Half-Yearly Financial Report

2020

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 including, but not limited to: changes in general economic and business conditions in the UK and internationally; uncertainty surrounding the exit by the UK from the European Union (EU); and natural disasters or other widespread emergencies (including without limitation the coronavirus disease (COVID-19) pandemic) and similar contingencies outside the Group's control, 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 2019 has been extracted from the audited 2019 Annual Report and Accounts.

Group Chief Executive's Review of the Half Year

The COVID-19 pandemic has delivered one of the biggest shocks to the UK and global economy in several generations. However, I can report Skipton continues to stand firm for its members and customers due to our strong capital and liquidity position and the dedication and agility of our colleagues.

The pandemic affected every part of the Group's operations, with lockdown measures applied in the UK, Guernsey and New Zealand. Connells was required to close its entire network of almost 600 estate agency branches for two months and all of its surveyors were prohibited from carrying out physical valuations. The Society, being a provider of essential services as defined by the Government, ensured around 95% of its 88 branches remained open at any one time, albeit under reduced operating hours. Meanwhile, 90% of the Society's 1,500 head office colleagues worked from home, providing a contact centre facility for 50 hours every week. During this period we continued to offer outstanding customer service to our members, as demonstrated through our net customer satisfaction score of 87% (31 December 2019: 86%), whilst supporting the ongoing safety and well-being of our members, customers and colleagues.

We went into this pandemic in a strong position with healthy levels of capital and liquidity, however undoubtedly profits are lower in a period where our focus has rightly been on the safety and well-being of our customers and colleagues.

It is testament to the first-rate efforts of our people, all of whom have been impacted like everybody else across the country in so many different ways, that we have been able to quickly adapt and respond to continue to serve our customers well throughout these unprecedented times. More details on how we have responded as a business are included in the Business Review on page 6.

Our Skipton Link video appointment service and the Skipton app really came into their own during the first six months of the year. Video appointments increased fivefold during the period and the number of mobile app users increased to 166,000. This enabled our customers to maintain face to face contact with us, together with having access to their accounts from their mobile phone. We also managed to help and reassure many more people through our social media and web chat customer services support, noticing big increases in customers reaching out to us through our digital platforms.

Despite the challenging environment, the Group recorded underlying profits before tax (as defined on page 9) of £47.9m (six months ended 30 June 2019 restated: £78.9m). Total profit before tax (PBT) was £34.4m (six months ended 30 June 2019 restated: £67.0m). Profits have been heavily impacted in the short term by a worsening of the economic outlook arising from the effects of the COVID-19 outbreak, significantly impacting the Group's loan impairment charges which, in line with the accounting rules, need to be booked upfront before they are incurred.

The nature of the pandemic, its impact on customers and businesses, and the actions taken by the Government to support the economy, make it extremely difficult to forecast mortgage impairments and requires significant levels of estimates and judgement, based on limited observable data at the reporting date. In particular, the existence of the Job Retention Scheme supported by the Government, and the granting of mortgage payment deferrals of up to three months (which can be extended for a similar period), introduce further layers of complexity and uncertainty.

Skipton was one of the first organisations to set up a dedicated mortgage payment deferral mailbox, enabling customers to quickly log requests for help. In addition to quickly arranging over 22,000 mortgage payment deferrals, we proactively contacted customers who had arranged a mortgage payment deferral to check they had all the information and support they needed.

At its peak, 15% of the Group's borrowers had a mortgage payment deferral and as at 30 June 2020, this figure had reduced to 5%. Of the Society's borrowers who had been granted a mortgage payment deferral, 67% had reached the end of their deferral period by 30 June 2020. Of these, 13% elected to extend their deferral for up to another three months. Of the remaining 87% of the Society's borrowers who did not extend their mortgage payment deferral, 98% paid the full monthly amount due on their mortgage in the following month.

Key performance highlights

It is fair to say our financial results reflect a difficult time; our Mortgages and Savings division has been heavily impacted by increased impairment charges and our Estate Agency division, Connells, saw all of its UK branches close for two months. However, the resilience of Skipton's business model has allowed the Society to maintain strong capital ratios throughout.

For the six months to 30 June 2020 Skipton's key performance highlights include:

- Group gross mortgage lending was £2.1bn (six months ended 30 June 2019: £2.5bn), with mortgage balances growing by 4.7% since the end of 2019 (six months ended 30 June 2019: 5.9%);
- Savings balances grew by 1.4% since the end of 2019 (six months ended 30 June 2019: 3.6%);

- We continued to support our membership through a difficult time, with member numbers at 30 June 2020 of 1,045,969 (31 December 2019: 1,046,294). Mortgage customer numbers increased by 9,456 in the period to 226,947 (31 December 2019: 217,491), however the Bank Base Rate reductions together with changing customer needs in these uncertain times, led to a reduction in the number of savings customers of 9,625 to 828,283 (31 December 2019: 837,908);
- The Group net interest margin was 0.87% (six months ended 30 June 2019: 1.02%; year ended 31 December 2019: 0.98%);
- Despite the challenging environment, the Group recorded underlying profits before tax (as defined on page 9) of £47.9m (six months ended 30 June 2019 restated: £78.9m). Total profit before tax (PBT) was £34.4m (six months ended 30 June 2019 restated: £67.0m). Profits have been heavily impacted in the short term by a worsening of the economic outlook arising from the effects of the COVID-19 outbreak and subsequent measures to prevent transmission;
- The Society's Common Equity Tier 1 (CET 1) ratio at 30 June 2020 remained strong at 37.5% (31 December 2019: 39.1%) and the leverage ratio was 6.0% (31 December 2019: 6.0%); and
- The Liquidity Coverage Ratio was 173% (31 December 2019: 207%), well above both the regulatory limit of 100% and the internal limit set by the Board throughout the period. The Society also has access to the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

Further details on Group performance can be found in the Business Review on pages 6 to 16.

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

Skipton is the UK's largest provider of the Cash Lifetime ISA and we gained 9,277 new customers in the period, bringing the total number of LISA customers to 159,743 as at 30 June 2020 (31 December 2019: 158,850) and total balances as at 30 June 2020 to £1,082.0m (31 December 2019: £876.5m). Government bonuses of £63.2m were received by our LISA savers during the first half of 2020, providing a significant boost to their homeownership aspirations.

The Society helped 12,376 homeowners (six months ended 30 June 2019: 14,641) to purchase or remortgage their properties, including 2,369 first time buyers (six months ended 30 June 2019: 2,640) and 3,627 buy-to-let borrowers (six months ended 30 June 2019: 4,619). The Group's net residential UK mortgage lending accounted for 7.4% of the growth in the UK residential mortgage market compared to our 1.3% share of UK residential mortgage balances (source: Bank of England statistics, June 2020).

For the five months ended 31 May 2020 the Society paid an average savings rate of 1.12% (five months ended 31 May 2019: 1.32%) which was 0.40% (five months ended 31 May 2019: 0.57%) above the industry average for which comparable data is available (Source: CACI's Current Account & Savings Database).

The Society's financial advisers have advised 1,586 customers (six months ended 30 June 2019: 2,404) on how to achieve their financial goals.

Mortgages and Savings division

The Mortgages and Savings division produced a PBT of £15.6m, compared to £39.0m (restated) for the same period in 2019. On an underlying basis the division reported PBT of £26.0m (six months ended 30 June 2019 restated: £51.5m). The fall in profits is predominantly due to loan impairment charges in the division of £18.7m (six months ended 30 June 2019: £nil) as a consequence of the worsening economic outlook arising from COVID-19 and the Government restrictions imposed to help mitigate health impacts of the pandemic. In addition, the two Bank Base Rate cuts announced by the Bank of England in March 2020, leaving the rate at an historic low of 10 basis points, has contributed to a reduction in net interest income during the period.

Due to the unprecedented fall in the Bank Base rate to 0.10% we were forced to take the difficult decision to reduce the rate of interest paid to savings members whilst continuing to offer rates above the market average. While this has been a difficult time for savers, Skipton has proven a safe and stable place for members' money.

The Group net interest margin was 0.87% for the first half of 2020 (six months ended 30 June 2019: 1.02%; year ended 31 December 2019: 0.98%). Although unforeseen factors have impacted margins in the first half of the year, margin pressures were expected in 2020 due to the intense competition in the mortgage marketplace, which was particularly prevalent at the start of the year and seen in the mortgage pipeline at 31 December 2019.

Although at a very early stage in this severe economic cycle, and backed by extraordinary Government support, the Group's arrears position continues to be well below the industry average. The Group's UK residential mortgages (i.e. excluding Skipton International Limited's Channel Islands lending) in arrears by three months or more represent only 0.27% of mortgage accounts (31 December 2019: 0.25%), which compares to an industry average of 0.74% of mortgages in arrears by more than three months (source: UK Finance industry arrears as at 31 March 2020). We are providing support to customers who have been financially affected by COVID-19 and mortgage payment deferrals granted in this respect may suppress the impact of the pandemic on arrears in the short term.

The management expense ratio was 0.60% (six months ended 30 June 2019: 0.65%) and the cost income ratio was 62.9% (six months ended 30 June 2019 restated: 59.5%). Precautionary steps in carefully managing costs has been a priority and despite increased costs as safety measures and home-working provisions were introduced, costs are broadly flat in the period at £76.4m (six months ended 30 June 2019: £75.9m).

Further information on the performance of the Mortgages and Savings division can be found in the Business Review on pages 10 and 11.

Estate Agency division

The Connells group reported a PBT of £17.2m (six months ended 30 June 2019: £26.2m; year ended 31 December 2019: £50.1m). Following a buoyant start to the year, Connells has navigated unprecedented terrain as it closed its branches to the public on 23 March for two months, in line with Government guidelines, to help efforts in preventing the spread of coronavirus. With virtually no transactional business during lockdown, house sales (exchanges) for the half year were 29% below the comparative period in 2019 and total income fell by 24% to £168.7m (six months ended 30 June 2019: £221.7m).

Connells moved effectively to home working and took swift and decisive action to manage its cost base and liquidity position; it utilised the Government's Coronavirus Job Retention Scheme ('CJRS') and placed almost 5,300 (76%) of its colleagues on furlough, the majority of whom have now returned to work. Connells supported its people during the furlough period by paying them 100% of basic pay throughout March to July, well above the Government's support of 80% (capped at £2,500 per month per employee). In total Connells received £18.1m of CJRS support from the Government in the period, benefited £1.3m from business rates relief and received £0.8m from the Retail Cash Grant Scheme. Connells also deferred £11.5m of its May 2020 VAT liability.

The Connells group saw a positive recovery on the initial reopening of the housing market, which has continued into the summer. Compared with the same period last year, trading in July shows new applicant registrations and mortgage appointments up 37% and 56% respectively, and sales agreed up by 33%. Homeowners continue to show a desire to re-enter the market, with market appraisal activity up by 23% and new instructions increasing by 25%. The Stamp Duty Land Tax holiday will provide further impetus to the market.

Further information on the performance of the Estate Agency division can be found in the Business Review on page 11.

Other subsidiaries

Skipton Business Finance (SBF), a provider of debt factoring and invoice discounting to small and medium-sized enterprises, recorded a PBT of £1.1m (six months ended 30 June 2019: £1.8m; year ended 31 December 2019: £4.0m). The results include loan impairment charges of £0.4m reflecting the challenges being faced by clients as a result of COVID-19 (six months ended 30 June 2019: £nil).

SBF successfully gained accreditation to partake in the Government's Coronavirus Business Interruption Loan Scheme (CBILS) and the Government's Bounce Back Loans Scheme (BBLS). This enables SBF to offer BBLS loans with the Government guaranteeing 100% of all future losses, and CBILS loans with the Government guaranteeing 80% of any future losses, in order to help its SME clients through these challenging economic times.

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 profit of £0.1m for the period (six months ended 30 June 2019: £0.2m loss; year ended 31 December 2019: broke even).

Outlook

The COVID-19 pandemic has caused major social and economic disruption, and although the UK Government has taken steps to support people, public services and businesses, the impact on the general population is colossal. Whilst there remain significant uncertainties in assessing the long term social and financial impacts of the pandemic, Skipton remains forward-looking and focused on its purpose of meeting the short and long term interests of its members.

Profits for the whole of 2020 will be significantly down on last year, and although Connells' trading has been strong since the estate agency market re-opened, it is not yet clear whether this will be sustained or whether it is just due to pent up demand.

Forecasting the outlook for house prices, unemployment and the housing market is extremely difficult at this moment in time. But the Society remains financially robust with a strong capital position and healthy levels of liquidity, and is in a good position to face the challenges ahead.

David Cutter
Group Chief Executive

11 August 2020

Business Review

Summary of performance

The coronavirus pandemic has had a profound impact on our members and customers in unprecedented ways, through its direct impact on the health of our communities and the measures taken by the Government to help prevent its spread. Our priority and response to these exceptional circumstances is ensuring the safety of, and provision of support for, members, customers and colleagues.

We have further enhanced our support for the well-being of our colleagues so they in turn can maintain essential services to our members and customers. We are paying our small and medium enterprise suppliers early, aiming to pay any invoice within 10 days, to help them stay in business. We've also increased our financial support for Mental Health UK, our charitable partner, with a donation of £200,000, enabling the charity to respond to unprecedented service demands as the coronavirus outbreak significantly impacted the nation's mental health. The donation comprised Skipton's Chair and its Non-Executive Directors donating 20% of their net pay for three months, personal contributions from Skipton's executive committee and colleagues across the UK and £130,000 from the Society.

We recognise the potential impact on our mortgage members, and we are offering them help and support in these challenging times. To the end of June, we have arranged over 22,000 mortgage payment deferrals and other concessions, which give borrowers a period of flexibility.

In less than two weeks the Society adapted to 90% of head office colleagues working from home, enabling its customer contact centre to remain open for 50 hours a week, while maintaining high customer satisfaction levels together with low call wait times. With the Society being defined as a provider of essential services by the Government, around 95% of the Society's branch network across the UK remained open throughout lockdown.

Connells, our estate agency division, closed all its branches during the period from 23 March until restrictions began to be lifted on 15 May 2020 and has now reopened its entire network. During this period, where possible, Connells transitioned its workforce to remote working and utilised advanced technology to continue to provide a seamless service to customers, regardless of where colleagues are physically located. To protect the business and safeguard jobs for the long term, Connells made use of the Coronavirus Job Retention Scheme and placed over 80% of its colleagues on furlough, but supported them financially by going above and beyond the Government minimum, paying all its people 100% of their basic salary and earned commissions throughout March, April, May, June and July.

Connells' plans for recovery ensured a swift and safe return to operations as soon as the housing market restarted, ensuring stringent health and safety protocols were in place and all branches and corporate offices were made 'COVID-19 secure'. The priority throughout this period has been ensuring the health, safety and well-being of customers, colleagues and suppliers, minimising the impact on them and delivering continuity of service. The majority of Connells employees have returned to work and there are early signs of a positive recovery since the reopening of the housing market.

Whilst there remain significant uncertainties in assessing the long term social and financial impacts of the pandemic, Skipton remains forward-looking and focused on its purpose to help more people into homes, help people save for their future, and support their long term financial well-being. We are able to consistently deliver on this purpose as we have remained financially robust with a strong capital position and healthy levels of liquidity, so we are in a good position to face the challenges ahead.

Business model and Group structure

Skipton Building Society is the UK's fourth largest building society, with £26.1bn of assets and 1,045,969 members.

Founded in 1853, our purpose is to help more people have a home, save for life ahead and support long term financial well-being. Despite unprecedented times in recent months, we remain true to our purpose and are 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.

Further details on the Group's strategic priorities, which remained unchanged during the six months ended 30 June 2020, and are as relevant as ever, can be found in the Strategic Report in the 2019 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 8 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 oversight 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; these are set out below. The other individual Group companies have their own specific objectives.

Our Customers – we put our customers at the heart of our business and this guided our response to the pandemic. During the first half of 2020 our focus remained on providing a high standard of service to our members in the safest way possible, as demonstrated through the Society's net customer satisfaction score of 87% (31 December 2019: 86%). We have continued to maintain a UK wide branch presence to allow members to carry out essential transactions, implementing branch counter protection for the benefit of both members and colleagues.

Skipton was one of the first organisations to set up a dedicated mortgage payment deferrals mailbox enabling customers to quickly log requests for help. In addition to quickly arranging over 22,000 mortgage payment deferrals, the Society proactively called customers who had arranged a mortgage payment deferral to check they had all the information and support they needed.

Providing a compelling and differentiated proposition that resonates with our customers and makes them want to become and remain Skipton customers helps to maintain the Society's membership, which stood at 1,045,969 at 30 June 2020, a slight decline of 325 in the first six months of the year. Our savings balances increased to £17.6bn compared with £17.4bn at the end of 2019 (30 June 2019: £16.7bn) and our mortgage book grew to £21.0bn compared with £20.0bn at the end of last year (30 June 2019: £19.2bn).

Our People – Our primary focus has been on ensuring the ongoing safety and well-being of our colleagues, so they are able to continue to deliver outstanding service to our members. We have supported colleagues throughout the pandemic with working from home provisions for those that are able to, flexible working to allow for childcare and other commitments, and ensuring the highest levels of safety in all working practices.

As the Society is deemed to provide an essential service to the public and to ensure our colleagues remain there for our members and customers, the Society decided not to furlough its employees during April, May and June 2020. Instead we ensured all colleagues received full pay irrespective of their personal home situation or ability to carry out their role. In March we immediately enhanced our colleague sickness package, ensuring all Skipton colleagues, irrespective of length of service or role, received a minimum of four weeks' sick pay.

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. A key priority for Skipton is giving colleagues a voice and in April we launched a regular 'pulse survey', replacing our usual employee opinion survey which normally takes place annually in June, so we could respond to our colleagues' needs in a timely manner in these changing times.

Our proposition – we seek to provide good value products and consistently excellent service to our members however they choose to interact with us. The majority of our Skipton branches, adhering to social distancing guidelines, have remained open throughout the lockdown period, albeit with reduced opening hours, for members with essential transactions. For non-essential transactions or where customers have been unable or have not wanted to come into branch, we have reacted quickly to set up telephone and video processes for customers to access money they needed in a secure and convenient way, and our financial advisers have continued to offer financial advice to customers through greater use of Skipton Link, our video conference service.

Our financial strength – our objective is to maintain our strong capital position, in order to be here for our members over the long term and to be able to weather challenging economic times, such as the current pandemic. We do this by sustainably growing our mortgage and savings balances, supplemented historically 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 9 to 15.

Business Review *(continued)*

Key Performance Indicator (KPI)	Purpose	6 months to 30.06.20	6 months to 30.06.19	12 months to 31.12.19
Our Customers				
Total member numbers (Society only)	To ensure we are attracting and retaining members	**1,045,969**	1,030,526	1,046,294
Growth in membership numbers (Society only)	To ensure we are attracting and retaining members	**(325)**	20,100	35,868
Increase in member savings balances (Society only)	To help more members save for their future	**£242m**	£583m	£1,234m
Group gross mortgage advances	To help us to meet our goal of helping more people into homes through prudent and controlled lending	**£2,086m**	£2,547m	£4,894m
Group net mortgage growth	To help us to meet our goal of helping more people into homes through prudent and controlled lending	**£938m**	£1,063m	£1,870m
Our People				
Employee engagement (Society only) (note 1)	To ensure our people are passionate, loyal and committed	**n/a**	89%	89%
Our Proposition				
Society net customer satisfaction score (note 2)	To ensure we are putting the customer at the heart of our business	**87%**	n/a	86%
Our Financial Strength				
Total Group profit before tax*	To ensure we generate the necessary capital to grow the business	**£34.4m**	£67.0m	£153.2m
Underlying Group profit before tax* (as defined on page 9)	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	**£47.9m**	£78.9m	£155.2m
Group net interest margin (% of mean assets)	To manage the earnings of our core Mortgages and Savings division	**0.87%**	1.02%	0.98%
Mortgages and Savings division cost income ratio* (note 3)	To maintain a manageable cost base to ensure the business remains efficient	**62.9%**	59.5%	60.2%
Mortgages and Savings division management expense ratio	To maintain a manageable cost base to ensure the business remains efficient	**0.60%**	0.65%	0.65%
Group residential mortgages in arrears by three months or more (note 4)	To manage and monitor our arrears and credit risk management	**0.26%**	0.27%	0.25%
Liquidity Coverage Ratio	To ensure we hold sufficient levels and quality of overall liquidity	**173%**	177%	207%
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	**79.7%**	81.1%	79.8%
Group Common Equity Tier 1 (CET 1) ratio* (note 5)	To ensure the Group remains financially strong by having a strong (risk weighted) capital base	**37.5%**	33.3%	39.1%
Group Leverage ratio (note 6)	To ensure the Group remains financially strong by having a strong (non-risk weighted) capital base	**6.0%**	6.1%	6.0%

* The comparative figures for the first half of 2019 have been restated as outlined in note 1b) to the Condensed Consolidated Financial Statements.

Notes

1. As measured by Willis Towers Watson, an independent company who provide benchmarking on employee surveys in both the UK and globally. The annual survey was replaced with more regular pulse surveys in the six months to 30 June 2020 to quickly respond to our colleagues' changing needs.
2. During 2019 we refined the way in which this survey is carried out and its associated methodology, which now comprises an in-house survey of c.6,000 Society members. As such, customer satisfaction scores for 30 June 2019 on a comparable basis are not available. The net customer satisfaction score is calculated by subtracting the percentage of members who are dissatisfied (those scoring satisfaction with the Society as 1-3 on a scale of 1-7) from the percentage of members 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 9.
4. In line with regulatory guidance, customers granted mortgage payment deferrals are not being treated as in arrears (unless already in arrears) and therefore any impact of COVID-19 on arrears may be suppressed in the short term.
5. This ratio is calculated under the Internal Ratings Based (IRB) approach on a transitional basis; see page 14 for further details.
6. This ratio is calculated on an end-point basis; see page 14 for further details.

Financial performance

Total Group profit before tax (PBT) for the first half of the year was £34.4m (six months ended 30 June 2019 restated: £67.0m; year ended 31 December 2019: £153.2m). Profits have been heavily impacted in the short term by a worsening of the economic outlook arising from the effects of the COVID-19 outbreak and subsequent measures to prevent transmission.

The Mortgages and Savings division has seen profits fall in the first half of the year. This is primarily due to increases in the division's loan impairment charge, which has increased in the period to £18.7m (six months ended 30 June 2019: £nil), principally as a result of updates to our economic outlook in light of COVID-19. We recognise the pandemic is having a significant impact on our mortgage members, and we have offered support through mortgage payment deferrals and other concessions for affected borrowers. The credit risk associated with these support measures has also been taken into account when estimating our loan impairment charge for the period, recognising that in some cases borrowers may experience longer term financial difficultly due to the pandemic. Further details can be found on page 11.

The two Bank Base Rate cuts announced by the Bank of England in March 2020, reducing it to a record low of 0.1%, contributed to a reduction in net interest income during the period. The rate cuts also led to a reduction in the discount rate used to discount the future liabilities within the Group's defined benefit pension schemes. As a consequence the schemes' combined deficits increased from £87.0m to £113.0m during the period.

We have also seen fair value losses on our equity release portfolio and associated derivatives of £10.4m. These 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 17.

Our Estate Agency division, Connells, closed its branches to the public on 23 March in line with Government guidelines, materially reducing profits in the first half of the year. Adhering to strict new protocols surrounding personal protective equipment (PPE) and social distancing, Connells reopened to the public on 25 May following a change in government guidelines. Further details can be found on page 11.

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. The definition of underlying Group PBT remains unchanged from that outlined in the 2019 Annual Report and Accounts, and excludes gains and losses on disposal of Group undertakings, impairment of Group undertakings, gains or losses on disposal of mortgage assets, fair value movements in relation to the equity release portfolio, fair value movements in equity share investments / share warrants and the Financial Services Compensation Scheme (FSCS) levy.

Underlying Group PBT for the six months ended 30 June 2020 was £47.9m (six months ended 30 June 2019 restated: £78.9m; year ended 31 December 2019: £155.2m) as follows:

	6 months to 30.06.20 £m	6 months to 30.06.19* £m	12 months to 31.12.19 £m
Total Group profit before tax	34.4	67.0	153.2
Less profit on disposal of subsidiary undertakings	(0.5)	(0.6)	(1.1)
Add back fair value losses in relation to the equity release portfolio (note 1)	10.4	12.5	3.4
Add back impairment of goodwill	2.0	-	-
Add back impairment of joint ventures	1.0	-	-
Add back fair value losses on share warrants	0.6	-	-
Less credit for FSCS levy	-	-	(0.3)
Underlying Group PBT (note 2)	**47.9**	78.9	155.2

* The comparative figures for the first half of 2019 have been restated as outlined in note 1b) to the Condensed Consolidated Financial Statements.

Notes

1. The £10.4m is comprised of fair value gains of £17.6m as shown in the 'Fair value gains / (losses) on financial instruments: Equity release portfolio' line in the Income Statement, and fair value losses of £28.0m 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.
2. No additional adjustments have been made in respect of the direct or indirect impacts of COVID-19 for the six months to 30 June 2020.

Performance by division

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

	6 months to 30.06.20 £m	6 months to 30.06.19* £m	12 months to 31.12.19 £m
Mortgages and Savings	**15.6**	39.0	100.8
Estate Agency	**17.2**	26.2	50.1
Investment Portfolio	**1.2**	1.7	4.0
Sundry including inter-divisional adjustments^	**0.4**	0.1	(1.7)
Profit before tax	**34.4**	67.0	153.2

* The comparative figures for the Mortgages and Savings division for the first half of 2019 have been restated as outlined in note 1b) to the Condensed Consolidated Financial Statements.

^ Sundry including inter-divisional adjustments relate 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 30.06.20 £m	6 months to 30.06.19* £m	12 months to 31.12.19 £m
Mortgages and Savings	**26.0**	51.5	103.9
Estate Agency	**20.8**	26.2	50.1
Investment Portfolio	**1.2**	1.7	4.0
Sundry including inter-divisional adjustments^	**(0.1)**	(0.5)	(2.8)
Underlying Group PBT	**47.9**	78.9	155.2

* The comparative figures for the Mortgages and Savings division for the first half of 2019 have been restated as outlined in note 1b) to the Condensed Consolidated Financial Statements.

^ Sundry including inter-divisional adjustments relate 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 19 to the Condensed Consolidated Financial Statements.

Mortgages and Savings

Despite a material increase in mortgage impairment arising from a more pessimistic view of the economic outlook (see note 1c) for further details) and continuing margin pressures due to the low interest environment, the Mortgages and Savings division reported underlying pre-tax profits of £26.0m for the first six months of the year (six months ended 30 June 2019 restated: £51.5m; year ended 31 December 2019: £103.9m).

Suspension of in-person house valuations at the end of March impacted on the range of mortgage products, particularly in the high loan-to-value (LTV) range, that we could offer in the short term. However, our agile response to expand the use of different valuation techniques has meant we were able to continue to offer mortgages up to 75% LTV throughout the restrictions, and we increased this to 85% LTV from June following the restoration of physical valuations.

Group gross mortgage advances in the first half of the year were £2,086m (six months ended 30 June 2019: £2,547m; year ended 31 December 2019: £4,894m), whilst Group net lending was £938m (six months ended 30 June 2019: £1,063m; year ended 31 December 2019: £1,870m). Despite extenuating circumstances we achieved strong net growth in our mortgage book in the period of 4.7% (six months ended 30 June 2019: 5.9%; year ended December 2019: 10.3%), without compromising the quality of our mortgage assets.

We remain alert to how the ongoing low interest rate environment impacts our savers and we continue to offer rates above the market average. Savings balances increased by £242.1m since the end of 2019, representing growth of 1.4% in the six months (six months ended 30 June 2019: 3.6%; year ended 31 December 2019: 7.6%). 2020 has seen continued growth in LISA customers, with 9,277 new customers and net growth of 893 during the period, bringing the total number of LISA customers to 159,743 at 30 June 2020. Total LISA balances at 30 June 2020 were £1,082.0m (six months ended 30 June 2019: £875.7m; year ended 31 December 2019: £876.5m). Government bonuses of £63.2m were received by our LISA customers during the first half of 2020, providing 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 (principally mortgages, other loans and advances and liquidity), less that paid on liabilities (principally retail savings, wholesale funding and subscribed capital). The division's net interest income amounted to £106.5m for the first half of the year (six months ended 30 June 2019: £114.2m; year ended 31 December 2019: £226.9m).

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 0.87% for the first half of 2020 (six months ended 30 June 2019: 1.02%; year ended 31 December 2019: 0.98%). Although, as previously outlined, unforeseen factors have impacted margins in the first half of the year, as signposted in the 2019 Annual Report and Accounts the net interest margin was expected to be impacted due to the intense competition in the mortgage marketplace, which we saw in the early part of the period. Despite the increasing pressures, the Society was able to pass on 0.35% of the 0.65% reduction in Bank Base Rate to mortgage customers on our Mortgage Variable Rate (MVR) and Standard Variable Rate (SVR).

The financial advice part of the business generated £12.7m of income (six months ended 30 June 2019: £15.7m; year ended 31 December 2019: £29.3m), with funds under management totalling £3.3bn (30 June 2019: £3.4bn; 31 December 2019: £3.4bn). Significant market volatility has impacted funds under management and we have seen reduced customer appetite for investments combined with restrictions on accessing advice through the branch network. However, we have seen a sevenfold increase in the use of Skipton Link video services for financial advice appointments in the first six months of the year compared to the same period last year.

During the period, administrative expenses in the Mortgages and Savings division were £76.4m (six months ended 30 June 2019: £75.9m; year ended 31 December 2019: £156.6m). Despite increased costs as we introduced safety measures and home-working provisions as a result of COVID-19, the cost base has remained flat which has been achieved due to the Society taking precautionary steps in reducing and/or delaying non-essential spend because of the pandemic. The cost base for the remainder of 2020 has also been reassessed considering the current economic environment to identify additional cost savings as the Society responds to help mitigate some of the fall in income and increased impairment charges seen in the first six months of the year.

The ratio of administrative expenses to average assets for the division, a traditional building society measure of efficiency, improved to 0.60% in the first half of the year (six months ended 30 June 2019: 0.65%; year ended 31 December 2019: 0.65%). The cost income ratio at a Mortgages and Savings division level increased to 62.9% (six months ended 30 June 2019 restated: 59.5%; year ended 31 December 2019: 60.2%) due to the margin pressures outlined above.

The percentage of the Society's mortgage accounts in arrears by three months or more fell to 0.17% (30 June 2019: 0.21%; 31 December 2019: 0.19%), which compares favourably to the UK Finance industry average for mortgages in arrears by more than three months of 0.74% (UK Finance figures as at 31 March 2020, being the latest available data). We are providing support to customers who have been financially affected by COVID-19. Mortgage payment deferrals granted in this respect will help to support our borrowers but may suppress the impact of the pandemic on arrears in the short term.

The percentage of mortgage accounts in arrears by three months or more within Amber and NYM are 3.68% and 2.06% respectively (30 June 2019: 2.21% and 1.40% respectively; 31 December 2019: 2.24% and 1.81% 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 4.2% during the six months ended 30 June 2020 to £631.9m (six months ended 30 June 2019: decrease of 5.7% to £702.6m; year ended 31 December 2019: decrease of 11.5% to £659.3m).

The impairment charge on residential loans and advances to customers for the Mortgages and Savings division was £11.6m (six months ended 30 June 2019: £0.6m; year ended 31 December 2019: £0.5m). The key driver for the increase is changes made to the Society's forward-looking economic assumptions which have been made to reflect the economic uncertainty caused by the COVID-19 pandemic. The charge also takes account of the credit risk associated with the support measures provided to borrowers through mortgage payment deferrals, recognising that in some cases borrowers may experience longer term financial difficulty.

The commercial lending portfolio, which has been closed to new business since 2008, stands at £229.2m at 30 June 2020 (30 June 2019: £253.5m; 31 December 2019: £236.7m) with an average loan size of £248k. Arrears levels within our commercial lending portfolio remain low, however there was a charge to the Income Statement in the period of £7.1m for the impairment allowance on this portfolio (six months ended 30 June 2019: £0.6m credit; year ended 31 December 2019: £0.2m credit), again driven by the change in forward-looking economic assumptions. We are also providing support through concessionary arrangements with commercial customers who have been financially affected by COVID-19, more than 70% of which were within the retail, leisure and hospitality sectors, which has also led to an increase in overall impairment. At 30 June 2020, commercial impairment provisions stood at £13.5m (six months ended 30 June 2019: £7.2m; year ended 31 December 2019: £6.5m).

SIL, our Channel Islands operation, once again performed well in the first six months of the year, reporting pre-tax profits of £9.9m (six months ended 30 June 2019 restated: £10.3m; year ended 31 December 2019: £21.2m). SIL reported increases in both its mortgage and savings books, which increased to £1,495.4m and £1,728.0m respectively (31 December 2019: £1,432.2m and £1,644.4m respectively), representing growth of 4.4% in the mortgage book and 5.1% growth in savings balances since the year end.

The quality of the SIL mortgage book remains good, with only two cases in arrears by three months or more (30 June 2019: one case; 31 December 2019: no cases). SIL are based in Guernsey where COVID-19 lockdown restrictions were lifted in full from 20 June, although border controls still remain in place. SIL has been managing COVID-19 related forbearance requests on a case-by-case basis and as at 30 June 2020, 2.0% of total mortgage accounts required a full payment break and 2.5% of total mortgage accounts transferred to interest only arrangements on a short term basis.

Refer to note 11 to the Condensed Consolidated Financial Statements for further details on loans and advances to customers.

Estate Agency

The UK property market suffered a turbulent time during the first six months of the year, with the Connells group reporting a pre-tax profit of £17.2m (six months ended 30 June 2019: £26.2m; year ended 31 December 2019: £50.1m).

The strong growth indicators observed in the first ten weeks of 2020 were impacted significantly by the closure of the property market on 23 March. Consequently, total income for the period fell to £168.7m (24% down on the same period in 2019). Nevertheless, as a result of decisive cost actions to manage cash outflows Connells achieved a good profit during the first half of the year, retains significant liquidity and remains in a strong position to weather future market conditions.

The closure of the housing market meant that Connells placed the majority of colleagues on furlough during the period and applied for a grant under the Coronavirus Job Retention Scheme to cover a portion, up to 80% or £2,500 per employee, of their usual monthly wage costs. Connells have also taken business rates relief in the period which was automatically applied by the Government for retail, hospitality and leisure businesses. Further details of government assistance taken in the period can be found in note 6 to the Condensed Consolidated Financial Statements.

Investment Portfolio

Skipton Business Finance Limited (SBF) (a provider of debt factoring and invoice discounting to small and medium-sized enterprises) produced a pre-tax profit for the period of £1.1m (six months ended 30 June 2019: £1.8m; year ended 31 December 2019: £4.0m). Profit for the period has been adversely impacted by COVID-19, with decreased client sales leading to reduced income, whilst impairment provisions have also increased to reflect the challenges being faced by clients as a result of the pandemic.

SBF successfully gained accreditation to partake in the Government's Coronavirus Business Interruption Loan Scheme (CBILS) and the Government's Bounce Back Loans Scheme (BBLS). This enables SBF to offer BBLS loans with the Government guaranteeing 100% of all future losses, and CBILS loans with the Government guaranteeing 80% of any future losses, in order to help its SME clients through these challenging economic times.

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 profit of £0.1m for the period (six months ended 30 June 2019: £0.2m loss; year ended 31 December 2019: broke even).

Sundry, including inter-divisional adjustments

The credit to the Income Statement for the first six months of 2020 for the long term management incentive scheme for the senior managers of Connells Limited was £0.4m (six months ended 30 June 2019: £0.1m credit; year ended 31 December 2019: £1.8m charge). During the period a manager in the scheme exercised a proportion of their options in line with the scheme rules which resulted in a payment of £0.6m being made. Further details of the scheme, including the calculation of the liability and the assumptions used, can be found in note 28 in the 2019 Annual Report and Accounts.

The third instalment of contingent consideration relating to the sale of Homeloan Management Limited (HML) in 2014 was received in the period, amounting to £6.4m. The contingent consideration asset stands at £12.0m at 30 June 2020 (30 June 2019: £17.4m; 31 December 2019: £17.9m) and the profit recognised in the Income Statement for the period was £0.5m (30 June 2019: £0.6m; 31 December 2019: £1.1m); 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 £26.6m (six months ended 30 June 2019: expense of £4.4m (restated); year ended 31 December 2019: expense of £6.8m). This includes:

- The remeasurement of retirement benefit obligations to reflect latest market conditions, which resulted in a loss of £28.8m (before tax) (six months ended 30 June 2019: loss of £1.6m; year ended 31 December 2019: profit of £0.5m); and
- Movements in the Group's fair value reserve, cost of hedging reserve and cash flow hedging reserve totalling a loss of £9.3m (before tax) (six months ended 30 June 2019: loss of £4.6m (restated); year ended 31 December 2019: loss of £9.4m).

Financial position

Liquidity

The Group continues to hold healthy levels of liquid assets to support the business and to help mitigate the current economic uncertainty arising from the COVID-19 pandemic. 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 173% at 30 June 2020 (30 June 2019: 177%; 31 December 2019: 207%). Liquidity remains well above both the regulatory limit of 100% and the internal limit set by the Board throughout the period. The Society also has access to the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME), which was introduced in April 2020.

At 30 June 2020, the Society held £2.8bn (30 June 2019: £2.8bn; 31 December 2019: £3.6bn) of High Quality Liquid Assets (HQLA) as analysed below:

	30.06.20	30.06.19	31.12.19
	£m	£m	£m
Balances with the Bank of England	**751.4**	1,516.3	1,732.2
Gilts	**293.5**	86.4	291.9
Treasury bills	**670.6**	407.5	510.1
Fixed rate bonds	**573.5**	332.6	445.8
Floating rate notes	**204.0**	74.1	204.2
Residential mortgage backed securities	**72.3**	179.0	143.5
Covered bonds	**278.4**	236.2	252.4
	2,843.7	2,832.1	3,580.1

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

	30.06.20	30.06.19	31.12.19
	£m	£m	£m
Cash with other institutions	**23.7**	24.5	29.1
Certificates of deposit	**-**	274.6	31.0
Fixed rate bonds	**-**	31.0	-
Local authority investments	**8.0**	-	-
Residential mortgage backed securities	**61.6**	-	-
	93.3	330.1	60.1

The amounts for HQLA and non-HQLA as shown in the above tables are different to the total amount of liquid assets as would be 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 97.8% of the Group's treasury investments, excluding exposures to a central clearing house used to clear derivatives to manage interest rate risk in line with regulation, are rated A3 or better (30 June 2019: 96.8%; 31 December 2019: 98.1%). 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 Net Stable Funding Ratio (NSFR) is a longer term stable funding metric, which measures the stability of our funding sources relative to the assets (e.g. mortgage balances) we are required to fund. The Group's NSFR was 142% at 30 June 2020 (30 June 2019: 139%; 31 December 2019: 147%), which is well in excess of the minimum regulatory requirement of 100%.

When measured as a percentage of shares, deposits and borrowings, the liquidity ratio remained strong at 16.9% compared with 19.5% at 31 December 2019. 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 temporarily reduced its growth aspirations during the pandemic but continues to grow its mortgage book in a controlled manner, lending within its own clearly defined risk appetite through both the Society and SIL. Group mortgage balances saw growth of 4.7% in the period (six months ended 30 June 2019: 5.9%; year ended 31 December 2019: 10.3%), increasing from £20.0bn at the end of 2019 to £21.0bn.

For a period of time Government restrictions prevented physical valuations of properties. The use of different valuation techniques, quickly implemented for lending up to 75% LTV, has enabled the Society to continue to lend to a broad spectrum of borrowers, within our risk appetite, throughout the period. The Society's LTV of new lending in the period (calculated on a valuation-weighted basis) was 53.1% (six months ended 30 June 2019: 56.6%; year ended 31 December 2019: 56.2%). 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 2020, the fair value of the Group's equity release portfolio was £430.6m (30 June 2019: £412.0m; 31 December 2019: £410.0m) (see note 12 to the Condensed Consolidated Financial Statements for further details).

As at 30 June 2020, the average indexed LTV of the total residential mortgage book (excluding equity release) was 46.3% (30 June 2019: 47.0%; 31 December 2019: 46.8%) (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. It has been a challenging period where we have seen the Bank Base Rate set by the Bank of England fall from 0.75% to 0.1% in the period and this has reduced the average savings rates we can offer our customers.

As at 30 June 2020, £17.6bn (30 June 2018: £16.7bn; 31 December 2019: £17.4bn) of our funding came from retail savings, representing 79.7% (30 June 2019: 81.1%; 31 December 2019: 79.8%) 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 £1.7bn (30 June 2019: £1.6bn; 31 December 2019: £1.6bn). 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 2020, our wholesale funding balances amounted to £4.3bn (30 June 2019: £3.7bn; 31 December 2019: £4.2bn). The Group's wholesale funding ratio remained stable at 20.3% as at 30 June 2020 (30 June 2019: 18.9%; 31 December 2019: 20.2%).

In February 2020, the Society successfully completed its fifth securitisation transaction through Darrowby No. 5 plc, allowing the Society to raise £500m of funding. In the same month, the Society repaid £400m of funding under the Government's Term Funding Scheme (TFS).

At 30 June 2020 the Society had £1,250m of TFS outstanding (30 June 2019: £1,650m; 31 December 2019: £1,650m). The Society has been accepted as a participant in the new Term Funding Scheme with additional incentives for SMEs (TFSME) but did not make any drawings during the period.

In May 2020, global ratings agency Fitch affirmed the Society's long term rating of A- and short term rating of F1. The outlook was revised from Stable to Negative, reflecting the economic and financial market fallout from the COVID-19 outbreak. Our Moody's rating has also remained unchanged with a long term rating of Baa1 and a short term rating of P-2. Similarly, the outlook was revised from Positive to Stable. The ratings reflect the continued financial strength of the Society, which compares favourably to other larger building societies, but recognise the downgrading of the UK's sovereign ratings.

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.

We monitor our capital at a prudential consolidation group level by applying the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). The prudential consolidation group comprises the entire Group except Connells and a small number of other entities whose activities are not closely aligned with the core business.

Total regulatory capital has increased by £22.2m from 31 December 2019 to £1,555.4m (30 June 2019 restated: £1,483.0m; 31 December 2019: £1,533.2m). This is mainly due to the retained profits accumulated during the period. From 27 June 2020, amendments to the Capital Requirements Regulation introduced additional IFRS 9 transitional relief measures in response to the COVID-19 pandemic, the impact of which increases the Society's capital resources by £4.6m as at 30 June 2020. This is mainly attributable to certain additional commercial loan impairment in the period, which is allowed 100% relief under the revised transitional relief measures.

Risk weighted assets (RWAs) have increased by £222.6m in the period to £4,042.0m (30 June 2019 restated: £4,329.4m; 31 December 2019: £3,819.4m). This is mainly due to the capital requirement for the fair value of hedge adjustments on fixed rate assets which has increased as the markets have lowered their long term expectations for interest rates. The capital requirement for mortgage balances has also increased due to growth in the year. Risk weighted assets have decreased by £287.4m compared to June 2019 primarily driven by changes made to the Society's methodology for calculating the capital requirement under the IRB approach.

As a result of these movements, the CET 1 ratio has decreased to 37.5% from 39.1% at 31 December 2019.

The leverage ratio, a non-risk based capital measure, has remained healthy and stable at 6.0% at 30 June 2020 (30 June 2019: 6.1%; 31 December 2019: 6.0%) showing that the growth in mortgage lending has been offset by the profits accumulated during the period.

The following table shows the composition of the prudential group's regulatory capital as at 30 June 2020. 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 and 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 37.5%, the Tier 1 ratio would be 37.5% and the total capital ratio would remain the same at 38.5%. The leverage ratio is reported on an end-point basis.

	30.06.20 **£m**	30.06.19 Restated* £m	31.12.19 £m
Capital resources			
Common Equity Tier 1 capital	**1,515.4**	1,443.0	1,493.2
Total Tier 1 capital	**1,533.4**	1,470.0	1,520.2
Total Tier 2 capital	**22.0**	13.0	13.0
Total regulatory capital	**1,555.4**	1,483.0	1,533.2
Risk weighted assets	**4,042.0**	4,329.4	3,819.4
Capital and leverage ratios (note 1)			
Common Equity Tier 1 ratio (CET 1)	**37.5%**	33.3%	39.1%
Tier 1 ratio	**37.9%**	34.0%	39.8%
Total capital ratio	**38.5%**	34.3%	40.1%
Leverage ratio	**6.0%**	6.1%	6.0%
UK leverage ratio (note 2)	**6.2%**	6.5%	6.5%

* The comparative period has been restated as outlined in note 1b) to the Condensed Consolidated Financial Statements, resulting in a decrease to Common Equity Tier 1 capital, Total Tier 1 capital and total regulatory capital for the half year to 30 June 2019 of £11.8m.

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 all existing Additional Tier 1 instruments that become ineligible as capital under CRDV IV are excluded in full.
2. The UK leverage ratio represents the UK regulatory regime which excludes deposits with central banks from the leverage exposure measure.

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.

Capital buffers

CRD IV requires the holding of capital buffers that can be used to absorb the impact of a stress scenario. For the Society the buffer framework comprises a sector-wide Capital Conservation Buffer set at 2.5% of RWAs in CRD IV and a Countercyclical Capital Buffer, reduced during the period by the regulator from 1% to 0% of RWAs for exposures in the UK due to the economic impact of COVID-19. The Countercyclical Capital Buffer rate varies depending on the country within which the exposure resides and is set by the designated authority in each member state. In addition, the Internal Capital Adequacy Assessment Process (ICAAP) considers whether additional capital is required over and above the regulatory buffers, to satisfy our risk appetite over the planning horizon, and to absorb the impact of a severe stress scenario. The ICAAP is reviewed by the PRA when setting the Group's Total Capital Requirement (Pillar 1 and Pillar 2A).

Minimum Requirement for Own Funds and Eligible Liabilities

The Minimum Requirement for Own Funds and Eligible Liabilities (MREL) is a regulatory requirement set by the Bank of England to ensure institutions can cover losses that would need to be absorbed in the event of a resolution scenario. This 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 18% of risk weighted assets for the period 1 January 2020 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 is uncertain. Whilst there remain significant uncertainties in assessing the duration of the outbreak of COVID-19 and its long term impact, there also exists political uncertainty with the developments surrounding negotiations regarding the UK's relationship with the EU at the end of the transition period. However, the Board understands and promotes the need to maintain a forward-looking focus and run appropriately severe scenarios to test the Group's resilience to these and possibly other unforeseen risk events, and is confident that the Group is well placed to react accordingly.

Other than in regards to COVID-19, which is detailed further below, 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 2019 Annual Report and Accounts.

The principal risks categorised in the 2019 Annual Report and Accounts are set out below with updates in respect of COVID-19:

- Credit risk 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.

  Impairment provisions in the period have been updated to reflect the latest economic assumptions; refer to note 1c) to the Condensed Consolidated Financial Statements for further details. Requests for mortgage payment deferrals following the Government's announcement have also had an impact on expected credit losses.

  The valuation of the equity release portfolio has also been updated to reflect the latest economic assumptions. Refer to note 1c) to the Condensed Consolidated Financial Statements for further details.
- Liquidity risk 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.

  The Society has maintained strong levels of liquidity and entered the pandemic in a stronger position than previous economic crises. Liquidity is being closely monitored, and the Society is approved to access the Bank of England's TFSME should the need arise.
- Interest rate risk 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.

  Markets now predict that interest rates will be lower for longer, which will directly impact upon the Mortgages and Savings division's net interest margin, however there is also reduced competition in the savings market due to increases in supply and the availability of TFSME.
- Capital risk 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 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 its corporate plans.

  The Society continues to maintain strong levels of capital. Projections have been updated to take into account changes in RWAs and loan impairment as a consequence of the pandemic, which help inform our judgements on the appropriate level of mortgage growth and the mix of business considered appropriate to pursue. This led to us temporarily cease lending above 75% LTV in March, together with stricter criteria on new purchase lending, due to the inability to undertake physical valuations. We subsequently increased our risk appetite up to 85% LTV lending with the resumption of physical valuations.
- Pension obligation risk 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 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 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.

  The closure of estate agency branches and surveying during government restrictions presented a material business risk in the period which was mitigated in part by the use of government assistance in the form of the Coronavirus Job Retention Scheme, business rate relief, retail cash grants and VAT deferral options.

- Climate change risk is the risk that climate and environmental changes present to our business model. The Society has considered and is addressing the potential financial risks associated with climate change, whilst also identifying steps that can be taken to ensure that it is acting responsibly in its individual response to climate change. However, it is recognised that the Society will need to be responsive to the evolving nature of this risk.
- Conduct risk 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 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.

    Operational resilience has been placed under pressure from the outbreak of COVID-19, however appropriate actions have been taken to mitigate this:
  - Operating methods – The Society has adapted to 90% of head office colleagues working from home, changing operating practices to maintain a strong control environment. Targeted control reviews have been performed by Group Internal Audit to provide assurance that key controls remain effective under the current working conditions.
  - People – The Society maintained all colleagues at full pay for the first three months of COVID-19 restrictions, whilst working from home provisions have been brought in for those that are able to, in order to comply with the Government's safety guidelines, and maintain the safety of our colleagues. Following the easing of restrictions in July the Society has offered flexible working options, which include some unpaid and subsidised leave, for those unable to return to normal working arrangements due to other commitments. The Society remains alive to the risk of a second spike in infections and as such continues to operate working from home principles where possible.
  - Branch network – Connells' branches closed temporarily, in line with Government guidelines, in order to protect lives. The vast majority, 95%, of the Society's branches have remained open throughout the pandemic, however operating reduced opening hours and with a focus on essential transactions.
  - Cost management – The cost base has been reassessed in light of the current economic environment with additional cost saving strategies implemented to help mitigate short term financial impacts.
- 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 67 to 73 of the 2019 Annual Report and Accounts.

The Group Chief Executive's Report on pages 3 to 5 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

11 August 2020

Condensed Consolidated Income Statement

For the half year ended 30 June 2020

	Notes	**Unaudited 6 months to 30.06.20 £m**	Unaudited 6 months to 30.06.19 Restated* £m	Audited 12 months to 31.12.19 £m
Interest receivable and similar income:				
Accounted for using the effective interest rate method	3	**228.5**	253.5	510.0
Other	3	**(0.2)**	1.2	4.9
Total interest receivable and similar income		**228.3**	254.7	514.9
Interest payable and similar charges	4	**(117.1)**	(134.8)	(276.8)
Net interest receivable		**111.2**	119.9	238.1
Fees and commissions receivable	5	**190.5**	246.7	492.4
Fees and commissions payable		**(3.5)**	(4.1)	(8.2)
Fair value gains / (losses) on financial instruments mandatorily held at FVTPL:				
Hedging instruments and hedged items		**0.5**	(5.2)	1.2
Other derivatives	12	**(28.0)**	(12.2)	2.6
Equity release portfolio	12	**17.6**	(0.3)	(6.0)
Share warrants		**(0.6)**	-	-
Put options held by minority shareholders		**0.4**	-	-
Realised profits on treasury assets held at fair value through other comprehensive income (FVOCI)		**-**	2.4	2.4
Profit on disposal of subsidiary undertakings		**0.5**	0.6	1.1
Share of profits from joint ventures		**0.6**	0.9	1.7
Other income		**2.8**	0.8	0.8
Total income		**292.0**	349.5	726.1
Administrative expenses	6	**(230.6)**	(274.7)	(554.0)
Operating profit before impairment and provisions		**61.4**	74.8	172.1
Impairment losses on loans and advances to customers	7	**(19.1)**	-	(0.5)
Impairment credit / (losses) on liquid assets		**0.1**	(0.6)	0.2
Impairment of goodwill		**(2.0)**	-	-
Impairment of joint ventures		**(1.0)**	-	-
Realised losses on equity release portfolio	12	**-**	(0.4)	(0.5)
Provisions for liabilities	9	**(5.0)**	(6.8)	(18.1)
Profit before tax		**34.4**	67.0	153.2
Tax expense		**(6.4)**	(12.4)	(30.8)
Profit for the period attributable to members of Skipton Building Society		**28.0**	54.6	122.4

* The comparative amounts are restated for adjustments relating to hedge amortisation (see note 1b)).

Segmental performance of the Group is shown in note 19.

The notes on pages 24 to 57 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 2020

	Unaudited 6 months to 30.06.20	Unaudited 6 months to 30.06.19 Restated*	Audited 12 months to 31.12.19
	£m	£m	£m
Profit for the period	**28.0**	54.6	122.4
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement (losses) / gains on defined benefit obligations	**(28.8)**	(1.6)	0.5
Income tax on items that will not be reclassified to profit or loss	**8.5**	0.6	0.3
	(20.3)	(1.0)	0.8
Items that may be reclassified subsequently to profit or loss:			
Movement in cash flow hedging reserve:			
(Losses) / gains taken to equity	**(10.6)**	(3.7)	3.1
Realised (gains) / losses transferred to Income Statement	**(2.7)**	0.6	(6.9)
Movement in fair value reserve (debt securities):			
Gains / (losses) taken to equity	**0.9**	0.2	(0.3)
Impairment loss allowance on debt securities held at FVOCI	**-**	0.2	(0.1)
Movement in cost of hedging reserve:			
Gains / (losses) taken to equity	**3.1**	(1.9)	(5.2)
Exchange differences on translation of foreign operations	**0.3**	0.1	(0.7)
Income tax on items that may be reclassified to profit or loss	**2.7**	1.1	2.5
	(6.3)	(3.4)	(7.6)
Other comprehensive expense for the period, net of tax	**(26.6)**	(4.4)	(6.8)
Total comprehensive income for the period attributable to members of Skipton Building Society	**1.4**	50.2	115.6

* The comparative amounts are restated for adjustments relating to hedge amortisation (see note 1b)).

The notes on pages 24 to 57 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	**Unaudited as at 30.06.20 £m**	Unaudited as at 30.06.19 Restated* £m	Audited as at 31.12.19 £m
Assets				
Cash in hand and balances with the Bank of England		**819.8**	1,573.5	1,793.1
Loans and advances to credit institutions		**729.5**	563.3	546.6
Debt securities	8	**2,439.7**	1,916.9	2,182.9
Derivative financial instruments		**90.3**	53.0	38.5
Loans and advances to customers held at amortised cost	11	**21,155.0**	19,262.9	20,065.6
Loans and advances to customers held at FVTPL		**1.3**	1.6	1.5
Equity release portfolio held at FVTPL	12	**430.6**	412.0	410.0
Current tax asset		**0.5**	-	1.0
Deferred tax asset		**48.8**	37.4	38.6
Investments in joint ventures		**12.1**	11.7	12.5
Equity share investments		**1.5**	1.4	1.5
Property, plant and equipment		**75.5**	75.3	75.7
Right-of-use assets		**63.8**	64.5	67.4
Investment property		**9.3**	9.7	9.4
Intangible assets	13	**159.5**	161.0	162.6
Other assets		**67.4**	84.1	82.5
Total assets		**26,104.6**	24,228.3	25,489.4
Liabilities				
Shares		**17,645.1**	16,710.7	17,364.1
Amounts owed to credit institutions		**1,313.5**	1,698.0	1,678.3
Amounts owed to other customers		**1,857.8**	1,654.1	1,816.9
Debt securities in issue	14	**2,813.5**	1,927.9	2,302.6
Derivative financial instruments		**514.3**	347.7	361.1
Current tax liability		**4.2**	10.0	16.0
Lease liabilities		**63.9**	62.6	66.6
Other liabilities		**52.6**	53.6	52.6
Accruals		**26.7**	38.1	42.3
Deferred income		**2.0**	3.0	2.7
Provisions for liabilities	9	**20.7**	21.5	23.7
Deferred tax liability		**2.1**	1.1	1.7
Retirement benefit obligations		**113.0**	91.6	87.0
Subscribed capital		**41.6**	41.6	41.6
Total liabilities		**24,471.0**	22,661.5	23,857.2
Members' interests				
General reserve		**1,641.6**	1,564.3	1,633.9
Fair value reserve		**2.1**	1.9	1.4
Cash flow hedging reserve		**(13.0)**	(2.7)	(3.3)
Cost of hedging reserve		**(1.9)**	(2.0)	(4.3)
Translation reserve		**4.8**	5.3	4.5
Attributable to members of Skipton Building Society		**1,633.6**	1,566.8	1,632.2
Total members' interests and liabilities		**26,104.6**	24,228.3	25,489.4

* The comparative amounts are restated for adjustments relating to hedge amortisation (see note 1b)).

The notes on pages 24 to 57 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 2020

	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 2020	**1,633.9**	**1.4**	**(3.3)**	**(4.3)**	**4.5**	**1,632.2**
Profit for the period	28.0	-	-	-	-	**28.0**
Other comprehensive income:						
Remeasurement losses on defined benefit obligations	(20.3)	-	-	-	-	**(20.3)**
Net gains / (losses) from changes in fair value	-	0.7	(7.5)	2.4	-	**(4.4)**
Cash flow hedges: realised gains transferred to Income Statement	-	-	(2.2)	-	-	**(2.2)**
Exchange differences on translation of foreign operations	-	-	-	-	0.3	**0.3**
Total other comprehensive income	**(20.3)**	**0.7**	**(9.7)**	**2.4**	**0.3**	**(26.6)**
Total comprehensive income for the period	**7.7**	**0.7**	**(9.7)**	**2.4**	**0.3**	**1.4**
Balance at 30 June 2020	**1,641.6**	**2.1**	**(13.0)**	**(1.9)**	**4.8**	**1,633.6**

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*	1,510.7	1.6	(0.4)	(0.5)	5.2	1,516.6
Profit for the period*	54.6	-	-	-	-	54.6
Other comprehensive income:						
Remeasurement losses on defined benefit obligations	(1.0)	-	-	-	-	(1.0)
Net gains / (losses) from changes in fair value*	-	0.2	(2.8)	(1.5)	-	(4.1)
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	(2.3)	(1.5)	0.1	(4.4)
Total comprehensive income for the period	53.6	0.3	(2.3)	(1.5)	0.1	50.2
Balance at 30 June 2019	1,564.3	1.9	(2.7)	(2.0)	5.3	1,566.8

* The comparative amounts are restated for adjustments relating to hedge amortisation (see note 1b)).

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

Audited for the year ended 31 December 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	1,510.7	1.6	(0.4)	(0.5)	5.2	1,516.6
Profit for the period	122.4	-	-	-	-	122.4
Other comprehensive income:						
Remeasurement gains on defined benefit obligations	0.8	-	-	-	-	0.8
Net (losses) / gains from changes in fair value	-	(0.1)	2.7	(3.8)	-	(1.2)
Debt securities at FVOCI: impairment loss allowance	-	(0.1)	-	-	-	(0.1)
Cash flow hedges: realised gains transferred to Income Statement	-	-	(5.6)	-	-	(5.6)
Exchange differences on translation of foreign operations	-	-	-	-	(0.7)	(0.7)
Total other comprehensive income	0.8	(0.2)	(2.9)	(3.8)	(0.7)	(6.8)
Total comprehensive income for the year	123.2	(0.2)	(2.9)	(3.8)	(0.7)	115.6
Balance at 31 December 2019	1,633.9	1.4	(3.3)	(4.3)	4.5	1,632.2

The notes on pages 24 to 57 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 2020

	Notes	**Unaudited 6 months to 30.06.20 £m**	Unaudited 6 months to 30.06.19 Restated* £m	Audited 12 months to 31.12.19 £m
Cash flows from operating activities				
Profit before tax		**34.4**	67.0	153.2
Adjustments for:				
Impairment charge on loans and advances to customers	7	**19.1**	-	0.5
Loans and advances written off, net of recoveries		**(0.1)**	(0.9)	(2.2)
Impairment (credit) / losses on liquid assets		**(0.1)**	0.6	(0.2)
Impairment losses / (credit) on trade receivables		**0.4**	0.2	(0.1)
Impairment of goodwill	13	**2.0**	-	-
Impairment of joint ventures		**1.0**	-	-
Depreciation and amortisation		**18.9**	18.8	37.7
Impairment of property, plant and equipment and investment property		**-**	0.3	0.5
Income Statement (credit) / charge for fair value of subsidiary management incentive scheme liability		**(0.4)**	(0.1)	1.8
Interest on subscribed capital	4	**2.2**	2.2	4.5
Interest on lease liabilities	4	**0.6**	0.7	1.4
Profit on disposal of property, plant and equipment, investment property and intangible assets		**-**	(0.6)	(0.6)
Profit on disposal of treasury assets		**-**	(2.4)	(2.4)
Share of profits from joint ventures		**(0.6)**	(0.9)	(1.7)
Profit on disposal of subsidiary undertakings		**(0.5)**	(0.6)	(1.1)
Fair value (gains) / losses on equity release portfolio	12	**(17.6)**	0.3	6.0
Fair value losses on share warrants		**0.6**	-	-
Realised losses on equity release portfolio	12	**-**	0.4	0.5
Other non-cash movements		**(13.2)**	(5.5)	(17.7)
		46.7	79.5	180.1
Changes in operating assets and liabilities:				
Movement in prepayments and accrued income		**2.2**	1.6	(4.4)
Movement in accruals and deferred income		**(41.4)**	(23.9)	(4.0)
Movement in provisions for liabilities		**(3.0)**	(2.5)	-
Movement in fair value of derivatives		**101.4**	87.6	115.5
Movement in fair value adjustments for hedged risk		**(110.8)**	(51.5)	(93.6)
Fair value movements in debt securities	8	**(12.4)**	(1.3)	0.7
Movement in loans and advances to customers		**(936.7)**	(1,065.2)	(1,866.4)
Movement in shares		**267.4**	601.3	1,231.5
Net movement in amounts owed to credit institutions and other customers		**(323.3)**	(220.4)	(74.1)
Net movement in debt securities in issue		**490.4**	492.9	919.1
Net movement in loans and advances to credit institutions		**(189.3)**	(87.6)	(98.1)
Net movement in other assets		**5.9**	(8.7)	(2.1)
Net movement in other liabilities		**(2.1)**	(3.1)	(8.7)
Income taxes paid		**(16.5)**	(19.6)	(32.7)
Net cash flows from operating activities		**(721.5)**	(220.9)	262.8

* The comparative amounts are restated for adjustments relating to hedge amortisation (see note 1b)).

Condensed Consolidated Statement of Cash Flows *(continued)*

For the half year ended 30 June 2020

	Notes	**Unaudited 6 months to 30.06.20 £m**	Unaudited 6 months to 30.06.19 Restated* £m	Audited 12 months to 31.12.19 £m
Net cash flows from operating activities		**(721.5)**	(220.9)	262.8
Cash flows from investing activities				
Purchase of debt securities	8	**(1,507.4)**	(1,531.7)	(2,611.5)
Proceeds from disposal of debt securities		**1,263.0**	1,001.6	1,813.4
Purchase of property, plant and equipment and investment property		**(6.2)**	(4.8)	(12.7)
Purchase of intangible assets		**(2.0)**	(3.0)	(7.7)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		**0.5**	3.1	3.7
Dividends received from joint ventures		**-**	1.4	1.4
Contingent consideration received following disposal of subsidiary (net of costs)		**6.4**	6.2	6.2
Investment in equity share investments		**-**	(0.6)	(0.7)
Purchase of other business units		**(1.2)**	-	(0.3)
Deferred consideration paid in respect of prior year acquisitions of subsidiary undertakings and business units		**-**	(0.1)	(0.1)
Net cash flows from investing activities		**(246.9)**	(527.9)	(808.3)
Cash flows from financing activities				
Exercise of share options in subsidiary management incentive scheme		**(0.6)**	(9.3)	(9.3)
Share options issued in subsidiary management incentive scheme		**-**	-	0.7
Exercise of put options held by non-controlling shareholders		**-**	(0.2)	(0.6)
Interest paid on subscribed capital		**(2.2)**	(2.2)	(4.5)
Interest paid on lease liabilities		**(0.6)**	(0.7)	(1.4)
Payment of lease liabilities		**(7.7)**	(7.5)	(16.3)
Net cash flows from financing activities		**(11.1)**	(19.9)	(31.4)
Net decrease in cash and cash equivalents		**(979.5)**	(768.7)	(576.9)
Cash and cash equivalents at 1 January		**1,845.1**	2,421.9	2,421.9
Decrease / (increase) in impairment loss allowance on cash and cash equivalents		**0.2**	(0.4)	0.1
Cash and cash equivalents at end of period		**865.8**	1,652.8	1,845.1

* The comparative amounts are restated for adjustments relating to hedge amortisation (see note 1b)).

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

	Unaudited as at 30.06.20 £m	Unaudited as at 30.06.19 Restated* £m	Audited as at 31.12.19 £m
Cash in hand and balances with the Bank of England	**819.8**	1,573.5	1,793.1
Mandatory reserve deposit with the Bank of England	**(65.7)**	(51.0)	(57.8)
	754.1	1,522.5	1,735.3
Loans and advances to credit institutions	**111.7**	130.3	109.8
Cash and cash equivalents at end of period	**865.8**	1,652.8	1,845.1

* The comparative amounts are restated for adjustments relating to hedge amortisation (see note 1b)).

The notes on pages 24 to 57 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 2020 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 2019.

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.

b) Changes to significant accounting policies and other prior period adjustments

There have been no changes to significant accounting policies within the period, however the following policy in relation to government grants has been applied in the period.

Government grants

Government grants and other assistance are recognised in the income statement over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate. A government grant that becomes receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Group entity with no future related costs, is recognised in the Income Statement in the period in which it becomes receivable.

Government grants are recognised when the Group has reasonable assurance that it will comply with the conditions attached to the grant and there is a reasonable assurance that the grant will be received.

Prior period adjustments

At 31 December 2019, the Group reviewed its application of hedge accounting in accordance with the requirements of IFRS 9 and IAS 39. This review identified a material misstatement where the Group had not appropriately amortised certain fair value adjustments over the life of the hedge. In accordance with IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors*, comparative amounts for the six months to 30 June 2019 are restated as set out in the tables below.

Income Statement **For the period ended 30.06.19**	**Previously reported**	**Hedge amortisation adjustments**	**Restated**
	£m	**£m**	**£m**
Fair value gains / (losses) on hedging instruments and hedged items	0.1	(5.3)	**(5.2)**
Total income	354.8	(5.3)	**349.5**
Operating profit before impairment and provisions	80.1	(5.3)	**74.8**
Profit before tax	72.3	(5.3)	**67.0**
Tax expense	(13.9)	1.5	**(12.4)**
Profit for the period attributable to members of Skipton Building Society	58.4	(3.8)	**54.6**

Statement of Comprehensive Income **For the period ended 30.06.19**	**Previously reported**	**Hedge amortisation adjustments**	**Restated**
	£m	**£m**	**£m**
Profit for the period	58.4	(3.8)	**54.6**
Movement in cash flow hedging reserve: losses taken to equity	(2.9)	(0.8)	**(3.7)**
Income tax on items that may be reclassified to profit or loss	0.9	0.2	**1.1**
Other comprehensive expense for the period (net of tax)	(3.8)	(0.6)	**(4.4)**
Total comprehensive income for the period attributable to members of Skipton Building Society	54.6	(4.4)	**50.2**

1. Introduction *(continued)*

Statement of Financial Position
As at 30.06.19

	Previously reported £m	Hedge amortisation adjustments £m	Restated £m
Loans and advances to customers held at amortised cost	19,279.6	(16.7)	**19,262.9**
Total assets	24,245.0	(16.7)	**24,228.3**
Shares	16,713.3	(2.6)	**16,710.7**
Amounts owed to other customers	1,654.0	0.1	**1,654.1**
Current tax liability	11.6	(1.6)	**10.0**
Total liabilities	22,665.6	(4.1)	**22,661.5**
General reserve	1,576.1	(11.8)	**1,564.3**
Cash flow hedging reserve	(1.9)	(0.8)	**(2.7)**
Members' interests attributable to members of Skipton Building Society	1,579.4	(12.6)	**1,566.8**
Total members' interests and liabilities	24,245.0	(16.7)	**24,228.3**

Statement of Changes in Members' Interests
For the period ended 30.06.19

	Previously reported £m	Hedge amortisation adjustments £m	Restated £m
General reserve			
Balance at 1 January 2019	1,518.7	(8.0)	**1,510.7**
Profit for the period	58.4	(3.8)	**54.6**
Total comprehensive income for the period	57.4	(3.8)	**53.6**
Balance at 30 June 2019	1,576.1	(11.8)	**1,564.3**
Cash flow hedging reserve			
Balance at 1 January 2019	(0.2)	(0.2)	**(0.4)**
Net losses from changes in fair value	(2.2)	(0.6)	**(2.8)**
Total other comprehensive income	(1.7)	(0.6)	**(2.3)**
Total comprehensive income for the period	(1.7)	(0.6)	**(2.3)**
Balance at 30 June 2019	(1.9)	(0.8)	**(2.7)**

Statement of Cash Flows
For the period ended 30.06.19

	Previously reported £m	Hedge amortisation adjustments £m	Restated £m
Profit before tax	72.3	(5.3)	**67.0**
Other non-cash movements	(4.9)	(0.6)	**(5.5)**
Movement in fair value adjustments for hedged risk	(57.6)	6.1	**(51.5)**
Net movement in other assets	(8.5)	(0.2)	**(8.7)**

1. Introduction *(continued)*

c) Critical accounting estimates and judgements in applying accounting policies

Note 1t) to the 2019 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, including the potential impacts of COVID-19, is set out below.

Impairment of mortgage loans and advances

Significant increase in credit risk

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 during the period split the low risk grade into two grades, 'slight risk' and 'low risk'. Creating a fourth risk grade allows a higher PD multiple to be used for the lowest risk accounts and significantly improves the efficiency of these thresholds whilst maintaining effectiveness. Details of these changes, which do not materially impact these condensed consolidated financial statements, are set out below.

Lifetime PD band at initial recognition	**Multiple by which remaining lifetime PD has increased compared to initial estimate**		
	Unaudited Applied at 30.06.20	Unaudited Applied at 30.06.19	Audited Applied at 31.12.19
Slight risk	initial estimate x 8	initial estimate x 5	initial estimate x 5
Low risk	initial estimate x 5	initial estimate x 5	initial estimate x 5
Medium risk	initial estimate x 2.6	initial estimate x 2.6	initial estimate x 2.6
High risk	initial estimate x 1	initial estimate x 1	initial estimate x 1

To further improve the effectiveness of its 'significant increase in credit risk' (SICR) criteria the Group has introduced the use of an absolute lifetime PD hurdle for residential mortgages where lifetime PD goes above 25%. These accounts are considered to have a significant increase in credit risk and will automatically be migrated to Stage 2.

For residential mortgages, 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. At 30 June 2020, to the extent that the SICR criteria was to see a relative reduction of 25%, i.e. simultaneously reducing each multiplier threshold by 25%, there would be a £2.1m increase to the residential loan impairment charge (31 December 2019: £0.2m increase).

For commercial mortgages, 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 of at least 50% of the contractual monthly payment. At 30 June 2020, to the extent that an additional 5% of balances were included on a watchlist. i.e. management identified an additional 5% of gross loan balances to be placed on a watchlist, there would be a £0.3m increase to the commercial loan impairment charge (31 December 2019: £0.4m increase). This 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.

Forward-looking information

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 expected credit losses (ECLs). In accordance with IFRS 9, the Group's estimate of ECLs is an unbiased and probability-weighted amount that reflects a range of possible outcomes. 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 at that time of the most likely outcome and is aligned with information used by the Group for other purposes such as planning and budgeting. In addition, the Group incorporates an upside scenario that represents a more optimistic view than the base case, and a downside scenario that represents a more pessimistic view than the base case. The selection of these alternative scenarios is intended to model the non-linear impact of economic factors on ECLs for the Group's mortgage portfolios; in particular, in the downside scenario the economic variables are stressed sufficiently to capture the non-linear impacts.

The scenarios applied by the Group as at 30 June 2020 were determined with due consideration to the economic uncertainties surrounding the COVID-19 pandemic and the UK's departure from the EU. The economic landscape remains highly uncertain with many significant unknowns; later in the year the Group will revisit its scenario selection and assumptions for the purposes of the Group's 2020 year-end accounts.

1. Introduction *(continued)*

The Group's base case is set in the context of a 'U' shaped recovery from COVID-19's economic impacts. The economic shock is substantial as GDP significantly contracts, but stabilises by the end of 2020 when there is a slow yet steady recovery. Unemployment significantly increases then slowly recovers during 2021. House prices see a small reduction in 2020, whilst housing transactions gradually return to pre-crisis levels by the end of 2020.

The Group's upside scenario is set in the context of a swift 'V' shaped recovery from COVID-19's economic impacts. The pandemic leads to a significant economic shock in mid-2020, but there is a swift bounce back in late 2020 to near normality. The annual impact on GDP is negative but less severe than for the base case. Whilst unemployment does increase, the UK Government's unprecedented support measures preserve many jobs and only the most directly impacted sectors such as travel and hospitality see long term effects. Housing transaction levels recover to normal by autumn 2020 and house price inflation, following a small shock in mid-2020, bounces back by 2021.

The Group's downside scenario is set in the context of an 'L' shaped recovery from COVID-19's economic impacts. The pandemic significantly impacts the functioning of the economy until late 2020, with social distancing measures lasting into 2021. GDP sharply contracts and unemployment sharply rises, with little recovery until a vaccine is widely implemented in late 2021. There is a profound effect on the housing market, which does not return to normal transaction levels until mid-2021. House prices slump by 20% cumulatively and take time to recover. Globally, the recession is severe and long-lasting.

The key economic variables considered by the Group when developing the forecast scenarios are set out below for the first five years of each of the Group's scenarios. As noted above, the assumptions assigned to each scenario have been revised during the period taking account of the significant economic uncertainties surrounding COVID-19 and the UK's departure from the EU.

Economic variables (peak or trough over 5 year forecast period)	**As at 30.06.20**			As at 31.12.19		
	Upside	**Base case**	**Downside**	Upside	Base case	Downside
Bank of England base rate (%) (note 1)	**0.1 / 1.0**	**0.1**	**0.0 / 0.1**	0.75 / 2.0	0.5 / 0.75	0.0 / 0.25
Unemployment (%) (note 2)	**6.5**	**9.0**	**11.5**	4.4	4.8	7.0
House price inflation (UK) (%) (note 3)	**(0.1)**	**(5.9)**	**(20.0)**	n/a	n/a	(12.5)
Commercial property price growth (%) (note 3)	**0.0**	**(12.2)**	**(25.5)**	n/a	n/a	(21.8)

Notes
1. The Bank of England base rate is shown as the lowest/highest rate over the forecast period.
2. Unemployment is shown as the highest rate over the forecast period. In the base case scenario, the peak is assumed to occur in Q2 2021, which is therefore higher than the 2020 and 2021 year-end positions shown in the table below.
3. As reduction in asset prices is a key driver of impairment, house price inflation and commercial property price growth are shown as the largest cumulative fall over the forecast period from 1 January 2020. As at 31.12.19, the base case and upside scenarios for house price inflation and commercial property price growth did not forecast any price falls over the forecasting period, hence n/a.

Economic variables (annual rate)		**As at 30.06.20**				
	Scenario	**2020**	**2021**	**2022**	**2023**	**2024**
Bank of England base rate (%) (note 1)	Upside	**0.1**	**0.3**	**0.5**	**0.8**	**1.0**
	Base	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
	Downside	**0.1**	**0.0**	**0.0**	**0.1**	**0.1**
Unemployment (%) (note 1)	Upside	**6.5**	**5.0**	**4.6**	**4.5**	**4.5**
	Base	**8.0**	**8.7**	**8.0**	**7.0**	**6.0**
	Downside	**8.5**	**11.5**	**10.8**	**9.0**	**7.2**
House price inflation (UK) (%) (note 2)	Upside	**0.0**	**6.1**	**4.1**	**4.2**	**4.2**
	Base	**(4.9)**	**0.5**	**5.3**	**4.1**	**4.1**
	Downside	**(5.9)**	**(14.9)**	**8.0**	**5.6**	**5.0**
Commercial property price growth (%) (note 2)	Upside	**0.0**	**0.0**	**2.0**	**2.0**	**2.0**
	Base	**(6.6)**	**(6.0)**	**0.0**	**0.0**	**0.0**
	Downside	**(15.3)**	**(12.0)**	**0.0**	**0.0**	**0.0**

1. Introduction *(continued)*

	As at 31.12.19					
	Scenario	2020	2021	2022	2023	2024
Bank of England base rate (%) (note 1)	Upside	1.0	1.3	1.5	1.8	2.0
	Base	0.5	0.5	0.5	0.5	0.5
	Downside	0.0	0.3	0.3	0.3	0.3
Unemployment (%) (note 1)	Upside	3.9	4.0	4.1	4.3	4.4
	Base	4.2	4.4	4.5	4.7	4.8
	Downside	5.8	6.5	6.8	6.6	6.5
House price inflation (UK) (%) (note 2)	Upside	4.0	5.4	5.7	5.6	5.6
	Base	2.3	2.5	3.0	3.0	3.5
	Downside	(4.3)	(5.5)	(1.0)	2.0	2.8
Commercial property price growth (%) (note 2)	Upside	2.0	2.0	2.0	2.0	2.0
	Base	0.0	0.0	0.0	0.0	0.0
	Downside	(14.2)	(8.8)	0.0	0.0	0.0

Notes

1.The Bank of England base rates and unemployment rates are the position at 31 December each year.

2. House price inflation and commercial property price growth are the annual growth rate in each year. In addition to house price inflation, the Group's impairment calculations also include a 'forced sale discount' reflecting the likely reduction in property price when selling a repossessed property. The forced sale discount is calculated at account level, taking into account the specific circumstances of each account and the property in question.

The relative weightings assigned to each scenario have also been revised during the period taking into account the severity of the scenarios which have been significantly updated to reflect the impacts of the COVID-19 pandemic and the level of uncertainty over the economic outlook, both domestic and global. The Group's scenario weightings as at 30 June 2020 were 60% for the base case, 5% for the upside scenario and 35% for the downside scenario (30 June 2019: base case 55%, upside scenario 15%, downside scenario 30%; 31 December 2019: base case 50%, upside scenario 10%, downside scenario 40%).

Whilst actual loan cash flows and the level of losses realised are unaffected by IFRS 9's expected credit loss approach, the level of loan impairment accounted for by the Group under IFRS 9 may be volatile; this is due to the inherent uncertainty when incorporating forward-looking information which can rapidly change. IFRS 9 impairment is expected to vary as expectations of economic conditions become either more pessimistic (which is likely to increase ECLs) or more optimistic (which is likely to reduce ECLs).

A post model adjustment of £1.5m has been recognised for residential mortgages to reflect the estimated impact of mortgage payment deferrals granted in response to COVID-19 on expected credit losses. This adjustment reflects those accounts where a mortgage payment deferral has been granted but no other indicator of SICR has occurred and they therefore remain in Stage 1. Due to the limited observable data available at the reporting date, this additional provision is subject to significant levels of estimation and is expected to evolve as additional post-deferral performance data becomes available. In accordance with regulatory guidance, these mortgage payment deferrals are not recorded as forbearance cases and do not automatically have an impact on the reported staging of balances except where credit risk is judged to have significantly increased since the loan was initially recognised.

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).

To give an indication of the sensitivity of ECLs to different economic scenarios, the tables below show the ECL if 100% weighting was applied to each scenario for both residential and commercial.

Residential	**As at 30.06.20**		As at 31.12.19	
Scenario	**Weighting %**	**ECL £m**	Weighting %	ECL £m
Upside	5	**7.1**	10	5.0
Base	60	**13.7**	50	5.2
Downside	35	**35.8**	40	16.3
Probability weighted scenario	100	**21.2**	100	9.6

Commercial	**As at 30.06.20**		As at 31.12.19	
Scenario	**Weighting %**	**ECL £m**	Weighting %	ECL £m
Upside	5	**4.7**	10	3.0
Base	60	**9.6**	50	5.3
Downside	35	**21.4**	40	8.9
Probability weighted scenario	100	**13.5**	100	6.5

1. Introduction *(continued)*

Impairment of treasury assets

The Group incorporates forward-looking information into its ECL assessment for treasury assets. In addition to the base case view, the Group also considers the impact of an extreme economic downturn such as a two-notch downgrade on the entire portfolio. At 30 June 2020, the relative weightings assigned to each scenario were 95% for the base case and 5% for the downside scenario (30 June 2019: base case 95%, downside scenario 5%; 31 December 2019: base case 95%, downside scenario 5%).

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 interest rates, future expected inflation, mortality rates and anticipated redemption profiles (arising due to voluntary redemption or a move to long term care).

A number of these factors are based on management judgement as to how economic inputs will change over both the short and long term. Management has reviewed these expectations during the first half of the year with due consideration to the economic uncertainties surrounding the COVID-19 pandemic. The expectations of the economic inputs that require management judgement are in line with the economic environment that forms the base case scenario as outlined on pages 26 to 28; further detail on the movements in the portfolio in the period can be found on page 46.

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 30.06.20 £m**	Unaudited at 30.06.19 £m	Audited at 31.12.19 £m
Redemption rates	+ / - 1% p.a.	**(12.6) / 14.2**	(11.6) / 13.0	(11.0) / 12.4
Discount rate	+ / - 0.2%	**(10.5) / 10.9**	(10.4) / 10.8	(9.9) / 10.3
HPI forecast	+ / - 0.5% p.a.	**10.3 / (10.9)**	11.3 / (12.9)	9.4 / (11.1)
Impact of property dilapidations (note 1)	+ / - 5%	**-**	(8.9) / 7.6	(8.1) / 6.7
HPI volatility (note 1)	+ / - 3% p.a.	**-**	(4.7) / 3.9	(4.8) / 3.9
Property volatility (note 1)	+ / - 1%	**(5.5) / 5.4**	-	-

Note

1. During the period a review was carried out on the assumptions in the table above. As a result, the HPI volatility assumption and the impact of property dilapidations assumption were combined into one input, the property volatility assumption. The use of a property volatility assumption is in line with emerging industry best practice and guidelines. This change, and the resulting recalculation of inputs to the valuation, did not result in a material change to the valuation of the equity release portfolio. There is no impact on the Financial Statements for prior periods.

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 within 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.

1. Introduction *(continued)*

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 30.06.20 £m**	Unaudited at 30.06.19 £m	Audited at 31.12.19 £m
Redemption rates	+ / - 1% pa	**(14.9) / 16.8**	(17.0) / 19.4	(15.1) / 17.1
RPI volatility	+ / - 0.5% pa	**4.5 / (3.5)**	7.3 / (6.1)	5.3 / (4.1)

Goodwill

The carrying value of goodwill is assessed against value in use calculations. The key assumptions for the value in use calculations are those regarding cash flows, discount rates and growth rates. These assumptions are reviewed on a regular basis, at least at every reporting date, by senior management.

The future cash flows of the cash generating units are based on the latest detailed forecasts and are sensitive to assumptions regarding the long term growth pattern thereafter. The cash flows reflect management's view of future business prospects at the time of the assessment which have been updated for recent changes in key economic indicators as well as wider prevailing circumstances. The key drivers of these cash flows are set out in note 21 to the 2019 Annual Report and Accounts.

The discount rate used to discount the future expected cash flows is based on the cost of capital assigned to each cash generating unit and can have a significant effect on the valuation of a cash generating unit. The cost of capital is derived from a weighted average cost of capital calculation which incorporates a number of inputs including the risk-free interest rate and a premium to reflect the inherent risk of the business being evaluated. These variables are subject to fluctuations in external markets and economic conditions which are out of management's control and therefore are established on the basis of management judgement.

The Group estimates discount rates based upon the weighted average cost of capital which is adjusted to take account of the market risks associated with each cash generating unit. The pre-tax discount rates are as follows:

Operating segment	**Unaudited 6 months to 30.06.20 %**	Unaudited 6 months to 30.06.19 %	Audited 12 months to 31.12.19 %
Mortgages and Savings	**10**	11	11
Estate Agency	**13**	11	10
Investment Portfolio	**10**	12	10

At 30 June 2020, to the extent that discount rates were to increase by 25%, e.g. from 10% to 12.5%, there would be a £5.0m increase to the goodwill impairment charge (31 December 2019: no increase). A reduction in the long term growth rate assumption from 2.5% to 0% would result in a £2.7m increase to the impairment charge (31 December 2019: no increase).

IFRS 16

The 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).

1. Introduction *(continued)*

Interest rate benchmark reform (IBOR reform)

As outlined in note 1b) to the 2019 Annual Report and Accounts, the Group has early adopted *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*. The Group will continue to apply these amendments until the uncertainty arising from the interest rate benchmark reforms, with respect to the timing and amount of the underlying cash flows to which the Group is exposed, ends. The Group has assumed that this uncertainty will not end until the Group's remaining contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment.

The Group now has little outstanding exposure to the benchmark interest rate GBP LIBOR, having used other benchmarks for hedging purposes for a number of years and also having carried out an exercise to close out existing LIBOR interest rate swaps for nearly all of its mortgage and savings products. During July 2020, the Society obtained consent from noteholders to convert its one outstanding LIBOR covered bond; the change is effective from the beginning of August 2020. The Group has established a project to manage the transition for the few remaining interest rate swap contracts, the Society's covered bond programme and a small mortgage portfolio where the rate is fixed against LIBOR.

The table below indicates the nominal amount and weighted average maturity of the Group's remaining derivatives in hedging relationships that will be affected by IBOR reform. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Group manages through hedging relationships.

	At 30 June 2020		At 31 December 2019	
	Group		Group	
	Nominal amount £m	**Average maturity Years**	Nominal amount £m	Average maturity Years
Interest rate swaps				
LIBOR GBP (3 months)	**171.2**	**0.3**	771.1	1.3
Cross-currency swaps				
LIBOR GBP (1 month) to Euro (fixed)	**448.1**	**3.2**	448.1	3.8
Total	**619.3**		1,219.2	

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 6 to 16.

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. In assessing the Group's going concern status the Directors also consider risks from business activities, market changes and economic factors such as the impact of COVID-19 which may affect future performance and financial position, together with the implication of principal risks including business risk and operational resilience. Updates to these principal risks can be found in the 'Principal risks and uncertainties' section of the Business Review.

The Group's forecasts and objectives were reviewed in June to take into account a number of potential changes in trading performance and funding retention, as well as updated key economic variables, the details of which can be found in note 1c). In considering the impacts of COVID-19 on the Group's going concern status the Group has prepared updated forecasts on both a base case, being the most likely outcome, and downside scenario, representing a more pessimistic view. Updated forecasts 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 latest forecasts and the updated 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.

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

2. Other information

The half-yearly financial 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 2019 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 2020 was approved by the Board of Directors on 11 August 2020.

3. Interest receivable and similar income

	Unaudited 6 months to 30.06.20 £m	Unaudited 6 months to 30.06.19 £m	Audited 12 months to 31.12.19 £m
On financial assets held at amortised cost:			
On loans fully secured on residential property	**244.5**	235.8	478.8
On other loans and advances	**5.4**	6.5	12.9
On other liquid assets	**4.0**	8.3	16.1
	253.9	250.6	507.8
On financial assets held at fair value through other comprehensive income:			
On debt securities	**8.6**	10.1	20.9
On financial instruments at fair value through profit or loss:			
Net expense on derivative financial instruments held to hedge assets in qualifying relationships	**(34.0)**	(7.2)	(18.7)
Interest receivable accounted for using the effective interest rate method	**228.5**	253.5	510.0
On financial instruments held at fair value through profit or loss:			
On equity release portfolio	**7.3**	7.5	16.8
Net expense on derivative financial instruments held to hedge assets in non-qualifying relationships	**(7.5)**	(6.3)	(11.9)
Other interest and similar income	**(0.2)**	1.2	4.9
	228.3	254.7	514.9

4. Interest payable and similar charges

	Unaudited 6 months to 30.06.20 £m	Unaudited 6 months to 30.06.19 £m	Audited 12 months to 31.12.19 £m
On financial liabilities held at amortised cost:			
On shares held by individuals	**96.8**	105.4	212.8
On shares held by others	**0.8**	0.7	1.5
On subscribed capital	**2.2**	2.2	4.5
On deposits and other borrowings:			
Wholesale and other funding	**22.5**	21.3	56.6
Lease liabilities	**0.6**	0.7	1.4
	122.9	130.3	276.8
On financial instruments held at fair value through profit or loss:			
Net (income) / expense on derivative financial instruments held to hedge liabilities	**(5.7)**	4.5	0.2
Finance credit on unwind of put option liability	**(0.1)**	-	(0.2)
	117.1	134.8	276.8

5. Fees and commissions receivable

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

	Unaudited 6 months to 30.06.20		
	Products and services transferred at a point in time £m	**Products and services transferred over time £m**	**Total £m**
Mortgage origination fees	17.4	4.3	**21.7**
Other mortgage related fees	0.8	-	**0.8**
General insurance income	26.6	0.4	**27.0**
Commissions earned on property sales	53.2	-	**53.2**
Commissions earned on property lettings	27.9	-	**27.9**
Survey and valuation fees	16.4	-	**16.4**
Asset management commission	4.5	0.1	**4.6**
Conveyancing fees	12.6	-	**12.6**
Financial advice fees	12.7	-	**12.7**
Software and consultancy fees	-	7.7	**7.7**
Factoring and invoice discounting services	4.5	-	**4.5**
Other fees and commissions	1.1	0.3	**1.4**
	177.7	**12.8**	**190.5**

	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

5. Fees and commissions receivable *(continued)*

	Audited 12 months to 31.12.19		
	Products and services transferred at a point in time £m	Products and services transferred over time £m	Total £m
Mortgage origination fees	42.5	11.3	53.8
Other mortgage related fees	2.0	-	2.0
General insurance income	57.1	1.1	58.2
Commissions earned on property sales	154.2	-	154.2
Commissions earned on property lettings	61.6	-	61.6
Survey and valuation fees	55.4	-	55.4
Asset management commission	15.6	0.2	15.8
Conveyancing fees	31.0	-	31.0
Financial advice fees	29.3	-	29.3
Software and consultancy fees	0.1	16.1	16.2
Factoring and invoice discounting services	10.2	-	10.2
Other fees and commissions	3.7	1.0	4.7
	462.7	29.7	492.4

The tables below provide a reconciliation of fees and commissions receivable by the Group to the amounts presented by reportable segment in note 19.

Unaudited 6 months to 30.06.20

	Mortgages and Savings £m	**Estate Agency £m**	**Investment Portfolio £m**	**Sundry incl. inter-divisional adjustments £m**	**Total £m**
Mortgage origination fees	-	22.0	-	(0.3)	**21.7**
Other mortgage related fees	0.8	-	-	-	**0.8**
General insurance income	0.4	26.6	-	-	**27.0**
Commissions earned on property sales	-	53.2	-	-	**53.2**
Commissions earned on property lettings	-	27.9	-	-	**27.9**
Survey and valuation fees	-	20.2	-	(3.8)	**16.4**
Asset management commission	-	4.6	-	-	**4.6**
Conveyancing fees	-	12.6	-	-	**12.6**
Financial advice fees	12.7	-	-	-	**12.7**
Software and consultancy fees	-	-	8.1	(0.4)	**7.7**
Factoring and invoice discounting services	-	-	4.5	-	**4.5**
Other fees and commissions	0.4	1.7	-	(0.7)	**1.4**
Fees and commissions receivable	**14.3**	**168.8**	**12.6**	**(5.2)**	**190.5**
Other	0.1	(0.4)	(0.4)	-	**(0.7)**
Net non-interest income	**14.4**	**168.4**	**12.2**	**(5.2)**	**189.8**

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

5. Fees and commissions receivable *(continued)*

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

Audited 12 months to 31.12.19

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Mortgage origination fees	-	54.9	-	(1.1)	53.8
Other mortgage related fees	2.0	-	-	-	2.0
General insurance income	1.1	57.1	-	-	58.2
Commissions earned on property sales	-	154.2	-	-	154.2
Commissions earned on property lettings	-	61.6	-	-	61.6
Survey and valuation fees	-	65.0	-	(9.6)	55.4
Asset management commission	-	15.8	-	-	15.8
Conveyancing fees	-	31.0	-	-	31.0
Financial advice fees	29.3	-	-	-	29.3
Software and consultancy fees	-	-	17.0	(0.8)	16.2
Factoring and invoice discounting services	-	-	10.2	-	10.2
Other fees and commissions	1.2	4.5	0.4	(1.4)	4.7
Fees and commissions receivable	33.6	444.1	27.6	(12.9)	492.4
Other	(3.9)	(3.0)	(0.7)	0.2	(7.4)
Net non-interest income	29.7	441.1	26.9	(12.7)	485.0

6. Administrative expenses

	Unaudited 6 months to 30.06.20 £m	Unaudited 6 months to 30.06.19 £m	Audited 12 months to 31.12.19 £m
Employee costs:			
Wages and salaries	**150.9**	157.4	319.0
Social security costs	**14.6**	15.6	31.2
Pension costs:			
Defined contribution arrangements	**6.3**	5.9	12.2
	171.8	178.9	362.4
Government grants	**(18.1)**	-	-
Other administrative expenses	**76.9**	95.8	191.6
	230.6	274.7	554.0

A credit of £18.1m has been recognised in the period, relating to the value of Government assistance claimed by Connells under the Coronavirus Job Retention Scheme. This scheme allows employers to continue to pay colleagues where a business cannot maintain its workforce because operations have been affected by COVID-19. For colleagues being recorded as on furlough, Connells applied for a grant to cover a portion, up to 80% or £2,500 per employee, of their usual monthly wage costs.

Connells have also taken business rates relief in the period of £1.3m automatically applied by the Government for retail, hospitality and leisure businesses, and which would have otherwise been included in 'other administrative expenses' above.

Other Government assistance received by Connells in the period comprised access to the Government's Retail Cash Grant Scheme, receiving £0.8m recognised within 'other income', and taking advantage of the Government's VAT deferral option, allowing Connells to defer £11.5m of VAT payments until March 2021.

7. Impairment on loans and advances to customers

	Unaudited 30.06.20 £m	Unaudited 30.06.19 £m	Audited 31.12.19 £m
Charge / (credit) during the period:			
Loans fully secured on residential property	**11.6**	0.6	0.5
Loans fully secured on land	**7.1**	(0.6)	(0.2)
Other loans and advances	**0.4**	-	0.2
	19.1	-	0.5
Expected credit loss (ECL) allowance at the end of the period (see note 11):			
Loans fully secured on residential property	**21.2**	9.7	9.6
Loans fully secured on land	**13.5**	7.2	6.5
Other loans and advances	**1.2**	0.8	0.8
	35.9	17.7	16.9

The values in the tables above for the period to 30 June 2020 include a post model adjustment of £1.5m to reflect the estimated impact on ECLs of mortgage payment deferrals granted in response to the COVID-19 pandemic. For further details see note 1c).

8. Debt securities

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

	Unaudited as at 30.06.20 £m	Unaudited as at 30.06.19 £m	Audited as at 31.12.19 £m
At 1 January	**2,182.9**	1,383.1	1,383.1
Additions	**1,507.4**	1,531.7	2,611.5
Disposals	**(1,263.0)**	(999.2)	(1,811.0)
Changes in fair value	**12.4**	1.3	(0.7)
At end of period	**2,439.7**	1,916.9	2,182.9

8. Debt securities *(continued)*

All debt securities are held at FVOCI. 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; instead the loss allowance is recognised through other comprehensive income. 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 2020 was £nil (six months ended 30 June 2019: £0.2m; year ended 31 December 2019: £0.1m credit).

9. Provisions for liabilities

	Unaudited as at 30.06.20 £m	Unaudited as at 30.06.19 £m	Audited as at 31.12.19 £m
Provision for the costs of surplus properties	**1.3**	3.2	1.5
Commission clawbacks	**13.2**	11.9	13.9
Survey and valuation claims	**3.9**	4.1	4.0
Customer compensation	**0.7**	2.0	0.7
Other provisions	**1.6**	0.3	3.6
	20.7	21.5	23.7

The movement in provisions for liabilities in the period has resulted in an Income Statement charge of £5.0m for the period (six months ended 30 June 2019: £6.8m; year ended 31 December 2019: £18.1m).

10. Tax expense

The effective tax rate for the period was 18.9% (six months ended 30 June 2019: 18.8%; year ended 31 December 2019: 20.3%). This differs from the standard rate of corporation tax in the UK of 19.0% (2019: 19.0%) as the effective tax rate is impacted by disallowable expenditure, offset by non-taxable income, different tax rates in other jurisdictions and prior period tax adjustments. In previous periods the Society's taxable profits were above £25m on a pro-rata basis and were therefore subject to an 8% banking companies surcharge.

11. Loans and advances to customers held at amortised cost

	Unaudited as at 30.06.20				
	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)	20,602.3	(21.2)	227.8	20,808.9	98.4
Loans fully secured on land (note 2)	229.2	(13.5)	-	215.7	1.0
Other lending:					
Debt factoring advances	63.4	(1.2)	-	62.2	0.3
Other loans (note 3)	68.2	-	-	68.2	0.3
	20,963.1	**(35.9)**	**227.8**	**21,155.0**	**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 30.06.19 Restated*				
	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	18,803.6	(9.7)	63.1	18,857.0	97.9
Loans fully secured on land	253.5	(7.2)	-	246.3	1.3
Other lending:					
Debt factoring advances	92.2	(0.8)	-	91.4	0.5
Other loans	68.2	-	-	68.2	0.3
	19,217.5	(17.7)	63.1	19,262.9	100.0

* Fair value adjustment for hedged risk and carrying amount have been restated as outlined in note 1b).

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

	Audited as at 31.12.19				
	Gross carrying amount	ECL allowance (note 7)	Fair value adjustment for hedged risk	Carrying amount	
	£m	£m	£m	£m	%
Loans fully secured on residential property	19,622.4	(9.6)	57.7	19,670.5	98.1
Loans fully secured on land	236.7	(6.5)	-	230.2	1.1
Other lending:					
Debt factoring advances	97.9	(0.8)	-	97.1	0.5
Other loans	67.8	-	-	67.8	0.3
	20,024.8	(16.9)	57.7	20,065.6	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 2020 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 46.3% (30 June 2019: 47.0%; 31 December 2019: 46.8%).

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 its view on forward looking economic indicators which has resulted in an increase in accounts transferred to Stage 2 in the period, the impact of which has been tempered by the updates made to the quantitative thresholds applied for the purposes of assessing 'significant increase in credit risk'. The revised thresholds have improved the effectiveness of the criteria by reducing the number of false positives moving into Stage 2.

	Unaudited as at 30.06.20			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**
Gross carrying amount as at 1 January 2020	19,012.0	534.4	76.0	19,622.4
Transfers due to changes in credit risk:				
To Stage 1	96.3	(98.0)	(0.5)	(2.2)
To Stage 2	(1,749.1)	1,731.3	(9.0)	(26.8)
To Stage 3	(4.3)	(12.1)	16.3	(0.1)
Modification of contractual cashflows	(9.3)	7.6	1.7	-
Increases due to origination	2,021.2	45.0	0.1	2,066.3
Decrease due to derecognition and repayments	(1,022.3)	(35.8)	(4.1)	(1,062.2)
Write-offs	-	(0.1)	(1.7)	(1.8)
Other movements	3.0	3.4	0.3	6.7
Gross carrying amount as at 30 June 2020	**18,347.5**	**2,175.7**	**79.1**	**20,602.3**

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

	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

	Audited as at 31.12.19			
	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	89.6	(88.9)	(3.3)	(2.6)
To Stage 2	(337.1)	333.8	(9.9)	(13.2)
To Stage 3	(9.2)	(13.3)	22.4	(0.1)
Modification of contractual cashflows	(11.1)	3.3	4.1	(3.7)
Increases due to origination	4,750.5	6.4	0.5	4,757.4
Decrease due to derecognition and repayments	(2,783.4)	(44.6)	(15.4)	(2,843.4)
Write-offs	(0.5)	(1.1)	(6.1)	(7.7)
Other movements	9.0	0.9	0.1	10.0
Gross carrying amount as at 31 December 2019	19,012.0	534.4	76.0	19,622.4

For residential mortgages, Stage 3 loans which no longer meet any of the default criteria are subject to a six month minimum probation period before they become eligible for transfer out of Stage 3. At 30 June 2020, Stage 3 loans include £22.5m being held in Stage 3 under this probation period (30 June 2019: £26.8m; 31 December 2019: £24.9m).

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

The tables below provide information on residential loans and advances to customers grouped by credit risk rating (probability of default). For further details on how the probability of default (PD) affects the Group's assessment of ECLs, see note 1c). ECL coverage shows the level of loss allowance expressed as a percentage of the gross carrying amount.

The PDs used by the Group for IFRS 9 accounting purposes are not directly comparable to the PDs used by the Group for IRB regulatory purposes; this is due to significant differences in the requirements and methodologies applied by the Group for IFRS 9 and for IRB respectively.

	Unaudited as at 30.06.20							
	Gross carrying amount				**Loss allowance**			
Probability of default	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
<0.15%	552.5	0.4	-	**552.9**	-	-	-	**-**
0.15% - <0.25%	1,766.5	0.3	-	**1,766.8**	0.1	-	-	**0.1**
0.25% - <0.5%	9,083.3	0.1	-	**9,083.4**	1.3	-	-	**1.3**
0.5% - <0.75%	4,632.6	0.8	-	**4,633.4**	1.1	-	-	**1.1**
0.75% - <2.5%	2,304.4	78.8	-	**2,383.2**	1.3	-	-	**1.3**
2.5% - <10%	8.2	1,090.4	-	**1,098.6**	-	1.5	-	**1.5**
10% - <100%	-	1,004.9	0.2	**1,005.1**	-	9.6	-	**9.6**
Default	-	-	78.9	**78.9**	-	-	4.8	**4.8**
Additional provision for payment deferrals								**1.5**
	18,347.5	**2,175.7**	**79.1**	**20,602.3**	**3.8**	**11.1**	**4.8**	**21.2**
ECL coverage by stage (%)					**0.02%**	**0.51%**	**6.07%**	**0.10%**

	Audited as at 31.12.19							
	Gross carrying amount				Loss allowance			
Probability of default	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<0.15%	6,181.7	0.8	-	6,182.5	0.4	-	-	0.4
0.15% - <0.25%	8,564.9	0.1	-	8,565.0	0.6	-	-	0.6
0.25% - <0.5%	3,820.0	1.5	-	3,821.5	0.6	-	-	0.6
0.5% - <0.75%	282.6	1.7	-	284.3	0.2	-	-	0.2
0.75% - <2.5%	150.6	38.8	-	189.4	0.4	-	-	0.4
2.5% - <10%	11.8	220.2	-	232.0	-	0.2	-	0.2
10% - <100%	0.4	271.3	-	271.7	-	3.6	-	3.6
Default	-	-	76.0	76.0	-	-	3.6	3.6
	19,012.0	534.4	76.0	19,622.4	2.2	3.8	3.6	9.6
ECL coverage by stage (%)					0.01%	0.71%	4.74%	0.05%

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

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 30.06.20			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Loss allowance as at 1 January 2020	2.2	3.8	3.6	**9.6**
Changes due to changes in credit risk:				
To Stage 1	0.1	(0.1)	-	**-**
To Stage 2	(0.6)	6.1	(0.1)	**5.4**
To Stage 3	-	(0.6)	1.2	**0.6**
Remeasurements within existing stage	1.7	1.6	0.4	**3.7**
Modification of contractual cashflows	-	0.3	0.3	**0.6**
Increases due to origination	0.5	0.1	-	**0.6**
Decrease due to derecognition and repayments	(0.1)	(0.1)	(0.2)	**(0.4)**
Write-offs	-	-	(0.4)	**(0.4)**
Additional provision for payment deferrals (note 1)				**1.5**
Loss allowance as at 30 June 2020	**3.8**	**11.1**	**4.8**	**21.2**

Note

1. An additional provision for credit losses has been recognised to reflect the estimated impact on ECLs of payment deferrals granted in response to the COVID-19 pandemic where no other indicator of significant increase in credit risk has occurred. For the Group, the additional provision at 30 June 2020 is £1.5m. This additional provision has not been allocated to the underlying loans nor has it been attributed to stages but is shown in the total column of the table. Additional details on how this value is calculated are included in note 1c).

	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

	Audited as at 31.12.19			
	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	0.3	(0.8)	-	(0.5)
To Stage 2	(0.2)	1.6	(0.3)	1.1
To Stage 3	-	(0.3)	1.0	0.7
Remeasurements within existing stage	(0.8)	(0.2)	(0.1)	(1.1)
Increases due to origination	0.4	-	-	0.4
Decrease due to derecognition and repayments	(0.3)	(0.2)	(0.2)	(0.7)
Changes due to modification without derecognition	-	0.1	0.6	0.7
Write-offs	-	(0.2)	(0.7)	(0.9)
Loss allowance as at 31 December 2019	2.2	3.8	3.6	9.6

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

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

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

	Unaudited as at 30.06.20							
	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	18,347.5	2,058.7	10.9	**20,417.1**	3.8	7.8	0.1	**11.7**
Past due:								
Up to 30 days	-	67.6	4.4	**72.0**	-	1.5	0.3	**1.8**
31 to 60 days	-	37.8	5.7	**43.5**	-	1.2	0.1	**1.3**
61 to 90 days	-	11.6	8.2	**19.8**	-	0.6	0.1	**0.7**
Over 90 days	-	-	49.9	**49.9**	-	-	4.2	**4.2**
Additional provision for payment deferrals								**1.5**
	18,347.5	**2,175.7**	**79.1**	**20,602.3**	**3.8**	**11.1**	**4.8**	**21.2**

	Audited as at 31.12.19							
	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	19,012.0	412.1	11.5	19,435.6	2.2	1.4	0.1	3.7
Past due:								
Up to 30 days	-	73.2	2.4	75.6	-	1.1	-	1.1
31 to 60 days	-	36.1	8.6	44.7	-	0.8	0.3	1.1
61 to 90 days	-	13.0	9.4	22.4	-	0.5	0.4	0.9
Over 90 days	-	-	44.1	44.1	-	-	2.8	2.8
	19,012.0	534.4	76.0	19,622.4	2.2	3.8	3.6	9.6

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

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 30.06.20			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount as at 1 January 2020	204.6	26.5	5.6	**236.7**
Transfers due to changes in credit risk:				
To Stage 1	0.1	(0.1)	-	**-**
To Stage 2	(92.1)	90.2	-	**(1.9)**
To Stage 3	(1.5)	-	1.4	**(0.1)**
Modification of contractual cashflows	(29.0)	19.9	8.6	**(0.5)**
Decrease due to derecognition and repayments	(4.0)	(0.1)	(0.7)	**(4.8)**
Write-offs	(0.2)	-	-	**(0.2)**
Gross carrying amount as at 30 June 2020	**77.9**	**136.4**	**14.9**	**229.2**

	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

	Audited as at 31.12.19			
	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	0.4	(0.4)	-	-
To Stage 2	(4.3)	4.4	(0.3)	(0.2)
To Stage 3	(2.4)	(0.2)	2.6	-
Modification of contractual cashflows	1.3	(1.0)	(0.7)	(0.4)
Decrease due to derecognition and repayments	(26.1)	(2.2)	(1.4)	(29.7)
Other movements	(0.6)	-	-	(0.6)
Gross carrying amount as at 31 December 2019	204.6	26.5	5.6	236.7

For commercial loans, Stage 3 loans which no longer meet any of the default criteria are subject to a three month minimum probation period before they become eligible for transfer out of Stage 3. At 30 June 2020, Stage 3 loans include no amounts being held in Stage 3 under this probation period (30 June 2019: no amounts; 31 December 2019: no amounts).

The Society is providing support to those customers who have been financially affected by COVID-19 through concessionary arrangements, particularly within the retail, leisure and the hospitality sectors, which has led to an increase in overall impairment. Details of forbearance activity in the period can be found in note 11c) below.

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

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 30.06.20			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Loss allowance as at 1 January 2020	0.2	5.2	1.1	**6.5**
Changes due to changes in credit risk:				
To Stage 2	(0.1)	4.0	-	**3.9**
To Stage 3	-	-	0.1	**0.1**
Remeasurements within existing stage	-	0.1	0.1	**0.2**
Modification of contractual cashflows	-	1.0	1.8	**2.8**
Loss allowance as at 30 June 2020	**0.1**	**10.3**	**3.1**	**13.5**

	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 allowance as at 30 June 2019	0.2	4.7	2.3	7.2

	Audited as at 31.12.19			
	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 3	-	-	0.2	0.2
Remeasurements within existing stage	-	(0.4)	(0.1)	(0.5)
Decrease due to derecognition and repayments	-	(0.7)	(0.6)	(1.3)
Changes due to modification without derecognition	-	0.5	(0.3)	0.2
Loss allowance as at 31 December 2019	0.2	5.2	1.1	6.5

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

	Unaudited as at 30.06.20							
	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	77.9	102.2	5.7	**185.8**	0.1	5.9	1.6	**7.6**
Past due:								
Up to 30 days	-	3.1	-	**3.1**	-	0.2	-	**0.2**
31 to 60 days	-	17.6	-	**17.6**	-	2.3	-	**2.3**
61 to 90 days	-	13.5	-	**13.5**	-	1.9	-	**1.9**
Over 90 days	-	-	9.2	**9.2**	-	-	1.5	**1.5**
	77.9	**136.4**	**14.9**	**229.2**	**0.1**	**10.3**	**3.1**	**13.5**
ECL coverage					**0.13%**	**7.55%**	**20.81%**	**5.89%**

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

	Unaudited as at 31.12.19							
	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	204.6	22.5	4.1	231.2	0.2	4.8	0.8	5.8
Past due:								
Up to 30 days	-	3.0	-	3.0	-	-	-	-
31 to 60 days	-	0.8	0.1	0.9	-	0.3	-	0.3
61 to 90 days	-	0.2	-	0.2	-	0.1	-	0.1
Over 90 days	-	-	1.4	1.4	-	-	0.3	0.3
	204.6	26.5	5.6	236.7	0.2	5.2	1.1	6.5
ECL coverage					0.10%	19.62%	19.64%	2.75%

c) Forbearance

Where appropriate for customers, the Group applies a policy of forbearance. The Group's approach to forbearance is described in note 38 to the 2019 Annual Report and Accounts and our approach to forbearance remained materially unchanged in the period. At 30 June 2020, the percentage of residential mortgage balances that have been subject to forbearance is 0.8% (30 June 2019: 0.5%; 31 December 2019: 0.5%). For commercial balances the percentage is 18.8%, reflecting the additional concessionary arrangements put in place to support those customers who have been financially impacted by the impact of COVID-19 (30 June 2019: 7.0%; 31 December 2019: 6.1%).

In addition to our regular forbearance activity, residential borrowers financially affected by the COVID-19 pandemic are being supported through payment deferrals. Further details of this support are provided below.

Support for residential borrowers impacted by COVID-19

COVID-19 may have an impact on mortgage members and support is being offered in these challenging times. Where borrowers are experiencing or reasonably expect to experience payment difficulties caused by COVID-19, support is being provided by offering an initial three-month mortgage payment deferral that gives borrowers a period of flexibility. In accordance with regulatory guidance, these payment deferrals have not been included within the forbearance population and do not automatically have an impact on the reported staging balances except where credit risk is judged to have significantly increased since the loan was initially recognised.

The following table shows the value of residential mortgages with a mortgage payment deferral related to COVID-19 at 30 June 2020. Further information is included in note 1c).

Subject to a payment deferral due to COVID-19	**Gross balances**	**Percentage of total residential loans and advances to customers**	**Weighted average LTV**
Loans and advances to customers	£1,138.2m	5.5%	54.4%

During the period mortgage payment deferrals granted before 30 June 2020 rose to a peak of 14.7% of accounts and represented gross balances of £3,406.9m. The balance included in the table above represents 4.9% of our residential mortgage lending when calculated on an account basis.

12. Equity release portfolio held at FVTPL

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

	Unaudited as at 30.06.20 £m	Unaudited as at 30.06.19 £m	Audited as at 31.12.19 £m
At 1 January	**410.0**	410.9	410.9
Redemptions	**(1.5)**	(2.0)	(3.9)
Further advances	**0.1**	0.2	0.2
Movements in fair value	**17.6**	(0.3)	(6.0)
Realised losses on redemption	**-**	(0.4)	(0.5)
Accrued interest	**4.4**	3.6	9.3
At end of period	**430.6**	412.0	410.0

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 £28.0m and is included in the Income Statement line 'Fair value gains / (losses) on other derivatives' (30 June 2019: £12.2m loss; 31 December 2019: £2.6m gain).

13. Intangible assets

	Unaudited 6 months to 30.06.20 £m	Unaudited 6 months to 30.06.19 £m	Audited 12 months to 31.12.19 £m
Goodwill	**135.3**	137.3	137.5
Other intangible assets	**24.2**	23.7	25.1
	159.5	161.0	162.6

Goodwill	**Unaudited 6 months to 30.06.20 £m**	Unaudited 6 months to 30.06.19 £m	Audited 12 months to 31.12.19 £m
Cost, less amortisation to 1 January 2004*			
At 1 January	**147.2**	147.4	147.4
Acquisitions of subsidiary undertakings and business units	**0.8**	-	0.2
Revaluations of put options	**(1.0)**	-	-
Written off	**-**	-	(0.4)
At end of period	**147.0**	147.4	147.2
Impairment losses			
At 1 January	**9.7**	10.1	10.1
Impairment loss during the period	**2.0**	-	-
Written off	**-**	-	(0.4)
At end of period	**11.7**	10.1	9.7
Net book value at start of period	**137.5**	137.3	137.3
Net book value at end of period	**135.3**	137.3	137.5

* Prior to the transition to IFRS on 1 January 2005 goodwill was held at cost less accumulated amortisation in line with UK GAAP. Goodwill arising on acquisitions before the transition to IFRS on 1 January 2005 has been retained at its previous UK GAAP amount.

13. Intangible assets *(continued)*

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit (operating segment) that is expected to benefit from that business combination. The carrying value of goodwill has been allocated as follows:

Operating segment	**Unaudited 6 months to 30.06.20**			Unaudited 6 months to 30.06.19			Audited 12 months to 31.12.19		
	Cost of goodwill	**Accumulated impairment**	**Carrying value**	Cost of goodwill	Accumulated impairment	Carrying value	Cost of goodwill	Accumulated impairment	Carrying value
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Mortgages and Savings	**2.9**	**0.1**	**2.8**	2.9	0.1	2.8	2.9	0.1	2.8
Estate Agency	**135.7**	**6.7**	**129.0**	135.7	4.7	131.0	135.9	4.7	131.2
Investment Portfolio	**8.4**	**4.9**	**3.5**	8.8	5.3	3.5	8.4	4.9	3.5
Total goodwill	**147.0**	**11.7**	**135.3**	147.4	10.1	137.3	147.2	9.7	137.5

Based upon the Directors' assessment of recoverable amounts, the Directors have concluded that £2.0m of impairment is required to be recognised in respect of goodwill within the Estate Agency division in the six months to 30 June 2020 (six months to 30 June 2019: £nil; year ended 31 December 2019: £nil).

The recoverable amounts of the operating segments are determined from value in use calculations. The key assumptions for the value in use calculations are detailed in note 1c).

14. Debt securities in issue

	Unaudited as at 30.06.20	Unaudited as at 30.06.19	Audited as at 31.12.19
	£m	£m	£m
Certificates of deposit	**22.1**	-	-
Senior unsecured debt	**349.3**	349.0	349.1
Covered bonds	**1,940.0**	1,446.0	1,889.1
Securitisations	**518.1**	118.5	100.4
Fair value adjustment for hedged risk	**(16.0)**	14.4	(36.0)
	2,813.5	1,927.9	2,302.6
Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:			
In not more than one year	**93.6**	0.2	0.2
In more than one year	**2,719.9**	1,927.7	2,302.4
	2,813.5	1,927.9	2,302.6

15. 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 2020 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 2020 are similar in nature to those for the year ended 31 December 2019. Full details of the Group's related party transactions for the year ended 31 December 2019 can be found in note 8 *Related party transactions* in the 2019 Annual Report and Accounts.

16. Subsequent events

There have been no material post balance sheet events between 30 June 2020 and the approval of this half-yearly financial report by the Board.

17. Other financial commitments and contingent liabilities

In the 2019 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.

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

18. 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 30.06.20			
	Amortised cost £m	**FVOCI £m**	**FVTPL £m**	**Total £m**
Cash in hand and balances with the Bank of England	819.8	-	-	**819.8**
Loans and advances to credit institutions	729.5	-	-	**729.5**
Debt securities	-	2,439.7	-	**2,439.7**
Derivative financial instruments	-	-	90.3	**90.3**
Loans and advances to customers	21,155.0	-	1.3	**21,156.3**
Equity release portfolio	-	-	430.6	**430.6**
Equity share investments	-	-	1.5	**1.5**
Trade receivables	24.3	-	-	**24.3**
Share warrants	-	-	5.8	**5.8**
Contingent consideration	-	-	12.0	**12.0**
Total financial assets	**22,728.6**	**2,439.7**	**541.5**	**25,709.8**
Non-financial assets				**394.8**
Total assets				**26,104.6**
Shares	17,645.1	-	-	**17,645.1**
Amounts owed to credit institutions and other customers	3,171.3	-	-	**3,171.3**
Debt securities in issue	2,813.5	-	-	**2,813.5**
Derivative financial instruments	-	-	514.3	**514.3**
Lease liabilities	63.9	-	-	**63.9**
Trade payables	3.7	-	-	**3.7**
Fair value of put option obligation	-	-	6.0	**6.0**
Subscribed capital	41.6	-	-	**41.6**
Total financial liabilities	**23,739.1**	**-**	**520.3**	**24,259.4**
Non-financial liabilities				**211.6**
Total liabilities				**24,471.0**

18. Financial instruments *(continued)*

	Unaudited as at 30.06.19 Restated*			
	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	19,262.9	-	1.6	19,264.5
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	21,438.1	1,916.9	489.9	23,844.9
Non-financial assets				383.4
Total assets				24,228.3
Shares	16,710.7	-	-	16,710.7
Amounts owed to credit institutions and other customers	3,352.1	-	-	3,352.1
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	22,101.1	-	355.8	22,456.9
Non-financial liabilities				204.6
Total liabilities				22,661.5

* Loans and advances to customers, shares, amounts owed to credit institutions and other customers and non-financial liabilities are restated as outlined in note 1b).

	Audited as at 31.12.19			
	Amortised cost £m	FVOCI £m	FVTPL £m	Total £m
Cash in hand and balances with the Bank of England	1,793.1	-	-	1,793.1
Loans and advances to credit institutions	546.6	-	-	546.6
Debt securities	-	2,182.9	-	2,182.9
Derivative financial instruments	-	-	38.5	38.5
Loans and advances to customers	20,065.6	-	1.5	20,067.1
Equity release portfolio	-	-	410.0	410.0
Equity share investments	-	-	1.5	1.5
Trade receivables	30.7	-	-	30.7
Contingent consideration	-	-	17.9	17.9
Share warrants	-	-	3.2	3.2
Other assets	-	-	3.2	3.2
Total financial assets	22,436.0	2,182.9	475.8	25,094.7
Other non-financial assets				394.7
Total assets				25,489.4
Shares	17,364.1	-	-	17,364.1
Amounts owed to credit institutions and other customers	3,495.2	-	-	3,495.2
Debt securities in issue	2,302.6	-	-	2,302.6
Derivative financial instruments	-	-	361.1	361.1
Lease liabilities	66.6	-	-	66.6
Trade payables	6.7	-	-	6.7
Fair value of put option obligation	-	-	7.5	7.5
Subscribed capital	41.6	-	-	41.6
Total financial liabilities	23,276.8	-	368.6	23,645.4
Non-financial liabilities				211.8
Total liabilities				23,857.2

18. 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 30.06.20			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Financial assets held at FVOCI:				
Debt securities	2,439.7	-	-	**2,439.7**
Financial assets at FVTPL:				
Derivative financial instruments	-	84.4	5.9	**90.3**
Loans and advances to customers	-	-	1.3	**1.3**
Equity release portfolio	-	-	430.6	**430.6**
Equity share investments	0.2	-	1.3	**1.5**
Share warrants	-	-	5.8	**5.8**
Contingent consideration	-	-	12.0	**12.0**
	2,439.9	**84.4**	**456.9**	**2,981.2**
Financial liabilities				
Financial liabilities at FVTPL:				
Derivative financial instruments	-	287.0	227.3	**514.3**
Fair value of put option obligation	-	-	6.0	**6.0**
	-	**287.0**	**233.3**	**520.3**
	2,439.9	**(202.6)**	**223.6**	**2,460.9**

18. Financial instruments *(continued)*

	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

	Audited as at 31.12.19			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets held at FVOCI:				
Debt securities	2,151.9	31.0	-	2,182.9
Financial assets at FVTPL:				
Derivative financial instruments	-	38.4	0.1	38.5
Loans and advances to customers	-	-	1.5	1.5
Equity release portfolio	-	-	410.0	410.0
Equity share investments	0.2	-	1.3	1.5
Contingent consideration	-	-	17.9	17.9
Share warrants	-	-	3.2	3.2
Other assets	-	-	3.2	3.2
	2,152.1	69.4	437.2	2,658.7
Financial liabilities				
Financial liabilities at FVTPL:				
Derivative financial instruments	-	150.4	210.7	361.1
Fair value of put option obligation	-	-	7.5	7.5
	-	150.4	218.2	368.6
	2,152.1	(81.0)	219.0	2,290.1

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 2020, nor in the six months ended 30 June 2019 or year ended 31 December 2019.

18. 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 30.06.20								
	Derivative financial instruments £m	**Loans and advances to customers £m**	**Equity release portfolio £m**	**Equity share investments £m**	**Share warrants £m**	**Contingent Consider-ation £m**	**Fair value of put option obligation £m**	**Other assets £m**	**Total £m**
At 1 January	(210.6)	1.5	410.0	1.3	3.2	17.9	(7.5)	3.2	**219.0**
(Loss) / gain recognised in Income Statement	(28.0)[1]	-	17.6[2]	-	(0.6)[3]	0.5[4]	0.5[5]	-	**(10.0)**
Cash paid on partial cancellation	18.1	-	-	-	-	-	-	-	**18.1**
Accrued interest	(0.9)[6]	-	4.4[6]	-	-	-	-	-	**3.5**
Revaluation of market values	-	-	-	-	-	-	1.0	-	**1.0**
Repayments	-	(0.2)	(1.5)	-	-	-	-	-	**(1.7)**
Contingent consideration received	-	-	-	-	-	(6.4)	-	-	**(6.4)**
Additions and other movements	-	-	0.1	-	3.2	-	-	(3.2)	**0.1**
At 30 June	**(221.4)**	**1.3**	**430.6**	**1.3**	**5.8**	**12.0**	**(6.0)**	**-**	**223.6**

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 gains 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: Share warrants' line in the Income Statement.
4. Included in the 'Profit on disposal of subsidiary undertakings' line in the Income Statement.
5. Of this figure, £0.1m arises from changes to exercise dates and the unwind of the discount and is included in the 'Interest payable and similar charges' line in the Income Statement, and £0.4m arises from revaluations of market values and is included in the 'Fair value gains / (losses) on financial instruments: Put options held by minority shareholders' line in the Income Statement.
6. Included in the 'Interest receivable and similar income: Other' line in the Income Statement.

	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 Consider-ation £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[4]	-	-	-	-	2.0
Realised losses	-	-	(0.4)[5]	-	-	-	-	(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: Other' line in the Income Statement.
5. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.

18. Financial instruments *(continued)*

	Audited as at 31.12.19								
	Derivative financial instruments £m	Loans and advances to customers £m	Equity release portfolio £m	Equity share investments £m	Share warrants £m	Contingent Consider-ation £m	Fair value of put option obligation £m	Other assets £m	Total £m
At 1 January	(214.4)	1.9	410.9	0.7	-	23.0	(8.3)	-	213.8
Gain / (loss) recognised in Income Statement	2.6[1]	-	(6.0)[2]	-	-	1.1[3]	-	-	(2.3)
Accrued interest	1.2[4]	0.1	9.3[4]	-	-	-	-	-	10.6
Realised losses	-	-	(0.5)[5]	-	-	-	-	-	(0.5)
Revaluation of market values	-	-	-	-	-	-	0.2[6]	-	0.2
Repayments	-	(0.5)	(3.9)	-	-	-	-	-	(4.4)
Contingent consideration received (net of costs)	-	-	-	-	-	(6.2)	-	-	(6.2)
Exercise of put options by non-controlling interests	-	-	-	-	-	-	0.6	-	0.6
Additions and other movements	-	-	0.2	0.6	3.2	-	-	3.2	7.2
At 31 December	(210.6)	1.5	410.0	1.3	3.2	17.9	(7.5)	3.2	219.0

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: Other' line in the Income Statement.
5. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.
6. 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.

Level 3 valuation techniques

For the Level 3 financial instruments shown above, the valuation techniques remain unchanged from those disclosed in note 39b) to the 2019 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 2020 the net impact to the Income Statement was a £10.4m charge (six months ended 30 June 2019: £12.5m charge; year ended 31 December 2019: £3.4m charge).

18. 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 30.06.20		Unaudited as at 30.06.19 Restated*		Audited as at 31.12.19	
	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	**819.8**	**819.8**	1,573.5	1,573.5	1,793.1	1,793.1
Loans and advances to credit institutions	**729.5**	**729.5**	563.3	563.3	546.6	546.6
Loans and advances to customers held at amortised cost	**21,155.0**	**21,157.7**	19,262.9	19,351.8	20,065.6	20,248.6
Trade receivables	**24.3**	**24.3**	38.4	38.4	30.7	30.7
	22,728.6	**22,731.3**	21,438.1	21,527.0	22,436.0	22,619.0
Financial liabilities						
Shares	**17,645.1**	**17,753.9**	16,710.7	16,809.9	17,364.1	17,470.4
Amounts owed to credit institutions	**1,313.5**	**1,313.5**	1,698.0	1,698.0	1,678.3	1,678.3
Amounts owed to other customers	**1,857.8**	**1,866.1**	1,654.1	1,658.7	1,816.9	1,819.6
Debt securities in issue	**2,813.5**	**2,823.4**	1,927.9	1,931.8	2,302.6	2,310.8
Lease liabilities	**63.9**	**63.9**	62.6	62.6	66.6	66.6
Trade payables	**3.7**	**3.7**	6.2	6.2	6.7	6.7
Subscribed capital	**41.6**	**71.3**	41.6	73.0	41.6	73.4
	23,739.1	**23,895.8**	22,101.1	22,240.2	23,276.8	23,425.8

* Loans and advances to customers, shares and amounts owed to other customers are restated as outlined in note 1b).

The methodology and assumptions for determining the fair values of those financial assets and liabilities not presented within the Statement of Financial Position at fair value are set out on page 217 of the 2019 Annual Report and Accounts, and remained materially unchanged in the period.

19. Segmental reporting

The Group's structure and reportable segments are outlined in the Business Review on page 6.

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, £13.0m (six months ended 30 June 2019: £16.8m; year ended 31 December 2019: £33.6m) was generated outside the UK.

Unaudited 6 months to 30.06.20

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Net interest income	106.5	(0.1)	1.1	3.7	**111.2**
Net non-interest income	14.4	168.4	12.2	(5.2)	**189.8**
Fair value losses on hedged items and derivatives	(27.5)	-	-	-	**(27.5)**
Fair value gains on equity release portfolio	17.6	-	-	-	**17.6**
Fair value losses on share warrants and put options held by minority shareholders	-	(0.2)	-	-	**(0.2)**
Profit on disposal of Group undertakings	-	-	-	0.5	**0.5**
Share of profits from joint ventures	-	0.6	-	-	**0.6**
Total income	**111.0**	**168.7**	**13.3**	**(1.0)**	**292.0**
Administrative expenses	(76.4)	(143.9)	(11.7)	1.4	**(230.6)**
Impairment and provisions for liabilities	(19.0)	(7.6)	(0.4)	-	**(27.0)**
Profit before tax	**15.6**	**17.2**	**1.2**	**0.4**	**34.4**
Taxation	(2.8)	(3.1)	(0.3)	(0.2)	**(6.4)**
Profit after tax	**12.8**	**14.1**	**0.9**	**0.2**	**28.0**
Total assets	**25,861.1**	**341.4**	**85.6**	**(183.5)**	**26,104.6**
Total liabilities	**24,350.3**	**180.1**	**77.2**	**(136.6)**	**24,471.0**

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	110.5	163.7	13.6	4.2	**292.0**
Income from other segments	0.5	5.0	(0.3)	(5.2)	**-**
Total income	**111.0**	**168.7**	**13.3**	**(1.0)**	**292.0**

The Estate Agency division made use of Government assistance in the period as detailed in note 6.

19. Segmental reporting *(continued)*

Unaudited 6 months to 30.06.19 (restated)*

	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	(17.4)	-	-	-	(17.4)
Fair value losses on equity release portfolio	(0.3)	-	-	-	(0.3)
Profit on disposal of treasury assets held at FVOCI	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	115.0	221.7	14.2	(1.4)	349.5
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	39.0	26.2	1.7	0.1	67.0
Taxation	(7.3)	(4.7)	(0.4)	-	(12.4)
Profit after tax	31.7	21.5	1.3	0.1	54.6
Total assets	23,981.3	309.1	106.4	(168.5)	24,228.3
Total liabilities	22,512.3	170.5	108.4	(129.7)	22,661.5

* Fair value gains on hedged items and derivatives, taxation, total assets and total liabilities are restated as outlined in note 1b).

Total income can be analysed as follows:

	Mortgages and Savings Restated* £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total Restated* £m
External income	114.1	215.5	14.8	5.1	349.5
Income from other segments	0.9	6.2	(0.6)	(6.5)	-
Total income	115.0	221.7	14.2	(1.4)	349.5

* External income has been restated as outlined in note 1b).

19. Segmental reporting *(continued)*

Audited 12 months to 31.12.19

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Net interest income	226.9	0.1	2.1	9.0	238.1
Net non-interest income	29.7	441.1	26.9	(12.7)	485.0
Fair value gains on hedged items and derivatives	3.8	-	-	-	3.8
Fair value losses on equity release portfolio	(6.0)	-	-	-	(6.0)
Realised profits on treasury assets held at FVOCI	2.4	-	-	-	2.4
Profit on disposal of Group undertakings	-	-	-	1.1	1.1
Share of profits from joint ventures	-	1.7	-	-	1.7
Total income	256.8	442.9	29.0	(2.6)	726.1
Administrative expenses	(156.6)	(373.4)	(24.9)	0.9	(554.0)
Realised losses on equity release portfolio	(0.5)	-	-	-	(0.5)
Impairment and provisions for liabilities	1.1	(19.4)	(0.1)	-	(18.4)
Profit / (loss) before tax	100.8	50.1	4.0	(1.7)	153.2
Taxation	(20.2)	(11.3)	(0.4)	1.1	(30.8)
Profit / (loss) after tax	80.6	38.8	3.6	(0.6)	122.4
Total assets	25,242.5	332.0	120.7	(205.8)	25,489.4
Total liabilities	23,785.5	174.2	113.5	(216.0)	23,857.2

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	255.0	430.3	30.4	10.4	726.1
Income from other segments	1.8	12.6	(1.4)	(13.0)	-
Total income	256.8	442.9	29.0	(2.6)	726.1

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	(Chair)
Mr M J Lund	(Deputy Chair)
Mr A P Bottomley*	
Ms A J Burton	
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

Robert East

Chair

11 August 2020

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 2020 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 19. 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 2020 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
11 August 2020

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