Half-Yearly Financial Report

2019

SKIPTON BUILDING SOCIETY
Since 1853

Contents

Forward-looking statements

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

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

The financial information in respect of the year ended 31 December 2018 has been extracted from the audited 2018 Annual Report and Accounts.

Group Chief Executive's Review of the Half Year

I'm pleased to report a further increase in the Society's membership, and strong growth in both mortgage and savings balances.

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

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

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

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

- Continued growth in membership, with member numbers increasing by 20,100 to 1,030,526 (31 December 2018: 1,010,426);
- Group gross mortgage lending was £2.5bn (six months ended 30 June 2018: £1.8bn), with mortgage balances growing by 5.9% since the end of 2018 (six months ended 30 June 2018: 2.8%);
- Savings balances grew by 3.6% since the end of 2018 (six months ended 30 June 2018: 3.1%);
- The Group net interest margin was 1.02% (six months ended 30 June 2018: 1.14%; year ended 31 December 2018: 1.09%); the decrease is a reflection of the intensely competitive mortgage and savings markets, placing increased pressure on margins;
- Despite the challenging environment, the Group recorded underlying profits before tax (as defined on page 7) of £84.2m (six months ended 30 June 2018: £94.9m). Total profit before tax (PBT) was £72.3m (six months ended 30 June 2018: £104.7m). The decrease in total profit is predominantly in the Mortgages and Savings division, which can be attributed primarily to fair value losses of £12.5m relating to the equity release portfolio (six months ended 30 June 2018: £8.1m gains) which is closed to new business. The fair value losses are driven by changes in market expectations of long term interest rates, inflation and house price growth;
- The Society's Common Equity Tier 1 (CET 1) ratio at 30 June 2019 remained strong at 33.5% (31 December 2018: 32.9%) and the leverage ratio was 6.1% (31 December 2018: 6.2%); and
- The Liquidity Coverage Ratio was 177% (31 December 2018: 203%), well above both the regulatory limit of 100% and the internal limit set by the Board throughout the period.

Further details on Group performance can be found in the Business Review on pages 5 to 12.

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

- The Society helped 14,641 homeowners (six months ended 30 June 2018: 10,855) to purchase or remortgage their properties, including 2,640 first time buyers (six months ended 30 June 2018: 2,078) and 4,619 buy-to-let borrowers (six months ended 30 June 2018: 3,409);
- The Society's financial advisers have advised 2,404 customers (six months ended 30 June 2018: 2,059) on how to achieve their financial goals; and
- For the five months ended 31 May 2019 the Society paid an average savings rate of 1.32% (five months ended 31 May 2018: 1.26%) which was 0.57% (five months ended 31 May 2018: 0.58%) above the industry average for which comparable data is available (source: CACI's Current Account & Savings Database, January – May 2019).

Mortgages and Savings division

- The division produced a PBT of £44.3m, compared to £65.8m for the same period in 2018; the majority (£20.6m) of the year-on-year decrease relates to fair value losses on equity release loans and associated derivatives of £12.5m in 2019 in comparison to an £8.1m gain in the six months ended 30 June 2018. On an underlying basis (which excludes such fair value movements) the division reported PBT of £56.8m compared to £57.1m for the six months ended 30 June 2018, a decrease of just 0.5%;
- The management expense ratio was 0.65% (six months ended 30 June 2018: 0.67%) and the cost income ratio was 57.2% (six months ended 30 June 2018: 54.3%). In view of a declining net interest margin, careful management of costs is a key strategic priority, however investments continue to be made for the long term benefit of members, including developing online services, a mobile app and a new financial advice proposition;
- The Society's residential mortgages in arrears by three months or more represent only 0.21% of mortgage accounts (31 December 2018: 0.24%), which compares to an industry average of 0.78% of mortgages in arrears by more than three months (source: UK Finance arrears data, March 2019); and
- In March 2019, the Society successfully raised £600m of wholesale funding through a covered bond transaction with a term of five years.

Estate agency division

- The number of house sales (exchanges) arranged by Connells in the period was 8% below the comparative period in 2018, which is reflective of the continuing subdued nature of the UK housing market.

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

- Connells' diversified business model meant that other areas of its business contributed well during the period and Connells reported solid profits despite the fall in house sales, with PBT of £26.2m (six months ended 30 June 2018: £28.9m).

Supporting our communities and our people

- In the first half of this year colleagues raised over £20,000 for local charities and community groups, and the Skipton Building Society Charitable Foundation donated over £73,000 to a wide range of charities;
- The Society's volunteering policy has been reviewed and refreshed, with the number of days colleagues can spend volunteering in the local community increasing to three days per year;
- The Society continues to support accessibility, with an ongoing focus on being a Dementia Friendly organisation, the introduction of coloured overlays in branches to help customers with reading difficulties, and for the first time live subtitles were provided at the AGM;
- The Society has also continued its focus on building a sustainable Society, signing up to an exciting initiative with the Woodland Trust to plant 15,000 trees in the Northern Forest to help mitigate the Society's carbon footprint. New recycling bins have also been introduced across Head Office resulting in only 1% of waste going to landfill;
- The Society has signed the Women in Finance Charter and 65.5% of colleagues participating in talent programmes since 2012 have been female, well above the Society's commitment to offer at least 50% of places to females;
- The employee engagement score was 89% (2018: 89%), well above financial services industry norms; and
- For the fifth year in a row the Society was included in The Sunday Times *Top 100 Companies to Work For*.

Outlook

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

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

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

The Society remains vigilant regarding potential economic headwinds, but with the strong capital and liquidity position seen during the first half of 2019, the Society is well placed to manage the risks that we face and to capitalise upon opportunities that may arise for the benefit of our members.

David Cutter

Group Chief Executive

30 July 2019

Business Review

Business model and Group structure

Skipton Building Society is the UK's fourth largest building society, with £24.2bn of assets and 1,030,526 members.

Founded in 1853, our purpose is to help people into homes, save for the future and support their long term financial well-being. For over 166 years, we've stayed true to our purpose and remain committed to helping people build better futures.

As a mutual organisation, the Society is owned by its members. The Society's business model centres on providing a secure place for our members' savings and the provision of loans to our borrowers to enable people to buy their own homes. We also source funding from the wholesale markets, which diversifies our funding base. In addition, we support a growing rented housing sector by providing buy-to-let mortgages to landlords.

The Society's strong capital position is reinforced by dividends from its subsidiary businesses, which are invested back into the Society for the benefit of all our members.

Further details on the Group's strategic priorities, which remained unchanged during the six months ended 30 June 2019, can be found in the Strategic Report in the 2018 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 Guernsey. Our specialist lending 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, and the intermediate holding company, Skipton Group Holdings Limited (SGHL);
- Estate Agency – includes property sales, surveys and valuations, conveyancing, lettings, asset management and mortgage and insurance broking carried out through the Connells group; and
- 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, who also assist in the development of the Society's core technology.

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 board and management teams, whilst subsidiary boards normally contain at least two Society executives as shareholder non-executive directors.

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

Our Customers – we put the customer at the heart of our business, providing a compelling and differentiated proposition that resonates with our customers and makes them want to become and remain Skipton customers. Key to this is the sustainable growth of the Society's membership, bringing the benefits of membership to an increasing number of people. In the first half of 2019 the Society's membership numbers grew by 20,100 to 1,030,526, including Lifetime ISA (LISA) customers which grew by 17,864. Our savings balances increased to £16.7bn compared with £16.1bn at the end of 2018 (30 June 2018: £15.4bn) and our mortgage book grew to £19.2bn compared with £18.2bn at the end of last year (30 June 2018: £17.0bn).

Our People – we 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 2019 we achieved an employee engagement score of 89% (2018: 89%).

Our proposition seeks to provide good value products and consistently excellent service to our customers however they choose to interact with us. During the first half of the year we completed development of our new financial advice proposition and a new mobile app, each of which have gone live during July.

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 6 to 11.

Business Review *(continued)*

Key Performance Indicator (KPI)	Purpose	**6 months to 30.06.19**	6 months to 30.06.18	12 months to 31.12.18
Our Customers				
Total member numbers (Society only)	To ensure we are attracting and retaining members	**1,030,526**	971,902	1,010,426
Growth in membership numbers (Society only)	To ensure we are attracting and retaining members	**20,100**	52,842	91,366
Increase in member savings balances (Society only)	To help more members save for their future	**£583m**	£471m	£1,154m
Group gross mortgage advances	To help us to meet our goal of helping more people into homes through prudent and controlled lending	**£2,547m**	£1,784m	£4,329m
Group net mortgage growth	To help us to meet our goal of helping more people into homes through prudent and controlled lending	**£1,063m**	£457m	£1,648m
Our People				
Employee engagement (Society only) (note 1)	To ensure our people are passionate, loyal and committed	**89%**	89%	89%
Our Proposition				
Society net customer satisfaction score (note 2)	To ensure we are putting the customer at the heart of our business	**n/a**	93%	94%
Our Financial Strength				
Total Group profit before tax	To ensure we generate the necessary capital to grow the business	**£72.3m**	£104.7m	£188.2m
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	**£84.2m**	£94.9m	£186.1m
Group net interest margin (% of mean assets)	To manage the earnings of our core Mortgages and Savings division	**1.02%**	1.14%	1.09%
Mortgages and Savings division cost income ratio (note 3)	To maintain a manageable cost base to ensure the business remains efficient	**57.2%**	54.3%	56.3%
Mortgages and Savings division management expense ratio	To maintain a manageable cost base to ensure the business remains efficient	**0.65%**	0.67%	0.68%
Group residential mortgages in arrears by three months or more	To manage and monitor our arrears and credit risk management	**0.27%**	0.34%	0.29%
Liquidity Coverage Ratio	To ensure we hold sufficient levels and quality of overall liquidity	**177%**	210%	203%
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	**81.1%**	82.2%	81.6%
Group Common Equity Tier 1 (CET 1) ratio (note 4)	To ensure the Group remains financially strong by having a strong (risk weighted) capital base	**33.5%**	33.3%*	32.9%
Group leverage ratio (note 5)	To ensure the Group remains financially strong by having a strong (non-risk weighted) capital base	**6.1%**	5.9%	6.2%

* The CET 1 ratio as at 30 June 2018 has been restated as a result of the restatement described within the Statement of Financial Position on page 15.

Notes

1. As measured by Willis Towers Watson, an independent company who provide benchmarking on employee surveys in both the UK and globally.
2. Throughout 2019 we have been refining the way in which this survey is carried out and its associated methodology, and as such we will report customer satisfaction scores in the 2019 Annual Report and Accounts once this work is complete. The 2018 figures were measured from an independent survey by KPMG Nunwood of 2,400 Society members annually, with net customer satisfaction 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).
3. 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.
4. This ratio is calculated under the Internal Ratings Based (IRB) approach on a transitional basis; see pages 10 and 11 for further details.
5. This ratio is calculated on an end-point basis; see pages 10 and 11 for further details.

Financial performance

Total Group profit before tax (PBT) for the first half of the year was £72.3m (six months ended 30 June 2018: £104.7m; year ended 31 December 2018: £188.2m). This fall is predominantly due to lower profits in the Mortgages and Savings division, which is mainly due to fair value losses on our equity release portfolio and associated derivatives of £12.5m (six months ended 30 June 2018: £8.1m gains; year ended 31 December 2018: £1.0m gains). The fair value losses are driven by changes in market expectations of long term interest rates, inflation and house price growth. Further details can be found in the Income Statement on page 13.

The Board monitors and reports profits at both a statutory level, governed by accounting standards and practices, and at 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 2018 Annual Report and Accounts, underlying Group PBT excludes gains and losses on disposal of Group undertakings, fair value movements in relation to the equity release portfolio, fair value movements in equity share investments and impairment of Group undertakings. For 2018 and earlier, underlying Group PBT also excluded the Financial Services Compensation Scheme (FSCS) levies that related specifically to the 2008/2009 banking failures (most notably Bradford and Bingley and the Icelandic banks); the payment made by the Group in 2018 represented the final payment due in this respect.

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

	6 months to 30.06.19 £m	6 months to 30.06.18 £m	12 months to 31.12.18 £m
Total Group profit before tax	**72.3**	104.7	188.2
Less profit on disposal of subsidiary undertakings	**(0.6)**	(2.4)	(3.3)
Add back losses / less fair value gains in relation to the equity release portfolio (note 1)	**12.5**	(8.1)	(1.0)
Add back impairment of goodwill	**-**	1.3	2.5
Add back fair value losses on equity share investments	**-**	-	0.3
Less credit for FSCS levy	**-**	(0.6)	(0.6)
Underlying Group PBT	**84.2**	94.9	186.1

Note

1. The £12.5m is comprised of fair value losses of £0.3m as shown in the 'Fair value gains / (losses) on financial instruments: Equity release portfolio' line in the Income Statement, and fair value losses of £12.2m on the associated derivatives held to economically hedge these fair value movements, as shown in the 'Fair value gains / (losses) on financial instruments: Other derivatives line in the Income Statement.

Performance by division

The Group's statutory results by division were as follows:

	6 months to 30.06.19 £m	6 months to 30.06.18 £m	12 months to 31.12.18 £m
Mortgages and Savings	**44.3**	65.8	114.3
Estate Agency	**26.2**	28.9	56.9
Investment Portfolio	**1.7**	3.5	7.6
Sundry including inter-divisional adjustments*	**0.1**	6.5	9.4
Profit before tax	**72.3**	104.7	188.2

* 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.

Underlying performance by division

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

	6 months to 30.06.19 £m	6 months to 30.06.18 £m	12 months to 31.12.18 £m
Mortgages and Savings	**56.8**	57.1	112.7
Estate Agency	**26.2**	30.2	59.7
Investment Portfolio	**1.7**	3.5	7.6
Sundry including inter-divisional adjustments^	**(0.5)**	4.1	6.1
Underlying Group PBT	**84.2**	94.9	186.1

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

Mortgages and Savings

Despite continuing margin pressures, the Mortgages and Savings division reported underlying pre-tax profits of £56.8m for the first six months of the year (six months ended 30 June 2018: £57.1m; year ended 31 December 2018: £112.7m).

Gross mortgage advances in the first half of the year increased by 42.8% to £2,547m (six months ended 30 June 2018: £1,784m; year ended 31 December 2018: £4,329m), whilst net lending was £1,063m (six months ended 30 June 2018: £457m; year ended 31 December 2018: £1,648m). Despite the intensity of competition within the mortgage market, we achieved strong net growth in our mortgage book in the period of 5.9% (six months ended 30 June 2018: 2.8%; year ended December 2018: 10.0%), without compromising the quality of our mortgage assets.

We remain alive to 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 £583m since the end of 2018, representing growth of 3.6% in the six months (six months ended 30 June 2018: 3.1%; year ended 31 December 2018: 7.7%). 2019 has seen continued success in attracting LISA customers to the Society, with net growth of 17,864 LISA customers during the period, bringing the total number of LISA customers to 147,571

Business Review *(continued)*

at 30 June 2019. The total LISA balances at 30 June 2019 were £875.7m (31 December 2018: £602.4m) including a government bonus of £65.1m received by our customers during the first half of 2019, 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 £114.2m for the first half of the year (six months ended 30 June 2018: £113.1m; year ended 31 December 2018: £230.6m).

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 1.02% for the first half of 2019 (six months ended 30 June 2018: 1.14%; year ended 31 December 2018: 1.09%). This drop in margin is a reflection of the intensely competitive mortgages and savings markets, placing increased pressure on new business margins.

The Financial Advice part of the business generated £15.7m of income (six months ended 30 June 2018: £15.8m; year ended 31 December 2018: £31.2m), with funds under management totalling £3.4bn (30 June 2018: £3.4bn; 31 December 2018: £3.2bn).

During the period, administrative expenses in the Mortgages and Savings division increased to £75.9m (six months ended 30 June 2018: £70.4m; year ended 31 December 2018: £148.7m) as we continue to make investments to develop our online services, our financial advice proposition and our people. So far in 2019, we have launched an online mortgage affordability calculator and decision in principle service for our customers, and both our new mobile app and a relaunch of our financial advice proposition have gone live during July. We closely manage our costs, in order that we can continue to invest in the business for the long term benefit of our members.

Despite the increase in costs, the ratio of administrative expenses to average assets for the division, a traditional building society measure of efficiency, improved to 0.65% in the first half of the year (six months ended 30 June 2018: 0.67%; year ended 31 December 2018: 0.68%). The cost income ratio at a Mortgages and Savings division level increased to 57.2% (six months ended 30 June 2018: 54.3%; year ended 31 December 2018: 56.3%) due to the margin pressures and investments outlined above.

The percentage of the Society's mortgage accounts in arrears by three months or more fell to 0.21% (30 June 2018: 0.28%; 31 December 2018: 0.24%), which compares favourably to the UK Finance industry average for mortgages in arrears by more than three months of 0.78% (UK Finance figures as at 31 March 2019).

The percentage of mortgage accounts in arrears by three months or more has also remained low within Amber and NYM, at 2.21% and 1.40% respectively (30 June 2018: 2.41% and 1.01% respectively; 31 December 2018: 1.92% and 1.08% respectively). The run-off of these portfolios (each of which were closed to new business in 2008) 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 5.7% during the six months ended 30 June 2019 to £702.6m (six months ended 30 June 2018: decrease of 5.5% to £791.0m; year ended 31 December 2018: decrease of 11.0% to £744.9m).

The impairment charge on residential loans and advances to customers for the division was £0.6m (six months ended 30 June 2018: £1.9m; year ended 31 December 2018: £1.3m).

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 £0.6m for the impairment allowance on this portfolio (six months ended 30 June 2018: £0.2m credit; year ended 31 December 2018: £1.0m charge).

SIL, our Channel Islands operation, once again performed well in the first six months of the year, reporting pre-tax profits of £10.2m (six months ended 30 June 2018: £10.0m; year ended 31 December 2018: £20.1m). SIL reported increases in both its mortgage and savings books, which increased to £1,347.0m and £1,552.6m respectively (31 December 2018: £1,312.3m and £1,524.3m respectively), representing growth of 2.6% in the mortgage book and 1.9% growth in savings balances since the year end. The quality of the mortgage book remains good, with only one case in arrears by three months or more (30 June 2018: two cases; 31 December 2018: one case).

Estate Agency

The UK property market continued to be subdued during the first six months of the year, however the Connells group continued to perform well and achieved a pre-tax profit of £26.2m (six months ended 30 June 2018: £28.9m; year ended 31 December 2018: £56.9m).

Overall numbers of transactions in the UK housing market were below the same period in 2018. The number of house sales (exchanges) arranged by Connells in the period was 8% below the comparative period in 2018. However the land and new homes, lettings, mortgage services, conveyancing and survey and valuations divisions within Connells all contributed well in the period, further demonstrating the benefits of Connells' diversified business model.

Investment Portfolio

Skipton Business Finance Limited (a provider of debt factoring and invoice discounting to small and medium-sized enterprises) again performed well and produced a pre-tax profit for the period of £1.8m (six months ended 30 June 2018: £1.7m; year ended 31 December 2018: £3.8m).

Jade Software Corporation (a software solutions provider based in New Zealand that specialises in digital solutions and large IT enterprise solutions, as well as being the provider of the Society's core database and software development language) reported a loss of £0.2m for the period (six months ended 30 June 2018: £1.7m profit; year ended 31 December 2018: £3.8m profit).

Business Review *(continued)*

Sundry, including inter-divisional adjustments

The credit to the Income Statement for the first six months of 2019 for the long term management incentive scheme for the senior managers of Connells Limited was £0.1m (six months ended 30 June 2018: £4.0m credit; year ended 31 December 2018: £4.2m credit). 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 £9.3m 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 2018 Annual Report and Accounts.

The second instalment of contingent consideration relating to the sale of Homeloan Management Limited (HML) in 2014 was received in the period, amounting to £6.2m. The contingent consideration asset stands at £17.4m at 30 June 2019 (30 June 2018: £22.2m; 31 December 2018: £23.0m) and the profit recognised in the Income Statement for the period was £0.6m (30 June 2018: £2.4m; 31 December 2018: £3.3m); this is included in the 'Profit on disposal of subsidiary undertakings' line.

Other comprehensive income

During the period, the Group recognised a net expense through other comprehensive income (net of tax) of £3.8m (six months ended 30 June 2018: income of £1.1m; year ended 31 December 2018: expense of £4.5m). This includes:

- The remeasurement of retirement benefit obligations to reflect latest market conditions, which resulted in a loss of £1.6m (before tax) (six months ended 30 June 2018: gain of £2.7m; year ended 31 December 2018: loss of £3.1m); and
- Movements in the Group's fair value reserve, cost of hedging reserve and cash flow hedging reserve totalling a loss of £3.8m (before tax) (six months ended 30 June 2018: loss of £1.2m; year ended 31 December 2018: loss of £3.0m).

Financial position

Liquidity

The Group continues to hold healthy levels of liquid assets to support the business and to help mitigate economic uncertainty. The Liquidity Coverage Ratio (LCR), 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 177% at 30 June 2019 (30 June 2018: 210%; 31 December 2018: 203%); the reduction is predominately as a result of repaying £200m of funding under the Government's Term Funding Scheme (TFS). Liquidity remains well above both the regulatory limit of 100% and the internal limit set by the Board throughout the period.

At 30 June 2019, the Society held £2.8bn (30 June 2018: £3.5bn; 31 December 2018: £3.1bn) of High Quality Liquid Assets (HQLA) as analysed below:

	30.06.19 £m	30.06.18 £m	31.12.18 £m
Balances with the Bank of England	**1,516.3**	2,784.9	2,342.1
Gilts	**86.4**	94.7	105.0
Treasury bills	**407.5**	40.0	26.9
Fixed rate bonds	**332.6**	155.1	210.8
Floating rate notes	**74.1**	20.0	20.0
Residential mortgage backed securities	**179.0**	220.2	207.1
Covered bonds	**236.2**	165.7	208.6
	2,832.1	3,480.6	3,120.5

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

	30.06.19 £m	30.06.18 £m	31.12.18 £m
Cash with other institutions	**24.5**	75.1	50.1
Certificates of deposit	**274.6**	25.1	301.5
Fixed rate bonds	**31.0**	33.8	31.5
Residential mortgage backed securities	**-**	0.9	0.3
	330.1	134.9	383.4

The amounts for HQLA and non-HQLA as shown in the above tables are different to the total amount of liquid assets presented in the Society's Statement of Financial Position due to certain items being 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 92.2% of the Group's treasury investments are rated A3 or better (30 June 2018: 96.6%; 31 December 2018: 95.7%). The Group's policy is that initial investments in treasury assets are typically A3 or better (with the exception of some unrated building societies where separate credit analysis is undertaken). The majority of treasury investments that are not rated A3 or better relate to exposures to a central clearing house used to clear derivatives to manage interest rate risk.

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 2019 (30 June 2018: 139%; 31 December 2018: 143%), which is well in excess of the regulatory requirement of 100%.

When measured as a percentage of shares, deposits and borrowings, the liquidity ratio remained strong at 18.4% compared with 19.9% at 31 December 2018. The Group regularly conducts an Internal Liquidity Adequacy Assessment Process (ILAAP) in accordance with the Prudential Regulation Authority's (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.

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. Group mortgage balances saw strong growth of 5.9% in the period, increasing from £18.2bn at the end of 2018 to £19.2bn.

During the first half of the year, the Society helped a broad spectrum of borrowers, house movers and first-time buyers; alongside our core mortgage range, we offered loans requiring only a 5% deposit for first and next-time buyers, 'Help to Buy' equity loans, shared-ownership mortgages and a suite of buy-to-let loans. The Society's Loan to Value (LTV) of new lending in the period (calculated on a valuation-weighted basis) was 56.6% (six months ended 30 June 2018: 59.2%; year ended 31 December 2018: 57.1%). We consider our new lending to remain prudent and the mortgage book is well diversified by geographical location.

The Group holds an equity release mortgage book which is closed to new business. At 30 June 2019, the fair value of the Group's equity release portfolio was £412.0m (30 June 2018: £411.4m; 31 December 2018: £410.9m) (see note 12 to the Condensed Consolidated Financial Statements for further details).

As at 30 June 2019, the average indexed LTV of the total residential mortgage book (excluding equity release) was 47.0% (30 June 2018: 47.9%; 31 December 2018: 46.1%) (calculated on a valuation-weighted basis).

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

We remain committed to providing savers with competitive returns along with offering excellent customer service, which is reflected in the increase in retail savings balances of 3.6% during the period.

As at 30 June 2019, £16.7bn (30 June 2018: £15.4bn; 31 December 2018: £16.1bn) of our funding came from retail savings, representing 81.1% (30 June 2018: 82.2%; 31 December 2018: 81.6%) of total funding which is broadly unchanged from the end of the previous period.

In addition to our UK retail funding, the Group also accepts deposits through our Channel Islands based subsidiary, SIL, with balances totalling £1.6bn (30 June 2018: £1.4bn; 31 December 2018: £1.5bn). 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 requirements through the wholesale markets. We maintain a diverse funding portfolio to prevent over-reliance on any one source, and, taking into consideration the term profile of our lending, closely manage the term of our funding in order to manage the risks of duration mis-match. At 30 June 2019, our wholesale funding balances amounted to £3.7bn (30 June 2018: £3.2bn; 31 December 2018: £3.5bn). The Group's wholesale funding ratio remained relatively stable at 18.9% as at 30 June 2019 (30 June 2018: 17.8%; 31 December 2018: 18.4%).

During the six month period, the Society repaid £200m of funding under the Government's Term Funding Scheme, leaving an outstanding amount at the end of the period of £1,650m (30 June 2018: £1,850m; 31 December 2018: £1,850m).

In March 2019, the Society raised £600m of wholesale funding through a covered bond transaction with a term of five years. The Society also repaid £84m of wholesale funding secured on a portfolio of residential mortgages, raised through one of the Society's special purpose vehicles Darrowby No. 3 plc.

In April 2019, global ratings agency Fitch confirmed the Society's long term rating of A- (stable outlook) and also affirmed its short term rating of F1. Our Moody's rating has remained unchanged with a long term rating of Baa1 (positive outlook) and a short term rating of P-2. This reflects the continued financial strength of the Society.

Capital

Capital comprises principally the 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. The prudential group comprises the entire Group except Connells and a small number of other entities whose activities are not closely aligned with the core business.

Total regulatory capital has increased by £46.4m from 31 December 2018 to £1,494.8m (30 June 2018: £1,368.0m; 31 December 2018: £1,448.4m). This is mainly due to retained profits, including interim dividend income from Connells, accumulated during the period.

Risk weighted assets (RWAs) have increased by £71.1m in the period to £4,346.1m (30 June 2018: £3,991.2m; 31 December 2018: £4,275.0m). Whilst we have seen growth in mortgage balances in the year, we have seen an improvement in risk weights as a result of reduced arrears and moderate house price growth resulting in lower RWAs for mortgage assets. This reduction in RWAs is outweighed by an increase in the fair value of hedge adjustments on fixed rate assets as the markets have lowered their long term expectations for interest rates. RWAs have also increased as the Society now holds slightly more higher risk weighted liquid assets to increase diversification of its liquidity portfolio.

As a result of these movements, the CET 1 ratio has increased to 33.5% from 32.9% at 31 December 2018.

The leverage ratio, a non-risk based capital measure, has remained healthy and relatively stable at 6.1% at 30

June 2019 (30 June 2018: 5.9%; 31 December 2018: 6.2%) showing that the growth in mortgage lending has been offset by the profits and dividend income accumulated during the period.

The following table shows the composition of the prudential group's regulatory capital as at 30 June 2019. The capital ratios are reported on a CRD IV transitional basis. On a transitional basis £40m of PIBS are being phased out of Additional Tier 1 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 the same at 33.5%, the Tier 1 ratio would be 33.5% and the total capital ratio would remain the same at 34.4%. The leverage ratio is reported on an end-point basis.

	30.06.19 £m	30.06.18 Restated* £m	31.12.18 Restated* £m
Capital resources			
Common Equity Tier 1 capital	**1,454.8**	1,328.0	1,408.4
Total Tier 1 capital	**1,481.8**	1,364.0	1,444.4
Total Tier 2 capital	**13.0**	4.0	4.0
Total regulatory capital	**1,494.8**	1,368.0	1,448.4
Risk weighted assets	**4,346.1**	3,991.2*	4,275.0*
Capital and leverage ratios (note 1)			
Common Equity Tier 1 ratio (CET 1)	**33.5%**	33.3%*	32.9%
Tier 1 ratio	**34.1%**	34.2%*	33.8%
Total capital ratio	**34.4%**	34.3%*	33.9%*
Leverage ratio	**6.1%**	5.9%	6.2%
UK leverage ratio (note 2)	**6.6%**	6.7%	6.9%

* The comparative figures have been restated as a result of the restatement described within the Statement of Financial Position on page 15. The impact of the restatement is a decrease to RWAs (30 June 2018: £4.2m; 31 December 2018: £4.3m) and an increase to each of the ratios indicated of 0.1%.

Notes

1. The capital ratios are calculated as relevant capital divided by risk weighted assets and the leverage ratio is calculated as Tier 1 capital divided by total exposure, i.e. total assets per the prudential group consolidated position (subject to some regulatory adjustments). The leverage ratio is reported on a CRD IV end-point basis; under CRD IV end-point rules the PIBS are fully transitioned into Tier 2 capital.
2. The UK leverage ratio represents the UK regulatory regime which excludes deposits with central banks from the leverage exposure measure.

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

Capital management

The Group is regulated by the PRA and the Financial Conduct Authority (FCA) and is required to manage its capital in accordance with the rules and guidance issued by the PRA under CRD IV. The capital requirements of the Group are monitored on an ongoing basis to ensure the minimum regulatory requirement is always met and that the Group has sufficient levels of capital for current and projected future activities.

Pillar 1

The Group holds capital to meet Pillar 1 requirements for credit risk, operational risk and market risk. The IRB approach is applied to calculate the capital requirement for 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.

Pillar 2A

The PRA requires the Group to hold additional Pillar 2A capital for the risks not covered under Pillar 1. At 30 June 2019 this was 3.3% of risk weighted assets, a point in time estimate set by the PRA during 2018.

Minimum Requirement for Own Funds and Eligible Liabilities

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, then changes to the higher rate of 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 current economic climate remains somewhat uncertain, whilst there also exists significant political uncertainty, with the nature of the EU exit deal and the future trade relationship of the UK with the rest of Europe and the world still unknown. Whilst the Group's UK focus means it is not necessarily directly impacted by Brexit in the immediate future, wider economic changes could potentially impact the Society and its subsidiaries in the medium and longer term.

The Directors continue to closely monitor political, regulatory and economic developments and understand the need to maintain a forward-looking focus and run appropriately severe scenarios to test the Group's resilience to possibly unforeseen risk events, including the potential impacts of Brexit, and, where appropriate, build mitigating strategies.

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 2018 Annual Report and Accounts, nor as a result of the contingent liability disclosed in note 16 to the Condensed Consolidated Financial Statements.

The principal risks were categorised in the 2018 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 itself against the principal risks it faces such as severe recession or business shocks. The Group conducts an Internal Capital Adequacy Assessment Process (ICAAP) 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 plans.

- 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 Group.

- 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 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 embed its approach to business resilience and continuity to ensure that this is reflective of business changes over time and remains fit for purpose. The focus for the rest of the year is on embedding appropriate resilience-focused management information into the business.

- 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 62 to 69 of the 2018 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

Bobby Ndawula

Group Finance Director

30 July 2019

Condensed Consolidated Income Statement

For the half year ended 30 June 2019

	Notes	**Unaudited 6 months to 30.06.19 £m**	Unaudited 6 months to 30.06.18* Restated^ £m	Audited 12 months to 31.12.18* Restated^ £m
Interest receivable and similar income				
Calculated using the effective interest rate method	3	**260.7**	240.0	488.5
On financial instruments at fair value through profit or loss (FVTPL)	3	**(6.0)**	(11.8)	(14.7)
Total interest receivable and similar income		**254.7**	228.2	473.8
Interest payable and similar charges	4	**(134.8)**	(106.5)	(232.6)
Net interest receivable		**119.9**	121.7	241.2
Fees and commissions receivable	5	**246.7**	239.6	496.4
Fees and commissions payable		**(4.1)**	(2.9)	(7.6)
Fair value gains / (losses) on financial instruments:				
Hedging instruments and hedged items		**0.1**	0.1	1.5
Other derivatives	12	**(12.2)**	24.2	18.1
Equity release portfolio	12	**(0.3)**	(16.1)	(17.1)
Other financial instruments		**-**	-	(0.3)
Realised profits on treasury assets held at fair value through other comprehensive income (FVOCI)		**2.4**	-	-
Profit on disposal of subsidiary undertakings		**0.6**	2.4	3.3
Share of profits from joint ventures		**0.9**	0.1	0.8
Other income		**0.8**	0.8	3.7
Total income		**354.8**	369.9	740.0
Administrative expenses	6	**(274.7)**	(257.3)	(536.5)
Operating profit before impairment and provisions		**80.1**	112.6	203.5
Impairment losses on loans and advances to customers	7	**-**	(1.7)	(2.5)
Impairment losses on liquid assets		**(0.6)**	(0.1)	(0.1)
Realised losses on equity release portfolio	12	**(0.4)**	(0.4)	(0.7)
Provisions for liabilities	9	**(6.8)**	(5.7)	(12.0)
Profit before tax		**72.3**	104.7	188.2
Tax expense		**(13.9)**	(22.4)	(40.6)
Profit for the period attributable to members of Skipton Building Society		**58.4**	82.3	147.6

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated. See note 1b) for further details.

^ The comparative figures have been restated following a review of the presentation of certain lines of revenue within the Connells group resulting in an increase to both 'Fees and commissions receivable' and 'Administrative expenses' (six months ended 30 June 2018: £7.6m; year ended 31 December 2018: £15.5m); there is no impact on profits nor on opening reserves for either of the comparative periods. See note 5 for further details.

Segmental performance of the Group is shown in note 18.

The notes on pages 20 to 50 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 2019

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

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated. See note 1b) for further details.

The notes on pages 20 to 50 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	**Unaudited as at 30.06.19 £m**	Unaudited as at 30.06.18* Restated^ £m	Audited as at 31.12.18* Restated^ £m
Assets				
Cash in hand and balances with the Bank of England		**1,573.5**	2,833.4	2,395.7
Loans and advances to credit institutions held at amortised cost		**563.3**	403.0	422.7
Debt securities	8	**1,916.9**	1,004.7	1,383.1
Derivative financial instruments		**53.0**	82.3	72.3
Loans and advances to customers held at amortised cost	11	**19,279.6**	16,930.6	18,127.0
Loans and advances to customers held at FVTPL		**1.6**	-	1.9
Equity release portfolio at FVTPL	12	**412.0**	411.4	410.9
Deferred tax asset		**37.4**	37.5	37.3
Investments in joint ventures		**11.7**	11.5	12.2
Equity share investments held at FVTPL		**1.4**	0.8	0.8
Property, plant and equipment		**75.3**	78.5	77.9
Right-of-use assets	1b)	**64.5**	-	-
Investment property		**9.7**	13.9	12.0
Intangible assets		**161.0**	162.4	161.4
Other assets		**84.1**	87.0	84.9
Total assets		**24,245.0**	22,057.0	23,200.1
Liabilities				
Shares		**16,713.3**	15,438.1	16,113.5
Amounts owed to credit institutions		**1,698.0**	1,891.3	1,878.0
Amounts owed to other customers		**1,654.0**	1,700.3	1,690.4
Debt securities in issue	13	**1,927.9**	1,014.3	1,420.3
Derivative financial instruments		**347.7**	283.0	279.4
Current tax liability		**11.6**	20.7	18.6
Lease liabilities	1b)	**62.6**	-	-
Other liabilities		**53.6**	56.0	56.9
Accruals		**38.1**	38.2	48.9
Deferred income		**3.0**	2.8	2.7
Provisions for liabilities	9	**21.5**	25.1	24.3
Deferred tax liability		**1.1**	2.8	1.2
Retirement benefit obligations		**91.6**	93.2	99.5
Subscribed capital		**41.6**	41.6	41.6
Total liabilities		**22,665.6**	20,607.4	21,675.3
Members' interests				
General reserve		**1,576.1**	1,442.3	1,518.7
Fair value reserve		**1.9**	2.6	1.6
Cash flow hedging reserve		**(1.9)**	(0.3)	(0.2)
Cost of hedging reserve		**(2.0)**	-	(0.5)
Translation reserve		**5.3**	5.0	5.2
Attributable to members of Skipton Building Society		**1,579.4**	1,449.6	1,524.8
Total members' interests and liabilities		**24,245.0**	22,057.0	23,200.1

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated. See note 1b) for further details.

^ The comparative figures for deferred tax assets and deferred tax liabilities have been restated to, where appropriate, present deferred tax on a net basis. The restatement more accurately reflects the nature of these items as the tax in question will ultimately be settled on a net basis. This has resulted in a decrease to both deferred tax assets and deferred tax liabilities (30 June 2018: £4.2m; 31 December 2018: £4.3m) with corresponding decreases to total assets and total liabilities for each comparative period.

The notes on pages 20 to 50 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 2019

	General reserve £m	Fair value reserve £m	Cash flow hedging reserve £m	Cost of hedging reserve £m	Translation reserve £m	Total £m
Balance at 1 January 2019	**1,518.7**	**1.6**	**(0.2)**	**(0.5)**	**5.2**	**1,524.8**
Profit for the period	58.4	-	-	-	-	**58.4**
Other comprehensive income:						
Remeasurement losses on defined benefit obligations	(1.0)	-	-	-	-	**(1.0)**
Net gains / (losses) from changes in fair value	-	0.2	(2.2)	(1.5)	-	**(3.5)**
Debt instruments at FVOCI: impairment loss allowance	-	0.1	-	-	-	**0.1**
Cash flow hedges: realised losses transferred to Income Statement	-	-	0.5	-	-	**0.5**
Exchange differences on translation of foreign operations	-	-	-	-	0.1	**0.1**
Total other comprehensive income	**(1.0)**	**0.3**	**(1.7)**	**(1.5)**	**0.1**	**(3.8)**
Total comprehensive income for the period	**57.4**	**0.3**	**(1.7)**	**(1.5)**	**0.1**	**54.6**
Balance at 30 June 2019	**1,576.1**	**1.9**	**(1.9)**	**(2.0)**	**5.3**	**1,579.4**

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

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated. See note 1b) for further details.

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

Audited for the year ended 31 December 2018*

	General reserve £m	Available-for-sale reserve £m	Fair value reserve £m	Cash flow hedging reserve £m	Cost of 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	147.6	-	-	-	-	-	147.6
Other comprehensive income:							
Remeasurement losses on defined benefit obligations	(2.1)	-	-	-	-	-	(2.1)
Net losses from changes in fair value	-	-	(1.7)	(0.3)	(0.5)	-	(2.5)
Debt securities at FVOCI: impairment loss allowance	-	-	0.1	-	-	-	0.1
Total other comprehensive income	(2.1)	-	(1.6)	(0.3)	(0.5)	-	(4.5)
Total comprehensive income for the year	145.5	-	(1.6)	(0.3)	(0.5)	-	143.1
Transfer of engagements	15.5	-	-	-	-	-	15.5
Balance at 31 December 2018	1,518.7	-	1.6	(0.2)	(0.5)	5.2	1,524.8

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated. See note 1b) for further details.

The notes on pages 20 to 50 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 2019

	Notes	**Unaudited 6 months to 30.06.19 £m**	Unaudited 6 months to 30.06.18* £m	Audited 12 months to 31.12.18* £m
Cash flows from operating activities				
Profit before tax		**72.3**	104.7	188.2
Adjustments for:				
Impairment charge on loans and advances to customers	7	**-**	1.7	2.5
Loans and advances written off, net of recoveries		**(0.9)**	(1.1)	(1.7)
Impairment losses on liquid assets		**0.6**	0.1	0.1
Impairment losses on trade receivables		**0.2**	0.2	0.8
Impairment of goodwill		**-**	1.3	2.5
Depreciation and amortisation		**18.8**	10.7	21.1
Impairment of property, plant and equipment and investment property		**0.3**	-	2.3
Income Statement credit for fair value of subsidiary management incentive scheme liability		**(0.1)**	(4.0)	(4.2)
Fair value losses on equity share investments		**-**	-	0.3
Interest on subscribed capital	4	**2.2**	2.2	4.5
Interest on lease liabilities	4	**0.7**	-	-
Profit on disposal of property, plant and equipment, investment property and intangible assets		**(0.6)**	(0.3)	(0.3)
Profit on disposal of treasury assets		**(2.4)**	-	-
Share of profits from joint ventures		**(0.9)**	(0.1)	(0.8)
Profit on disposal of subsidiary undertakings		**(0.6)**	(2.4)	(3.3)
Fair value losses on the equity release portfolio	12	**0.3**	16.1	17.1
Realised losses on equity release portfolio	12	**0.4**	0.4	0.7
Other non-cash movements		**(4.9)**	(2.7)	(13.3)
		85.4	126.8	216.5
Changes in operating assets and liabilities:				
Movement in prepayments and accrued income		**1.6**	(2.0)	(2.4)
Movement in accruals and deferred income		**(23.9)**	(24.3)	15.7
Movement in provisions for liabilities		**(2.5)**	(1.0)	(1.8)
Movement in fair value of derivatives		**87.6**	(23.6)	(17.2)
Movement in fair value adjustments for hedged risk		**(57.6)**	0.7	(8.2)
Fair value movements in debt securities	8	**(1.3)**	2.7	4.3
Movement in loans and advances to customers		**(1,065.2)**	(454.4)	(1,501.4)
Movement in shares		**601.3**	484.9	1,018.0
Net movement in amounts owed to credit institutions and other customers		**(220.4)**	301.0	260.3
Net movement in debt securities in issue		**492.9**	348.6	746.8
Net movement in loans and advances to credit institutions		**(87.6)**	(100.4)	(107.1)
Remeasurement (losses) / gains on defined benefit obligations		**(1.6)**	2.7	(3.1)
Net movement in other assets		**(8.5)**	31.3	36.5
Net movement in other liabilities		**(1.5)**	(46.8)	(37.3)
Income taxes paid		**(19.6)**	(20.8)	(40.4)
Net cash flows from operating activities		**(220.9)**	625.4	579.2

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated. See note 1b) for further details.

Condensed Consolidated Statement of Cash Flows *(continued)*

For the half year ended 30 June 2019

	Notes	**Unaudited 6 months to 30.06.19 £m**	Unaudited 6 months to 30.06.18* £m	Audited 12 months to 31.12.18* £m
Net cash flows from operating activities		**(220.9)**	625.4	579.2
Cash flows from investing activities				
Purchase of debt securities	8	**(1,531.7)**	(628.1)	(1,763.2)
Proceeds from disposal of debt securities		**1,001.6**	411.8	1,166.9
Purchase of property, plant and equipment and investment property		**(4.8)**	(8.2)	(14.5)
Purchase of intangible assets		**(3.0)**	(1.9)	(4.9)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		**3.1**	1.2	1.5
Exercise of share options in subsidiary management incentive scheme		**(9.3)**	(9.8)	(9.8)
Exercise of put options held by non-controlling shareholders		**(0.2)**	(0.2)	(0.3)
Dividends received from joint ventures		**1.4**	1.4	1.4
Cash acquired on transfer of engagements		**-**	-	12.9
Contingent consideration received following disposal of subsidiary (net of costs)		**6.2**	5.3	5.4
Investment in equity share investments		**(0.6)**	(0.4)	(0.7)
Purchase of other business units		**-**	(0.5)	(0.6)
Deferred consideration paid in respect of prior year acquisitions of subsidiary undertakings and business units		**(0.1)**	(0.1)	(1.6)
Net cash flows from investing activities		**(537.4)**	(229.5)	(607.5)
Cash flows from financing activities				
Interest paid on subscribed capital		**(2.2)**	(2.2)	(4.5)
Interest paid on lease liabilities		**(0.7)**	-	-
Payment of lease liabilities		**(7.5)**	-	-
Net cash flows from financing activities		**(10.4)**	(2.2)	(4.5)
Net (decrease) / increase in cash and cash equivalents		**(768.7)**	393.7	(32.8)
Cash and cash equivalents at 1 January		**2,421.9**	2,455.0	2,455.0
Adjustment on initial adoption of IFRS 9**		**-**	-	(0.3)
Increase in impairment allowance on cash and cash equivalents		**(0.4)**	-	-
Cash and cash equivalents at end of period		**1,652.8**	2,848.7	2,421.9

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated. See note 1b) for further details.
** In the cash flow statement for the 6 months to 30 June 2018 the adjustment on initial adoption of IFRS 9 of £(0.3)m was not separately presented but was included within cash flows from operating activities.

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

	Unaudited as at 30.06.19 £m	Unaudited as at 30.06.18* £m	Audited as at 31.12.18* £m
Cash in hand and balances with the Bank of England	**1,573.5**	2,833.4	2,395.7
Mandatory reserve deposit with the Bank of England	**(51.0)**	(43.2)	(46.9)
	1,522.5	2,790.2	2,348.8
Loans and advances to credit institutions	**130.3**	58.5	73.1
Cash and cash equivalents at end of period	**1,652.8**	2,848.7	2,421.9

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated. See note 1b) for further details.

The notes on pages 20 to 50 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 2019 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 2018.

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 16 *Leases* (as outlined below in note 1b)), changes in presentation of certain lines of revenue (as outlined in note 5) and changes in presentation of deferred tax balances (as outlined on page 15). Several other amendments and interpretations apply for the first time in 2019, but do not have a significant impact on these condensed consolidated financial statements.

b) Changes to significant accounting policies

The Group has adopted IFRS 16 with effect from 1 January 2019. The effects of initially adopting this standard are set out below.

IFRS 16

IFRS 16 *Leases* supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases (subject to certain limited exemptions) under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17; lessors will continue to classify leases as either operating or finance leases, using principles similar to those in IAS 17.

Impact of initial adoption

The Group has a significant number of lease contracts, primarily relating to leases of branch premises operated by the Society and by Connells. The Group adopted IFRS 16 with an initial application date of 1 January 2019, using the modified retrospective method. Under this method, the cumulative effect of initial application is recognised in retained earnings at 1 January 2019 and comparative information for prior periods is not restated.

On transition to IFRS 16, the Group elected to apply the following exemptions and practical expedients permitted by the standard:

- For the purposes of identifying leases held by the Group at 1 January 2019, the Group elected to retain the assessments previously made by the Group under IAS 17 and IFRIC 4; IFRS 16 was therefore initially applied at 1 January 2019 only to those contracts that were previously identified as leases under IAS 17 and IFRIC 4;
- The Group elected to take the recognition exemption for short-term leases, except for property leases that are short-term by virtue of being under renegotiation. Short-term leases are those which, at the commencement date, have a lease term of not more than twelve months and do not contain a purchase option;
- The Group elected to take the recognition exemption for leases for which the underlying asset is of low value, except for leases of motor vehicles;
- Certain of the Group's lease contracts contain non-lease components (e.g. service charges). Except for property leases, the Group elected not to separate out the non-lease components and therefore to account for these as part of the lease component.

Prior to IFRS 16, the Group's leases were classified as operating leases under IAS 17 and lease rentals were expensed to the Income Statement on a straight-line basis over the period of the lease agreement (presented within 'Administrative expenses').

On adoption of IFRS 16, the Group's leases (other than where exemptions taken for short-term leases and leases of low value assets) are brought onto the balance sheet; lease liabilities are recognised in respect of the Group's obligations to make future lease payments and 'right-of-use' assets are recognised that represent the Group's right to use the underlying assets. Following adoption of IFRS 16, lease rentals are no longer expensed directly to the Income Statement (other than for exempt leases); instead, amounts expensed to the Income Statement represent the interest costs on lease liabilities (presented within 'Interest payable and similar charges') and the depreciation charge on right-of-use assets (presented within 'Administrative expenses'). For exempt leases, the Group continues to expense lease rentals to the Income Statement on a straight-line basis over the lease term (presented within 'Administrative expenses').

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

1. Introduction *(continued)*

The table below summarises the post-tax impact of transition to IFRS 16 on the Group's general reserve at 1 January 2019.

Unaudited	**Increase / (decrease) in general reserve on adoption of IFRS 16 at 1 January 2019** **£m**
Recognition of lease liabilities (note 1)	**(65.9)**
Recognition of right-of-use assets (note 2)	**69.1**
Impairment of right-of-use assets (note 3)	**(0.3)**
Decrease in prepayments (note 2)	**(3.2)**
Decrease in provisions for liabilities (note 3)	**0.3**
	-

Notes

1. In accordance with IFRS 16, lease liabilities recognised on transition were measured as the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at 1 January 2019. The incremental borrowing rates applied at 1 January 2019 ranged from 1.4% to 5.5%, depending on the lease term and country. As disclosed in note 32b) to the 2018 Annual Report and Accounts, the Group's future minimum lease payments under non-cancellable operating leases as at 31 December 2018 were £69.2m on an undiscounted basis.
2. As permitted by IFRS 16, the Group chose to measure the transition right-of-use assets at an amount equal to the transition lease liabilities, adjusted by the amount of any prepaid or accrued lease payments recognised in the Statement of Financial Position immediately prior to the transition date (£3.2m prepaid as at 31 December 2018).
3. As required by IFRS 16, the Group has applied IAS 36 *Impairment of Assets* to right-of-use assets at 1 January 2019 resulting in impairment on transition of £0.3m. This amount had been recognised by the Group in previous periods and held within provisions for liabilities as at 31 December 2018, hence no impact on reserves at transition.

Impact for the period

The Income Statement for the period ended 30 June 2019 includes the following income / (expense) in respect of leases:

	Unaudited 6 months to 30.06.19 **£m**
Interest expense on lease liabilities	**(0.7)**
Depreciation charge on right-of-use assets	**(8.5)**
Lease rental expense - exempt leases:	
Short-term leases	**(1.0)**
Leases of low-value assets	**(0.1)**
Lease rental expense – variable lease payments	**(0.1)**
Income from subleasing of right-of-use assets	**0.2**

The Statement of Financial Position as at 30 June 2019 includes the following amounts in respect of leases:

Unaudited 6 months to 30.06.19

	Right-of-use assets			**Lease liabilities**
	Land and buildings **£m**	**Equipment, fixtures and fittings** **£m**	**Total** **£m**	**Total** **£m**
At 31 December 2018	-	-	**-**	**-**
Adjustment on initial adoption of IFRS 16	67.8	1.0	**68.8**	**65.9**
At 1 January 2019	**67.8**	**1.0**	**68.8**	**65.9**
Additions	4.4	0.2	**4.6**	**4.6**
Disposals	(0.4)	-	**(0.4)**	**(0.4)**
Depreciation	(8.2)	(0.3)	**(8.5)**	**-**
Interest expense	-	-	**-**	**0.7**
Payments	-	-	**-**	**(8.2)**
At 30 June 2019	**63.6**	**0.9**	**64.5**	**62.6**

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

1. Introduction *(continued)*

Impact on regulatory capital

The impact on the Group's regulatory capital of transition to IFRS 16 at 1 January 2019 is to reduce the CET 1 ratio by 0.1%, from 32.9% at 31 December 2018 to 32.8%, as a result of the increase to risk weighted assets arising from the recognition of right-of-use assets on the balance sheet. The leverage ratio was unchanged at 6.2%.

Significant accounting policies

Details of the Group's new accounting policies for leases following adoption of IFRS 16 are set out below.

Definition of a lease

IFRS 16 introduces a new definition of a lease. Under IFRS 16 a contract is a lease, or contains a lease, if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the following practical expedient permitted by the standard:

- For the purposes of identifying leases held by the Group at 1 January 2019, the Group elected to retain the assessments previously made by the Group under IAS 17 and IFRIC 4; IFRS 16 was therefore initially applied at 1 January 2019 only to those contracts that were previously identified as leases under IAS 17 and IFRIC 4. Contracts existing at 1 January 2019 that were not previously identified as leases under IAS 17 and IFRIC 4 were not reassessed. The new IFRS 16 definition of a lease is therefore applied by the Group only to contracts entered into, or changed, on or after 1 January 2019.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset becomes available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date, less any lease incentives received. Where an obligation is incurred by the Group, the cost also includes an estimate of costs for dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments for this purpose include fixed payments (including in-substance fixed payments but deducting lease incentives receivable), variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option where reasonably certain to be exercised by the Group, and payments of penalties for terminating a lease (if the lease term reflects the Group exercising the option to terminate). Variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

The present value of lease payments is determined using an appropriate discount rate. The Group uses the interest rate implicit in the lease where this can be readily determined; otherwise (and generally), the Group uses its incremental borrowing rate at the lease commencement date.

After the commencement date, the lease liability is increased to reflect the accretion of interest and is reduced for lease payments made. In addition, the lease liability is remeasured if there is a modification, a change in lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Exempt leases

The Group has elected to take the recognition exemption for short-term leases, except for property leases that are short-term by virtue of being under renegotiation. Short-term leases are those which, at the commencement date, have a lease term of not more than twelve months and do not contain a purchase option.

The Group has elected to take the recognition exemption for leases for which the underlying asset is of low value, except for leases of motor vehicles. The Group considers an underlying asset to be of low value where its value, when new, is not more than approximately £4,000.

For exempt leases, the Group expenses lease rentals to the Income Statement on a straight-line basis over the lease term.

1. Introduction *(continued)*

Other practical expedients

Certain of the Group's lease contracts contain non-lease components (e.g. service charges). Except for property leases, the Group has elected not to separate out the non-lease components and therefore to account for these as part of the lease component. For property leases, the Group accounts separately for lease components and non-lease components.

c) Critical accounting estimates and judgements in applying accounting policies

Note 1t) to the 2018 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. Updated information for certain key estimates and judgements is set out below.

Impairment of mortgage loans and advances

Assessing loan impairment in accordance with IFRS 9 requires the Group to determine whether credit risk has significantly increased since the loan was initially recognised. For residential mortgages, management judges that this is determined by reference to certain quantitative and qualitative criteria. The quantitative criteria involve measuring the relative increase in lifetime probability of default (PD) for the loan. The Group determines thresholds for this purpose, expressed as a multiple of the initial PD estimate. The thresholds vary according to the credit quality of the loan at initial recognition and are set with the aim of identifying accounts with significantly increased credit risk before the borrower misses a payment. The Group periodically reviews the effectiveness of these thresholds in achieving this objective and, as a result of this review, has revised during the period the thresholds applied by the Group. Details of these changes, which do not materially impact these condensed consolidated financial statements, are set out below. Each of the new multiples is lower than that previously applied, reflecting changes in definition for each of the three risk bands.

Lifetime PD band at initial recognition	**Multiple by which remaining lifetime PD has increased compared to initial estimate**		
	Unaudited Applied at 30.06.19	Unaudited Applied at 30.06.18	Audited Applied at 31.12.18
Low risk	initial estimate x 5	initial estimate x 14	initial estimate x 14
Medium risk	initial estimate x 2.6	initial estimate x 5	initial estimate x 5
High risk	initial estimate x 1	initial estimate x 2.5	initial estimate x 2.5

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 (EAD) and Loss Given Default (LGD).

Further, 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 range of representative scenarios for the possible future direction of key economic variables and a probability-weighting is assigned to each scenario. The Group's 'base case' scenario represents a view of the most likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. In addition, the Group incorporates an upside scenario (a more optimistic view than the base case) and a downside scenario (a more pessimistic view than the base case). The scenarios applied by the Group as at 30 June 2019 were determined with due consideration to the economic uncertainty surrounding the UK's planned departure from the EU. The downside scenario is set in the context of a 'no-deal' Brexit that disrupts the UK economy. Economic indicators used are stressed sufficiently to capture the non-linear impact on ECLs for the Group's mortgage portfolios. The upside scenario is set in the context of a smooth exit from the EU. The relative weightings assigned to each scenario have been revised in the period to reflect the increased risk of a no-deal Brexit and as at 30 June 2019 were base case 55%, upside scenario 15% and downside scenario 30% (30 June 2018: base case 60%, upside scenario 20%, downside scenario 20%; 31 December 2018: base case 60%, upside scenario 15%, downside scenario 25%).

1. Introduction *(continued)*

The following table outlines the impact on the impairment loss allowance for the residential loan portfolio of possible alternative assumptions of certain estimates used in calculating the ECLs. Each sensitivity shown considers one change in isolation and the combined impact on the impairment loss allowance of more than one sensitivity 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**		
		Unaudited at 30.06.19 £m	Unaudited at 30.06.18 £m	Audited at 31.12.18 £m
Downturn scenario weighting (note 1)	Absolute increase of 10%	**0.4**	0.5	0.5
Downturn scenario weighting (note 2)	Increase to 100%	**3.3**	4.2	4.0
Base case scenario weighting (note 3)	Increase to 100%	**(1.3)**	(0.9)	(1.3)
Significant increase in credit risk criteria (note 4)	Relative reduction of 25%	**0.2**	0.1	0.1
Future house price inflation (note 5)	+ / - 0.5% p.a.	**(0.4) / 0.4**	(0.3) / 0.4	(0.4) / 0.4

Notes

1. This sensitivity shows the impact of an increase of 10% to the probability weighting assigned to the downside scenario, from 30% to 40% (30 June 2018: from 20% to 30%; 31 December 2018: from 25% to 35%), with a relative decrease to the probability weighting assigned to each of the base case and upside scenarios.
2. This sensitivity shows the impact of increasing to 100% the probability weighting assigned to the downside scenario (and therefore zero probability weighting assigned to both the base case and upside scenarios).
3. This sensitivity shows the impact of increasing to 100% the probability weighting assigned to the base case scenario (and therefore zero probability weighting assigned to both the upside and downside scenarios).
4. As outlined above, the assessment of whether credit risk has significantly increased since initial recognition includes the degree by which the remaining lifetime PD at the reporting date has increased compared to initial estimates. This sensitivity shows the impact of simultaneously reducing each multiplier threshold by 25%.
5. For comparability, the amounts shown above for the sensitivity to future house price inflation as at 30 June 2018 are re-presented to align with the Group's current estimation techniques.

The following table outlines the impact on the impairment loss allowance for the commercial loan portfolio of possible alternative assumptions of certain estimates used in calculating the ECLs. Each sensitivity shown considers one change in isolation and the combined impact on the impairment loss allowance of more than one sensitivity 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**		
		Unaudited at 30.06.19 £m	Unaudited at 30.06.18 £m	Audited at 31.12.18 £m
Downturn scenario weighting	Absolute increase of 10%	**0.3**	0.5	0.5
Downturn scenario weighting	Increase to 100%	**2.2**	4.4	3.4
Base case scenario weighting	Increase to 100%	**(0.6)**	(0.6)	(0.8)
Significant increase in credit risk criteria (note 1)	Additional 5% of balances placed on watchlist	**2.2**	2.4	2.6
Future commercial property price growth	+ / - 0.5% p.a.	**(0.1) / 0.1**	(0.1) / 0.1	(0.1) / 0.1

Note

1. The assessment of whether credit risk has significantly increased since initial recognition is based on accounts being placed on a watchlist or being in arrears. This sensitivity shows the impact of management identifying an additional 5% of gross loan balances to be placed on a watchlist. The impact has been estimated by reference to the average ECL coverage ratios by stage for the commercial loan portfolio as at the relevant period end.

1. Introduction *(continued)*

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, anticipated 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.

		(Decrease) / increase in fair value of portfolio		
Assumption	**Change to current assumption**	**Unaudited at 30.06.19 £m**	Unaudited at 30.06.18 £m	Audited at 31.12.18 £m
Redemption rates	+ / - 1% p.a.	**(11.6) / 13.0**	(12.8) / 14.5	(12.3) / 13.7
Discount rate	+ / - 0.2%	**(10.4) / 10.8**	(11.1) / 11.5	(10.8) / 11.2
HPI forecast	+ / - 0.5% p.a.	**11.3 / (12.9)**	9.6 / (11.5)	10.2 / (11.9)
Impact of property dilapidations	+ / - 5%	**(8.9) / 7.6**	(7.2) / 6.0	(7.8) / 6.6
HPI volatility	+ / - 3% p.a.	**(4.7) / 3.9**	(4.6) / 4.3	(4.8) / 4.1

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

The sensitivities are calculated by comparing the fair value of the portfolio, as reported in the Statement of Financial Position, to the value of the portfolio at the reporting date when each input is adjusted as listed above, as per the valuation model. Each sensitivity shown 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.

Derivative financial instruments

The Group holds derivatives to economically 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 moves permanently 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 an element of management judgement is applied based on historical performance of redemptions.

Some of these derivatives hedge not only the interest rate risk but also the inflation risk within the equity release 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 cash flows 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 control procedures in place regarding the inputs to the valuation that are based on management judgement.

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

		(Decrease) / increase in liability		
Assumption	**Change to current assumption**	**Unaudited at 30.06.19 £m**	Unaudited at 30.06.18 £m	Audited at 31.12.18 £m
Redemption rates	+ / - 1% pa	**(17.0) / 19.4**	(17.6) / 20.2	(17.0) / 19.3

1. Introduction *(continued)*

IFRS 16

The changes to critical estimates and assumptions used by the Group as a result of adopting IFRS 16, that have an effect on the reported amounts of assets and liabilities, are outlined below.

Lease term

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease where this is reasonably certain to be exercised, or any periods covered by an option to terminate the lease where this is reasonably certain not to be exercised.

Many of the Group's leases, particular property leases, contain options for the Group to extend and / or terminate the lease term. The Group applies judgement in evaluating whether it is reasonably certain to exercise these options, taking account of all relevant factors that create an economic incentive for it to do so. After the lease commencement date, the Group reassesses the lease term if there has been a significant event or change in circumstances that is within its control and which affects its ability to exercise (or not to exercise) the option to renew and / or to terminate (e.g. a change in business strategy).

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 12.

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 2018 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 2023. 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. 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 2018 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 2019 was approved by the Board of Directors on 30 July 2019.

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

3. Interest receivable and similar income

	Unaudited 6 months to 30.06.19 £m	Unaudited 6 months to 30.06.18 £m	Audited 12 months to 31.12.18 £m
On financial assets measured at amortised cost:			
On loans fully secured on residential property	**235.8**	218.2	444.5
On other loans and advances	**6.5**	8.5	12.4
On debt securities	**-**	0.1	0.2
On other liquid assets	**8.3**	7.9	18.9
	250.6	234.7	476.0
On financial assets at fair value through other comprehensive income:			
On debt securities	**10.1**	5.3	12.5
Interest receivable calculated using the effective interest rate method	**260.7**	240.0	488.5
On financial assets at fair value through profit or loss:			
On equity release portfolio	**7.5**	8.6	18.5
Net expense on derivative financial instruments held for hedging assets	**(13.5)**	(20.4)	(33.2)
	(6.0)	(11.8)	(14.7)
	254.7	228.2	473.8

4. Interest payable and similar charges

	Unaudited 6 months to 30.06.19 £m	Unaudited 6 months to 30.06.18 £m	Audited 12 months to 31.12.18 £m
On financial liabilities measured at amortised cost:			
On shares held by individuals	**105.4**	94.2	197.6
On shares held by others	**0.7**	0.5	1.3
On subscribed capital	**2.2**	2.2	4.5
On deposits and other borrowings:			
Wholesale and other funding	**21.3**	14.7	32.9
Lease liabilities	**0.7**	-	-
	130.3	111.6	236.3
On financial liabilities at fair value through profit or loss:			
Finance charge on unwind of put option liability	**-**	-	0.2
Net expense / (income) on derivative financial instruments held for hedging liabilities	**4.5**	(5.1)	(3.9)
	134.8	106.5	232.6

5. Fees and commissions receivable

The tables below provide further information regarding the nature, amount and timing of fees and commissions receivable.

	Unaudited 6 months to 30.06.19		
	Products and services transferred at a point in time £m	**Products and services transferred over time £m**	**Total £m**
Mortgage origination fees	21.9	5.9	**27.8**
Other mortgage related fees	0.9	-	**0.9**
General insurance income	30.5	0.2	**30.7**
Commissions earned on property sales	73.7	-	**73.7**
Commissions earned on property lettings	31.8	-	**31.8**
Survey and valuation fees	28.8	-	**28.8**
Asset management commission	6.9	0.1	**7.0**
Conveyancing fees	15.1	-	**15.1**
Financial advice fees	15.7	-	**15.7**
Software and consultancy fees	0.1	8.0	**8.1**
Factoring and invoice discounting services	4.7	-	**4.7**
Other fees and commissions	1.8	0.6	**2.4**
	231.9	**14.8**	**246.7**

	Unaudited 6 months to 30.06.18		
	Products and services transferred at a point in time Restated* £m	Products and services transferred over time £m	Total Restated* £m
Mortgage origination fees	19.0	5.8	24.8
Other mortgage related fees	0.8	-	0.8
General insurance income	21.0	0.2	21.2
Commissions earned on property sales	76.9	0.2	77.1
Commissions earned on property lettings	32.1	-	32.1
Survey and valuation fees	29.6	-	29.6
Asset management commission	8.0	0.1	8.1
Conveyancing fees	14.6	-	14.6
Financial advice fees	15.8	-	15.8
Software and consultancy fees	0.1	9.8	9.9
Factoring and invoice discounting services	1.4	-	1.4
Other fees and commissions	3.4	0.8	4.2
	222.7	16.9	239.6

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

5. Fees and commissions receivable *(continued)*

	Audited 12 months to 31.12.18		
	Products and services transferred at a point in time Restated* £m	Products and services transferred over time £m	Total Restated* £m
Mortgage origination fees	39.8	13.2	53.0
Other mortgage related fees	1.8	-	1.8
General insurance income	52.6	0.6	53.2
Commissions earned on property sales	158.2	0.4	158.6
Commissions earned on property lettings	63.5	-	63.5
Survey and valuation fees	54.6	-	54.6
Asset management commission	15.7	0.2	15.9
Conveyancing fees	29.1	-	29.1
Financial advice fees	31.2	-	31.2
Software and consultancy fees	0.3	19.3	19.6
Factoring and invoice discounting services	9.3	-	9.3
Other fees and commissions	4.9	1.7	6.6
	461.0	35.4	496.4

* Following a review of the presentation of certain revenue lines within the Connells group, certain fees and commissions receivable that were previously presented net of associated costs have been restated to be presented on a gross basis and the associated costs are included within administrative expenses. This is considered to represent more accurately the substance of the arrangements and so the comparative figures in the above tables have been restated accordingly. This has resulted in an increase to asset management commission (six months ended 30 June 2018: £5.2m; year ended 31 December 2018: £10.1m) and an increase to commissions earned on property sales (six months ended 30 June 2018: £2.4m; year ended 31 December 2018: £5.4m). Administrative expenses increased by the same amounts and so there is no impact on profits nor on opening reserves for either of the comparative periods.

The tables below provide a reconciliation of fees and commissions receivable by the Group to the amounts presented by reportable segment in note 18.

Unaudited 6 months to 30.06.19

	Mortgages and Savings £m	**Estate Agency £m**	**Investment Portfolio £m**	**Sundry incl. inter-divisional adjustments £m**	**Total £m**
Mortgage origination fees	-	28.4	-	(0.6)	**27.8**
Other mortgage related fees	0.9	-	-	-	**0.9**
General insurance income	0.2	30.5	-	-	**30.7**
Commissions earned on property sales	-	73.7	-	-	**73.7**
Commissions earned on property lettings	-	31.8	-	-	**31.8**
Survey and valuation fees	-	33.7	-	(4.9)	**28.8**
Asset management commission	-	7.0	-	-	**7.0**
Conveyancing fees	-	15.8	-	(0.7)	**15.1**
Financial advice fees	15.7	-	-	-	**15.7**
Software and consultancy fees	-	-	8.5	(0.4)	**8.1**
Factoring and invoice discounting services	-	-	4.7	-	**4.7**
Other fees and commissions	1.1	1.2	0.3	(0.2)	**2.4**
Fees and commissions receivable	**17.9**	**222.1**	**13.5**	**(6.8)**	**246.7**
Other	(1.8)	(1.2)	(0.3)	-	**(3.3)**
Net non-interest income	**16.1**	**220.9**	**13.2**	**(6.8)**	**243.4**

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

5. Fees and commissions receivable *(continued)*

Unaudited 6 months to 30.06.18

	Mortgages and Savings £m	Estate Agency Restated* £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total Restated* £m
Mortgage origination fees	-	25.3	-	(0.5)	24.8
Other mortgage related fees	0.8	-	-	-	0.8
General insurance income	0.2	21.0	-	-	21.2
Commissions earned on property sales	-	77.1	-	-	77.1
Commissions earned on property lettings	-	32.1	-	-	32.1
Survey and valuation fees	-	33.5	-	(3.9)	29.6
Asset management commission	-	8.1	-	-	8.1
Conveyancing fees	-	14.6	-	-	14.6
Financial advice fees	15.8	-	-	-	15.8
Software and consultancy fees	-	-	10.3	(0.4)	9.9
Factoring and invoice discounting services	-	-	1.4	-	1.4
Other fees and commissions	0.9	3.7	0.6	(1.0)	4.2
Fees and commissions receivable	17.7	215.4	12.3	(5.8)	239.6
Other	(1.3)	(1.0)	-	0.2	(2.1)
Net non-interest income	16.4	214.4	12.3	(5.6)	237.5

Audited 12 months to 31.12.18

	Mortgages and Savings £m	Estate Agency Restated* £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total Restated* £m
Mortgage origination fees	-	54.2	-	(1.2)	53.0
Other mortgage related fees	1.8	-	-	-	1.8
General insurance income	0.6	52.6	-	-	53.2
Commissions earned on property sales	-	158.6	-	-	158.6
Commissions earned on property lettings	-	63.5	-	-	63.5
Survey and valuation fees	-	64.7	-	(10.1)	54.6
Asset management commission	-	15.9	-	-	15.9
Conveyancing fees	-	29.1	-	-	29.1
Financial advice fees	31.2	-	-	-	31.2
Software and consultancy fees	-	-	20.4	(0.8)	19.6
Factoring and invoice discounting services	-	-	9.3	-	9.3
Other fees and commissions	1.8	5.4	1.2	(1.8)	6.6
Fees and commissions receivable	35.4	444.0	30.9	(13.9)	496.4
Other	(3.5)	-	(0.6)	0.2	(3.9)
Net non-interest income	31.9	444.0	30.3	(13.7)	492.5

* The comparative periods have been restated as outlined on page 29.

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

6. Administrative expenses

	Unaudited 6 months to 30.06.19 £m	Unaudited 6 months to 30.06.18 Restated* £m	Audited 12 months to 31.12.18 Restated* £m
Employee costs:			
Wages and salaries	**157.4**	155.9	316.8
Social security costs	**15.6**	15.1	30.3
Pension costs:			
Defined contribution arrangements	**5.9**	4.7	10.0
Past service costs	**-**	-	3.0
	178.9	175.7	360.1
Other administrative expenses	**95.8**	81.6	176.4
	274.7	257.3	536.5

* The comparative periods have been restated as outlined in note 5, resulting in an increase to other administrative expenses for the six months ended 30 June 2018 of £7.6m and for the year ended 31 December 2018 of £15.5m.

7. Impairment on loans and advances to customers

	Unaudited 30.06.19 £m	Unaudited 30.06.18 £m	Audited 31.12.18 £m
Charge / (credit) during the period:			
Loans fully secured on residential property	**0.6**	1.9	1.3
Loans fully secured on land	**(0.6)**	(0.2)	1.0
Other loans and advances	**-**	-	0.2
	-	1.7	2.5
Expected credit loss (ECL) allowance at the end of the period (see note 11):			
Loans fully secured on residential property	**9.7**	10.8	9.9
Loans fully secured on land	**7.2**	6.7	7.9
Other loans and advances	**0.8**	0.8	0.8
	17.7	18.3	18.6

8. Debt securities

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

	Unaudited as at 30.06.19 £m	Unaudited as at 30.06.18 £m	Audited as at 31.12.18 £m
At 1 January	**1,383.1**	791.1	791.1
Additions	**1,531.7**	628.1	1,763.2
Disposals	**(999.2)**	(411.8)	(1,166.9)
Changes in fair value	**1.3**	(2.7)	(4.3)
At end of period	**1,916.9**	1,004.7	1,383.1
Representing:			
Held at amortised cost	**-**	1.6	-
Held at FVOCI	**1,916.9**	1,003.1	1,383.1
	1,916.9	1,004.7	1,383.1

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 six months ended 30 June 2019 was £0.2m (six months ended 30 June 2018: £nil; year ended 31 December 2018: £0.1m).

9. Provisions for liabilities

	Unaudited as at 30.06.19 £m	Unaudited as at 30.06.18 £m	Audited as at 31.12.18 £m
Provision for the costs of surplus properties	**3.2**	3.5	3.7
Financial Services Compensation Scheme (FSCS)	**-**	0.6	-
Commission clawbacks	**11.9**	9.1	10.7
Survey and valuation claims	**4.1**	4.2	3.7
Customer compensation	**2.0**	7.4	5.9
Other provisions	**0.3**	0.3	0.3
	21.5	25.1	24.3

The movement in provisions for liabilities in the period has resulted in an Income Statement charge of £6.8m for the period (six months ended 30 June 2018: £5.7m; year ended 31 December 2018: £12.0m).

10. Tax expense

The effective tax rate for the period was 19.5% (six months ended 30 June 2018: 21.4%; year ended 31 December 2018: 21.7%). This differs from the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%) 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

	Unaudited as at 30.06.19				
	Gross carrying amount £m	**ECL allowance (note 7) £m**	**Fair value adjustment for hedged risk £m**	**Carrying amount £m**	**%**
Loans fully secured on residential property (note 1)	18,803.6	(9.7)	79.8	18,873.7	**97.8**
Loans fully secured on land (note 2)	253.5	(7.2)	-	246.3	**1.3**
Other lending:					
Debt factoring advances	92.2	(0.8)	-	91.4	**0.5**
Other loans (note 3)	68.2	-	-	68.2	**0.4**
	19,217.5	**(17.7)**	**79.8**	**19,279.6**	**100.0**

Notes
1. Also known as residential mortgages.
2. Also known as commercial loans.
3. Includes certain advances made to residential mortgage customers in Guernsey and Jersey by SIL; these advances are secured on shares in a property management company which owns the building in which the properties are located.

	Unaudited as at 30.06.18				
	Gross carrying amount £m	ECL allowance (note 7) £m	Fair value adjustment for hedged risk £m	Carrying amount £m	%
Loans fully secured on residential property	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

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

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

	Audited as at 31.12.18				
	Gross carrying amount £m	ECL allowance (note 7) £m	Fair value adjustment for hedged risk £m	Carrying amount £m	%
Loans fully secured on residential property	17,725.7	(9.9)	(8.4)	17,707.4	97.7
Loans fully secured on land	267.6	(7.9)	-	259.7	1.4
Other lending:					
Debt factoring advances	91.4	(0.8)	-	90.6	0.5
Other loans	69.3	-	-	69.3	0.4
	18,154.0	(18.6)	(8.4)	18,127.0	100.0

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.

At 30 June 2019 the average indexed loan-to-value (LTV) of Group residential mortgages on a valuation-weighted basis (calculated as the total outstanding balance divided by the total fair value of collateral held) is 47.0% (30 June 2018: 47.9%; 31 December 2018: 46.1%).

The tables below provide information on movements in the gross carrying amount of residential loans and advances to customers during the period. The amounts shown represent movements in the gross carrying amount between each reporting period end and not the balance as at the date of the movement.

As outlined in note 1c), during the period the Group has revised the quantitative thresholds applied for the purposes of assessing 'significant increase in credit risk'; this change is reflected in the level of loans transferred to Stage 2 in the period. The impact of this change on the impairment loss allowance at 30 June 2019 is not material.

	Unaudited as at 30.06.19			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount as at 1 January 2019	17,304.2	337.9	83.6	**17,725.7**
Transfers due to changes in credit risk:				
To Stage 1	26.5	(26.3)	(1.0)	**(0.8)**
To Stage 2	(391.6)	390.6	(7.5)	**(8.5)**
To Stage 3	(2.4)	(13.4)	15.8	**-**
Modification of contractual cashflows	(6.9)	4.6	0.8	**(1.5)**
Increases due to origination	2,523.5	1.9	0.2	**2,525.6**
Decrease due to derecognition and repayments	(1,406.7)	(24.7)	(6.4)	**(1,437.8)**
Write-offs	(0.1)	(0.5)	(4.0)	**(4.6)**
Other movements	4.7	0.7	0.1	**5.5**
Gross carrying amount as at 30 June 2019	**18,051.2**	**670.8**	**81.6**	**18,803.6**

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

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

	Unaudited as at 30.06.18			
	Stage 1 £m	Stage 2 £m	Stage 3 £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:				
To Stage 1	33.2	(32.4)	(1.6)	(0.8)
To Stage 2	(81.1)	88.3	(8.3)	(1.1)
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

	Audited as at 31.12.18			
	Stage 1 £m	Stage 2 £m	Stage 3 £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:				
To Stage 1	55.9	(53.4)	(4.3)	(1.8)
To Stage 2	(80.2)	90.2	(12.1)	(2.1)
To Stage 3	(10.0)	(11.0)	21.1	0.1
Modification of contractual cashflows	(11.5)	3.8	3.4	(4.3)
Transfer of engagements	123.2	3.2	1.6	128.0
Increases due to origination	4,208.4	2.4	0.2	4,211.0
Decrease due to derecognition and repayments	(2,624.4)	(45.4)	(6.9)	(2,676.7)
Write-offs	(0.3)	(1.6)	(6.2)	(8.1)
Other movements	6.6	0.3	0.1	7.0
Gross carrying amount as at 31 December 2018	17,304.2	337.9	83.6	17,725.7

For residential mortgages, stage 3 loans which no longer meet any of the default criteria are subject to a six month probation period before they become eligible for transfer out of stage 3. At 30 June 2019, stage 3 loans include £26.8m being held in stage 3 under this probation period.

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

	Unaudited as at 30.06.19			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Loss allowance as at 1 January 2019	2.8	3.8	3.3	**9.9**
Changes due to changes in credit risk:				
To Stage 1	-	(0.1)	-	**(0.1)**
To Stage 2	(0.1)	1.1	(0.2)	**0.8**
To Stage 3	-	(0.4)	0.6	**0.2**
Remeasurements within existing stage	(0.2)	-	(0.2)	**(0.4)**
Modification of contractual cashflows	-	0.1	0.2	**0.3**
Increases due to origination	0.1	-	-	**0.1**
Decrease due to derecognition and repayments	-	(0.1)	(0.1)	**(0.2)**
Write-offs	-	-	(0.9)	**(0.9)**
Loss allowance as at 30 June 2019	**2.6**	**4.4**	**2.7**	**9.7**

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

	Unaudited as at 30.06.18			
	Stage 1 £m	Stage 2 £m	Stage 3 £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:				
To Stage 1	-	(0.2)	-	(0.2)
To Stage 2	-	0.8	(0.1)	0.7
To Stage 3	-	(0.3)	0.6	0.3
Remeasurements 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

	Audited as at 31.12.18			
	Stage 1 £m	Stage 2 £m	Stage 3 £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:				
To Stage 1	-	(0.4)	-	(0.4)
To Stage 2	-	1.1	(0.2)	0.9
To Stage 3	-	(0.2)	1.1	0.9
Remeasurements within existing stage	(0.6)	0.4	0.1	(0.1)
Transfer of engagements	-	-	0.1	0.1
Increases due to origination	0.2	-	-	0.2
Decrease due to derecognition and repayments	(0.1)	-	(0.1)	(0.2)
Write-offs	-	(0.4)	(1.1)	(1.5)
Loss allowance as at 31 December 2018	2.8	3.8	3.3	9.9

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

	Unaudited as at 30.06.19							
	Gross carrying amount				**ECL allowance**			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Not past due	18,051.2	536.6	14.6	**18,602.4**	(2.6)	(1.9)	(0.4)	**(4.9)**
Past due:								
Up to 30 days	-	83.4	3.5	**86.9**	-	(1.2)	-	**(1.2)**
31 to 60 days	-	39.2	5.6	**44.8**	-	(1.0)	-	**(1.0)**
61 to 90 days	-	11.6	9.1	**20.7**	-	(0.3)	(0.2)	**(0.5)**
Over 90 days	-	-	48.8	**48.8**	-	-	(2.1)	**(2.1)**
	18,051.2	**670.8**	**81.6**	**18,803.6**	**(2.6)**	**(4.4)**	**(2.7)**	**(9.7)**
ECL coverage					**0.01%**	**0.66%**	**3.31%**	**0.05%**

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

	Unaudited as at 30.06.18*							
	Gross carrying amount				ECL allowance			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Not past due	16,068.7	233.2	12.7	16,314.6	(3.5)	(1.7)	(0.1)	(5.3)
Past due:								
Up to 30 days	-	92.4	3.1	95.5	-	(1.3)	-	(1.3)
31 to 60 days	-	34.2	5.7	39.9	-	(0.6)	(0.2)	(0.8)
61 to 90 days	-	16.4	7.9	24.3	-	(0.4)	(0.1)	(0.5)
Over 90 days	-	-	56.8	56.8	-	-	(2.9)	(2.9)
	16,068.7	376.2	86.2	16,531.1	(3.5)	(4.0)	(3.3)	(10.8)
ECL coverage					0.02%	1.06%	3.83%	0.07%

* For the purposes of comparability, the analysis of amounts as at 30 June 2018 shown in the table above is re-presented to align with the payment status definitions applied by the Group for the year ended 31 December 2018 and subsequently.

	Unaudited as at 31.12.18							
	Gross carrying amount				ECL allowance			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Not past due	17,304.2	198.8	12.9	17,515.9	(2.8)	(1.1)	(0.1)	(4.0)
Past due:								
Up to 30 days	-	84.1	3.1	87.2	-	(1.4)	(0.2)	(1.6)
31 to 60 days	-	41.4	7.3	48.7	-	(0.7)	(0.1)	(0.8)
61 to 90 days	-	13.6	8.8	22.4	-	(0.6)	(0.3)	(0.9)
Over 90 days	-	-	51.5	51.5	-	-	(2.6)	(2.6)
	17,304.2	337.9	83.6	17,725.7	(2.8)	(3.8)	(3.3)	(9.9)
ECL coverage					0.02%	1.12%	3.95%	0.06%

b) Commercial loans

The commercial loans 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 tables below provide information on movements in the gross carrying value of commercial loans and advances to customers during the period. The amounts shown represent movements in the gross carrying amount between each reporting period end and not the balance as at the date of the movement:

	Unaudited as at 30.06.19			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount as at 1 January 2019	236.3	25.9	5.4	**267.6**
Transfers due to changes in credit risk:				
To Stage 1	0.3	(0.3)	-	**-**
To Stage 2	(0.5)	0.8	(0.3)	**-**
To Stage 3	(1.7)	-	1.7	**-**
Modification of contractual cashflows	0.2	(2.3)	1.3	**(0.8)**
Decrease due to derecognition and repayments	(12.9)	(0.3)	(0.1)	**(13.3)**
Gross carrying amount as at 30 June 2019	**221.7**	**23.8**	**8.0**	**253.5**

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

	Unaudited as at 30.06.18			
	Stage 1 £m	Stage 2 £m	Stage 3 £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:				
To Stage 1	4.3	(4.2)	(0.3)	(0.2)
To Stage 2	(3.0)	3.0	-	-
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

	Audited as at 31.12.18			
	Stage 1 £m	Stage 2 £m	Stage 3 £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:				
To Stage 1	2.1	(2.0)	(0.3)	(0.2)
To Stage 2	(0.9)	0.9	-	-
To Stage 3	(0.7)	-	0.7	-
Modification of contractual cashflows	(2.5)	1.2	0.8	(0.5)
Transfer of engagements	2.1	-	0.4	2.5
Decrease due to derecognition and repayments	(26.2)	(0.2)	(0.8)	(27.2)
Write-offs	-	-	(0.6)	(0.6)
Other movements	(0.2)	-	-	(0.2)
Gross carrying amount as at 31 December 2018	236.3	25.9	5.4	267.6

For commercial loans, stage 3 loans which no longer meet any of the default criteria are subject to a six month probation period before they become eligible for transfer out of stage 3. At 30 June 2019, stage 3 loans include no amounts being held in stage 3 under this probation period.

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

	Unaudited as at 30.06.19			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Loss allowance as at 1 January 2019	0.2	5.8	1.9	**7.9**
Changes due to changes in credit risk:				
To Stage 2	-	0.1	-	**0.1**
Remeasurements within existing stage	-	(0.7)	-	**(0.7)**
Modification of contractual cashflows	-	(0.5)	0.4	**(0.1)**
Loss allowances as at 30 June 2019	**0.2**	**4.7**	**2.3**	**7.2**

	Unaudited as at 30.06.18			
	Stage 1 £m	Stage 2 £m	Stage 3 £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:				
To Stage 1	-	(0.1)	-	(0.1)
To Stage 2	-	0.3	-	0.3
Remeasurements within existing stage	-	(0.1)	(0.1)	(0.2)
Write-offs	-	-	(0.2)	(0.2)
Loss allowances as at 30 June 2018	0.2	5.0	1.5	6.7

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

	Audited as at 31.12.18			
	Stage 1 £m	Stage 2 £m	Stage 3 £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:				
To Stage 1	-	(0.1)	-	(0.1)
To Stage 2	-	0.1	-	0.1
Remeasurements within existing stage	-	0.9	0.3	1.2
Write-offs	-	-	(0.2)	(0.2)
Loss allowances as at 31 December 2018	0.2	5.8	1.9	7.9

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

	Unaudited as at 30.06.19							
	Gross carrying amount				**ECL allowance**			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Not past due	221.7	19.6	4.1	**245.4**	(0.2)	(3.7)	(0.9)	**(4.8)**
Past due:								
Up to 30 days	-	2.5	-	**2.5**	-	(0.6)	-	**(0.6)**
31 to 60 days	-	1.7	0.1	**1.8**	-	(0.4)	-	**(0.4)**
Over 90 days	-	-	3.8	**3.8**	-	-	(1.4)	**(1.4)**
	221.7	**23.8**	**8.0**	**253.5**	**(0.2)**	**(4.7)**	**(2.3)**	**(7.2)**
ECL coverage					**0.09%**	**19.75%**	**28.75%**	**2.84%**

	Unaudited as at 30.06.18*							
	Gross carrying amount				ECL allowance			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Not past due	251.6	20.8	2.6	275.0	(0.2)	(4.0)	(0.9)	(5.1)
Past due:								
Up to 30 days	-	0.6	-	0.6	-	-	-	-
31 to 60 days	-	3.9	-	3.9	-	(1.0)	-	(1.0)
61 to 90 days	-	0.4	-	0.4	-	-	-	-
Over 90 days	-	-	1.9	1.9	-	-	(0.6)	(0.6)
	251.6	25.7	4.5	281.8	(0.2)	(5.0)	(1.5)	(6.7)
ECL coverage					0.08%	19.46%	33.33%	2.38%

* For the purposes of comparability, the analysis of amounts as at 30 June 2018 shown in the table above is re-presented to align with the payment status definitions applied by the Group for the year ended 31 December 2018 and subsequently.

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

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

	Unaudited as at 31.12.18							
	Gross carrying amount				ECL allowance			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Not past due	236.3	22.2	2.7	261.2	(0.2)	(5.1)	(0.9)	(6.2)
Past due:								
Up to 30 days	-	1.0	-	1.0	-	-	-	-
31 to 60 days	-	0.8	-	0.8	-	-	-	-
61 to 90 days	-	1.9	-	1.9	-	(0.7)	-	(0.7)
Over 90 days	-	-	2.7	2.7	-	-	(1.0)	(1.0)
	236.3	25.9	5.4	267.6	(0.2)	(5.8)	(1.9)	(7.9)
ECL coverage					0.08%	22.39%	35.19%	2.95%

c) Forbearance

Where appropriate for customers, the Group applies a policy of forbearance. The Group's approach to forbearance is described in note 36 to the 2018 Annual Report and Accounts and our approach to, and the extent of, forbearance remained materially unchanged in the period. At 30 June 2019, the percentage of residential mortgage balances that have been subject to forbearance is 0.5% (30 June 2018: 0.6%; 31 December 2018: 0.6%). For commercial balances the percentage is 7.0% (30 June 2018: 4.1%; 31 December 2018: 5.2%).

12. Equity release portfolio held at FVTPL

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

	Unaudited as at 30.06.19 £m	Unaudited as at 30.06.18 £m	Audited as at 31.12.18 £m
At 1 January	**410.9**	426.6	426.6
Redemptions	**(2.0)**	(2.7)	(6.2)
Further advances	**0.2**	0.2	0.3
Movements in fair value	**(0.3)**	(16.1)	(17.1)
Realised losses on redemption	**(0.4)**	(0.4)	(0.7)
Accrued interest	**3.6**	3.8	8.0
At end of period	**412.0**	411.4	410.9

Further details of how the valuation of the equity release portfolio is derived, including the key inputs into the calculation, are found in note 1c).

The Group holds derivative financial instruments to economically hedge the movements in fair value of the equity release portfolio, as outlined in note 1c). The loss in fair value of the derivatives held to hedge the equity release portfolio during the period was £12.2m and is included in the Income Statement line 'Fair value gains / (losses) on financial instruments: Other derivatives' (30 June 2018: £24.2m gain; 31 December 2018: £18.1m gain).

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

13. Debt securities in issue

	Unaudited as at 30.06.19 £m	Unaudited as at 30.06.18 £m	Audited as at 31.12.18 £m
Certificates of deposit	**-**	10.7	4.0
Securitisations	**118.5**	261.7	219.6
Senior unsecured debt	**349.0**	348.6	348.8
Covered bonds	**1,446.0**	398.8	846.3
Fair value adjustment for hedged risk	**14.4**	(5.5)	1.6
	1,927.9	1,014.3	1,420.3
Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:			
In not more than one year	**0.2**	116.0	87.8
In more than one year	**1,927.7**	898.3	1,332.5
	1,927.9	1,014.3	1,420.3

The increase to the covered bonds figure in the table above since the end of 2018 is a result of the issuance by the Society of a £600m covered bonds transaction, with a term of five years, in March 2019.

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 2019 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 2019 are similar in nature to those for the year ended 31 December 2018. Full details of the Group's related party transactions for the year ended 31 December 2018 can be found in note 8 *Related party transactions* in the 2018 Annual Report and Accounts.

15. Subsequent events

There have been no material post balance sheet events between 30 June 2019 and the approval of this half-yearly financial report by the Board.

16. Other financial commitments and contingent liabilities

a) A third party supplier has instigated legal proceedings against two Group companies: alleged breach of contract against Gascoigne Halman Limited and a related alleged tortious claim against Connells Limited. The Directors believe, based on legal advice, that it is probable their defence will succeed and any liabilities, not provided for in these Group consolidated financial statements, will not be material. Currently, the claimant has not disclosed sufficient information in support of the quantum of its claim and we cannot, therefore, at this time, reliably estimate the quantum of the potential liabilities that may, ultimately, arise from this matter. Whilst the outcome of the case cannot be predicted with certainty, the Directors believe that, should their defence be unsuccessful, the final outcome will not materially affect the Group's consolidated financial position.

b) In the 2018 Annual Report and Accounts, the Society confirmed that it would provide continuing support to certain of its subsidiary undertakings that had net liabilities or which relied on the Society for ongoing funding as at 31 December 2018.

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

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 30.06.19			
	Amortised cost £m	**FVOCI £m**	**FVTPL £m**	**Total £m**
Cash in hand and balances with the Bank of England	1,573.5	-	-	**1,573.5**
Loans and advances to credit institutions	563.3	-	-	**563.3**
Debt securities	-	1,916.9	-	**1,916.9**
Derivative financial instruments	-	-	53.0	**53.0**
Loans and advances to customers	19,279.6	-	1.6	**19,281.2**
Equity release portfolio	-	-	412.0	**412.0**
Equity share investments	-	-	1.4	**1.4**
Trade receivables	38.4	-	-	**38.4**
Share warrants	-	-	4.5	**4.5**
Contingent consideration	-	-	17.4	**17.4**
Total financial assets	**21,454.8**	**1,916.9**	**489.9**	**23,861.6**
Non-financial assets				**383.4**
Total assets				**24,245.0**
Shares	16,713.3	-	-	**16,713.3**
Amounts owed to credit institutions and other customers	3,352.0	-	-	**3,352.0**
Debt securities in issue	1,927.9	-	-	**1,927.9**
Derivative financial instruments	-	-	347.7	**347.7**
Lease liabilities	62.6	-	-	**62.6**
Trade payables	6.2	-	-	**6.2**
Fair value of put option obligation	-	-	8.1	**8.1**
Subscribed capital	41.6	-	-	**41.6**
Total financial liabilities	**22,103.6**	**-**	**355.8**	**22,459.4**
Non-financial liabilities				**206.2**
Total liabilities				**22,665.6**

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

17. Financial instruments *(continued)*

	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	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				327.9
Total assets				22,057.0
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				225.3
Total liabilities				20,607.4

	Audited as at 31.12.18			
	Amortised cost £m	FVOCI £m	FVTPL £m	Total £m
Cash in hand and balances with the Bank of England	2,395.7	-	-	2,395.7
Loans and advances to credit institutions	422.7	-	-	422.7
Debt securities	-	1,383.1	-	1,383.1
Derivative financial instruments	-	-	72.3	72.3
Loans and advances to customers	18,127.0	-	1.9	18,128.9
Equity release portfolio	-	-	410.9	410.9
Equity share investments	-	-	0.8	0.8
Trade receivables	31.3	-	-	31.3
Contingent consideration	-	-	23.0	23.0
Total financial assets	20,976.7	1,383.1	508.9	22,868.7
Non-financial assets				331.4
Total assets				23,200.1
Shares	16,113.5	-	-	16,113.5
Amounts owed to credit institutions and other customers	3,568.4	-	-	3,568.4
Debt securities in issue	1,420.3	-	-	1,420.3
Derivative financial instruments	-	-	279.4	279.4
Trade payables	5.4	-	-	5.4
Fair value of put option obligation	-	-	8.3	8.3
Subscribed capital	41.6	-	-	41.6
Total financial liabilities	21,149.2	-	287.7	21,436.9
Non-financial liabilities				238.4
Total liabilities				21,675.3

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

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 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 and foreign currency exchange rates. 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 30.06.19			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Financial assets held at FVOCI:				
Debt securities	1,582.1	334.8	-	**1,916.9**
Financial assets at FVTPL:				
Derivative financial instruments	-	52.8	0.2	**53.0**
Loans and advances to customers	-	-	1.6	**1.6**
Equity release portfolio	-	-	412.0	**412.0**
Equity share investments	0.1	-	1.3	**1.4**
Share warrants	-	-	4.5	**4.5**
Contingent consideration	-	-	17.4	**17.4**
	1,582.2	**387.6**	**437.0**	**2,406.8**
Financial liabilities				
Financial liabilities at FVTPL:				
Derivative financial instruments	-	119.3	228.4	**347.7**
Fair value of put option obligation	-	-	8.1	**8.1**
	-	**119.3**	**236.5**	**355.8**
	1,582.2	**268.3**	**200.5**	**2,051.0**

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

17. Financial instruments *(continued)*

	Unaudited as at 30.06.18			
	Level 1 £m	Level 2 £m	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:				
Derivative financial instruments	-	80.9	1.4	82.3
Equity release portfolio	-	-	411.4	411.4
Equity share investments	0.1	-	0.7	0.8
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

	Audited as at 31.12.18			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets held at FVOCI:				
Debt securities	1,066.6	316.5	-	1,383.1
Financial assets at FVTPL:				
Derivative financial instruments	-	71.2	1.1	72.3
Loans and advances to customers	-	-	1.9	1.9
Equity release portfolio	-	-	410.9	410.9
Equity share investments	0.1	-	0.7	0.8
Contingent consideration	-	-	23.0	23.0
	1,066.7	387.7	437.6	1,892.0
Financial liabilities				
Financial liabilities at FVTPL:				
Derivative financial instruments	-	63.9	215.5	279.4
Fair value of put option obligation	-	-	8.3	8.3
	-	63.9	223.8	287.7
	1,066.7	323.8	213.8	1,604.3

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 2019, nor in the six months ended 30 June 2018 or year ended 31 December 2018.

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

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 30.06.19							
	Derivative financial instruments £m	**Loans and advances to customers £m**	**Equity release portfolio £m**	**Equity share investments £m**	**Share warrants £m**	**Contingent Consideration £m**	**Fair value of put option obligation £m**	**Total £m**
At 1 January	(214.4)	1.9	410.9	0.7	-	23.0	(8.3)	**213.8**
(Loss) / gain recognised in Income Statement	(12.2)[1]	-	(0.3)[2]	-	-	0.6[3]	-	**(11.9)**
Accrued interest	(1.6)[4]	-	3.6[5]	-	-	-	-	**2.0**
Realised losses	-	-	(0.4)[6]	-	-	-	-	**(0.4)**
Repayments	-	(0.3)	(2.0)	-	-	-	-	**(2.3)**
Contingent consideration received (net of costs)	-	-	-	-	-	(6.2)	-	**(6.2)**
Exercise of put options by non-controlling interests	-	-	-	-	-	-	0.2	**0.2**
Additions and other movements	-	-	0.2	0.6	4.5	-	-	**5.3**
At 30 June	**(228.2)**	**1.6**	**412.0**	**1.3**	**4.5**	**17.4**	**(8.1)**	**200.5**

Notes

1. These are unrealised losses and are included in the ‘Fair value gains / (losses) on financial instruments: Other derivatives’ line in the Income Statement.
2. These are unrealised losses and are included in the ‘Fair value gains / (losses) on financial instruments: Equity release portfolio’ line in the Income Statement.
3. Included in the ‘Profit on disposal of subsidiary undertakings’ line in the Income Statement.
4. Included in the ‘Interest receivable and similar income: On financial instruments at fair value through profit or loss’ line in the Income Statement.
5. Included in the ‘Interest receivable and similar income: On financial instruments at fair value through profit or loss’ line in the Income Statement.
6. Included in the ‘Realised losses on equity release portfolio’ line in the Income Statement.

	Unaudited as at 30.06.18					
	Derivative financial instruments £m	Equity release portfolio £m	Equity share investments £m	Contingent Consideration £m	Fair value of put option obligation £m	Total £m
At 1 January	(232.5)	426.6	0.4	25.1	(9.9)	209.7
Gain / (loss) recognised in Income Statement	24.2[1]	(16.1)[2]	-	2.4[3]	-	10.5
Accrued interest	(0.7)[4]	3.8[5]	-	-	-	3.1
Realised losses	-	(0.4)[6]	-	-	-	(0.4)
Revaluation of market values	-	-	-	-	0.6[7]	0.6
Repayments	-	(2.7)	-	-	-	(2.7)
Contingent consideration received (net of costs)	-	-	-	(5.3)	-	(5.3)
Exercise of put options by non-controlling interests	-	-	-	-	0.2	0.2
Additions and other movements	-	0.2	0.3	-	-	0.5
At 30 June	(209.0)	411.4	0.7	22.2	(9.1)	216.2

Notes

1. These are unrealised gains and are included in the ‘Fair value gains / (losses) on financial instruments: Other derivatives’ line in the Income Statement.
2. These are unrealised losses and are included in the ‘Fair value gains / (losses) on financial instruments: Equity release portfolio’ line in the Income Statement.
3. Included in the ‘Profit on disposal of subsidiary undertakings’ line in the Income Statement.
4. Included in the ‘Interest receivable and similar income: On financial instruments at fair value through profit or loss’ line in the Income Statement.
5. Included in the ‘Interest receivable and similar income: On financial instruments at fair value through profit or loss’ line in the Income Statement.
6. Included in the ‘Realised losses on equity release portfolio’ line in the Income Statement.
7. Included in the ‘Administrative expenses’ line in the Income Statement and arises from changes to assumptions regarding the market value of the put options.

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

17. Financial instruments *(continued)*

	Audited as at 31.12.18						
	Derivative financial instruments £m	Loans and advances to customers £m	Equity release portfolio £m	Equity share investments £m	Contingent Consideration £m	Fair value of put option obligation £m	Total £m
At 1 January	(232.5)	-	426.6	0.4	25.1	(9.9)	209.7
Gain / (loss) recognised in Income Statement	18.1[1]	-	(17.1)[2]	(0.2)[3]	3.3[4]	(0.2)[5]	3.9
Accrued interest	-	-	8.0[6]	-	-	-	8.0
Realised losses	-	-	(0.7)[7]	-	-	-	(0.7)
Revaluation of market values	-	-	-	-	-	1.5[8]	1.5
Transfer of engagements	-	1.7	-	-	-	-	1.7
Repayments	-	(0.7)	(6.2)	-	-	-	(6.9)
Contingent consideration received (net of costs)	-	-	-	-	(5.4)	-	(5.4)
Exercise of put options by non-controlling interests	-	-	-	-	-	0.3	0.3
Additions and other movements	-	0.9	0.3	0.5	-	-	1.7
At 31 December	(214.4)	1.9	410.9	0.7	23.0	(8.3)	213.8

Notes
1. These are unrealised gains and are included in the 'Fair value gains / (losses) on financial instruments: Other derivatives' line in the Income Statement.
2. These are unrealised losses and are included in the 'Fair value gains / (losses) on financial instruments: Equity release portfolio' line in the Income Statement.
3. These are unrealised losses and are included in the 'Fair value gains / (losses) on financial instruments: Other financial instruments' line in the Income Statement.
4. Included in the 'Profit on disposal of subsidiary undertakings' line in the Income Statement.
5. 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.
6. Included in the 'Interest receivable and similar income: On financial instruments at fair value through profit or loss' line in the Income Statement.
7. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.
8. Included in the 'Administrative expenses' line in the Income Statement and arises from changes to assumptions regarding the market value of the put options.

Level 3 valuation techniques

For the Level 3 financial instruments shown above, the valuation techniques remain unchanged from those disclosed in note 37b) to the 2018 Annual Report and Accounts.

Equity release portfolio

Further details on the inputs into the valuation of the equity release portfolio, and the impact of reasonably possible alternative assumptions of certain inputs, are found in note 1c).

Derivative financial instruments

Further details on the inputs into the valuation of derivatives, and the impact of reasonably possible alternative assumptions of certain inputs, are found in note 1c).

Any change in fair value of the derivative liabilities is offset to some extent by a corresponding but opposite change in the fair 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. For the six months ended 30 June 2019 the net impact to the Income Statement was a £12.5m charge (six months ended 30 June 2018: £8.1m credit; year ended 31 December 2018: £1.0m credit).

17. Financial instruments *(continued)*

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 30.06.19		Unaudited as at 30.06.18		Audited as at 31.12.18	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets						
Cash in hand and balances with the Bank of England	**1,573.5**	**1,573.5**	2,833.4	2,833.4	2,395.7	2,395.7
Loans and advances to credit institutions	**563.3**	**563.3**	403.0	403.0	422.7	422.7
Debt securities	**-**	**-**	1.6	1.6	-	-
Loans and advances to customers held at amortised cost	**19,279.6**	**19,368.5**	16,930.6	17,045.3	18,127.0	18,268.1
Trade receivables	**38.4**	**38.4**	40.7	40.7	31.3	31.3
	21,454.8	**21,543.7**	20,209.3	20,324.0	20,976.7	21,117.8
Financial liabilities						
Shares	**16,713.3**	**16,812.5**	15,438.1	15,516.4	16,113.5	16,186.3
Amounts owed to credit institutions	**1,698.0**	**1,698.0**	1,891.3	1,895.3	1,878.0	1,878.9
Amounts owed to other customers	**1,654.0**	**1,658.6**	1,700.3	1,701.1	1,690.4	1,694.9
Debt securities in issue	**1,927.9**	**1,931.8**	1,014.3	1,024.8	1,420.3	1,410.3
Lease liabilities	**62.6**	**62.6**	-	-	-	-
Trade payables	**6.2**	**6.2**	4.4	4.4	5.4	5.4
Subscribed capital	**41.6**	**73.0**	41.6	75.4	41.6	69.0
	22,103.6	**22,242.7**	20,090.0	20,217.4	21,149.2	21,244.8

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 212 of the 2018 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, £16.8m (six months ended 30 June 2018: £19.0m; year ended 31 December 2018: £38.6m) was generated outside the UK.

Unaudited 6 months to 30.06.19

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Net interest income	114.2	(0.1)	1.0	4.8	**119.9**
Net non-interest income	16.1	220.9	13.2	(6.8)	**243.4**
Fair value losses on hedged items and derivatives	(12.1)	-	-	-	**(12.1)**
Fair value losses on equity release portfolio	(0.3)	-	-	-	**(0.3)**
Profit on disposal of treasury assets	2.4	-	-	-	**2.4**
Profit on disposal of Group undertakings	-	-	-	0.6	**0.6**
Share of profits from joint ventures	-	0.9	-	-	**0.9**
Total income	**120.3**	**221.7**	**14.2**	**(1.4)**	**354.8**
Administrative expenses	(75.9)	(187.8)	(12.5)	1.5	**(274.7)**
Realised losses on equity release portfolio	(0.4)	-	-	-	**(0.4)**
Impairment and provisions for liabilities	0.3	(7.7)	-	-	**(7.4)**
Profit before tax	**44.3**	**26.2**	**1.7**	**0.1**	**72.3**
Taxation	(8.8)	(4.7)	(0.4)	-	**(13.9)**
Profit after tax	**35.5**	**21.5**	**1.3**	**0.1**	**58.4**
Total assets	**23,998.0**	**309.1**	**106.4**	**(168.5)**	**24,245.0**
Total liabilities	**22,516.4**	**170.5**	**108.4**	**(129.7)**	**22,665.6**

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	119.4	215.5	14.8	5.1	**354.8**
Income from other segments	0.9	6.2	(0.6)	(6.5)	**-**
Total income	**120.3**	**221.7**	**14.2**	**(1.4)**	**354.8**

18. Segmental reporting *(continued)*

Unaudited 6 months to 30.06.18 (restated)*

	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	214.4	12.3	(5.6)	237.5
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	214.7	15.9	1.6	369.9
Administrative expenses	(70.4)	(179.4)	(12.4)	4.9	(257.3)
Realised losses on equity release portfolio	(0.4)	-	-	-	(0.4)
Impairment 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	21,835.0	268.4	106.2	(152.6)	22,057.0
Total liabilities	20,521.0	125.4	102.5	(141.5)	20,607.4

* Net non-interest income and administrative expenses for the comparative period have been restated as outlined in notes 5 and 6. In addition, total assets and liabilities for the comparative period have been restated as outlined on page 15.

Total income can be analysed as follows:

	Mortgages and Savings £m	Estate Agency Restated* £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total Restated* £m
External income	137.5	209.5	16.4	6.5	369.9
Income from other segments	0.2	5.2	(0.5)	(4.9)	-
Total income	137.7	214.7	15.9	1.6	369.9

* The comparative figures have been restated as outlined in note 5.

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

18. Segmental reporting *(continued)*

Audited 12 months to 31.12.18 (restated)*

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Net interest income	230.6	0.3	2.1	8.2	241.2
Net non-interest income	31.9	444.0	30.3	(13.7)	492.5
Fair value gains on hedged items and derivatives	19.6	-	-	-	19.6
Fair value losses on equity release portfolio	(17.1)	-	-	-	(17.1)
Fair value losses on other financial assets held at FVTPL	-	(0.3)	-	-	(0.3)
Profit on disposal of Group undertakings	-	-	-	3.3	3.3
Share of profits from joint ventures	-	0.8	-	-	0.8
Total income	265.0	444.8	32.4	(2.2)	740.0
Administrative expenses	(148.7)	(374.8)	(24.6)	11.6	(536.5)
Realised losses on equity release portfolio	(0.7)	-	-	-	(0.7)
Impairment and provisions for liabilities	(1.3)	(13.1)	(0.2)	-	(14.6)
Profit before tax	114.3	56.9	7.6	9.4	188.2
Taxation	(27.2)	(11.9)	(0.9)	(0.6)	(40.6)
Profit after tax	87.1	45.0	6.7	8.8	147.6
Total assets	23,004.6	263.8	104.4	(172.7)	23,200.1
Total liabilities	21,592.0	134.4	106.5	(157.6)	21,675.3

* Net non-interest income and administrative expenses for the comparative period have been restated as outlined in notes 5 and 6. In addition, total assets and liabilities for the comparative period have been restated as outlined on page 15.

Total income can be analysed as follows:

	Mortgages and Savings £m	Estate Agency Restated* £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total Restated* £m
External income	263.2	433.5	33.6	9.7	740.0
Income from other segments	1.8	11.3	(1.2)	(11.9)	-
Total income	265.0	444.8	32.4	(2.2)	740.0

* The comparative figures have been restated as outlined in note 5.

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, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Society and the undertakings included in the consolidation as a whole;
- 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 financial year; and

  DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related parties transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance during the period and any changes in the related parties transactions described in the last annual report that could have a material effect on the financial position or performance in the first six months of the current financial 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)
Mr A P Bottomley*	
Ms A J Burton	
Ms M Cassoni	(resigned 29 April 2019)
Mr J R Coates	
Mrs D P Cockrem	
Mr I M Cornelius*	
Mr D J Cutter*	(Group Chief Executive)
Mr D A Hall	
Ms H L Jackson	
Mr R S D M Ndawula*	
Ms H C Stevenson	

* Executive Directors

Signed on behalf of the Board by

R. East

Robert East

Chairman

30 July 2019

Independent Review Report to Skipton Building Society

Introduction

We have been engaged by the Society to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Members' Interests, Condensed Consolidated Statement of Cash Flows and the related explanatory notes 1 to 18. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our work, for this report, or for the conclusions we have formed.

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 Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of Skipton Building Society are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Leeds
30 July 2019

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