pressure on net interest margins is expected into 2019, largely due to strong competitive forces in the UK prime residential mortgage market.

David Cutter
Group Chief Executive

31 July 2018

Business Review

Business model and Group structure

Skipton Building Society is the UK's fourth largest building society, with £22.1bn of assets and over 971,900 members.

The Society's business model supports the delivery of our purpose, by providing a secure home for the growing number of members' savings, which allows us to lend to borrowers, both directly and through mortgage brokers, to help more people into homes. The provision of high quality financial advice is also fundamental to our purpose to help guide and support customers to achieve their long term financial well-being. This is supported by maintaining a significant presence in estate agency through the Connells group, dividends from which add to the Society's strong capital position for the benefit of all our members. In addition, the Skipton Group holds interests in a small number of companies comprising the Investment Portfolio.

As reported in the Group's 2017 Annual Report and Accounts, the Society agreed heads of terms on 27 February 2018 for a merger with Holmesdale Building Society. The merger was approved by the members of Holmesdale Building Society on 25 July 2018 and is subject to approval by the Prudential Regulation Authority (PRA). The merger is expected to become effective through the transfer of the Holmesdale Building Society's engagements to Skipton on 1 October 2018.

Further details on the Group's strategic priorities, which remained unchanged during the six months ended 30 June 2018, can be found in the Strategic Report in the 2017 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 Skipton International Limited (SIL) which lends in the Channel Islands and the UK and takes deposits in the Channel Islands. Our specialist mortgage businesses Amber Homeloans Limited (Amber) and North Yorkshire Mortgages Limited (NYM), which both ceased lending in 2008, are also part of the division, as are the Group's special purpose vehicles, formed to acquire funds from the wholesale markets.
- Estate Agency – includes property sales, surveys and valuations, conveyancing, lettings, asset management and mortgage and insurance broking carried out through the Connells group.
- Investment Portfolio – includes invoice discounting and debt factoring through Skipton Business Finance Limited and the provision of software solutions to a range of industries through Jade Software Corporation Limited.

Objectives and Key Performance Indicators (KPIs)

The Board and senior management 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. In addition, performance of subsidiary entities is monitored by local management teams.

The Society's medium term objectives are built around four pillars: Our Customers, Our People, Our Proposition and Our Financial Strength.

Our customer strategy is to put the customer at the heart of our business, providing a compelling and differentiated proposition that resonates with our members and makes them want to become and remain Skipton customers. A key measure of success of a mutual building society is the long term sustainable growth of its membership base and mortgage and savings balances. In the first half of 2018 the Society's membership numbers grew by 52,842 to 971,902, including Lifetime ISA (LISA) customers which grew by over 55,000. Our savings balances increased to £15.4bn compared to £15.0bn at the end of 2017 and our mortgage book (excluding the equity release portfolio, which is held at fair value following the implementation of IFRS 9 in 2018) grew to £17.0bn compared to £16.5bn at the end of last year.

Our people strategy is to ensure we have knowledgeable, highly skilled and engaged colleagues, who work collaboratively across departments and channels, to deliver a great experience for our members both now and in the future. The delivery of the Society's people strategy is primarily measured by employee engagement and the ongoing focus is to maintain high levels of employee engagement over the coming years. In June 2018 we achieved an employee engagement score of 89% (2017: 88%).

Our proposition seeks to provide good value products and consistently excellent service to our customers however they choose to interact with us. One of the ways in which we monitor the success of our proposition is by measuring net customer satisfaction. For the first half of the year, our net customer satisfaction score was 93% (six months ended 30 June 2017: 92%; year ended 31 December 2017: 92%), demonstrating our ongoing commitment to the delivery of high quality products and services to our customers.

Our financial strength objective is to maintain our strong capital position, in order to be here for our members over the long term. We do this by sustainably growing our mortgage and savings balances, supplemented by dividends principally from our estate agency business, whilst applying strong cost control and a prudent approach to risk management. A more detailed review of our financial performance and position can be found on pages 7 to 12.

Business Review *(continued)*

Key Performance Indicator (KPI)	Purpose	**6 months to 30.06.18**	6 months to 30.06.17	12 months to 31.12.17
Our Customers				
Growth in membership numbers (Society only)	To ensure we are attracting and retaining members	**52,842**	25,907	58,657
Increase in member savings balances (Society only)	To help more members save for their future	**£471m**	£525m	£881m
Group gross mortgage advances	To help us to meet our goal of helping more people into homes through prudent and controlled lending	**£1,784m**	£2,353m	£4,476m
Group net mortgage growth (note 1)	To help us to meet our goal of helping more people into homes through prudent and controlled lending	**£457m**	£675m	£1,290m
Our People				
Employee engagement (Society only) (note 2)	To ensure our people are passionate, loyal and committed	**89%**	88%	88%
Our Proposition				
Society net customer satisfaction score (note 3)	To ensure we are putting the customer at the heart of our business	**93%**	92%	92%
Our Financial Strength				
Total Group profit before tax	To ensure we generate the necessary capital to grow the business	**£104.7m**	£67.0m	£200.1m
Underlying Group profit before tax (as defined on page 7)	To ensure we generate the necessary capital to grow the business regardless of any costs or benefits not arising from the Group's ongoing trading operations	**£94.9m**	£87.4m	£165.7m
Group net interest margin (% of mean assets)	To manage the earnings of our core Mortgages and Savings division	**1.14%**	1.11%	1.10%
Mortgages and Savings division cost income ratio (note 4)	To maintain a manageable cost base to ensure the business remains efficient	**54.3%**	55.3%	57.1%
Mortgages and Savings division management expense ratio	To maintain a manageable cost base to ensure the business remains efficient	**0.67%**	0.72%	0.72%
Group residential mortgages in arrears by three months or more	To manage and monitor our arrears and credit risk management	**0.34%**	0.37%	0.36%
Group liquidity as a % of shares, deposits and borrowings	To ensure we hold sufficient levels of overall liquidity	**21.2%**	17.4%	18.7%
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	**82.2%**	87.3%	84.6%
Group Common Equity Tier 1 ratio (note 5)	To ensure the Group remains financially strong by having a strong (risk weighted) capital base	**33.2%**	28.9%	33.2%
Group Leverage ratio (note 6)	To ensure the Group remains financially strong by having a strong (non-risk weighted) capital base	**5.9%**	5.9%	6.1%

Notes

1. With effect from 1 January 2018 this is measured excluding movements in the Group's equity release portfolio which, following the implementation of IFRS 9, is held at fair value (previously amortised cost; see note 1b) to the Condensed Consolidated Financial Statements for further details). The comparative amounts for 2017 have not been restated; if the comparative amounts were restated to exclude movements in the equity release portfolio, Group net mortgage growth would be £672m for the six months ended 30 June 2017 and £1,285m for the year ended 31 December 2017.
2. As measured by Willis Towers Watson, an independent company who provide benchmarking on employee surveys in both the UK and globally.
3. As measured from an independent third party survey of 1,200 Society members. The net customer satisfaction score is calculated by subtracting the percentage of dissatisfied customers (those scoring satisfaction with the Society as 1-3 on a scale of 1-7) from the percentage of customers who are satisfied (those scoring satisfaction as 5-7 on the same scale).
4. For the purposes of this ratio, costs and income exclude items that are not included in arriving at underlying Group profit before tax, which is defined on page 7.
5. This ratio is calculated on a transitional basis; see pages 11 and 12 for further details.
6. This ratio is calculated on an end-point basis; see pages 11 and 12 for further details.

Financial performance

Total Group profit before tax (PBT) for the first half of the year was £104.7m (six months ended 30 June 2017: £67.0m; year ended 31 December 2017: £200.1m). Further details can be found in the Income Statement on page 14.

The Board monitors and reports profits at both a statutory level, governed by accounting standards and practices, and an 'underlying' level. As per the Group's policy on alternative performance measures agreed by the Board Audit Committee, underlying Group PBT excludes items that are not generated from the Group's core trading activities to give greater transparency of the performance of the Group's ongoing trading activities. As outlined in the 2017 Annual Report and Accounts, underlying Group PBT excludes gains and losses on disposal of Group undertakings, gains and losses on disposal of mortgage assets, impairment of Group undertakings and the Financial Services Compensation Scheme (FSCS) levy.

As described in note 1b) to the Condensed Consolidated Financial Statements, the implementation of IFRS 9 with effect from 1 January 2018 has resulted in a significant change in accounting for the Group's equity release portfolio. Prior to IFRS 9, the equity release loans were held at amortised cost and the no negative equity guarantee (presented within loan impairment) was held at fair value. Where the Group uses derivatives to manage the risks associated with the equity release portfolio, the use of hedge accounting was previously available to manage Income Statement volatility. Under IFRS 9, the Group's equity release portfolio is held entirely at fair value with resulting gains / losses taken to the Income Statement; the use of hedge accounting is no longer available for the equity release portfolio and, as a result, the Group is exposed to significant Income Statement volatility. In accordance with the Group's policy on alternative performance measures, gains / losses arising from movements in the fair value of the equity release portfolio are excluded from underlying Group PBT on the grounds that such gains / losses are not reflective of the underlying trading performance of the business. The underlying PBT for the six months ended 30 June 2017 and for the year ended 31 December 2017 has not been restated.

Underlying Group PBT for the six months ended 30 June 2018 was £94.9m (six months ended 30 June 2017: £87.4m; year ended 31 December 2017: £165.7m) as follows:

	6 months to 30.06.18 £m	6 months to 30.06.17 £m	12 months to 31.12.17 £m
Total Group profit before tax	**104.7**	67.0	200.1
Less profit / add back loss on disposal of subsidiary undertakings	**(2.4)**	3.9	(11.3)
Less profit on disposal of other Group undertakings	**-**	(0.9)	(39.4)
Less net movements in fair value in relation to the equity release portfolio (note 1)	**(8.1)**	-	-
Add back loss on disposal of mortgage assets	**-**	15.0	15.0
Add back impairment of goodwill	**1.3**	-	-
Add back impairment of equity share investments	**-**	0.1	0.1
Less credit / add back charge for FSCS levy	**(0.6)**	2.3	1.2
Underlying Group profit before tax	**94.9**	87.4	165.7

Note

1. Includes £(16.1)m in respect of the fair value of the mortgages in the equity release portfolio included in the 'Fair value losses on equity release portfolio' line in the Income Statement. It also includes £24.2m in respect of fair value movements in the associated derivatives held to economically hedge the exposure to this portfolio, which is included in the 'Fair value gains on other derivatives' line in the Income Statement.

Performance by division

The Group's results by division were as follows:

	6 months to 30.06.18 £m	6 months to 30.06.17 £m	12 months to 31.12.17 £m
Mortgages and Savings	**65.8**	41.5	89.1
Estate Agency	**28.9**	31.5	104.2
Investment Portfolio	**3.5**	(2.8)	0.1
Sundry including inter-divisional adjustments^	**6.5**	(3.2)	6.7
Profit before tax	**104.7**	67.0	200.1

^ 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 additional profit on disposal recognised in relation to the sale of Homeloan Management Limited in 2014.

Business Review *(continued)*

Underlying performance by division

The Group's underlying performance by division was as follows:

	6 months to 30.06.18 £m	6 months to 30.06.17 £m	12 months to 31.12.17 £m
Mortgages and Savings	**57.1**	58.8	105.3
Estate Agency	**30.2**	30.7	64.9
Investment Portfolio	**3.5**	2.1	5.0
Sundry including inter-divisional adjustments^	**4.1**	(4.2)	(9.5)
Underlying Group profit before tax	**94.9**	87.4	165.7

^ Sundry including inter-divisional adjustments relates primarily to the elimination of inter-divisional trading and the cost of the management incentive scheme for senior managers of Connells Limited.

A more detailed breakdown of the results of each division can be found in note 18 to the Condensed Consolidated Financial Statements.

Mortgages and Savings

The Mortgages and Savings division reported pre-tax profits for the first six months of the year of £65.8m (six months ended 30 June 2017: £41.5m; year ended 31 December 2017: £89.1m). The period's profits include a net gain of £8.1m in relation to fair value movements in the Society's equity release book. The comparative period includes a £15.0m loss recognised on disposal of £220m of non-performing or recently non-performing loans. Both these items are excluded from underlying PBT.

Gross mortgage advances in the first half of the year decreased by 24.2% to £1,784m (six months ended 30 June 2017: £2,353m; year ended 31 December 2017: £4,476m), whilst net lending (excluding equity release) was £457m (six months ended 30 June 2017: £672m (excluding equity release); year ended 31 December 2017: £1,285m (excluding equity release)). The reduction in gross lending is mainly due to the intensity of competition within the mortgage market, together with the impact of more stringent customer affordability criteria we introduced towards the end of 2017. We nevertheless achieved net growth in our mortgage book in the period, without compromising the quality of our mortgage assets, which reflects the strength of our relationships with our intermediary partners and also our competitive offerings across a range of mortgage products.

We remain mindful of how the ongoing low interest rate environment impacts our savers and we continue to offer competitive rates above the market average.

Savings balances increased by £470.7m since the end of 2017, representing growth of 3.1% (six months ended 30 June 2017: 3.7%). This was predominantly as a result of attracting over 55,000 new LISA members during the period, taking total LISA balances at 30 June 2018 to £508.3m (31 December 2017: £74.9m). In the first half of 2018 our LISA customers received a government bonus of £99.0m, a significant boost to their home ownership aspirations.

Net interest income, which is the main source of income for the Mortgages and Savings 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 capital). The division's net interest income amounted to £113.1m for the first half of the year (six months ended 30 June 2017: £103.6m; year ended 31 December 2017: £211.4m).

The Group's net interest margin, one of our key measures of performance, measures net interest income as a percentage of mean total assets and was 1.14% for the first half of 2018 (six months ended 30 June 2017: 1.11%; year ended 31 December 2017: 1.10%). Whilst the mortgage market remains challenging, performance in the period benefitted from the impact of recent and anticipated increases in the Bank Base Rate.

The Financial Advice part of the business generated £15.8m of income (six months ended 30 June 2017: £15.4m; year ended 31 December 2017: £29.3m), with funds under management totalling £3.4bn (30 June 2017: £3.3bn; 31 December 2017: £3.4bn).

During the period administrative expenses in the Mortgages and Savings division increased to £70.4m (six months ended 30 June 2017: £68.8m; year ended 31 December 2017: £141.9m). We continue to closely manage costs, in order that we can continue to invest in the business for the benefit of our members.

The ratio of administrative expenses to average assets for the division, a traditional building society measure of efficiency, improved to 0.67% in the first half of the year (six months ended 30 June 2017: 0.72%; year ended 31 December 2017: 0.72%). The cost income ratio at a Mortgages and Savings division level also improved, to 54.3% (six months ended 30 June 2017: 55.3%; year ended 31 December 2017: 57.1%).

The percentage of mortgage accounts in arrears in the Society has reduced; the number of residential mortgages in arrears by three months or more fell to 0.28% (30 June 2017: 0.35%; 31 December 2017: 0.29%), which compares favourably to the UK Finance industry average for mortgages in arrears by more than three months of 0.81% (UK Finance figures as at 31 March 2018).

The percentage of mortgage accounts in arrears by three months or more has also remained low within Amber and NYM, at 2.41% and 1.01% respectively (30 June 2017: 1.43% and 0.08% respectively; 31 December 2017: 2.51% and 0.78% respectively). The run off of these portfolios is managed through efficient and proactive collection processes, including a number of appropriate forbearance measures for borrowers in financial difficulty.

The combined total of mortgage balances within Amber and NYM decreased by 5.5% during the six months ended 30 June 2018 to £791.0m (six months ended 30 June 2017: decrease of 24.0% to £882.8m; year ended 31 December 2017: decrease of 27.9% to £837.4m). The decrease in 2017 was significantly higher due to the disposal of a portfolio of non-performing or recently non-performing loans which reduced aggregate balances at the time of disposal by £220m.

The impairment charge on loans and advances to customers for the division (excluding the equity release portfolio) was £1.7m (six months ended 30 June 2017: £1.2m credit; year ended 31 December 2017: £2.4m credit). Our impairment methodology changed in the period following the implementation of IFRS 9 with effect from 1 January 2018 (see note 1b) to the Condensed Consolidated Financial Statements for further details).

Arrears levels within our commercial lending portfolio (closed to new business since 2008) remain low. There was a credit to the Income Statement in the period of £0.2m for the impairment provision on this portfolio (six months ended 30 June 2017: £0.3m credit; year ended 31 December 2017: £1.1m credit). As noted above, our impairment methodology changed in the period following the implementation of IFRS 9.

SIL, our Channel Islands operation, once again performed well in the first six months of the year, reporting an increase in pre-tax profits to £10.0m (six months ended 30 June 2017: £8.5m; year ended 31 December 2017: £18.0m). SIL also reported increases in both its mortgage and savings books, which increased to £1,254.9m and £1,425.3m respectively (31 December 2017: £1,185.9m and £1,387.6m respectively), representing growth of 5.8% in the mortgage book and 2.7% growth in savings balances since the year end. The quality of the mortgage book remains good, with only two cases in arrears by three months or more (30 June 2017: two cases; 31 December 2017: one case).

The Income Statement charge for provisions for liabilities in the division was a credit of £0.6m as a result of a reduction in the provision needed for the Society's share of the Financial Services Compensation Scheme (FSCS) levy resulting in a credit of £0.6m during the period (six months ended 30 June 2017: £2.3m charge; year ended 31 December 2017: £1.2m charge). The charge for the six months ended 30 June 2017 and year ended 31 December 2017 also included £1.0m and £5.4m respectively relating to customer compensation.

Estate Agency

The Connells group continued to perform well in a softer market and achieved a pre-tax profit of £28.9m for the first six months of 2018 (six months ended 30 June 2017: £31.5m; year ended 31 December 2017: £104.2m, which included a £38.5m profit on disposal of equity share investments).

The Connells group has a good spread of revenue generating activities. The UK housing market remains subdued, which is reflected in a 3.8% fall in the number of house sales (exchanges) agreed by Connells during the period. Nevertheless, total income across the division increased by 1.1% compared to the first half of 2017, to £207.1m (six months ended 30 June 2017: £204.8m; year ended 31 December 2017: £459.3m). Continued focus and investment by Connells across all its divisions resulted in lettings income increasing by 6.5%, mortgage services revenue up by 14.0% and survey and valuations income rising by 4.3% compared to the same period last year.

Investment Portfolio

Skipton Business Finance Limited (a provider of debt factoring and invoice discounting to small and medium-sized enterprises) consistently performs well and produced a pre-tax profit for the period of £1.7m (six months ended 30 June 2017: £1.6m; year ended 31 December 2017: £3.5m).

Jade Software Corporation (a software solutions provider based in New Zealand that specialises in digital solutions and large IT enterprise solutions) continues to deliver improved performance, reporting a profit of £1.7m for the six months ended 30 June 2018 (six months ended 30 June 2017: £0.2m profit; year ended 31 December 2017: £1.2m profit).

The division's result for the six months ended 30 June 2017 included a £4.9m loss on disposal of Jade Logistics, £0.3m of which was included in the reported profit of Jade Software Corporation.

Sundry, including inter-divisional adjustments

Profit for the six months ended 30 June 2018 included a credit of £4.0m relating to the management incentive scheme for the senior managers of Connells Limited following an update to the assumptions used in calculating the liability (six months ended 30 June 2017: £2.5m charge; year ended 31 December 2017: £9.7m charge). During the period a number of managers in the scheme exercised a proportion of their options in line with the scheme rules which resulted in total payments of £9.8m being made. Further details of the scheme, including the calculation of the liability and the assumptions used, can be found in note 26 in the 2017 Annual Report and Accounts.

During 2014, the Group sold its then subsidiary Homeloan Management Limited (HML). The sale of HML included contingent consideration dependent on HML's performance over a period following the disposal. In May 2018 the contingent consideration receivable by the Group was finalised with the purchaser at £32.5m, which is £2.3m higher (undiscounted and before costs) than the amount estimated by the Group as at 31 December 2017. The first instalment of £6.9m (before costs) was received by the Group in May 2018 and the contingent consideration asset stands at £22.2m at

30 June 2018 (30 June 2017: £10.2m; 31 December 2017: £25.1m). The profit recognised in the Income Statement for the six month period of £2.4m (30 June 2017: £0.3m; 31 December 2017: £15.2m) is included in the 'Profit / (loss) on disposal of subsidiary undertakings' line in the Income Statement.

Other comprehensive income

During the period, the Group recognised other comprehensive income (net of tax) of £1.1m (six months ended 30 June 2017: income of £5.1m; year ended 31 December 2017: expense of £24.2m). This includes:

- The remeasurement of retirement benefit obligations to reflect latest market conditions, which resulted in a gain of £2.7m (before tax) (six months ended 30 June 2017: gain of £5.9m; year ended 31 December 2017: gain of £10.2m); and
- Movements in the Group's fair value reserve and cash flow hedging reserve totalling £(1.2)m (before tax). Other movements for the six months ended 30 June 2017 included a £4.8m gain relating to the Group's previous shareholding in ZPG Plc. Other movements for the year ended 31 December 2017 included a £33.7m net expense relating to the Group's previous shareholding in ZPG Plc, due to previous gains being recycled through the Income Statement on disposal of the shareholding.

Financial position

Loans and advances to customers

The Group continues to grow its mortgage book, lending within its own clearly defined risk appetite through both the Society and SIL. Excluding the equity release portfolio (which is held at fair value following the implementation of IFRS 9 in 2018), Group mortgage balances grew by 2.8% in the period, increasing from £16.5bn at the end of 2017 to £17.0bn.

We consider our new lending to remain prudent and the mortgage book is well diversified by 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 a variety of products, including loans that require only a 10% deposit and longer term deals offering payment certainty for up to seven years. The average loan-to-value (LTV) on new lending in the Society was 59.2% (30 June 2017: 60.9%; 31 December 2017: 59.5%).

The Group holds an equity release mortgage book which is closed to new business. As previously outlined, the Group's equity release portfolio is now held at fair value (previously amortised cost) following the implementation of IFRS 9 with effect from 1 January 2018. In accordance with IFRS 9, comparative information for prior periods has not been restated. At 30 June 2018, the fair value of the Group's equity release portfolio was £411.4m (see note 12 to the Condensed Consolidated Financial Statements for further details).

As at 30 June 2018, the average indexed LTV of the total residential mortgage book (excluding equity release) was 47.9% (30 June 2017: 48.5% (including equity release); 31 December 2017: 47.2% (including equity release)).

Liquidity

The Group continues to hold healthy levels of liquid assets to support the business and to help mitigate economic uncertainty, with the liquidity ratio (as a percentage of shares, deposits and borrowings) increasing from 18.7% at the end of 2017 to 21.2% as at 30 June 2018. The Group's liquidity levels are closely managed by senior management and have remained above internal and regulatory limits throughout the period.

At 30 June 2018, the Society held £3.5bn (30 June 2017: £2.6bn; 31 December 2017: £2.9bn) of High Quality Liquid Assets (HQLA) as analysed below:

	30.06.18 £m	30.06.17 £m	31.12.17 £m
Balances with the Bank of England	**2,784.9**	1,827.9	2,367.0
Gilts	**94.7**	162.4	59.5
Treasury bills	**40.0**	207.0	-
Fixed rate bonds	**155.1**	139.3	146.0
Floating rate notes	**20.0**	-	-
Residential mortgage backed securities	**220.2**	225.3	197.8
Covered bonds	**165.7**	75.4	87.4
	3,480.6	2,637.3	2,857.7

The Society also holds a portfolio of other liquid assets, which are not categorised as HQLA, as shown below:

	30.06.18 £m	30.06.17 £m	31.12.17 £m
Certificates of deposit	**25.1**	145.2	20.0
Fixed rate bonds	**33.8**	35.5	32.1
Residential mortgage backed securities	**0.9**	1.1	1.0
	59.8	181.8	53.1

The above tables showing HQLA and non-HQLA are different to the total amount of liquid assets held in the Statement of Financial Position due to certain items that are excluded from the above tables, such as liquid assets used as collateral and those used in repurchase, or 'repo', transactions.

The Group's treasury investments are held to provide liquidity and at the end of the reporting period 96.6% (30 June 2017: 99.0%; 31 December 2017: 98.7%) of the Group's treasury investments are rated A3 or better. The majority of the Group's treasury investments that are not rated A3 or better relate to the collateral held against the Society's derivatives cleared through the London Clearing House, which is unrated.

Business Review *(continued)*

The Liquidity Coverage Ratio (LCR), which is a measure designed to ensure that financial institutions have sufficient high quality assets available to meet their liquidity needs for a 30 day liquidity stress scenario, was 210% at 30 June 2018 (30 June 2017: 188%; 31 December 2017: 179%), well above both the regulatory limit and the Board's internal limit throughout the period.

The Net Stable Funding Ratio (NSFR) is a longer term stable funding metric, which measures the stability of our funding sources relative to the assets (mortgage balances) we are required to fund. The Group's NSFR was 139% at 30 June 2018 (31 December 2017: 143%), which is well in excess of the regulatory requirement of 100% (which was introduced on 1 January 2018).

The Group regularly conducts an Internal Liquidity Adequacy Assessment Process (ILAAP) in accordance with the PRA's 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

The Society continues to manage the mix of retail and wholesale funding in the best interests of our members and remains primarily funded by retail savings. Optimising our mix of retail and wholesale funding is essential to the Group achieving both its retail savings and lending growth objectives.

Retail funding

As a mutual building society we remain committed to providing savers with competitive returns along with offering excellent customer service, which is reflected in the increases in retail savings balances during the period.

As at 30 June 2018, £15.4bn (30 June 2017: £14.7bn; 31 December 2017: £15.0bn) of our funding came from retail savings, representing 82.2% (30 June 2017: 87.3%; 31 December 2017: 84.6%) of total funding. The change in funding mix in the period reflects the impact of a £400m covered bond transaction in May 2018 (see '*Wholesale funding'* below).

In addition to our UK retail funding, the Group also accepts deposits through our Channel Islands based subsidiary, SIL, with balances totalling £1.4bn (30 June 2017: £1.4bn; 31 December 2017: £1.4bn). These balances are included in 'Amounts owed to other customers' within the Statement of Financial Position.

Wholesale funding

The Society accesses the remainder of its funding through the wholesale markets, as there are certain benefits that wholesale funding brings, such as the term of funding. At 30 June 2018 our wholesale funding balances amounted to £3.2bn (30 June 2017: £2.0bn; 31 December 2017: £2.6bn), an increase of £0.6bn during the six month period. The Group's wholesale funding ratio increased to 17.8% as at 30 June 2018 (30 June 2017: 12.7%; 31 December 2017: 15.4%).

During the six month period, the Society drew down £1,000m of funding under the Government's Term Funding Scheme (TFS) (six months ended 30 June 2017: £500m; year ended 31 December 2017: £1,100m) and repaid amounts totalling £550m (30 June 2017: £nil; 31 December 2017: £nil). The amount of drawings outstanding at the end of the period was £1,850m (30 June 2017: £800m; 31 December 2017: £1,400m). Amounts previously drawn under the Government's Funding for Lending Scheme were fully repaid during the year ended 31 December 2017.

In May 2018, the Society raised £400m of wholesale funding through a covered bond transaction with a term of five years.

Capital

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

Under the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), together referred to as CRD IV, the main level at which we monitor our capital is at a prudential consolidation group level. This consists of the entire Group except Connells and a small number of entities whose activities are not closely aligned with the core business.

Total capital has increased by £44.3m from 31 December 2017 to £1,368.0m (30 June 2017: £1,239.9m; 31 December 2017: £1,323.7m). This is due to profits after tax accumulated during the six month period which are added to the general reserve and partly offset by the impact of adopting IFRS 9 from 1 January 2018. See page 22 for further details regarding the impact of IFRS 9 on regulatory capital.

Risk weighted assets have increased by £130.7m in the period to £3,995.4m at 30 June 2018 due to the increase in mortgage balances held at the end of the period.

The movements above have resulted in the CET 1 ratio remaining the same as at 31 December 2017 at 33.2% (30 June 2017: 28.9%).

The leverage ratio, a non risk-based capital measure, reduced by 0.2% to 5.9% at 30 June 2018 (30 June 2017: 5.9%; 31 December 2017: 6.1%). This decrease is due to the impact of adopting IFRS 9, together with the increase in mortgage balances as well as higher liquid assets held at the end of the period, partly offset by profits generated during the period.

The following table shows the capital ratios for the prudential group as at 30 June 2018 reported on a CRD IV transitional basis. On a transitional basis

£40m of PIBS are being phased out of Additional Tier 1 capital into Tier 2 capital over the period to 2022. Under CRD IV end-point rules the PIBS are fully transitioned into Tier 2 capital. On an end-point basis our CET 1 ratio would remain unchanged at 33.2%. The leverage ratio is reported on an end-point basis.

	30.06.18 £m	30.06.17 £m	31.12.17 £m
Capital resources:			
Common Equity Tier 1 (CET 1) capital	**1,328.0**	1,199.9	1,283.7
Tier 1 capital (note 1)	**1,364.0**	1,239.9	1,323.7
Total capital	**1,368.0**	1,239.9	1,323.7
Risk weighted assets	**3,995.4**	4,156.9	3,864.7

CRD IV ratios:	**%**	%	%
Common Equity Tier 1 (CET 1) ratio	**33.2**	28.9	33.2
Leverage ratio (note 2)	**5.9**	5.9	6.1

Notes

1. At 30 June 2018 £36m (30 June 2017: £40m; 31 December 2017: £40m) of PIBS currently held as Additional Tier 1 capital are being phased into Tier 2 capital over the period to 2022.
2. The Leverage ratio is defined as Tier 1 capital divided by total exposure, i.e. total assets per the prudential group consolidated position (subject to some regulatory adjustments).

IFRS 9 transitional relief has been applied in the figures above. The end-point position excluding IFRS 9 transitional relief is the same as that reported above as the impact of the transitional relief is not material for the Society.

The Group holds capital to meet Pillar 1 requirements for credit risk, operational risk and market risk, with the IRB approach to capital modelling applied to residential mortgages in the Society, Amber and NYM and to equity and non-credit obligation exposures. The standardised approach is applied to all other exposures, operational risk, market risk and credit valuation adjustments.

The PRA requires the Group to hold additional Pillar 2A capital for the risks not covered under Pillar 1. At 30 June 2018 this was 3.4% (30 June 2017: 3.4%; 31 December 2017: 3.4%) of risk weighted assets, a point in time estimate set by the PRA.

The Minimum Requirement for Own Funds and Eligible Liabilities (MREL) is being phased in over a transitional period to 1 January 2022. The MREL set for the Society, by the Bank of England, for the transitional period is equal to the minimum regulatory capital requirements for the period to 31 December 2019, increasing to 18% of risk weighted assets by 1 January 2020 for the period to 31 December 2021. MREL at the end of the transitional period is subject to review by the Bank of England and may change. Compliance with MREL is reflected in the Society's corporate plans.

Principal risks and uncertainties

The Directors continue to monitor political, economic and regulatory developments since the decision was made to leave the EU. The Directors acknowledge that uncertainties remain regarding how the business environment may change and the potential impact of these events on the Society's principal risks and uncertainties. These uncertainties emphasise the need to maintain a forward-looking focus and run appropriately severe scenarios to test the Group's resilience to possibly unforeseen risk events and, where appropriate, build mitigating strategies. Whilst there remains uncertainty on the eventual outcome of the Brexit negotiations, the Society has considered and assessed a range of outcomes and we believe the Society is well placed to respond to any eventual outcome. At this stage, the Directors do not consider that the principal risks and uncertainties affecting the Group have changed materially since the publication of the 2017 Annual Report and Accounts.

The principal risks were categorised in the 2017 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.

- Liquidity risk, which is the risk that the Group is unable to meet its current and future financial obligations as they fall due. The Group maintains a high quality liquidity portfolio and continues to hold liquidity well in excess of the regulatory minimum.

- Interest rate risk, which is the risk of loss arising from adverse movements in market interest rates. This risk is managed through the use of appropriate financial instruments, including derivatives used to hedge exposures, with established risk limits, reporting lines, mandates and other control procedures.

- Capital risk, which is the risk that the business does not maintain sufficient capital levels to protect it against the principal risks it faces such as severe recession or business shocks. The Group conducts an Internal Capital Adequacy Assessment Process at least annually to assess the Group's current and projected capital requirements to support the current risks in the business and future risks arising from the corporate plan.

- Pension obligation risk, which is the risk that the value of the schemes' assets, together with ongoing contributions, will be insufficient to cover their obligations over time. The schemes are also exposed to possible changes in pension legislation. The Board regularly reviews the Group's pension risk strategy, whilst the pension scheme Trustees oversee the investment strategy with advice from professional consultants.

- 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 risk is mitigated by a formal review forum, provided by the Model Governance Committee.

- Business risk, which is the risk of changes in the environment in which the Group operates or the occurrence of events which damage the franchise or operating economics of the Group's businesses. These risks are addressed in the Group's corporate plans, approved annually by the Board, and by associated stress testing carried out on these plans. In line with regulatory requirements, the Society maintains a recovery plan detailing the steps it would take to sustain itself through severe business stresses.

- Conduct risk, which is the risk of delivering poor or inappropriate outcomes for customers. The framework to control this area, which includes the operation of rigorous procedures and compliance monitoring, is maintained and overseen by the Conduct and Operational Risk Committee.

- Operational risk, which is the risk of financial loss or reputational damage arising from inadequate or failed internal processes, systems or human error. This category of risk includes:
  - Cyber crime – cyber risk incorporates a wide array of potential threats to the Group which are of increasing significance given the expected growth in online customer transaction levels. The Group continues to focus efforts on proactively managing the evolving nature of cyber threat to ensure the Group is best placed to protect its customers and the business.
  - Business resilience – the Society continues to review its approach to business resilience and continuity to ensure that this is reflective of business changes over time and remains fit for purpose.

- Reputational risk, which is the risk to earnings, liquidity or capital arising from negative market or public opinion. This risk is managed through maintaining and investing in control structures, focusing on customer outcomes and working within the Group's risk management framework.

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 66 to 71 of the 2017 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.

Bobby Ndawula
Group Finance Director
31 July 2018

Condensed Consolidated Income Statement

For the half year ended 30 June 2018

	Notes	**Unaudited 6 months to 30.06.18 £m**	Unaudited 6 months to 30.06.17* £m	Audited 12 months to 31.12.17* £m
Interest receivable and similar income	3	**228.2**	194.9	400.0
Interest payable and similar charges	4	**(106.5)**	(87.1)	(179.4)
Net interest receivable		**121.7**	107.8	220.6
Fees and commissions receivable	5	**232.0**	230.6	477.9
Fees and commissions payable		**(2.9)**	(4.3)	(8.1)
Fair value gains on hedging instruments and hedged items		**0.1**	1.6	1.5
Fair value gains on other derivatives		**24.2**	-	-
Fair value losses on equity release portfolio	12	**(16.1)**	-	-
Profit on treasury assets held at available-for-sale		**-**	2.7	2.7
Loss on disposal of mortgage assets		**-**	(15.0)	(15.0)
Profit / (loss) on disposal of subsidiary undertakings		**2.4**	(3.9)	11.3
Profit on disposal of joint ventures		**-**	0.9	0.9
Profit on disposal of equity share investments		**-**	-	38.5
Dividend income from equity share investments		**-**	0.6	0.6
Share of profits from joint ventures		**0.1**	1.0	2.0
Other income		**0.8**	2.3	2.7
Total income		**362.3**	324.3	735.6
Administrative expenses	6	**(249.7)**	(253.9)	(523.1)
Operating profit before impairment and provisions		**112.6**	70.4	212.5
Impairment (losses) / credit on loans and advances to customers	7	**(1.7)**	4.2	4.0
Impairment losses on liquid assets		**(0.1)**	-	-
Impairment losses on equity share investments		**-**	(0.1)	(0.1)
Realised losses on equity release portfolio	12	**(0.4)**	-	-
Provisions for liabilities	9	**(5.7)**	(7.5)	(16.3)
Profit before tax		**104.7**	67.0	200.1
Tax expense		**(22.4)**	(16.5)	(41.9)
Profit for the period		**82.3**	50.5	158.2
Profit for the period attributable to:				
Members of Skipton Building Society		**82.3**	50.5	158.2
		82.3	50.5	158.2

* The Group has adopted IFRS 9 and IFRS 15 with effect from 1 January 2018. Under the transition methods chosen, comparative information is not required to be restated, except for certain hedging requirements that are not relevant to the Group. See note 1b) for further details.

Segmental performance of the Group is shown in note 18.

The notes on pages 21 to 51 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 2018

	Unaudited 6 months to 30.06.18 £m	Unaudited 6 months to 30.06.17* £m	Audited 12 months to 31.12.17* £m
Profit for the period	**82.3**	50.5	158.2
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement gains on defined benefit obligations	**2.7**	5.9	10.2
Income tax on items that will not be reclassified to profit or loss	**(0.4)**	(1.3)	(1.9)
	2.3	4.6	8.3
Items that may be reclassified subsequently to profit or loss:			
Movement in available-for-sale reserve:			
Valuation gains taken to equity	**-**	6.6	8.1
Realised gains transferred to Income Statement	**-**	(2.8)	(43.0)
Movement in cash flow hedging reserve:			
Losses taken to equity	**(0.5)**	(1.0)	(0.7)
Realised gains transferred to Income Statement	**-**	-	(1.9)
Gains reclassified to Income Statement	**-**	(1.7)	(1.7)
Movement in fair value reserve (debt securities):			
Losses taken to equity	**(0.7)**	-	-
Exchange differences on translation of foreign operations	**(0.2)**	-	(0.4)
Income tax on items that may be reclassified to profit or loss	**0.2**	(0.6)	7.1
	(1.2)	0.5	(32.5)
Other comprehensive income / (expense) for the period, net of tax	**1.1**	5.1	(24.2)
Total comprehensive income for the period	**83.4**	55.6	134.0
Total comprehensive income attributable to:			
Members of Skipton Building Society	**83.4**	55.6	134.0
	83.4	55.6	134.0

***** The Group has adopted IFRS 9 and IFRS 15 with effect from 1 January 2018. Under the transition methods chosen, comparative information is not required to be restated, except for certain hedging requirements that are not relevant to the Group. See note 1b) for further details.

The notes on pages 21 to 51 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	**Unaudited as at 30.06.18 £m**	Unaudited as at 30.06.17* £m	Audited as at 31.12.17* £m
Assets				
Cash in hand and balances with the Bank of England		**2,833.4**	1,856.6	2,396.9
Loans and advances to credit institutions		**403.0**	397.4	345.3
Debt securities	8	**1,004.7**	870.0	791.1
Derivative financial instruments		**82.3**	101.5	94.2
Loans and advances to customers held at amortised cost	11	**16,930.6**	16,380.6	16,972.7
Equity release portfolio at FVTPL	12	**411.4**	-	-
Deferred tax asset		**41.7**	30.3	30.4
Investments in joint ventures		**11.5**	11.8	12.8
Equity share investments		**0.8**	41.2	0.4
Property, plant and equipment		**78.5**	79.6	78.2
Investment property		**13.9**	14.5	14.4
Intangible assets		**162.4**	162.9	164.4
Other assets		**87.0**	115.7	122.8
Total assets		**22,061.2**	20,062.1	21,023.6
Liabilities				
Shares		**15,438.1**	14,655.3	14,985.8
Amounts owed to credit institutions		**1,891.3**	895.1	1,483.2
Amounts owed to other customers		**1,700.3**	1,713.4	1,805.1
Debt securities in issue	13	**1,014.3**	733.2	666.4
Derivative financial instruments		**283.0**	330.2	318.5
Current tax liability		**20.7**	15.6	19.9
Other liabilities		**56.0**	160.9	110.4
Accruals		**38.2**	43.5	50.5
Deferred income		**2.8**	2.3	3.7
Provisions for liabilities	9	**25.1**	26.1	26.1
Deferred tax liability		**7.0**	13.8	7.4
Retirement benefit obligations		**93.2**	104.7	100.2
Subscribed capital		**41.6**	41.6	41.6
Total liabilities		**20,611.6**	18,735.7	19,618.8
Members' interests				
General reserve		**1,442.3**	1,285.0	1,396.4
Available-for-sale reserve		**-**	34.4	3.1
Fair value reserve		**2.6**	-	-
Cash flow hedging reserve		**(0.3)**	1.4	0.1
Translation reserve		**5.0**	5.6	5.2
Total members' interests		**1,449.6**	1,326.4	1,404.8
Total members' interests and liabilities		**22,061.2**	20,062.1	21,023.6

***** The Group has adopted IFRS 9 and IFRS 15 with effect from 1 January 2018. Under the transition methods chosen, comparative information is not required to be restated, except for certain hedging requirements that are not relevant to the Group. See note 1b) for further details.

The notes on pages 21 to 51 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 2018

	General reserve £m	Available-for-sale reserve £m	Fair value reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Total £m
Balance at 31 December 2017	**1,396.4**	**3.1**	**-**	**0.1**	**5.2**	**1,404.8**
Adjustment on initial adoption of IFRS 9 (net of tax)	(38.7)	(3.1)	3.2	-	-	(38.6)
Balance at 1 January 2018	**1,357.7**	**-**	**3.2**	**0.1**	**5.2**	**1,366.2**
Profit for the period	82.3	-	-	-	-	**82.3**
Other comprehensive income:						
Remeasurement gains on defined benefit obligations	2.3	-	-	-	-	**2.3**
Net losses from changes in fair value	-	-	(0.6)	(0.4)	-	**(1.0)**
Exchange differences on translation of foreign operations	-	-	-	-	(0.2)	**(0.2)**
Total other comprehensive income	**2.3**	**-**	**(0.6)**	**(0.4)**	**(0.2)**	**1.1**
Total comprehensive income for the period	**84.6**	**-**	**(0.6)**	**(0.4)**	**(0.2)**	**83.4**
Balance at 30 June 2018	**1,442.3**	**-**	**2.6**	**(0.3)**	**5.0**	**1,449.6**

Unaudited for the half year ended 30 June 2017*

	General reserve £m	Available-for-sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Sub total £m	Non-controlling interests £m	Total £m
Balance at 1 January 2017	1,236.6	32.0	3.3	6.6	1,278.5	(1.0)	1,277.5
Profit for the period	50.5	-	-	-	50.5	-	50.5
Other comprehensive income:							
Remeasurement gains on defined benefit obligations	4.6	-	-	-	4.6	-	4.6
Net gains / (losses) from changes in fair value	-	4.7	(0.5)	-	4.2	-	4.2
Available-for-sale: realised gains transferred to Income Statement	-	(2.3)	-	-	(2.3)	-	(2.3)
Cash flow hedges: gains reclassified to Income Statement	-	-	(1.4)	-	(1.4)	-	(1.4)
Total other comprehensive income	4.6	2.4	(1.9)	-	5.1	-	5.1
Total comprehensive income for the period	55.1	2.4	(1.9)	-	55.6	-	55.6
Changes in ownership interest:							
Acquisition of non-controlling interests without change in control	(6.7)	-	-	(1.0)	(7.7)	1.0	(6.7)
Balance at 30 June 2017	1,285.0	34.4	1.4	5.6	1,326.4	-	1,326.4

* The Group has adopted IFRS 9 and IFRS 15 with effect from 1 January 2018. Under the transition methods chosen, comparative information is not required to be restated, except for certain hedging requirements that are not relevant to the Group. See note 1b) for further details.

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

Audited for the year ended 31 December 2017*

	General reserve £m	Available-for-sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Sub total £m	Non-controlling interests £m	Total £m
Balance at 1 January 2017	1,236.6	32.0	3.3	6.6	1,278.5	(1.0)	1,277.5
Profit for the period	158.2	-	-	-	158.2	-	158.2
Other comprehensive income:							
Remeasurement gains on defined benefit obligations	8.3	-	-	-	8.3	-	8.3
Net gains / (losses) from changes in fair value	-	5.9	(0.3)	-	5.6	-	5.6
Realised gains transferred to Income Statement	-	(34.8)	(1.5)	-	(36.3)	-	(36.3)
Cash flow hedges: gains reclassified to Income Statement	-	-	(1.4)	-	(1.4)	-	(1.4)
Exchange differences on translation of foreign operations	-	-	-	(0.4)	(0.4)	-	(0.4)
Total other comprehensive income	8.3	(28.9)	(3.2)	(0.4)	(24.2)	-	(24.2)
Total comprehensive income for the year	166.5	(28.9)	(3.2)	(0.4)	134.0	-	134.0
Changes in ownership interest:							
Acquisition of non-controlling interests without change in control	(6.7)	-	-	(1.0)	(7.7)	1.0	(6.7)
Balance at 31 December 2017	1,396.4	3.1	0.1	5.2	1,404.8	-	1,404.8

* The Group has adopted IFRS 9 and IFRS 15 with effect from 1 January 2018. Under the transition methods chosen, comparative information is not required to be restated, except for certain hedging requirements that are not relevant to the Group. See note 1b) for further details.

The notes on pages 21 to 51 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 2018

	Notes	**Unaudited 6 months to 30.06.18 £m**	Unaudited 6 months to 30.06.17* £m	Audited 12 months to 31.12.17* £m
Cash flows from operating activities				
Profit before tax		**104.7**	67.0	200.1
Adjustments for:				
Impairment charge / (credit) on loans and advances to customers	7	**1.7**	(4.2)	(4.0)
Loans and advances written off, net of recoveries		**(1.1)**	(1.1)	(2.3)
Impairment losses on liquid assets		**0.1**	-	-
Impairment of goodwill		**1.3**	-	-
Depreciation and amortisation		**10.7**	10.2	21.0
Impairment of property, plant and equipment		**-**	-	0.1
Impairment losses on equity share investments		**-**	0.1	0.1
Dividend income from equity share investments		**-**	(0.6)	(0.6)
Interest on subscribed capital and subordinated liabilities		**2.2**	4.5	6.8
Profit on sale of property, plant and equipment, investment property and intangible assets		**(0.3)**	(1.5)	(1.6)
Profit on treasury assets		**-**	(2.7)	(2.7)
Loss on disposal of mortgage assets		**-**	15.0	15.0
Share of profits from joint ventures		**(0.1)**	(1.0)	(2.0)
Profit on disposal of joint ventures		**-**	(0.9)	(0.9)
Profit on disposal of equity share investments		**-**	-	(38.5)
(Profit) / loss on disposal of subsidiary undertakings		**(2.4)**	3.9	(11.3)
Losses from changes in fair value of cash flow hedges		**(0.5)**	(1.0)	(0.7)
Fair value losses on the equity release portfolio	12	**16.1**	-	-
Remeasurement gains on defined benefit obligations		**2.7**	5.9	10.2
Other non-cash movements		**(1.6)**	(4.2)	(3.2)
		133.5	89.4	185.5
Changes in operating assets and liabilities:				
Movement in prepayments and accrued income		**(2.0)**	(0.6)	(0.7)
Movement in accruals and deferred income		**(24.3)**	(32.5)	(4.2)
Movement in provisions for liabilities		**(1.0)**	3.5	3.7
Movement in fair value of derivatives		**(23.6)**	(67.5)	(71.9)
Movement in fair value adjustments for hedged risk		**0.7**	63.5	59.7
Fair value movements in debt securities	8	**2.7**	9.6	10.5
Movement in loans and advances to customers		**(454.4)**	(893.2)	(1,487.7)
Disposal of mortgage assets		**-**	197.3	197.3
Purchase of mortgage assets		**-**	-	(19.7)
Movement in shares		**484.9**	551.5	888.7
Income Statement (credit) / charge for fair value of subsidiary management incentive scheme liability		**(4.0)**	2.5	9.7
Net movement in amounts owed to credit institutions and other customers		**301.0**	457.1	1,138.6
Net movement in debt securities in issue		**348.6**	202.5	136.7
Net movement in loans and advances to credit institutions		**(100.4)**	21.8	49.5
Net movement in other assets		**31.3**	(12.5)	(4.2)
Net movement in other liabilities		**(46.8)**	54.8	(9.8)
Income taxes paid		**(20.8)**	(20.8)	(41.5)
Net cash flows from operating activities		**625.4**	626.4	1,040.2

* The Group has adopted IFRS 9 and IFRS 15 with effect from 1 January 2018. Under the transition methods chosen, comparative information is not required to be restated, except for certain hedging requirements that are not relevant to the Group. See note 1b) for further details.

Condensed Consolidated Statement of Cash Flows *(continued)*

For the half year ended 30 June 2018

	Notes	**Unaudited 6 months to 30.06.18 £m**	Unaudited 6 months to 30.06.17* £m	Audited 12 months to 31.12.17* £m
Net cash flows from operating activities		**625.4**	626.4	1,040.2
Cash flows from investing activities				
Purchase of debt securities	8	**(628.1)**	(403.4)	(666.5)
Proceeds from disposal of debt securities		**411.8**	581.8	922.9
Purchase of property, plant and equipment and investment property		**(8.2)**	(10.0)	(17.5)
Purchase of intangible assets		**(1.9)**	(3.2)	(6.0)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		**1.2**	3.4	4.8
Dividends received from equity share investments		**-**	0.6	0.6
Exercise of share options in subsidiary management incentive scheme		**(9.8)**	(6.5)	(6.5)
Exercise of put options held by non-controlling shareholders		**(0.2)**	-	-
Proceeds from disposal of equity share investments		**-**	-	40.8
Proceeds from disposal of joint ventures		**-**	1.0	1.0
Dividends received from joint ventures		**1.4**	1.6	1.6
Purchase of subsidiary undertakings, net of cash acquired		**-**	-	(0.6)
Purchase of non-controlling interest		**-**	(6.6)	(6.6)
Contingent consideration received following disposal of subsidiary (net of costs)		**5.3**	-	-
Cash paid on disposal of subsidiary undertaking		**-**	(1.5)	(1.5)
Investment in equity share investments		**(0.4)**	-	(0.1)
Purchase of other business units		**(0.5)**	-	(1.1)
Deferred consideration paid in respect of prior year acquisitions of subsidiary undertakings and business units		**(0.1)**	(0.2)	(1.8)
Net cash flows from investing activities		**(229.5)**	157.0	263.5
Cash flows from financing activities				
Redemption of subordinated liabilities		**-**	(10.0)	(10.0)
Repurchase of subordinated liabilities		**-**	(65.4)	(65.4)
Repurchase of subscribed capital		**-**	(50.0)	(50.0)
Interest paid on subordinated liabilities		**-**	(1.2)	(2.6)
Interest paid on subscribed capital		**(2.2)**	(3.3)	(6.3)
Net cash flows from financing activities		**(2.2)**	(129.9)	(134.3)
Net increase in cash and cash equivalents		**393.7**	653.5	1,169.4
Cash and cash equivalents at 1 January		**2,455.0**	1,285.6	1,285.6
Cash and cash equivalents at end of period		**2,848.7**	1,939.1	2,455.0

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

	Unaudited as at 30.06.18 £m	Unaudited as at 30.06.17* £m	Audited as at 31.12.17* £m
Cash in hand and balances with the Bank of England	**2,833.4**	1,856.6	2,396.9
Mandatory reserve deposit with the Bank of England	**(43.2)**	(25.1)	(26.3)
	2,790.2	1,831.5	2,370.6
Loans and advances to credit institutions	**58.5**	107.6	84.4
Cash and cash equivalents at end of period	**2,848.7**	1,939.1	2,455.0

* The Group has adopted IFRS 9 and IFRS 15 with effect from 1 January 2018. Under the transition methods chosen, comparative information is not required to be restated, except for certain hedging requirements that are not relevant to the Group. See note 1b) for further details.

The notes on pages 21 to 51 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 2018 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 latest annual financial statements for the year ended 31 December 2017.

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 International Financial Reporting Standards (IFRS) as adopted by the EU, with the exception of changes to accounting policies as a result of adopting IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, as outlined below in note 1b).

b) Changes to significant accounting policies

The Group has adopted IFRS 9 and IFRS 15 with effect from 1 January 2018. The effects of initially adopting these standards are outlined below.

IFRS 9

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. It introduces significant changes for the classification and measurement of financial instruments, including a new impairment approach. IFRS 9 also amends other standards dealing with financial instruments, including IFRS 7 *Financial Instruments: Disclosures.*

Impact of initial adoption

The table below summarises the impact, net of tax, of transition to IFRS 9 on the opening position of the Group's general reserve. As permitted by the standard, the Group has not restated comparative information for prior periods with respect to classification and measurement, including impairment requirements. Differences between the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 were recognised in the Group's general reserve at the date of transition. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9.

Unaudited	**Decrease in general reserve on adoption of IFRS 9 at 1 January 2018 £m**
Reclassification of equity release portfolio (note 1)	(37.0)
Impairment losses on loans and advances to customers (note 2)	(1.4)
Impairment losses on liquid assets (note 3)	(0.3)
	(38.7)

Notes

1. For further details on the impact of the reclassification of the equity release portfolio, see pages 23 and 24.
2. For further details on the impact on impairment losses on loans and advances to customers, see pages 24 to 26.
3. For further details on the impact on impairment losses on liquid assets, see pages 24 to 26.

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

1. Introduction *(continued)*

Impact on regulatory capital

The principal impact on the Group's regulatory capital of the transition to IFRS 9 arises from the reclassification of the equity release portfolio.

The table below summarises the impact of the transition to IFRS 9 on 1 January 2018:

Unaudited	31 December 2017 £m	Reclassification and measurement (note 1) £m	Excess expected loss (note 2) £m	Tax £m	**1 January 2018 £m**
Capital resources:					
Common Equity Tier 1 capital	1,283.7	(51.9)	2.5	12.9	**1,247.2**
Tier 1 capital	1,323.7	(51.9)	2.5	12.9	**1,287.2**
Total capital	1,323.7	(51.9)	2.5	12.9	**1,287.2**
Risk weighted assets	3,864.7	(17.5)	-	12.9	**3,860.1**

Capital ratios:	%				**%**
Common Equity Tier 1 ratio (transitional basis)	33.2				**32.3**
Leverage ratio (end-point basis)	6.1				**5.9**

Notes

1. Reclassification and measurement includes a prudential adjustment of £0.4m which relates to a deduction to capital for an Additional Valuation Adjustment ('AVA') on fair value assets. AVA has been applied to prudently provide for the downside of fair value exposures that are intrinsically subjective in nature.
2. Under PRA rules the excess of expected loss, as calculated under the IRB approach, over accounting impairment provisions is deducted from Common Equity Tier 1 (CET 1) capital. As the accounting impairment provision is higher under IFRS 9 than under IAS 39, the difference between this and the total IRB expected loss is lower under IFRS 9 and so the deduction to CET 1 capital for excess expected loss is lower.

Transitional arrangements reduce the impact on the CET 1 ratio of expected credit loss provisions over the period to 31 December 2022. The Group has elected to apply these transitional arrangements from 1 January 2018. The ratios in the table above remain the same when these transitional arrangements are applied.

Classification and measurement

Financial assets

Under IAS 39 financial assets were classified into four categories; available-for-sale, loans and receivables, at fair value through profit or loss and held to maturity. Under IFRS 9 financial assets are classified into the following categories:

Amortised cost

A financial asset is measured at amortised cost only if it meets both of the following conditions and is not designated as at fair value through profit or loss (FVTPL):

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair value through other comprehensive income (FVOCI)

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. The Group has not designated any of its existing equity investments as at FVOCI.

Fair value through profit or loss (FVTPL)

All financial assets which are not classified as either amortised cost or FVOCI, as described above, are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

1. Introduction *(continued)*

Details of the how the adoption of IFRS 9 impacts the classification of the Group's financial assets are set out below.

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes in liabilities designated as at FVTPL were recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- The remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities as at FVTPL and the adoption of IFRS 9 has no impact regarding the classification of the Group's financial liabilities.

The original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018 are shown below. The accompanying notes to the table explain how the application of the new classification requirements under IFRS 9 has led to changes in classification of certain financial assets. There are no changes to the classification and measurement of financial liabilities.

Unaudited	IAS 39 classification	IFRS 9 classification	Carrying amount under IAS 39 £m	Carrying amount under IFRS 9 £m
Cash in hand and balances with the Bank of England (note 1)	Loans and receivables	Amortised cost	2,396.9	2,396.7
Loans and advances to credit institutions (note 1)	Loans and receivables	Amortised cost	345.3	345.2
Debt securities (notes 1 and 2)	Loans and receivables	Amortised cost	1.7	1.7
Debt securities (note 2)	Available-for-sale	FVOCI	789.4	789.4
Derivative financial instruments	FVTPL	FVTPL	94.2	94.2
Loans and advances to customers (excluding the equity release portfolio) (note 1)	Loans and receivables	Amortised cost	16,496.5	16,494.9
Equity release portfolio (note 3)	Loans and receivables	FVTPL	501.9	426.6
Equity release portfolio (no negative equity guarantee) (note 3)	FVTPL	N/A	(25.7)	-
Equity share investments (note 4)	Available-for-sale	FVTPL	0.4	0.4
Trade receivables (note 1)	Loans and receivables	Amortised cost	30.8	30.8
Contingent consideration (note 5)	Loans and receivables	FVTPL	25.1	25.1
Total financial assets			**20,656.5**	**20,605.0**

Notes

1. Financial assets that were previously classified as loans and receivables and are now classified as amortised cost under IFRS 9 are initially recognised and subsequently measured using the same methods of accounting as they were under IAS 39, except that IFRS 9 introduces new impairment requirements. For further details see pages 28 to 30.
2. The Group's debt securities include an investment in permanent interest bearing shares in another financial institution, which was previously classified as loans and receivables under IAS 39 and which meets the criteria to be classified as amortised cost under IFRS 9 (see page 22). The remaining debt securities held by the Group are classified as FVOCI; further details of the conditions that must be met to be classified as such are found on page 22.
3. The £501.9m balance of the equity release portfolio at 31 December 2017 in the table above includes a £222.9m fair value adjustment for hedged risk. Under IAS 39, the loan balances of the equity release portfolio were held at amortised cost and included within loans and advances to customers. The no negative equity guarantee, an embedded derivative, was bifurcated and held at fair value. Under IFRS 9 the equity release book and the no negative equity guarantee are no longer measured separately but instead the hybrid financial instrument as a whole is assessed for classification and has been classified as FVTPL. For further details on how the Group has assessed the classification of the equity release portfolio see page 24; for further details on the key assumptions used in arriving at the fair value of this portfolio see page 32.
4. The equity share investments held by the Group at 1 January 2018 have been reclassified from available-for-sale to FVTPL. For further details see page 27.
5. The contingent consideration asset held by the Group at 1 January 2018 has been reclassified from loans and receivables to FVTPL. For further details see page 24.

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

1. Introduction *(continued)*

Reconciliation of carrying value of financial assets from IAS 39 to IFRS 9

The following table reconciles the carrying amount of financial assets from their previous measurement category in accordance with IAS 39 to their new measurement category upon transition to IFRS 9 on 1 January 2018.

Unaudited	IAS 39 carrying amount at 31 December 2017 £m	Reclassifications £m	Impairment £m	IFRS 9 carrying amount at 1 January 2018 £m
Cash in hand and balances with the Bank of England (note 1)	2,396.9	-	(0.2)	**2,396.7**
Loans and advances to credit institutions (note 1)	345.3	-	(0.1)	**345.2**
Debt securities (notes 1 and 2)	791.1	-	-	**791.1**
Derivative financial instruments	94.2	-	-	**94.2**
Loans and advances to customers (excluding equity release portfolio) (note 3)	16,496.5	-	(1.6)	**16,494.9**
Equity release portfolio (note 4)	476.2	(75.3)	25.7	**426.6**
Equity share investments	0.4	-	-	**0.4**
Trade receivables (note 5)	30.8	-	-	**30.8**
Contingent consideration (note 6)	25.1	-	-	**25.1**
	20,656.5	**(75.3)**	**23.8**	**20,605.0**

Notes

1. Further details of the impact of adopting IFRS 9 on impairment held against the Group's liquid assets are found on pages 25 and 26.
2. Under IFRS 9 impairment loss allowances on debt securities held at FVOCI do not result in an adjustment to the carrying value of the asset as detailed on page 26. The impairment loss allowance recognised in respect of debt securities held at FVOCI at 1 January 2018 as a result of adopting IFRS 9 was £0.1m, as outlined on page 25.
3. Further details of the impact of adopting IFRS 9 on impairment held against the Group's loans and advances to customers are found on pages 25 and 26.
4. The Group has assessed the characteristics of the equity release cash flows and concluded that the contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest. As a result, the equity release portfolio does not meet the conditions under IFRS 9 to be held at amortised cost or FVOCI (as outlined on page 22) and is therefore classified as FVTPL. The key estimates and judgements incorporated into the fair valuation of the equity release portfolio include the amount and timing of future cash flows arising from customer redemptions, the level of interest accruing to the point of redemption, future house price movements and the use of an appropriate discount factor. The impact of this reclassification on the Group's reserves at 1 January 2018 is a reduction in reserves of £37.0m (net of a £12.6m taxation credit).
   There are three key drivers behind this movement in reserves. The first is the Group's assessment of the illiquidity premium to be incorporated into the rate at which cash flows are discounted to present value in order to obtain a fair value for the portfolio. When the Group initially acquired the equity release portfolio, on merger with Scarborough Building Society in 2009, the fair value of the portfolio was assessed in accordance with IFRS 3 *Business Combinations* and was subsequently held at amortised cost; this initial fair value was then used to assess the liquidity premium inherent within this closed portfolio. This has resulted in a fair value that is lower than the carrying value as at 31 December 2017, resulting in a reduction in carrying value on adoption of IFRS 9. The second key driver is that hedge accounting is no longer applied to the equity release portfolio as it is fair valued under IFRS 9, resulting in a further reduction in carrying value following a reversal of the fair value adjustment for hedged risk held in relation to the equity release portfolio at 31 December 2017. The third driver is a change in methodology for valuing the no negative equity guarantee (NNEG). Under IAS 39 the NNEG was treated as an embedded derivative and was fair valued separately from the rest of the portfolio and presented as an impairment provision on loans and advances to customers. Under IFRS 9 the whole portfolio is fair valued and the NNEG is not bifurcated, resulting in a reversal of the £25.7m impairment provision held within impairment losses on loans and advances to customers at 31 December 2017.
5. The impairment provision on the Group's trade receivables at 1 January 2018 calculated under IFRS 9 was not materially different to the impairment provision held under IAS 39 at 31 December 2017 and so there was no impact on the carrying value of the Group's trade receivables as a result of adopting IFRS 9.
6. The Group has assessed the characteristics of the contingent consideration cash flows and concluded that, based on the facts and circumstances that existed at initial recognition of the asset, the contractual terms give rise to cash flows that are not solely payments of principal and interest. As a result, the contingent consideration asset does not meet the conditions under IFRS 9 to be held at amortised cost or FVOCI (as outlined on page 22) and is therefore classified as FVTPL. There was no impact on the carrying amount of this asset at 1 January 2018 as a result of this reclassification. Further details are found on page 27.

1. Introduction *(continued)*

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This new impairment model applies to financial assets measured at either amortised cost or FVOCI (except equity share investments).

IFRS 9 requires an impairment loss allowance to be recognised at an amount equal to either 12-month ECLs ('stage 1' ECLs) or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are ECLs that result from default events that are possible within the 12 months after the reporting date. 'Stage 2' ECLs are lifetime ECLs that are recognised where there has been a significant increase in credit risk of the financial instrument (see pages 28 and 29) and 'stage 3' ECLs are lifetime ECLs that are recognised where the financial instrument is considered to be credit impaired (see page 29).

The Group has updated its accounting policies for impairment of financial assets following the adoption of IFRS 9, further details of which can be found on pages 28 to 30. The new ECL model involves a number of factors that require significant estimation and assumptions, further details of which can be found on pages 31 and 32.

The following table shows the impairment loss provision at 31 December 2017 measured in accordance with IAS 39 and the impairment loss allowance at 1 January 2018 measured in accordance with IFRS 9.

Unaudited	**IAS 39 impairment loss provision at 31 December 2017 £m**	**IFRS 9 impairment loss allowance at 1 January 2018 £m**
Cash in hand and balances with the Bank of England	-	0.2
Loans and advances to credit institutions	-	0.1
Debt securities	-	0.1
Loans and advances to customers held at amortised cost	16.1	17.7
Equity release portfolio held at FVTPL (note 1)	25.7	-
Trade receivables	1.7	1.7
	43.5	**19.8**

Note

1. As outlined on page 24, the Group's equity release portfolio was reclassified as FVTPL on adoption of IFRS 9. As a result, the impairment provision which was previously recognised under IAS 39 in relation to the portfolio's 'no negative equity guarantee' is no longer required under IFRS 9.

The following table reconciles the prior period's closing impairment loss provision under IAS 39 to the impairment loss allowance under IFRS 9 at 1 January 2018.

Unaudited	**Loans and receivables (IAS 39) / Amortised cost (IFRS 9)**	**Available-for-sale assets (IAS 39) / FVOCI (IFRS 9)**	**Total £m**
Total impairment loss provision under IAS 39 at 31 December 2017	43.5	-	**43.5**
Reclassification of assets on adoption of IFRS 9 (note 1)	(25.7)	-	**(25.7)**
12-month ECLs against exposures that did not carry an individual provision under IAS 39 and have not suffered significant increase in credit risk since origination or acquisition (note 2)	(0.1)	0.1	**-**
Lifetime ECLs against exposures that did not carry an individual provision under IAS 39 but have suffered significant increase in credit risk since origination or acquisition (note 3)	2.4	-	**2.4**
Differences in the basis of calculation between IAS 39 incurred losses and IFRS 9 ECLs for assets held as credit-impaired under IAS 39 (note 4)	0.2	-	**0.2**
Impact of multiple forecast economic scenarios (note 5)	1.1	-	**1.1**
Commercial loan individual impairment (note 6)	(1.7)	-	**(1.7)**
Total impairment loss allowance under IFRS 9 at 1 January 2018	**19.7**	**0.1**	**19.8**

Notes

1. As outlined on page 24, the Group's equity release portfolio was reclassified as FVTPL on adoption of IFRS 9. As a result, the impairment provision which was previously recognised under IAS 39 in relation to the portfolio's 'no negative equity guarantee' is no longer required under IFRS 9.

1. Introduction *(continued)*

2. The net movement of £nil includes an increase of £0.4m in impairment held against liquid assets. It also includes a decrease of £0.4m in impairment held against loans and advances to customers as a result of replacing the previous collective provision (IAS 39) with 12-month ECLs (IFRS 9). For further details on the Group's accounting policies for recognising ECLs on loans and advances to customers, see pages 28 to 30.
3. The net increase of £2.4m comprises an increase of £0.5m in respect of the Group's commercial loan portfolio and an increase of £1.9m in respect of the Group's residential mortgage portfolio.
4. The net increase of £0.2m includes a £0.3m decrease in respect of the Group's commercial loan portfolio and a £0.5m increase in respect of the Group's residential mortgage portfolio.
5. Under IFRS 9 the measurement of ECLs requires the Group to consider forward-looking information, including a range of possible economic outcomes (as outlined on page 28). This resulted in an additional £1.1m of impairment against the Group's loans and advances to customers, £0.7m of which relates to the Group's commercial loan portfolio and £0.4m of which relates to the Group's residential mortgage portfolio.
6. Under IAS 39 the Group recognised individual impairment for commercial loans that were on a 'watchlist' due, for example, to known financial difficulties of the borrower. Where it was not possible to specifically determine the amount ultimately likely to be received, assumptions were used based on available information and management judgement. With effect from 1 January 2018, commercial loan impairment is based on a new IFRS 9 compliant model.

Hedge accounting

The Group has elected to adopt the new hedge accounting requirements of IFRS 9 from 1 January 2018 to all hedge relationships covered by these requirements. For macro fair value hedging relationships, the requirements of IAS 39 have been carried forward into IFRS 9 and continue to be applied. IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

In accordance with IFRS 9, the new hedge accounting requirements are applied prospectively from the initial application date (except as noted below regarding the accounting for certain costs of hedging). The types of hedge accounting relationship that the Group currently designates meet the requirements of IFRS 9 and are aligned with the Group's risk management objectives and strategy. The Group has enhanced its hedging documentation procedures in line with the requirements of IFRS 9.

In accordance with IFRS 9, new requirements relating to the accounting for certain items as a cost of hedging are required to be applied retrospectively and the costs recognised directly in reserves; the Group has assessed that, as at 1 January 2018, no hedge accounting relationships existed that would result in any such hedging costs being recognised directly in reserves and therefore there is no impact on the Group's reserves as at 1 January 2018.

Significant accounting policies

Details of the Group's significant new accounting policies as a result of adopting IFRS 9 are set out below.

Financial assets

The financial assets of the Group are classified into the following three categories:

Amortised cost

The Group's loans and advances to customers (excluding the equity release portfolio), cash balances, loans and advances to credit institutions, trade receivables and certain debt securities are measured at amortised cost, using the effective interest method. The effective interest method implies an interest rate which exactly discounts the forecast cash flows of an asset over its expected life back to its carrying value.

The Group's financial assets measured at amortised cost are initially recognised at fair value less any directly attributable transaction costs. The Group's accounting policies relating to subsequent measurement of financial assets measured at amortised cost remain unchanged under IFRS 9, except for changes relating to the impairment requirements of IFRS 9 (see pages 28 to 30).

Fair value through other comprehensive income (FVOCI)

The majority of the Group's debt securities are held as FVOCI following the adoption of IFRS 9.

The initial recognition and subsequent measurement of debt securities held as FVOCI, including the recognition of interest income and profits or losses recognised on disposal, remain the same as was applied when the assets were classified as available-for-sale assets under IAS 39, with the exception of the recognition and measurement of impairment losses.

IFRS 9 requires the calculation of an impairment loss allowance based on expected credit losses (ECLs; see page 28 for details on measurement of ECLs). For financial assets measured at FVOCI, the impairment loss allowance is not deducted from the carrying amount of the asset; instead the loss allowance is recognised through other comprehensive income. The impairment for the period is charged or credited to the Income Statement in the usual way.

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

1. Introduction *(continued)*

Fair value through profit or loss

Equity release portfolio

The Group has assessed the characteristics of the equity release cash flows and considers that the contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest, as is required under IFRS 9 to be classified as amortised cost or FVOCI. As a result, the equity release portfolio is classified as FVTPL under IFRS 9. Due to the structured nature of the portfolio there is no single industry pricing methodology and assumptions for valuing these products differ by institution. Further complexity arises on a portion of the portfolio due to the customer rate being linked to the Retail Price Index (RPI).

A stochastic model was chosen and devised internally for the purpose of this valuation as this type of model is regarded as more robust than other modelling techniques such as Black Scholes. The model uses inputs including mortality rates, voluntary prepayment rates, estimates of future RPI and the House Price Index (HPI) to predict future cash flows on the portfolio. These are then discounted back to present value using a discount curve based on a Sterling Overnight Index Average (SONIA) index plus an illiquidity spread. The latter represents the significant element of illiquidity within these products as no repayments are made by the customer until the product redeems.

Where possible the inputs are market-driven or, where no market-driven data is available, based on management judgement. Due to the high level of variability within these inputs, the model also runs several thousand scenarios for both the RPI and HPI inputs.

As this valuation technique uses one or more significant inputs that are not based on observable market data, it is classed as a Level 3 valuation technique. For further details on the different levels of the fair value hierarchy, see note 17b). The impact of applying reasonably possible alternative assumptions of certain inputs into the valuation of the portfolio is found on page 32.

Derivative financial instruments

The Group's derivative financial instruments, which are held solely for hedging purposes, are measured at FVTPL. As discussed on page 26, the Group has elected to adopt the hedge accounting requirements of IFRS 9. For derivatives designated in a macro fair value hedge, the requirements of IAS 39 have been carried over and continue to apply under IFRS 9. For all other derivatives designated in a hedging relationship, the Group has adopted the new requirements of IFRS 9.

All hedging relationships designated under IAS 39 at 31 December 2017, with the exception of the derivatives held to hedge the equity release portfolio as outlined below, met the criteria for hedge accounting under IFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships.

A further change to the Group's hedge accounting policies as a result of adopting IFRS 9 relates to the Group's equity release portfolio. As discussed on page 24, the Group's equity release mortgage portfolio is reclassified as FVTPL under IFRS 9. As a consequence of this reclassification, the associated derivatives which are held to economically hedge the equity release portfolio, and which continue to be held at FVTPL under IFRS 9, no longer qualify to be designated in a hedge relationship for accounting purposes. The changes in fair value of both the equity release portfolio and the associated derivatives are recognised in the Income Statement creating a partially offsetting effect. This offsetting is not perfect due to differing characteristics of the instruments and differing valuation requirements.

Equity share investments

An equity share investment is an investment in the share capital of a company where the Group does not have significant influence. Previously under IAS 39 equity share investments were accounted for as available-for-sale financial assets.

Under IFRS 9 equity share investments are measured at FVTPL, except where an election is made at initial recognition to irrevocably designate an equity share investment as FVOCI. The FVOCI election can be made on an instrument-by-instrument basis; all of the equity share investments held by the Group at 1 January 2018 and 30 June 2018 are held at FVTPL and initially recognised at fair value plus directly attributable transaction costs, with subsequent changes in their fair value from 1 January 2018 recognised in the Income Statement.

Contingent consideration

The Group has assessed the characteristics of the contingent consideration cash flows and concluded that, based on the facts and circumstances that existed at initial recognition of the asset, the contractual terms give rise to cash flows that are not solely payments of principal and interest. As outlined on page 24, the contingent consideration asset is therefore classified as FVTPL. The fair value of this asset is determined by calculating the present value of the expected cash flows, discounted at an appropriate rate.

1. Introduction *(continued)*

Impairment of financial assets

The Group recognises impairment loss allowances for ECLs on the following financial assets that are not measured at FVTPL:

- loans and advances to customers;
- loan commitments; and
- treasury assets, which comprise debt securities held at amortised cost, debt securities held at FVOCI, cash in hand and balances with the Bank of England and loans and advances to credit institutions.

Measurement of ECLs

ECLs are an unbiased probability-weighted estimate of the present value of credit losses, taking account of forward-looking information that includes a range of possible economic outcomes. ECLs are measured as the difference between contractual cash flows and expected cash flows, discounted at the asset's effective interest rate.

The Group measures impairment loss allowances at an amount equal to lifetime ECLs, except for the following which are measured as 12-month ECLs:

- treasury assets that are determined to have low credit risk at the reporting date. The Group considers a treasury asset to have low credit risk when its credit rating is equivalent to the globally understood definition of 'investment grade'; and
- other financial assets on which credit risk has not increased significantly since their initial recognition (except trade receivables, for which the Group will always recognise lifetime ECLs in accordance with the simplified approach in IFRS 9).

Lifetime ECLs are required where the credit risk on a financial asset has increased significantly since initial recognition (except for investment grade treasury assets, as noted above). Further details of what constitutes a significant increase in credit risk are provided below.

For loan commitments where a firm offer has been made, ECLs are measured at 12-month losses as modified for the percentage of such commitments expected to complete.

The assessment of impairment requires a number of estimates and assumptions, the details of which are included in note 1c). The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Significant increase in credit risk

The Group monitors all financial assets and loan commitments that are subject to IFRS 9's impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition of the asset.

The Group uses internal credit risk metrics that reflect its assessment of the probability of default (PD) of individual counterparties. The credit risk of each exposure is assessed at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk assessment is updated to reflect current information.

When determining whether the credit risk (i.e. risk of default) on a financial asset has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information, analysis based on the Group's historical experience, expert credit assessment and forward-looking information. The Group primarily identifies whether a significant increase in credit risk has occurred for an asset by comparing:

- the remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the asset.

For residential mortgages, the Group considers that credit risk has significantly increased if one of the following criteria are met:

- the remaining lifetime PD as at the reporting date is higher than the initial estimate for this point in time, and the extent of the increase exceeds the relevant multiplier threshold:

Lifetime PD band at initial recognition	Multiple by which remaining lifetime PD has increased compared to initial estimate
Low risk	initial estimate x 14
Medium risk	initial estimate x 5
High risk	initial estimate x 2.5

- the borrower meets one or more of the following criteria:
    - the account is in a current state of forbearance (see page 30);
    - the account is in arrears; or
    - the account term has expired.

1. Introduction *(continued)*

For commercial mortgages, the Group considers that credit risk has significantly increased when an account is placed on a watchlist and managed individually.

As a backstop, for residential and commercial mortgages the Group considers that credit risk has significantly increased if the borrower is more than 30 days past due on their contractual payments.

For treasury assets, the Group applies criteria that consider the relative increase in lifetime PD, by reference to external ratings where available. The Group considers that credit risk has not increased significantly if the treasury asset is determined to have 'low' credit risk at the reporting date. The Group considers a treasury asset to have low credit risk when its credit rating is equivalent to the globally understood definition of 'investment grade'.

Definition of default

For residential mortgages, the Group's definition of default is fully aligned with its existing internal ratings based (IRB) definition of default for regulatory capital purposes. Default occurs when one or more of the following criteria are met:

- The borrower is 90 days or more past due on their contractual payments.
- The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. The instances are:
    - the loan is in repossession;
    - the borrower has filed for bankruptcy;
    - more than two payments are in arrears and forbearance activity has been applied; or
    - provisions are held for specific circumstances.

For commercial mortgages, default occurs when one or more of the following criteria are met:

- The borrower is 90 days or more past due on their contractual payments;
- the loan is in repossession;
- a receiver has been appointed;
- the mortgage term has expired; or
- other evidence is available that the customer is not going to be able to meet their loan commitments.

Inputs into the assessment of whether a financial asset is in default and their significance may vary over time to reflect changes in circumstances. The definition of default is used in measuring the amount of ECLs and in the determination of whether the impairment loss allowance is based on 12-month or lifetime ECLs, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets (other than those held at FVTPL) are credit-impaired. For those assets that have become credit-impaired, interest revenue is subsequently calculated by applying the effective interest rate to the amortised cost of the asset.

A financial asset is 'credit-impaired' when one or more events have occurred that have a detrimental impact on the estimated future cash flows of the financial asset. Evidence that a financial asset is credit-impaired includes the following:

- a breach of contract such as a default;
- forbearance activity; or
- the disappearance of an active market for a security because of financial difficulties.

For residential and commercial mortgages, the Group considers that a loan that meets the definition of default is credit-impaired. As a backstop, a loan is considered credit-impaired if the borrower is 90 days or more past due on their contractual payments. For forborne loans to no longer be considered credit-impaired, consistently good repayments must be demonstrated over a period of time.

To assess whether sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

Modification and derecognition of financial assets

Derecognition

The Group derecognises a financial asset when the contractual rights to receive the asset's cash flows expire (including deemed expiry arising from a modification with substantially different terms as discussed below), or when the contractual rights have been transferred and either i) the Group transfers substantially all the risks and rewards of ownership, or ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of i) the consideration received (including any new asset obtained less any new liability assumed) and ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

1. Introduction *(continued)*

Modification

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new cash flows are substantially different to the original cash flows. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (as discussed above) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Forbearance

In certain circumstances, the Group renegotiates loans to customers in financial difficulties (referred to as forbearance activities) to maximise collection opportunities and minimise the risk of default whilst ensuring the best outcome for the customer. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the customer is currently in default on their debt or if there is a high risk of default, there is evidence that the customer made all reasonable efforts to pay under the original contractual terms and the customer is expected to be able to meet the revised terms.

The revised terms typically include extending the maturity of the loan, changing the timing of interest payments or amending the terms of loan covenants. Both retail and commercial loans are subject to the forbearance policy. The Retail Credit Committee regularly reviews reports on forbearance activities.

For the purposes of disclosures in these financial statements, loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider.

Write-off

Where the Group judges there to be no reasonable expectation that the asset can be recovered, the related impairment loss allowance is written off once all the necessary procedures have been completed and the amount of the loss has been determined. Financial assets that are written off could still be subject to enforcement activities and subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Income Statement.

IFRS 15

IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces previous revenue recognition requirements, including IAS 18 *Revenue.* The Group has adopted IFRS 15 using the cumulative effect method, i.e. the impact of initially applying IFRS 15 was recognised on 1 January 2018 and therefore the financial information presented for the six months ended 30 June 2017 and for the year ended 31 December 2017 has not been restated.

The Group has assessed the impact of IFRS 15 application on its consolidated financial statements, the results of which are summarised below.

Financial advice fees and commissions

The Group has performed a detailed assessment of the impact of IFRS 15 for each of the financial advice services offered by the Group. Based on its assessment, the Group has concluded that the application of IFRS 15 has not resulted in significant changes to its existing revenue recognition practices for financial advice services.

Estate agency services

Revenue from estate agency services includes estate agency commissions, property management income, insurance commissions and survey and valuation income. The Group has performed a detailed assessment of the impact of IFRS 15 application for each estate agency income stream. Based on its assessment, the Group has concluded that the application of IFRS 15 has not resulted in a significant change to its existing policies for the timing or measurement of revenue from estate agency services.

Software products and services

The Group has assessed the impact of IFRS 15 for each of the products and services offered by the Jade group of companies. The Group identified a limited number of situations where the requirements of IFRS 15 resulted in an amendment to existing revenue recognition practices; however these changes are not considered significant.

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

1. Introduction *(continued)*

Invoice discounting and debt factoring services

Income from invoice discounting and debt factoring services includes interest receivable and service charges. The Group has performed a detailed assessment of the impact of IFRS 15 for this service charge income. Based on its assessment, the Group has concluded that the application of IFRS 15 has not resulted in a significant change to its existing revenue recognition practices for this income.

There is no material financial impact on these condensed consolidated financial statements as a result of adopting IFRS 15 and therefore there is no adjustment to opening reserves at 1 January 2018.

c) Critical accounting estimates and judgements in applying accounting policies

Note 1s) to the 2017 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.

The changes to critical estimates and assumptions used by the Group as a result of adopting IFRS 9, that have an effect on the reported amounts of assets and liabilities, are outlined below.

Impairment of mortgage loans and advances

The estimation of credit exposures for risk management purposes is complex and requires the use of models, a number of inputs into which are sources of estimation and require the Group to apply judgement. Key sources of estimation and judgement the Group uses to measure credit risk include PD, Exposure at Default (ED) and Loss Given Default (LGD).

Credit risk information is based on a range of qualitative and quantitative data considered to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis.

The following data is typically used to monitor the Group's exposure to credit risk:

- Payment record, including payment ageing analysis;
- Forbearance activity;
- Changes in business, financial and economic conditions;
- Credit reference information supplied by external agencies; and
- Internally generated data of customer behaviour, affordability metrics etc.

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of ECLs. The Group determines a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The 'base case' represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. A representative range of alternative economic scenarios is also developed and relative weightings are assigned to each scenario.

The key economic variables considered by the Group when developing the forecast scenarios include:

- Interest rates;
- Unemployment;
- Retail Price Index;
- House price inflation; and
- Commercial property price growth.

1. Introduction *(continued)*

The following table outlines the impact on the impairment loss allowance for the residential loan portfolio of reasonably possible alternative assumptions of certain estimates used in calculating the ECLs. Each sensitivity considers one change in isolation and the combined impact on the impairment loss allowance of all sensitivities occurring would not necessarily be the sum of the impact of the individual sensitivities.

Assumption	Change to current assumption	Increase / (decrease) in impairment loss allowance at 30 June 2018 Unaudited £m
Downturn scenario weighting (note 1)	Absolute increase of 10%	0.5
Significant increase in credit risk criteria (note 2)	Relative reduction of 25%	0.1
Forecast change in property values	+ / - 0.5% p.a.	(0.3) / 0.7

Notes

1. As outlined on page 28 the Group incorporates into its measurement of ECLs multiple economic scenarios representing a 'base case' view together with a range of more optimistic and / or pessimistic economic outcomes, and relative weightings are assigned to each scenario. This sensitivity shows the impact of an increase of 10% to the probability weighting assigned to the downturn scenario.
2. As outlined on page 28 and 29 the assessment of whether credit risk has significantly increased since initial recognition is based on the degree by which the remaining lifetime PD at the reporting date has increased compared to initial estimates. This sensitivity shows the impact of reducing each multiplier threshold by 25%.

The following table outlines the impact on the impairment loss allowance for the commercial loan portfolio of reasonably possible alternative assumptions of certain estimates used in calculating the ECLs. Each sensitivity considers one change in isolation and the combined impact on the impairment loss allowance of all sensitivities occurring would not necessarily be the sum of the impact of the individual sensitivities.

Assumption	Change to current assumption	Increase / (decrease) in impairment loss allowance at 30 June 2018 Unaudited £m
Downturn scenario weighting	Absolute increase of 10%	0.5
Forecast change in property values	+ / - 0.5% p.a.	(0.1) / 0.1

Valuation of equity release portfolio

The valuation of the equity release portfolio relies on the calculation of future cash flows. The size and timing of these can vary depending on a number of different factors. These factors include future expected house prices, future expected inflation, mortality rates, estimated redemption profiles (arising due to voluntary redemption or a move to long term care) and the level of dilapidation of individual properties on resale.

The following table outlines the impact of reasonably possible alternative assumptions of key inputs which rely on management judgement and are not market observable. Each sensitivity considers one change in isolation and the combined impact on the valuation of the portfolio of all sensitivities occurring would not necessarily be the sum of the impact of the individual sensitivities.

Assumption	Change to current assumption	(Decrease) / increase in fair value at 30 June 2018 Unaudited £m
Redemption rates	+ / - 1% p.a.	(12.8) / 14.5
Discount rate	+ / - 0.2%	(11.1) / 11.5
HPI forecast	+ / - 0.5% p.a.	9.6 / (11.5)
Impact of property dilapidations	+ / - 5%	(7.2) / 6.0
HPI volatility	+ / - 3% p.a.	(4.6) / 4.3

The Group uses market-implied RPI swap prices to construct a forward looking inflation curve in order to forecast future expected cashflows receivable from the portfolio. The model used to value the portfolio incorporates multiple scenarios for both HPI and RPI in order to take account of the uncertainty and volatility of future HPI and RPI rates. The range of multiple scenarios used is based on management judgement and so is not market observable. The Group has robust control procedures in place regarding the inputs to the valuation that are based on management judgement.

For each of the above sensitivities, there would be a corresponding charge / credit to the Income Statement within the 'Fair value losses on equity release portfolio' line arising from the decrease / increase in the fair value of the portfolio.

The Group holds derivative financial instruments to hedge the movements in the equity release portfolio, which offsets to some extent the movements in the valuation of the portfolio, further details of which are found on pages 47 and 48.

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

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 13.

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 2017 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 2022. 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.

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 2017 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 2017 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 2018 was approved by the Board of Directors on 31 July 2018.

3. Interest receivable and similar income

	Unaudited 6 months to 30.06.18 £m	Unaudited 6 months to 30.06.17 £m	Audited 12 months to 31.12.17 £m
On financial assets measured at amortised cost:			
On loans fully secured on residential property (note 1)	**218.2**	222.6	445.6
On other loans and advances	**8.5**	5.3	10.7
On debt securities	**0.1**	0.1	0.2
On other liquid assets	**7.9**	2.0	6.0
	234.7	230.0	462.5
On financial assets at fair value through other comprehensive income:			
On debt securities	**5.3**	-	-
	5.3	-	-
On available-for-sale financial assets:			
On debt securities	**-**	5.3	10.0
	-	5.3	10.0
On financial assets at fair value through profit or loss:			
On equity release loans (note 1)	**8.6**	-	-
Net expense on derivative financial instruments held for hedging assets	**(20.4)**	(40.4)	(72.5)
	(11.8)	(40.4)	(72.5)
	228.2	194.9	400.0

Note

1. The equity release portfolio was reclassified from financial assets measured at amortised cost to financial assets held at FVTPL on adoption of IFRS 9 on 1 January 2018. As permitted by IFRS 9, the comparative figures have not been restated. Further details are found in note 1b).

Included within interest receivable and similar income is £234.7m (six months ended 30 June 2017: £230.0m; year ended 31 December 2017: £462.5m) of income from financial assets measured using the effective interest rate method.

4. Interest payable and similar charges

	Unaudited 6 months to 30.06.18 £m	Unaudited 6 months to 30.06.17 £m	Audited 12 months to 31.12.17 £m
On financial liabilities measured at amortised cost:			
On shares held by individuals	**94.2**	86.5	174.0
On shares held by others	**0.5**	0.5	1.2
On subscribed capital	**2.2**	3.3	5.6
On deposits and other borrowings:			
Subordinated liabilities	**-**	1.2	1.2
Wholesale and other funding	**14.7**	11.4	25.9
	111.6	102.9	207.9
On financial liabilities at fair value through profit or loss:			
Finance charge on unwind of put option liability	**-**	-	0.1
Net income on derivative financial instruments held for hedging liabilities	**(5.1)**	(15.8)	(28.6)
	106.5	87.1	179.4

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

5. Fees and commissions receivable

	Unaudited 6 months to 30.06.18				
	Products and services transferred at a point in time	**Products and services transferred over time**	**Total**	Unaudited 6 months to 30.06.17	Audited 12 months to 31.12.17
	£m	**£m**	**£m**	£m	£m
Mortgage origination fees	19.0	5.8	**24.8**	17.0	36.9
Other mortgage related fees	0.8	-	**0.8**	1.0	1.9
General insurance fees	21.0	0.2	**21.2**	25.5	51.0
Commissions earned on property sales	74.5	0.2	**74.7**	77.9	163.8
Commissions earned on property lettings	32.1	-	**32.1**	30.2	60.3
Survey and valuation fees	29.6	-	**29.6**	28.6	59.5
Asset management commission	2.8	0.1	**2.9**	2.9	5.9
Conveyancing fees	14.6	-	**14.6**	14.5	31.2
Financial advice fees	15.8	-	**15.8**	15.7	31.6
Software and consultancy fees	0.1	9.8	**9.9**	11.0	20.7
Factoring and invoice discounting services	1.4	-	**1.4**	4.1	9.1
Other fees and commissions	3.4	0.8	**4.2**	2.2	6.0
	215.1	**16.9**	**232.0**	230.6	477.9

6. Administrative expenses

	Unaudited 6 months to 30.06.18	Unaudited 6 months to 30.06.17	Audited 12 months to 31.12.17
	£m	£m	£m
Employee costs:			
Wages and salaries	**155.9**	150.7	311.2
Social security costs	**15.1**	14.7	29.9
Pension costs:			
Defined contribution arrangements	**4.7**	4.5	8.3
	175.7	169.9	349.4
Other administrative expenses	**74.0**	84.0	173.7
	249.7	253.9	523.1

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

7. Impairment on loans and advances to customers

	Unaudited 30.06.18 £m	Unaudited 30.06.17 £m	Audited 31.12.17 £m
Charge / (credit) during the period:			
Loans fully secured on residential property	**1.9**	(0.9)	(1.3)
Loans fully secured on land	**(0.2)**	(0.3)	(1.1)
Other loans and advances	**-**	0.1	0.2
Fair value movements of embedded derivatives on equity release loans (note 1)	**-**	(3.1)	(1.8)
	1.7	(4.2)	(4.0)
Impairment provision at the end of the period:			
Loans fully secured on residential property	**10.8**	8.7	7.3
Loans fully secured on land	**6.7**	8.9	8.0
Other loans and advances	**0.8**	0.7	0.8
Fair value of embedded derivatives on equity release loans (note 1)	**-**	24.5	25.7
	18.3	42.8	41.8

Note

1. For the comparative periods ended 30 June 2017 and 31 December 2017 the no negative equity guarantee provided to equity release customers was accounted for as an embedded derivative with fair value movements presented as impairment losses on loans and advances to customers. Following adoption of IFRS 9 on 1 January 2018, the equity release portfolio was reclassified as a financial asset held at FVTPL and as such the no negative equity guarantee is no longer bifurcated from the equity release portfolio and treated as an embedded derivative. The fair value of the no negative equity guarantee is now included in the overall valuation of the equity release portfolio and is not included within impairment losses on loans and advances to customers. As permitted by IFRS 9, the comparative figures have not been restated. Further details are found in note 1b).

8. Debt securities

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

	Unaudited as at 30.06.18 £m	Unaudited as at 30.06.17 £m	Audited as at 31.12.17 £m
At 1 January	**791.1**	1,055.1	1,055.1
Additions	**628.1**	403.4	666.5
Disposals	**(411.8)**	(578.9)	(920.0)
Changes in fair value	**(2.7)**	(9.6)	(10.5)
At end of period	**1,004.7**	870.0	791.1

Impairment loss allowances on debt securities held at FVOCI are charged to the Income Statement but, in line with the requirements of IFRS 9, do not reduce the carrying value of the assets. The amount of impairment loss allowance charged to the Income Statement in respect of debt securities held at FVOCI, measured on an ECL basis, for the period ended 30 June 2018 was £0.1m.

9. Provisions for liabilities

	Unaudited as at 30.06.18 £m	Unaudited as at 30.06.17 £m	Audited as at 31.12.17 £m
Provision for the costs of surplus properties	**3.5**	4.3	3.7
Financial Services Compensation Scheme (FSCS)	**0.6**	4.6	1.2
Commission clawbacks	**9.1**	6.3	8.2
Survey and valuation claims	**4.2**	5.6	4.2
Customer compensation	**7.4**	4.8	8.5
Other provisions	**0.3**	0.5	0.3
	25.1	26.1	26.1

The movement in provisions for liabilities in the period has resulted in an Income Statement charge of £5.7m for the period (six months ended 30 June 2017: £7.5m; year ended 31 December 2017: £16.3m).

10. Tax expense

The effective tax rate for the period was 21.4% (six months ended 30 June 2017: 25.0%; year ended 31 December 2017: 21.2%). This differs from the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%) as the Society's profits above £25m are subject to an 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 held at amortised cost

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

	Unaudited as at 30.06.18				
	Gross carrying amount	**ECL allowance (note 7)**	**Fair value adjustment for hedged risk**	**Carrying amount**	
	£m	**£m**	**£m**	**£m**	**%**
Residential mortgages*	16,531.1	(10.8)	(16.2)	**16,504.1**	**97.5**
Loans fully secured on land^	281.8	(6.7)	-	**275.1**	**1.6**
Other lending:					
Debt factoring advances	86.4	(0.8)	-	**85.6**	**0.5**
Other loans	65.8	-	-	**65.8**	**0.4**
	16,965.1	**(18.3)**	**(16.2)**	**16,930.6**	**100.0**

* The equity release portfolio was reclassified from financial assets measured at amortised cost to financial assets held at FVTPL on adoption of IFRS 9 on 1 January 2018. As permitted by IFRS 9, the comparative figures have not been restated. Further details are found in note 1b).
^ Also known as commercial loans.

	Unaudited as at 30.06.17		Audited as at 31.12.17	
	£m	%	£m	%
Residential mortgages	15,733.2	97.3	16,351.6	97.3
Loans fully secured on land	311.4	1.9	293.8	1.8
Other lending:				
Debt factoring advances	74.5	0.5	79.9	0.5
Other loans	53.6	0.3	61.9	0.4
Gross balances	16,172.7	100.0	16,787.2	100.0
Impairment provisions (note 7)	(42.8)		(41.8)	
Fair value adjustment for hedged risk	250.7		227.3	
	16,380.6		16,972.7	

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 in the UK), and the specialist mortgage books of Amber Homeloans Limited and North Yorkshire Mortgages Limited (both closed to new lending since 2008). The Group's credit risk appetite explicitly considers geographical regions in order to manage concentration risk.

The comparative financial information for residential mortgages includes the equity release mortgage portfolio (30 June 2017: £277.2m; 31 December 2017: £279.0m). As outlined in note 1b) the equity release portfolio was reclassified from financial assets measured at amortised cost to financial assets measured at FVTPL on adoption of IFRS 9 on 1 January 2018. For the information presented on residential mortgages for the six months ended 30 June 2018, the equity release portfolio is not included and is shown separately in note 12. As permitted by IFRS 9 the comparative financial information has not been restated.

The average indexed loan-to-value (LTV) of Group residential mortgages at 30 June 2018 is 47.9% (30 June 2017: 48.5%; 31 December 2017: 47.2%).

11. Loans and advances to customers held at amortised cost *(continued)*

The table below provides information on movements in the gross carrying amount of residential loans and advances to customers during the period:

	Unaudited as at 30.06.18			
	Stage 1 12-month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
Gross carrying amount as at 1 January 2018	15,636.5	349.4	86.7	**16,072.6**
Transfers due to changes in credit risk:				
Transfers to Stage 1	33.2	(32.4)	(1.6)	**(0.8)**
Transfers to Stage 2	(81.1)	88.3	(8.3)	**(1.1)**
Transfers to Stage 3	(8.1)	(9.4)	17.7	**0.2**
Modification of contractual cashflows	(5.7)	3.7	(0.1)	**(2.1)**
Increases due to origination	1,769.0	0.4	-	**1,769.4**
Decrease due to derecognition and repayments	(1,275.9)	(23.6)	(4.3)	**(1,303.8)**
Write-offs	(0.1)	(0.4)	(4.1)	**(4.6)**
Other movements	0.9	0.2	0.2	**1.3**
Gross carrying amount as at 30 June 2018	**16,068.7**	**376.2**	**86.2**	**16,531.1**

The gross carrying amounts as at 1 January 2018 in the table above represent the balances following adoption of IFRS 9 on 1 January 2018. For further details on the impact of the adoption of IFRS 9 on the Group's loans and advances to customers held at amortised cost, see note 1b).

The amounts included in the table above represent the movement in the gross carrying amount between each reporting period end and not the balance as at the date of the movement.

The tables below provide information on residential loans and advances by payment due status:

	Unaudited as at 30.06.18			
	Gross carrying amount £m	Loss allowance £m	Net amount £m	%
Not past due	16,408.4	(6.5)	**16,401.9**	**99.4%**
Past due:				
Up to 30 days	41.1	(0.9)	**40.2**	**0.2%**
31 to 60 days	21.8	(0.5)	**21.3**	**0.1%**
61 to 90 days	16.8	(0.5)	**16.3**	**0.1%**
Over 90 days	43.0	(2.4)	**40.6**	**0.2%**
	16,531.1	**(10.8)**	**16,520.3**	**100.0%**

	Unaudited as at 30.06.17		Audited as at 31.12.17	
	£m	%	£m	%
Neither past due nor individually impaired	15,616.7	99.3	16,229.0	99.3
Past due but not individually impaired:				
Up to 3 months	58.7	0.4	63.2	0.4
	15,675.4	99.7	16,292.2	99.7
Individually impaired:				
Low risk	35.9	0.2	37.9	0.2
High risk	19.6	0.1	18.5	0.1
Possessions	2.3	-	3.0	-
	15,733.2	100.0	16,351.6	100.0

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

11. Loans and advances to customers held at amortised cost *(continued)*

The table below provides information on movements in the impairment loss allowance for residential loans and advances to customers during the period:

	Unaudited as at 30.06.18			
	Stage 1 12-month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
Loss allowance as at 1 January 2018	3.3	3.3	3.4	**10.0**
Changes due to changes in credit risk:				
Transfers to Stage 1	-	(0.2)	-	**(0.2)**
Transfers to Stage 2	-	0.8	(0.1)	**0.7**
Transfers to Stage 3	-	(0.3)	0.6	**0.3**
Within existing stage	0.1	0.5	0.3	**0.9**
Increases due to origination	0.1	-	-	**0.1**
Decrease due to derecognition and repayments	-	(0.1)	(0.1)	**(0.2)**
Write-offs	-	-	(0.8)	**(0.8)**
Loss allowance as at 30 June 2018	**3.5**	**4.0**	**3.3**	**10.8**

The loss allowances as at 1 January 2018 in the table above represent the balances following adoption of IFRS 9 on 1 January 2018. For further details see note 1b).

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 information on movements in the gross carrying value of commercial loans and advances to customers during the period:

	Unaudited as at 30.06.18			
	Stage 1 12-month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
Gross carrying amount as at 1 January 2018	262.6	26.0	5.2	**293.8**
Transfers due to changes in credit risk:				
Transfers to Stage 1	4.3	(4.2)	(0.3)	**(0.2)**
Transfers to Stage 2	(3.0)	3.0	-	**-**
Transfers to Stage 3	(0.7)	-	0.7	**-**
Modification of contractual cashflows	(1.3)	1.0	-	**(0.3)**
Decrease due to derecognition and repayments	(10.4)	(0.1)	(0.5)	**(11.0)**
Write-offs	-	-	(0.6)	**(0.6)**
Other movements	0.1	-	-	**0.1**
Gross carrying amount as at 30 June 2018	**251.6**	**25.7**	**4.5**	**281.8**

The amounts included in the table above represent the movement in the gross carrying value between each reporting period end and not the balance as at the date of the movement.

The tables below provide information on commercial loans by payment due status:

	Unaudited as at 30.06.18			
	Gross carrying amount £m	Loss allowance (note 7) £m	Net amount £m	%
Not past due	275.5	(5.1)	**270.4**	**98.3%**
Past due:				
Up to 30 days	3.9	(1.0)	**2.9**	**1.1%**
31 to 60 days	0.4	-	**0.4**	**0.1%**
Over 90 days	2.0	(0.6)	**1.4**	**0.5%**
	281.8	**(6.7)**	**275.1**	**100.0%**

11. Loans and advances to customers held at amortised cost *(continued)*

	Unaudited as at 30.06.17		Audited as at 31.12.17	
	£m	%	£m	%
Neither past due nor individually impaired	303.9	97.6	288.1	98.0
Past due but not individually impaired:				
Up to 3 months	5.1	1.6	2.8	1.0
	309.0	99.2	290.9	99.0
Individually impaired:				
Low risk	0.2	0.1	0.2	0.1
High risk	2.2	0.7	2.1	0.7
Possessions	-	-	0.6	0.2
	311.4	100.0	293.8	100.0

The table below provides information on movements in the impairment loss allowance for commercial loans and advances to customers during the period:

	Unaudited as at 30.06.18			
	Stage 1 12-month ECL £m	**Stage 2 Lifetime ECL £m**	**Stage 3 Lifetime ECL £m**	**Total £m**
Loss allowance as at 1 January 2018	0.2	4.9	1.8	**6.9**
Changes due to changes in credit risk:				
Transfers to Stage 1	-	(0.1)	-	**(0.1)**
Transfers to Stage 2	-	0.3	-	**0.3**
Within existing stage	-	(0.1)	(0.1)	**(0.2)**
Write-offs	-	-	(0.2)	**(0.2)**
Loss allowance as at 30 June 2018	**0.2**	**5.0**	**1.5**	**6.7**

The loss allowances as at 1 January 2018 in the table above represent the balances following adoption of IFRS 9 on 1 January 2018. For further details see note 1b).

c) Forbearance

Where appropriate for customers, the Group applies a policy of forbearance. The Group's approach to forbearance is described in note 37 to the 2017 Annual Report and Accounts and our approach to, and the extent of, forbearance remained materially unchanged in the period. At 30 June 2018, the percentage of residential mortgage balances that have been subject to forbearance is 0.6% (30 June 2017: 0.8%; 31 December 2017: 0.7%). For commercial balances the percentage is 4.1% (30 June 2017: 3.9%; 31 December 2017: 4.1%).

During 2017 the Group updated its forbearance disclosures to align with the European Banking Authority's (EBA's) financial reporting definitions of forbearance. For the purposes of these disclosures, loans exit forbearance if they meet certain payment and arrears criteria including a two year probation period following the forbearance event. The 30 June 2017 comparatives have therefore been restated on a consistent basis resulting in an increase to the reported percentage of residential mortgage balances in forbearance, from 0.7% to 0.8%, and a decrease to the reported percentage of commercial mortgage balances in forbearance, from 6.5% to 3.9%. There has been no change to how customers in financial difficulty are treated by the Group.

12. Equity release portfolio

Movements in the equity release portfolio during the period are summarised as follows:

	Unaudited as at 30.06.18 £m
At 1 January 2018	**426.6**
Redemptions	**(2.7)**
Further advances	**0.2**
Movements in fair value	**(16.1)**
Realised losses on redemption	**(0.4)**
Accrued interest	**3.8**
At 30 June 2018	**411.4**

On 1 January 2018 the equity release portfolio was reclassified from financial assets measured at amortised cost to financial assets held at FVTPL following the adoption of IFRS 9, further details of which can be found in note 1b). The above opening position of £426.6m is the position immediately following the reclassification.

Further details on how the valuation of the equity release portfolio is derived including the key inputs into the calculation are found on page 32.

13. Debt securities in issue

	Unaudited as at 30.06.18 £m	Unaudited as at 30.06.17 £m	Audited as at 31.12.17 £m
Certificates of deposit	**10.7**	12.6	15.7
Securitisations	**261.7**	375.5	306.4
Senior unsecured debt	**348.6**	348.3	348.5
Covered bonds	**398.8**	-	-
Fair value adjustment for hedged risk	**(5.5)**	(3.2)	(4.2)
	1,014.3	733.2	666.4
Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:			
In not more than one year	**116.0**	12.9	16.0
In more than one year	**898.3**	720.3	650.4
	1,014.3	733.2	666.4

14. 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 2018 that have materially affected the financial position or the performance of the Group during that period.

Related party transactions for the half year ended 30 June 2018 are similar in nature to those for the year ended 31 December 2017. Full details of the Group's related party transactions for the year ended 31 December 2017 can be found in note 10 *Related party transactions* in the 2017 Annual Report and Accounts.

15. Subsequent events

There have been no material post balance sheet events between 30 June 2018 and the approval of this half-yearly financial report by the Board.

16. Other financial commitments and contingent liabilities

The Society has confirmed it will provide continuing support to its subsidiary undertakings that have net liabilities or which rely on it for ongoing funding.

17. Financial instruments

a) Classification and measurement

The tables below summarise the classification of the carrying amounts of the Group's financial assets and liabilities:

	Unaudited as at 30.06.18			
	Amortised cost £m	FVOCI £m	FVTPL £m	Total £m
Cash in hand and balances with the Bank of England	2,833.4	-	-	**2,833.4**
Loans and advances to credit institutions	403.0	-	-	**403.0**
Debt securities	1.6	1,003.1	-	**1,004.7**
Derivative financial instruments	-	-	82.3	**82.3**
Loans and advances to customers held at amortised cost	16,930.6	-	-	**16,930.6**
Equity release portfolio	-	-	411.4	**411.4**
Equity share investments	-	-	0.8	**0.8**
Trade receivables	40.7	-	-	**40.7**
Contingent consideration	-	-	22.2	**22.2**
Total financial assets	**20,209.3**	**1,003.1**	**516.7**	**21,729.1**
Non-financial assets				**332.1**
Total assets				**22,061.2**
Shares	15,438.1	-	-	**15,438.1**
Amounts owed to credit institutions and other customers	3,591.6	-	-	**3,591.6**
Debt securities in issue	1,014.3	-	-	**1,014.3**
Derivative financial instruments	-	-	283.0	**283.0**
Trade payables	4.4	-	-	**4.4**
Fair value of put option obligation	-	-	9.1	**9.1**
Subscribed capital	41.6	-	-	**41.6**
Total financial liabilities	**20,090.0**	**-**	**292.1**	**20,382.1**
Non-financial liabilities				**229.5**
Total liabilities				**20,611.6**

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

17. Financial instruments *(continued)*

	Unaudited as at 30.06.17			
	Amortised cost £m	Held at fair value as available-for-sale assets £m	FVTPL £m	Total £m
Cash in hand and balances with the Bank of England	1,856.6	-	-	1,856.6
Loans and advances to credit institutions	397.4	-	-	397.4
Debt securities	1.7	868.3	-	870.0
Derivative financial instruments	-	-	101.5	101.5
Loans and advances to customers	16,405.1	-	(24.5)	16,380.6
Equity share investments	-	41.2	-	41.2
Trade receivables	38.7	-	-	38.7
Contingent consideration	10.2	-	-	10.2
Total financial assets	18,709.7	909.5	77.0	19,696.2
Non-financial assets				365.9
Total assets				20,062.1
Shares	14,655.3	-	-	14,655.3
Amounts owed to credit institutions and other customers	2,608.5	-	-	2,608.5
Debt securities in issue	733.2	-	-	733.2
Derivative financial instruments	-	-	330.2	330.2
Trade payables	4.5	-	-	4.5
Fair value of put option obligation	-	-	9.8	9.8
Subscribed capital	41.6	-	-	41.6
Total financial liabilities	18,043.1	-	340.0	18,383.1
Non-financial liabilities				352.6
Total liabilities				18,735.7

	Audited as at 31.12.17			
	Amortised cost £m	Held at fair value as available-for-sale assets £m	FVTPL £m	Total £m
Cash in hand and balances with the Bank of England	2,396.9	-	-	2,396.9
Loans and advances to credit institutions	345.3	-	-	345.3
Debt securities	1.7	789.4	-	791.1
Derivative financial instruments	-	-	94.2	94.2
Loans and advances to customers	16,998.4	-	(25.7)	16,972.7
Equity share investments	-	0.4	-	0.4
Trade receivables	30.8	-	-	30.8
Contingent consideration	25.1	-	-	25.1
Total financial assets	19,798.2	789.8	68.5	20,656.5
Non-financial assets				367.1
Total assets				21,023.6
Shares	14,985.8	-	-	14,985.8
Amounts owed to credit institutions and other customers	3,288.3	-	-	3,288.3
Debt securities in issue	666.4	-	-	666.4
Derivative financial instruments	-	-	318.5	318.5
Trade payables	4.4	-	-	4.4
Fair value of put option obligation	-	-	9.9	9.9
Subscribed capital	41.6	-	-	41.6
Total financial liabilities	18,986.5	-	328.4	19,314.9
Non-financial liabilities				303.9
Total liabilities				19,618.8

17. Financial instruments *(continued)*

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 inputs are 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.

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 30.06.18			
	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 FVOCI:				
Debt securities	943.0	60.1	-	**1,003.1**
Financial assets at FVTPL:				
Equity share investments	0.1	-	0.7	**0.8**
Derivative financial instruments	-	80.9	1.4	**82.3**
Equity release loans	-	-	411.4	**411.4**
Contingent consideration	-	-	22.2	**22.2**
	943.1	**141.0**	**435.7**	**1,519.8**
Financial liabilities				
Financial liabilities at FVTPL:				
Derivative financial instruments	-	72.6	210.4	**283.0**
Fair value of put option obligation	-	-	9.1	**9.1**
	-	**72.6**	**219.5**	**292.1**
	943.1	**68.4**	**216.2**	**1,227.7**

17. Financial instruments *(continued)*

	Unaudited as at 30.06.17			
	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	660.5	207.8	-	868.3
Equity share investments	40.8	-	0.4	41.2
Financial assets at FVTPL:				
Derivative financial instruments	-	99.6	1.9	101.5
Embedded derivatives within loans and advances to customers	-	-	(24.5)	(24.5)
	701.3	307.4	(22.2)	986.5
Financial liabilities				
Financial liabilities at FVTPL:				
Derivative financial instruments	-	114.8	215.4	330.2
Fair value of put option obligation	-	-	9.8	9.8
	-	114.8	225.2	340.0
	701.3	192.6	(247.4)	646.5

	Audited as at 31.12.17			
	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	734.3	55.1	-	789.4
Equity share investments	-	-	0.4	0.4
Financial assets at FVTPL:				
Derivative financial instruments	-	92.8	1.4	94.2
Embedded derivatives within loans and advances to customers	-	-	(25.7)	(25.7)
	734.3	147.9	(23.9)	858.3
Financial liabilities				
Financial liabilities at FVTPL:				
Derivative financial instruments	-	84.6	233.9	318.5
Fair value of put option obligation	-	-	9.9	9.9
	-	84.6	243.8	328.4
	734.3	63.3	(267.7)	529.9

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 2018, nor in the six months ended 30 June 2017 or year ended 31 December 2017.

17. Financial instruments *(continued)*

Movements in the Level 3 portfolio

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

	Unaudited as at 30.06.18					
	Equity share investments £m	**Equity release portfolio £m**	**Contingent consideration £m**	**Derivative financial instruments £m**	**Fair value of put option obligation £m**	**Total £m**
At 1 January	**0.4**	**426.6**	**25.1**	**(232.5)**	**(9.9)**	**209.7**
(Loss) / gain recognised in Income Statement	-	(16.1)[1]	2.4[2]	24.2[3]	-	**10.5**
Contingent consideration received	-	-	(5.3)	-	-	**(5.3)**
Revaluation of market values	-	-	-	-	0.6[4]	**0.6**
Accrued interest	-	3.8[5]	-	(0.7)[6]	-	**3.1**
Repayments	-	(2.7)	-	-	-	**(2.7)**
Realised losses	-	(0.4)[7]	-	-	-	**(0.4)**
Exercise of put options by non-controlling shareholders	-	-	-	-	0.2	**0.2**
Additions / further advances	0.3	0.2	-	-	-	**0.5**
At end of period	**0.7**	**411.4**	**22.2**	**(209.0)**	**(9.1)**	**216.2**

Notes
1. Included in the 'Fair value losses on equity release portfolio' line in the Income Statement.
2. Included in the 'Profit / (loss) on disposal of subsidiary undertakings' line in the Income Statement.
3. Included in the 'Fair value gains on other derivatives' line in the Income statement.
4. Included in the 'Administrative expenses' line in the Income Statement and arises from changes to assumptions regarding the market value of the put options.
5. Included in the 'Interest receivable and similar income' line in the Income Statement.
6. Included in the 'Interest receivable and similar income' line in the Income Statement.
7. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.

	Unaudited as at 30.06.17				
	Equity share investments £m	Embedded derivatives £m	Derivative financial instruments £m	Fair value of put option obligation £m	Total £m
At 1 January	0.4	(27.7)	(246.9)	(11.7)	(285.9)
(Loss) / gain recognised in Income Statement	(0.1)[1]	3.1[2]	33.4[3]	-	36.4
Losses written off during the period	-	0.1	-	-	0.1
Revaluation of market values	-	-	-	1.9[4]	1.9
Additions	0.1	-	-	-	0.1
At end of period	0.4	(24.5)	(213.5)	(9.8)	(247.4)

Notes
1. Included in the 'Impairment losses on equity share investments' line in the Income Statement.
2. Included in the 'Impairment (charge) / credit on loans and advances to customers' line in the Income Statement.
3. Included in the 'Fair value gains on hedging instruments and hedged items' line in the Income Statement. The majority of these derivatives are held to hedge the Group's equity release mortgage book and a loss, largely offsetting the above amount, was recognised through the same line in the Income Statement in respect of the underlying mortgages that were being hedged. However some hedge ineffectiveness resulted during the period and this resulted in an overall credit to the Income Statement of £2.6m.
4. Included in the 'Administrative expenses' line in the Income Statement and arises from changes to assumptions regarding the market value of the put options.

17. Financial instruments *(continued)*

	Audited as at 31.12.17				
	Equity share investments £m	Embedded derivatives £m	Derivative financial instruments £m	Fair value of put option obligation £m	Total £m
At 1 January	0.4	(27.7)	(246.9)	(11.7)	(285.9)
(Loss) / gain recognised in Income Statement	(0.1)[1]	1.8[2]	14.4[3]	(0.1)[4]	16.0
Losses written off during the year	-	0.2	-	-	0.2
Revaluation of market values	-	-	-	1.9[5]	1.9
Additions	0.1	-	-	-	0.1
At end of period	0.4	(25.7)	(232.5)	(9.9)	(267.7)

Notes
1. Included in the 'Impairment losses on equity share investments' line in the Income Statement.
2. Included in the 'Impairment (charge) / credit on loans and advances to customers' line in the Income Statement.
3. Included in the 'Fair value gains on hedging instruments and hedged items' line in the Income Statement. The majority of these derivatives are held to hedge the Group's equity release mortgage book and a loss, largely offsetting the above amount, was recognised through the same line in the Income Statement in respect of the underlying mortgages that were being hedged. However, some hedge ineffectiveness resulted during the year and this resulted in an overall credit to the Income Statement of £1.7m.
4. 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.
5. Included in the 'Administrative expenses' line in the Income Statement and arises from changes to assumptions regarding the market value of the put options.

Equity release portfolio

The valuation of the equity release portfolio is regarded as a Level 3 valuation technique as certain inputs into the valuation are not market observable. Further details on the valuation techniques used are found on page 44. Further details on the inputs into the valuation and the impact of reasonably possible alternative assumptions of certain inputs into the valuation of the portfolio are found in note 1c).

Derivative financial instruments

The Level 3 derivative financial instruments included in the tables on pages 44 and 45 comprise derivatives which are used to hedge the Group's interest rate risk and inflation risk arising from the equity release portfolio. These derivatives 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 (arising where a customer voluntarily prepays or is taken into long term care) that are based on historical data (reviewed periodically against actuals) and published mortality tables. These redemption profiles are not market observable, therefore these derivatives are categorised as Level 3 financial instruments within the fair value hierarchy.

As outlined in note 1, following adoption of IFRS 9 on 1 January 2018, the equity release portfolio was reclassified from amortised cost to held at FVTPL. Therefore hedge accounting is no longer applied to the equity release portfolio and, whilst the derivatives outlined above held to hedge the portfolio are still retained for commercial hedging purposes, they no longer satisfy the conditions to be applied in a hedging relationship for hedge accounting purposes. Fair value gains and losses on these derivatives are recognised within 'Fair value gains on other derivatives' in the Income Statement.

The effect on the fair value of these derivatives of reasonably possible alternative assumptions regarding the redemption profile of the portfolio is outlined below.

Assumption	**Change to current assumption**	**Unaudited as at 30.06.18 (Decrease) / increase in liability £m**	Unaudited as at 30.06.17 (Decrease) / increase in liability £m	Audited as at 31.12.17 (Decrease) / increase in liability £m
Redemption rates	+ / - 1% pa	**(17.6) / 20.2**	(17.0) / 20.1	(20.1) / 23.6

Some of these derivatives hedge not only the interest rate risk but also the inflation risk within the equity release mortgage pools. In order to value these derivatives, the Group uses market-implied RPI swap prices to construct a forward looking inflation curve in order to forecast future expected cashflows relating to these derivatives. The model used to value the derivatives incorporates multiple scenarios for RPI in order to take account of the uncertainty and volatility of future RPI rates. The range of multiple scenarios used is based on management judgement and so is not market observable. The Group has robust control procedures in place regarding the inputs to the valuation that are based on management judgement.

17. Financial instruments *(continued)*

Any change in fair value of the derivative liabilities is offset to some extent by a corresponding but opposite change in the value of the equity release portfolio. These sensitivities are outlined in note 1c). The characteristics and the valuation requirements differ slightly between the derivatives and the equity release portfolio resulting in the changes in fair value not offsetting completely. In the six months ended 30 June 2018 the net impact to the Income Statement was an £8.1m credit.

Contingent consideration

The valuation of the contingent consideration asset is regarded as a Level 3 valuation technique as certain inputs into the valuation are not market observable. Further details are found on page 27.

Fair value of put option obligation

A key input into the calculation of the fair value of the put option obligation is the estimate of the market value of the non-controlling shareholding. As this input is 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 30.06.18		Unaudited as at 30.06.17		Audited as at 31.12.17	
	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	**2,833.4**	**2,833.4**	1,856.6	1,856.6	2,396.9	2,396.9
Loans and advances to credit institutions	**403.0**	**403.0**	397.4	397.4	345.3	345.3
Debt securities	**1.6**	**1.6**	1.7	1.7	1.7	1.7
Loans and advances to customers held at amortised cost (note 1)	**16,930.6**	**17,045.3**	16,405.1	16,326.9	16,998.4	16,936.9
Trade receivables	**40.7**	**40.7**	38.7	38.7	30.8	30.8
Contingent consideration (note 2)	**-**	**-**	10.2	10.2	25.1	25.1
	20,209.3	**20,324.0**	18,709.7	18,631.5	19,798.2	19,736.7
Financial liabilities						
Shares	**15,438.1**	**15,516.4**	14,655.3	14,742.4	14,985.8	15,070.3
Amounts owed to credit institutions	**1,891.3**	**1,895.3**	895.1	905.8	1,483.2	1,491.8
Amounts owed to other customers	**1,700.3**	**1,701.1**	1,713.4	1,719.6	1,805.1	1,810.8
Debt securities in issue	**1,014.3**	**1,024.8**	733.2	742.2	666.4	675.7
Trade payables	**4.4**	**4.4**	4.5	4.5	4.4	4.4
Subscribed capital	**41.6**	**75.4**	41.6	72.0	41.6	79.0
	20,090.0	**20,217.4**	18,043.1	18,186.5	18,986.5	19,132.0

Notes

1. The equity release portfolio was reclassified from financial assets measured at amortised cost to financial assets held at FVTPL on adoption of IFRS 9 on 1 January 2018. The comparative figures have not been restated as permitted by IFRS 9. Further details are found in note 1b).
2. The contingent consideration asset was reclassified from financial assets measured at amortised cost to financial assets held at FVTPL on adoption of IFRS 9 on 1 January 2018. The comparative figures have not been restated as permitted by IFRS 9. Further details are found in note 1b).

The methodology and assumptions for determining the fair values of those financial assets and liabilities not presented within the Statement of Financial Position at fair value are set out on page 178 of the 2017 Annual Report and Accounts, and remained materially unchanged in the period.

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

18. 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, £19.0m (six months ended 30 June 2017: £17.6m; year ended 31 December 2017: £39.2m) was generated outside the UK.

Unaudited 6 months to 30.06.18

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Net interest income	113.1	0.2	3.6	4.8	**121.7**
Net non-interest income	16.4	206.8	12.3	(5.6)	**229.9**
Fair value gains on hedged items and derivatives	24.3	-	-	-	**24.3**
Fair value losses on equity release portfolio	(16.1)	-	-	-	**(16.1)**
Profit on disposal of Group undertakings	-	-	-	2.4	**2.4**
Share of profits from joint ventures	-	0.1	-	-	**0.1**
Total income	**137.7**	**207.1**	**15.9**	**1.6**	**362.3**
Administrative expenses	(70.4)	(171.8)	(12.4)	4.9	**(249.7)**
Realised losses on equity release portfolio	(0.4)	-	-	-	**(0.4)**
Impairment losses and provisions for liabilities	(1.1)	(6.4)	-	-	**(7.5)**
Profit before tax	**65.8**	**28.9**	**3.5**	**6.5**	**104.7**
Taxation	(14.6)	(5.5)	(0.5)	(1.8)	**(22.4)**
Profit after tax	**51.2**	**23.4**	**3.0**	**4.7**	**82.3**
Total assets	**21,838.3**	**268.4**	**106.2**	**(151.7)**	**22,061.2**
Total liabilities	**20,524.3**	**125.4**	**102.5**	**(140.6)**	**20,611.6**

Total income can be analysed as follows:

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
External income	137.5	201.9	16.4	6.5	**362.3**
Income from other segments	0.2	5.2	(0.5)	(4.9)	**-**
Total income	**137.7**	**207.1**	**15.9**	**1.6**	**362.3**

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

18. Segmental reporting *(continued)*

Unaudited 6 months to 30.06.17

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Net interest income	103.6	0.1	0.9	3.2	107.8
Net non-interest income	16.5	202.2	15.2	(5.3)	228.6
Fair value gains on financial instruments	1.6	-	-	-	1.6
Profit on treasury assets	2.7	-	-	-	2.7
Loss on disposal of mortgage assets	(15.0)	-	-	-	(15.0)
Profit / (loss) on disposal of Group undertakings	-	0.9	(4.9)	1.0	(3.0)
Dividend income from equity share investments	-	0.6	-	-	0.6
Share of profits from joint ventures	-	1.0	-	-	1.0
Total income	109.4	204.8	11.2	(1.1)	324.3
Administrative expenses	(68.8)	(169.1)	(13.9)	(2.1)	(253.9)
Impairment and provisions for liabilities	0.9	(4.2)	(0.1)	-	(3.4)
Profit / (loss) before tax	41.5	31.5	(2.8)	(3.2)	67.0
Taxation	(9.9)	(5.9)	(0.5)	(0.2)	(16.5)
Profit / (loss) after tax	31.6	25.6	(3.3)	(3.4)	50.5
Total assets	19,754.4	293.3	129.6	(115.2)	20,062.1
Total liabilities	18,527.8	146.0	137.1	(75.2)	18,735.7

Total income can be analysed as follows:

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
External income	109.1	198.9	10.7	5.6	324.3
Income from other segments	0.3	5.9	0.5	(6.7)	-
Total income	109.4	204.8	11.2	(1.1)	324.3

18. Segmental reporting *(continued)*

Audited 12 months to 31.12.17

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Net interest income	211.4	(0.1)	1.8	7.5	220.6
Net non-interest income	33.0	417.4	30.6	(8.5)	472.5
Fair value gains on financial instruments	1.5	-	-	-	1.5
Profit on treasury assets	2.7	-	-	-	2.7
Loss on disposal of mortgage assets	(15.0)	-	-	-	(15.0)
Profit / (loss) on disposal of Group undertakings	-	39.4	(4.9)	16.2	50.7
Dividend income from equity share investments	-	0.6	-	-	0.6
Share of profits from joint ventures	-	2.0	-	-	2.0
Total income	233.6	459.3	27.5	15.2	735.6
Administrative expenses	(141.9)	(345.5)	(27.2)	(8.5)	(523.1)
Impairment and provisions for liabilities	(2.6)	(9.6)	(0.2)	-	(12.4)
Profit before tax	89.1	104.2	0.1	6.7	200.1
Taxation	(20.9)	(20.1)	(1.1)	0.2	(41.9)
Profit / (loss) after tax	68.2	84.1	(1.0)	6.9	158.2
Total assets	20,786.0	279.8	129.2	(171.4)	21,023.6
Total liabilities	19,484.7	139.6	135.6	(141.1)	19,618.8

Total income can be analysed as follows:

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
External income	232.1	447.8	28.3	27.4	735.6
Income from other segments	1.5	11.5	(0.8)	(12.2)	-
Total income	233.6	459.3	27.5	15.2	735.6

19. Adoption of new and revised International Financial Reporting Standards and interpretations

For details on IFRS 9 and IFRS 15, which have been adopted during the period, see note 1b).

Standards issued but not yet effective

The Group notes the new accounting standard, IFRS 16 *Leases*, which will be effective for future reporting periods.

IFRS 16 replaces the existing requirements in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 introduces a single, on-balance sheet accounting model for lessees. IFRS 16 is effective for accounting periods beginning on or after 1 January 2019, with early adoption permitted (subject to also applying IFRS 15). The Group currently plans to first adopt IFRS 16 in its half-yearly report for the six months ending 30 June 2019, with an initial application date of 1 January 2019.

The Group is assessing the potential impact of IFRS 16 application on its consolidated financial statements and has not yet completed its detailed assessment. The most significant impact identified to date is that the Group will recognise new assets and liabilities for its operating leases, which mainly relate to numerous branch premises. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and an interest expense on lease liabilities. The quantitative impact of adopting IFRS 16 on the consolidated financial statements in the period of initial application is not yet known and cannot yet be reliably estimated. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group uses practical expedients and recognition exemptions, the composition of the Group's lease portfolio at the initial application date and the Group's latest assessment of whether it will exercise any lease renewal options. The Group expects to disclose further information prior to adopting IFRS 16.

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 R D East	(Chairman)
Mr M J Lund	(Deputy Chairman, appointed to position 24 April 2018)
Mr G E Picken	(former Deputy Chairman, resigned 24 April 2018)
Mr A P Bottomley*	
Ms A J Burton	
Ms M Cassoni	
Mr J R Coates	
Mrs D P Cockrem	
Mr I M Cornelius*	
Mr D J Cutter*	(Group Chief Executive)
Mr D A Hall	
Mr R S D M Ndawula*	
Ms H C Stevenson	

* Executive Directors

Signed on behalf of the Board by

Robert East
Chairman

31 July 2018

Independent Review Report to Skipton Building Society

Conclusion

We have been engaged by Skipton Building Society ("the Society") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Members' Interests, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

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 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

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. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) 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.

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 Report and Accounts of the Society are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 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.

The purpose of our review work and to whom we owe our responsibilities

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 DTR of 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.

Jonathan Holt
for and on behalf of KPMG LLP
Chartered Accountants
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LS1 4DA

31 July 2018

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