Half-Yearly Financial Report 2021

SKIPTON
BUILDING SOCIETY
Since 1853

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Forward-looking statements

This half-yearly financial report may contain forward-looking statements based on current expectations of, and assumptions and forecasts made by, Group management. Various known and unknown risks, uncertainties and other factors 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 2020 has been extracted from the audited 2020 Annual Report and Accounts.

Group Chief Executive's Review of the Half Year

The first half of the year has again seen various levels of national lockdowns in the UK as the coronavirus pandemic continued to impact different parts of the Group's operations. However, through the resilience and adaptability of Skipton's colleagues, together with its strong capital position and healthy levels of liquidity, the Society has continued to deliver for its members with excellent customer service (net customer satisfaction of 87%).

Skipton's founding purpose in 1853 was to tackle the housing and savings issues Victorian society faced. Today we continue to serve that purpose, albeit evolved, for our one million customers, helping them have a home and to save with confidence for their futures. During the first six months of the year, Skipton has become the UK's eleventh largest mortgage lender, with more people than ever having turned to us to help them have a home.

We continue to play a significant role in getting first time buyers across the UK the keys to their first homes, with Skipton cash Lifetime ISA (LISA) customers benefiting from £64.4m in government bonuses towards their deposits over the last six months alone. Whilst for our savers, we've paid on average 0.39% more than the rest of market average on their hard-earned savings over the first five months of the year.

At a time of continued uncertainty for our customers, colleagues and their families, Skipton's performance seems a secondary interest while we all adjust to the ongoing impact of the global pandemic. But it is against such a challenging social and economic backdrop that we've seen Skipton's mutuality, agility, and first-rate customer service come to the fore and be reflected in our results today.

In a challenging environment, total Group profit before tax (PBT) was £159.2m (six months ended 30 June 2020: £34.4m). The Group recorded underlying profits before tax (as defined on page 11) of £122.4m (six months ended 30 June 2020: £47.9m). Profits in the period, under both performance measures, have benefited from a credit to loan impairment of £14.8m (six months ended 30 June 2020: charge of £19.1m) reflecting the updates to the economic outlook in light of the improving COVID-19 situation, principally due to the successful roll out of the vaccine.

In the year that the Society marks 25 years of owning its estate agency business Connells, Connells completed the acquisition of Countrywide plc on 8 March 2021, creating the UK's largest estate agency network of 1,235 branches. Connells and the Society believe that a well-invested high street estate agency branch network, coupled with a diversified brand portfolio, will allow the combined business to continue to provide an attractive offering to its customers.

The acquisition of Countrywide will provide further diversification to the Group's business model, and the Society believes that the strong management team at Connells will deliver enhanced returns over the medium and longer term, further enhancing the Society's capital strength at a time when it is likely we shall see margins within the mortgages and savings business come under pressure going forward, primarily due to increased competition in the industry combined with a historical low Bank Base Rate. The higher returns from the estate agency business will support the Society's ongoing investment in its customer proposition and its people, and continue to allow it to offer competitive mortgage products to our borrowing members and competitive savings returns to our savings members, in addition to further enhancing its financial advice proposition.

Profit before tax in our enlarged Estate Agency division increased in the period to £80.2m (six months ended 30 June 2020: £17.2m) partly due to a strong housing market boosted by Stamp Duty Land Tax (SDLT) relief.

Connells' PBT also benefitted from £26.9m of fair value gains on two businesses where both Connells and Countrywide previously held a non-controlling investment, and control was obtained when combined on acquisition (as described in note 1b) to the Condensed Consolidated Financial Statements), together with a further £3.3m of fair value gains on share warrants and other investments. Underlying profits of Connells were £50.0m (six months ended 30 June 2020: £20.8m).

The Group's policy is not to adjust for amortisation when calculating underlying profits. However, to provide additional context in terms of performance, we report that all of the above mentioned figures for Skipton Group and Connells PBT and underlying profits are after incurring IFRS 3 amortisation accounting charges of £38.3m which will not be repeated in the medium term.

The global pandemic has continued to disrupt all our lives, and our priorities continue to be keeping our customers and colleagues safe and being there when and where they need us. While we continue to adapt to meet evolving customer needs, our financial strength, mutuality and commitment to sustainability, together with excellent customer service and colleague engagement, see us look forward with confidence.

Supporting customers, colleagues and communities through the pandemic

In this rapidly changing world, it's really important Skipton is able to continue to support its members in the ways they expect and need. The challenges faced since March 2020 have only strengthened the Society's resolve to build a better Society; one that is more sustainable – socially, financially and environmentally.

Customers

The Society continued to maintain essential services to support its members throughout the various lockdown stages in the period. Skipton has been able to help its customers safely face-to-face in all its 88 COVID-secure branch locations, while offering reviews and new account openings through video using Skipton Link or by telephone using Skipton Direct. During quieter times, Skipton branches have utilised spare capacity to support customers in other ways too, including talking to over 10,000 savings and mortgage customers each month over the telephone.

Skipton has continued to support customers seeking mortgages, staying fully open for business, and being flexible in our application process to accommodate the unusual trading conditions. This is demonstrated by the strong 4.4% mortgage growth and 16,087 homeowners we have helped to purchase or remortgage their properties in the period.

The Society is making strong progress towards reaching its aspiration of being accredited Communication Accessible by Communication Access UK, so it can better support colleagues and customers with communication difficulties. Over 1,300 Skipton colleagues have now successfully completed specialist Communications Access training.

Skipton is proud to have maintained extremely high customer satisfaction throughout 2021, with 93% of customers rating Skipton branches 6 or 7 out of 7 for customer service, with 82% giving the maximum 7 out of 7 (as measured between January 2021 and June 2021). Our customer contact centre, Skipton Direct, was shortlisted for The Contact Centre Association (CCA) Excellence Awards, recognising world-class professional achievement in customer service, achieving 'Outstanding Team Award – Bronze'. Many of our Skipton financial advisers have been recognised nationally too, after appearing in *The Financial Times*' prestigious Top Rated Financial Advisers Guide; with an outstanding 62 of our advisers featuring. Overall, customers rate our service on average 4.6 stars out of 5 on Trustpilot.

Colleagues

The Society has 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.

Furthermore, Skipton has created digital delivery of bespoke mental health colleague support sessions which are designed in partnership with our corporate charity partner, Mental Health UK.

Communities and the environment

During the first six months of the year, the Skipton Building Society Charitable Foundation donated £84,262 to 40 charities across the UK. All Skipton branches donated to their local foodbanks at the beginning of the year to help much needed food supplies. The Society also match funded colleagues' fundraising efforts, donating £7,850 to their good causes and local communities in the period. In addition, the Society donated £30,000 to the Skipton Building Society Camerata and £5,000 to Craven Citizens Advice at a time when the arts and money charities desperately needed funding.

The Society's ongoing commitment to sustainability is set out in the Sustainability Report in the 2020 Annual Report and Accounts, and during 2021 the Society has continued to embrace sustainability in all its forms, setting ourselves challenging targets where we can have the greatest impact on society. In June 2021 the Society announced that it had partnered with the Yorkshire Dales Millennium Trust to plant 15,000 trees, to offset its carbon emissions and make the Society carbon neutral, with work continuing on further reducing the Society's carbon emissions as part of its efforts to take more carbon out of the atmosphere than the Society puts into it by 2025.

Mortgages and Savings division

Absolute Customer Focus

Skipton continued to support its membership through a difficult time, with member numbers at 30 June 2021 increasing to 1,075,231 (31 December 2020: 1,061,138); on 1 June 2021 4,535 customers of Amber Homeloans Limited and North Yorkshire Mortgages Limited became members of the Society following the hive-up of the operations of those subsidiaries into the Society. At the same time, we continued to offer outstanding customer service, as demonstrated through our net customer satisfaction score of 87% (31 December 2020: 85%).

Total LISA balances held with Skipton as at 30 June 2021 were £1,141.0m (31 December 2020: £1,022.8m), with government bonuses of £64.4m being received by our LISA savers during the first half of 2021, providing a significant boost to their homeownership aspirations. In total, the Society helped 16,087 homeowners (six months ended 30 June 2020: 12,376) to purchase or remortgage their properties, including 3,932 first time buyers (six months ended 30 June 2020: 2,369) and 3,358 buy-to-let borrowers (six months ended 30 June 2020: 3,627).

For the five months ended 31 May 2021 the Society paid an average savings rate of 0.71% (12 months ended 31 December 2020: 0.96%) which was 0.39% (12 months ended 31 December 2020: 0.38%) above the rest of market average for which comparable data is available (source: CACI's Current Account & Savings Database).

The Society's financial advisers have provided pensions and investments advice to 2,606 customers (six months ended 30 June 2020: 1,586) on how to achieve their financial goals.

More detail on our Absolute Customer Focus priority can be found in the Business Review on page 8.

Brilliant People

The Society aims to deliver an outstanding colleague experience; our overall colleague engagement increased to 90% when last measured in September 2020 (2019: 89%) and this has a direct beneficial impact on the service we provide to our customers.

The Society received recognition as the UK's 7th best big company to work for in 2021, as part of *The Sunday Times* 25 Best Big Companies to Work For. In addition, in March Skipton was awarded a 3-star accreditation from Best Companies for its levels of employee engagement, being the first time the Society has ever achieved this.

More detail on our Brilliant People priority can be found in the Business Review on pages 8 and 9.

Powered by Digital Technology and Data

The Society continued to improve the digital experience for members across mortgages, savings and financial advice in the first half of the year. Investment in enhanced digital capability continues to be a particular area of focus to support and drive improvements to the customer experience. This is demonstrated through the achievement of record customer satisfaction scores in digital channels at 86%. This includes work over the last 18 months to provide the human touch in its digital interactions.

Skipton's Mortgage Product Finder went live in 2021, more easily giving customers the information they need to apply for a mortgage directly. This supports both new and existing customers wanting to apply for a mortgage or switch from an existing product to a new one, allowing them to tailor their search by answering a few simple questions. Also in 2021, Skipton's new customer appointment booking system 'Click to Schedule' went live online, allowing customers to book appointments direct with one of Skipton's mortgage advisers.

More detail on our Powered by Digital Technology and Data priority can be found in the Business Review on page 9.

Financial Strength

The Mortgages and Savings division reported a PBT of £85.8m, compared to £15.6m for the six months to 30 June 2020. On an underlying basis, the division reported PBT of £79.5m (six months ended 30 June 2020: £26.0m). A credit of £14.8m was recognised in the period for loan impairment charges (six months ended 30 June 2020: charge of £18.7m), principally as a result of updates to the economic outlook in light of the improving COVID-19 situation.

The Group net interest margin was 0.97% (six months ended 30 June 2020: 0.87%; year ended 31 December 2020: 0.89%). Margins on mortgage applications in late 2020 were significantly stronger than at the start of 2020, hence the mortgage pipeline at the start of 2021 was comparatively stronger than the prior period. However, mortgage margins gradually reduced throughout the six month period ended 30 June 2021 due to increasing competition. Retail margins widened slightly during the period as the market remained awash with surplus liquidity arising from UK savings accrued during the pandemic.

The Mortgages and Savings division's management expense ratio was 0.60% (six months ended 30 June 2020: 0.60%) and the cost income ratio was 56.4% (six months ended 30 June 2020: 62.9%). Carefully managing costs has been a priority and in the prior year the Society took precautionary steps in reducing and/or delaying non-essential spend because of the pandemic. The cost income ratio has improved due to an increase in the division's net interest income, despite delayed 2020 costs being incurred in the first six months of this year.

Group gross mortgage lending was £3.0bn (six months ended 30 June 2020: £2.1bn), with mortgage balances growing by 4.4% since the end of 2020 (six months ended 30 June 2020: 4.7%). The Group's net residential UK mortgage lending accounted for 2.0% of the growth in the UK residential mortgage market (six months ended 30 June 2020: 7.4%) compared to our 1.4% share of UK residential mortgage balances.

The Group's arrears position, contrary to that of the market as a whole, improved slightly during the period and continues to be well below the industry average. The Group's UK residential mortgages in arrears by three months or more represent only 0.28% of mortgage accounts (31 December 2020: 0.29%), which compares to an industry average of 0.85% (31 December 2020: 0.83%) (source: UK Finance industry arrears; mortgages in arrears by more than three months as at 31 March 2021).

Society savings balances grew by 3.9% to £19.4bn (six months ended 30 June 2020: 1.4%). The growth in the Society's savings balances in the period accounted for 1.0% of the growth in the UK deposit savings market (six months ended 30 June 2020: 0.8%), compared to our market share of savings balances of 1.1%.

Further information on the performance of the Mortgages and Savings division can be found in the Business Review on pages 12 and 13.

Estate agency division

The Connells group reported a PBT of £80.2m (six months ended 30 June 2020: £17.2m), inclusive of the profits attributable to Countrywide since acquisition, and related IFRS 3 charges on the acquisition.

Growing confidence in the housing market has led to increased sales in the Connells group. The market has been boosted by the stamp duty concessions, which saw a push for completions ahead of the initial reduction in stamp duty cut-off in March 2021, and subsequent extension to June, with a further tapering to September.

As previously noted, on 8 March 2021, Connells acquired the entire issued share capital of Countrywide for total consideration of £131.8m. Countrywide Limited (formerly Countrywide plc) is one of the UK's largest integrated property services groups, including the largest estate agency and lettings branch network, with over 600 branches across the UK operating through 60 local or national brands.

While the business combination is in its infancy, significant progress has been made since the acquisition was completed with a large number of cost and revenue synergies having already been identified and secured.

The reported PBT of £80.2m includes a £27.1m fair value gain on Connells' 64.7% investment in TM Group (UK) Limited, which the Group subsequently sold on 8 July 2021 for a cash consideration of £58.0m, and a £2.2m gain arising on its 22.9% shareholding in Fixflo, which was sold on 21 May 2021 for a cash consideration of £7.8m.

The half year results also include IFRS 3 amortisation accounting charges in relation to Countrywide's intangible assets recognised on acquisition, including their sales pipeline, totalling £38.3m, together with costs relating to the acquisition of £2.1m within the division.

Further information on the performance of the Estate Agency division can be found in the Business Review on pages 13 and 14.

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

Other subsidiaries

Skipton Business Finance (SBF), a provider of debt factoring and invoice discounting to small and medium-sized enterprises, recorded a PBT of £1.9m (six months ended 30 June 2020: £1.1m). Although the Government backed Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS) have ceased, SBF has successfully gained accreditation to offer both term loans and invoice finance facilities under the newly introduced Recovery Loan Scheme (RLS), enabling SBF to offer facilities to small and medium-sized enterprises (SMEs) with the Government guaranteeing 80% of any future losses.

Jade Software Corporation (a software solutions provider based in New Zealand that specialises in digital solutions and large IT enterprise solutions, as well as being the provider of the Society's core database and software development language) reported a loss of £0.2m for the period (six months ended 30 June 2020: £0.1m profit).

Further information on the performance of these subsidiaries can be found in the Business Review on page 14.

Outlook

The outlook for the Society is positive and it is well positioned to face into the uncertainties that exist as the UK moves to the next stage of living with the pandemic, as social distancing restrictions are eased, government furlough support comes to an end, and evidence emerges on whether inflation increases are transitory or structural.

The significant improvement in the economic outlook since the year end has increased the confidence of both consumers and lenders, increasing the competition in the mortgage market, and we expect the downward pressure on mortgage margins to continue. The hectic housing market in recent months is unlikely to be sustained and is expected to level off in the second half of the year. But societal changes, such as the desire for more space and different commuting habits, appear more permanent and the core fundamentals supporting the housing market remain positive.

The Society's strong financial position, diversified business model and compelling customer proposition mean it is well placed to continue to deliver for its members during these uncertain times.

David Cutter

Group Chief Executive

2 August 2021

Business Review

Background and social context

The last 16 months or so have been dominated by the coronavirus pandemic, directly impacting upon the health and finances of people within our communities. However, we have continued to support the well-being of our colleagues, and through their resilience and adaptability, together with our strong capital position and healthy levels of liquidity, we have been able to continue to deliver for our members and customers. The Society was defined as a provider of essential services by the Government throughout the pandemic, and as such, we have continued to maintain a UK-wide branch presence to allow members to carry out essential transactions throughout the various lockdowns. We have also strengthened our partnership with Mental Health UK in light of unprecedented service demands as the coronavirus outbreak has significantly impacted the nation's mental health.

We continue to recognise the potential ongoing impacts on our mortgage members, offering them tailored help and support in these challenging times. One of these support options has been mortgage payment deferrals, which give borrowers a period of flexibility, and from the start of the pandemic through to the end of June 2021 we have helped over 26,000 customers through mortgage payment deferrals. Very few of these payment deferrals remain in place at the end of June as applications for new payment deferrals closed on 31 March 2021, with all outstanding payment deferrals ending on or before 31 July 2021. Of the payment deferrals that have ended, over 95% have returned to making their usual monthly payment.

Connells, our estate agency division, has performed strongly against the backdrop of COVID-19. From what was a turbulent 2020 where the housing market was effectively shut down for nearly two months of the year due to the restrictions of the first lockdown, market confidence has since recovered well, boosted by the Stamp Duty Land Tax (SDLT) concessions, which saw a push for completions ahead of the initial cut-off in March 2021, and subsequent extension to June, with a further tapering to September.

Throughout the COVID-19 pandemic, Connells has sought to operate with the safety of its customers and colleagues being its priority. It has invested heavily in Personal Protective Equipment (PPE), provided extensive training to all of its people and implemented a number of COVID-secure standards across the business.

During the period, Connells acquired the entire share capital of Countrywide plc, which has complemented the Connells group's existing services and enhanced the value proposition for customers. The branch network of Countrywide is a key asset and work continues to maintain and enhance Countrywide's current branding and service offering, while leveraging Connells' track record of positive investment in people and technology.

Whilst there remain significant uncertainties in assessing the long term social and financial impacts of the pandemic, the progress made with the vaccine rollout provides us with optimism. Skipton remains in a good position to face the challenges ahead, and is focused on its purpose to help more people into homes, help people save for their future, and support their long term financial well-being.

Business model and Group structure

Skipton Building Society is the UK's fourth largest building society, with £29.0bn of assets and 1,075,231 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 enable people to buy their own homes, alongside our provision of financial advice to customers. 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 2021, and are as relevant as ever, can be found in the Strategic Report in the 2020 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, have also historically been part of the division, however the activities of these entities were hived-up into the Society with effect from 1 June 2021. The division also includes 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, with the Group's estate agency presence significantly enhanced by the acquisition of Countrywide plc on 8 March 2021; 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.

  On 14 May 2021 the Group acquired the remaining minority shareholdings in Jade for a nominal sum, taking its shareholding from 99.98% to 100%.

Objectives and Key Performance Indicators (KPIs)

The Board and senior management use the KPIs listed on page 10 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 have at least two Society Executives as shareholder Non-Executive Directors.

The Society's long term objectives are focused on four key priorities: Absolute Customer Focus, Brilliant People, Powered by Digital Technology & Data and Financial Strength; these are set out below. The other individual Group companies have their own specific objectives.

Absolute Customer Focus – Our absolute customer focus priority aims to put the customer at the heart of everything we do, providing a compelling and differentiated proposition.

Central to the Society's strategy is to ensure a truly customer centric proposition, focusing on providing an outstanding customer experience across all the ways our members and customers interact with us, as demonstrated through the Society's net customer satisfaction score of 87% (year ended 31 December 2020: 85%). We have continued to maintain a UK-wide branch presence to allow members to carry out essential transactions, ensuring COVID-safe practices such as branch counter protection remain in place for the benefit of both members and colleagues. At the same time, we have a range of options for how our customers can interact with us, be it in branch, over the telephone or online. Our success is built on our terrific, personal service and as more customers join and interact with us digitally our focus will be on retaining our identity, continuing to deliver that excellent human touch, making sure we can connect our colleagues to our customers at the important moments and bring real value to them.

Another key part of our strategy is to grow the Society's membership in a sustainable manner, bringing the benefits of membership to an increasing number of people going forward. In the six months to 30 June 2021, Society membership numbers grew by 14,093 to take our total membership base to 1,075,231. 4,535 customers of Amber and NYM became members of the Society on 1 June 2021.

Our AGM is an opportunity we welcome to engage with our members on topics they really care about. This year our 168th AGM was the first ever to be live streamed to our members, giving all our members the opportunity to hear from our Chair of the Board and the Group Chief Executive and ask questions live.

We are proud to be recognised for exceptional customer service within the period as our customer contact centre, Skipton Direct, was shortlisted for The Contact Centre Association (CCA) Excellence Awards, recognising world-class professional achievement in customer service, achieving 'Outstanding Team Award – Bronze'. Furthermore, we've achieved our annual CCA accreditation which is known industry-wide as an outstanding accolade, recognising how we go above and beyond to support our customers. In addition, many of our Skipton financial advisers have been recognised nationally – after appearing in *The Financial Times*' prestigious Top Rated Financial Advisers Guide; with an outstanding 62 of our advisers featuring.

Despite the challenging environment, we remain committed to our purpose to help more people have a home and to help them save for their life ahead by offering competitive rates and attractive products, whilst maintaining high levels of customer service. During March and June we saw an extraordinarily high number of mortgage completions, with people wanting to move house before the end of the period to take advantage of reduced rates of stamp duty, whereby exemption from stamp duty applied to the first £500,000 value of a property, rather than the normal figure of £125,000. Having reduced the maximum loan-to-value (LTV) on which we were prepared to lend in 2020, as a result of uncertain market conditions, we reintroduced 90% and subsequently 95% loan-to-value residential mortgages in the first half of 2021. In May, we also launched our first limited access savings bond, a two year fixed rate bond with a competitive rate that allows withdrawals of up to 25% during the fixed term.

Group mortgage balances have grown by 4.4% in the period (six months ended 30 June 2020: 4.7%; year ended 31 December 2020: 8.6%) whilst maintaining our prudent credit risk appetite. Gross mortgage advances totalled £2,974m across the Group in the first six months of 2021 (six months ended 30 June 2020: £2,086m; year ended 31 December 2020: £4,472m). Our mortgage growth in the period was ahead of the UK residential mortgage market where net mortgage growth was 3.2% (source: Bank of England statistics, June 2021), which demonstrates our success in delivering mortgage products and services that are valued by both new and existing Skipton members.

Savings balances grew by 3.9% in the first half of the year (six months ended 30 June 2020: 1.4%; year ended 31 December 2020: 7.7%) compared to the UK savings market where net savings growth was 4.3% (source: Bank of England statistics, June 2021). We paid on average 0.39% higher interest (2020 full year: 0.38%) than the rest of market average for banks and building societies in the five months to 31 May 2021, being the latest period for which comparable data is available (Source: CACI Current Account & Savings Database Stock).

The use of Skipton Link video services has played a significant part in being able to offer financial advice to more customers in a safe manner, providing more options for customers to interact with us, and helping funds under management grow to £3.8bn (30 June 2020: £3.3bn; 31 December 2020: £3.5bn).

Brilliant People – Our brilliant people priority aims to create an environment where our colleagues can be themselves, deliver their best contribution and achieve their full potential.

Our people are fundamental to our success, and we are committed to providing a great environment for our people to work in, where their development and well-being is a key priority. 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 and customers. 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.

The delivery of the Society's people strategy is primarily measured annually by employee engagement which increased to 90% when last measured in September 2020, well above financial services industry norms and an outstanding result in challenging times. Engagement is continuous and so last year we introduced a more regular 'pulse survey' that gives us an opportunity to check in with colleagues throughout the year. Our latest survey showed that over 88% of colleagues believe they are getting the support they need during this time whilst 93% say that their leader genuinely cares about their well-being. The feedback from these surveys helps us understand what's working well and contributes to our existing action plans to make the Society a great place to work for all our colleagues.

We were proud that for the seventh year running we have been named as one of *The Sunday Times* Best Companies to Work For, achieving 7th place in the '25 Best Big Companies to Work For 2021' list. In addition, we have been given a three-star accreditation from Best Companies; this is the first time we've ever achieved this, and reflects 'world class' levels of workplace engagement.

Powered by Digital Technology & Data – our powered by digital technology and data priority seeks to make the best use of technology and data to enhance our customer experience, efficiency and decision making.

Digital technology and data is a key priority for us in the digital age, as we look to combine the best aspects of digital technology with our human touch to ensure we have a compelling digital offering and deliver outstanding customer service.

Our Digital Customer Service team is continuing to enhance how they deliver for those growing number of customers who choose to interact with us through digital and social media platforms. This is reflected in the increase in our digital customer satisfaction score to 86% (31 December 2020: 81%).

The way our members choose to interact with us is changing and the use of new technology is so important to all organisations, now more than ever. That's why we've set up a new 'Tech Hub' to bring the right people together who will ensure our processes and technology deliver what we need now, and in the future for our customers, colleagues and the Society.

Options such as webchat now make up around 30% of customer interactions with Skipton Direct; we are also increasingly using Skipton Link, our video conferencing system. At the start of February our new Mortgage Product Finder went live, giving customers the information they need to apply for a mortgage directly, whilst in May our new customer appointment booking system 'Click to Schedule' went live online. Customers are now able to book appointments directly with one of our mortgage advisers whereas previously, both new and existing customers would need to contact us, usually through Skipton Direct or one of our branches.

Since the launch of our mobile app in July 2019, we have registered over 223,000 members and currently have 53% of our online customers registered for the app (31 December 2020: 47%), which is providing them with instant access to a number of services and thereby making it easier for members to interact with the Society.

We plan to further increase our offerings on the app to provide our members with access to the best aspects of digital technology.

Financial Strength – our financial strength priority ensures we are able to deliver on our purpose for our current members and for generations to come. We achieve this by maintaining our strong capital position, as a result of sustainably growing our mortgages and savings balances, supplemented by dividends principally from our estate agency business, whilst applying strong cost control and a prudent approach to risk management. The recent addition of Countrywide to our Estate Agency division should, in future, deliver materially enhanced returns for the Society, and hence our members.

A more detailed review of our financial performance and position can be found on pages 11 to 17.

Key Performance Indicator (KPI)	Purpose	6 months to 30.06.21	6 months to 30.06.20	12 months to 31.12.20
Absolute Customer Focus				
Total member numbers (Society only)	To ensure we are attracting and retaining members	**1,075,231**	1,045,969	1,061,138
Growth in membership numbers (Society only)	To ensure we are attracting and retaining members	**14,093**	(325)	14,844
Increase in member savings balances (Society only)	To help more members save for their future	**£735m**	£242m	£1,343m
Group gross mortgage advances	To help us to meet our goal of helping more people into homes through prudent and controlled lending	**£2,974m**	£2,086m	£4,472m
Group net mortgage growth	To help us to meet our goal of helping more people into homes through prudent and controlled lending	**£965m**	£938m	£1,730m
Society net customer satisfaction score (note 1)	To ensure we are putting the customer at the heart of our business	**87%**	87%	85%
Society Financial Ombudsman Service (FOS) complaints - change in outcome rate	To ensure we are treating customers fairly	**25%**	19%	19%
Brilliant People				
Employee engagement (Society only) (note 2)	To ensure our people are passionate, loyal and committed	**n/a**	n/a	90%
Powered by Digital Technology & Data				
Percentage of online customers registered for the Skipton app	To ensure our customers have access to the best aspects of digital technology	**53%**	44%	47%
Financial Strength				
Total Group profit before tax	To ensure we generate the necessary capital to grow the business	**£159.2m**	£34.4m	£118.8m
Underlying Group profit before tax (as defined on page 11)	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	**£122.4m**	£47.9m	£124.0m
Group net interest margin (% of mean assets)	To manage the earnings of our core Mortgages and Savings division	**0.97%**	0.87%	0.89%
Mortgages and Savings division cost income ratio (note 3)	To maintain a manageable cost base to ensure the business remains efficient	**56.4%**	62.9%	63.3%
Mortgages and Savings division management expense ratio	To maintain a manageable cost base to ensure the business remains efficient	**0.60%**	0.60%	0.60%
Group residential mortgages in arrears by three months or more (note 4)	To manage and monitor our arrears and credit risk management	**0.27%**	0.26%	0.28%
Liquidity Coverage Ratio	To ensure we hold sufficient levels and quality of overall liquidity	**187%**	173%	194%
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	**80.3%**	79.7%	79.0%
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	**42.2%**	37.5%	39.7%
Group Leverage ratio (note 6)	To ensure the Group remains financially strong by having a strong (non-risk weighted) capital base	**6.0%**	6.0%	5.7%

Notes

1. As measured from an in-house survey of c.3,000 Society customers every six months. The net customer satisfaction score is calculated by subtracting the percentage of customers who are dissatisfied (those scoring satisfaction with the Society as 1-3 on a scale of 1-7) from the percentage of customers who are satisfied (those scoring satisfaction as 5-7 on the same scale).
2. As measured by Willis Towers Watson, an independent company who provide benchmarking on employee surveys in both the UK and globally. From 2020, the annual survey is now conducted in September each year (2019 and earlier: in June), and is complemented by more regular pulse surveys which are now carried out periodically throughout the year in order to allow us to quickly respond to our colleagues' changing needs.
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 11.
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. However, only 45 payment deferrals remain in place as at 30 June 2021; applications for new payment deferrals closed on 31 March 2021 with all outstanding payment deferrals ending on or before 31 July 2021.
5. This ratio is calculated under the Internal Ratings Based (IRB) approach on a transitional basis; see page 16 for further details.
6. This ratio is calculated on an end-point basis; see page 16 for further details.

Financial performance

Total Group profit before tax (PBT) for the first half of the year was £159.2m (six months ended 30 June 2020: £34.4m; year ended 31 December 2020: £118.8m). Profits include the results of Countrywide from the date of acquisition on 8 March 2021. See below for further details and also the Estate Agency section on pages 13 and 14.

Following a year of relatively subdued profits within the Mortgages and Savings division, profits in the first half of 2021 have been strong. This is in part due to a decrease in the division's loan impairment requirements, which has resulted in a credit in the period of £14.8m (six months ended 30 June 2020: charge of £18.7m; year ended 31 December 2020: charge of £25.2m), principally as a result of updates to our economic outlook in light of the improving COVID-19 situation, amidst the effective vaccine rollout in the UK. However, we recognise the pandemic continues to have a significant impact on some of our mortgage members, and we have continued to offer support through mortgage payment deferrals and other concessions for affected borrowers. The credit risk associated with these support measures has 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 which may not be immediately apparent. Further details can be found on page 33.

We have also seen fair value gains on our equity release portfolio and associated derivatives of £6.3m (six months ended 30 June 2020: losses of £10.4m; year ended 31 December 2020: losses of £2.7m). These fair value gains 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 19.

Our Estate Agency division, Connells, performed well in the first half of the year amidst growing housing market confidence, and the push for completions ahead of the initial stamp duty cut-off in March, which was subsequently extended to June and September, albeit on a tapering basis.

As previously noted, trading also includes the profits from Countrywide (formerly Countrywide plc) from 8 March 2021 and Connells reported statutory profits of £80.2m (underlying profits of £50.0m) for the first half of the year compared to £17.2m (£20.8m on an underlying basis) in the first six months of 2020. Connells' half year results also include IFRS 3 amortisation accounting charges on Countrywide's intangibles recognised on acquisition, including its pipeline, totalling £38.3m, together with transaction costs of £2.1m. Countrywide is one of the UK's largest integrated property services groups, and includes the UK's largest estate agency and lettings branch network, with over 600 branches across the UK operating through 60 local or national brands. Significant progress has been made since the acquisition was completed, with a large number of cost and revenue synergies identified, several of which have already been secured. Further details can be found on pages 13 and 14.

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 2020 Annual Report and Accounts, and excludes gains and losses on disposal of Group undertakings, impairment of Group undertakings, fair value movements in relation to the equity release portfolio, and fair value movements in equity share investments, share warrants and other Group undertakings.

The Group's policy is not to adjust for IFRS 3 amortisation charges or acquisition costs when calculating underlying profits, however as noted above these have been significant in the period and will not be repeated in the medium term.

Underlying Group PBT for the six months ended 30 June 2021 was £122.4m (six months ended 30 June 2020: £47.9m; year ended 31 December 2020: £124.0m) as follows:

	6 months to 30.06.21 £m	6 months to 30.06.20 £m	12 months to 31.12.20 £m
Total Group profit before tax	**159.2**	34.4	118.8
Less profit on disposal of subsidiary undertakings	**(0.3)**	(0.5)	(0.8)
(Less) / add back fair value (gains) / losses in relation to the equity release portfolio (note 1)	**(6.3)**	10.4	2.7
Add back impairment of goodwill	**-**	2.0	2.0
Add back impairment of joint ventures	**-**	1.0	1.5
(Less) / add back fair value (gains) / losses on share warrants and equity share investments	**(3.3)**	0.6	(0.2)
Less fair value gains on step-acquisition of Group undertakings (note 2)	**(26.9)**	-	-
Underlying Group PBT	**122.4**	47.9	124.0

Notes

1. The £6.3m gain (six months ended 30 June 2020: £10.4m loss; year ended 31 December 2020: £2.7m loss) is comprised of fair value losses of £18.6m (six months ended 30 June 2020: £17.6m gains; year ended 31 December 2020: £19.7m gains) as shown in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement, and fair value gains of £24.9m (six months ended 30 June 2020: £28.0m losses; year ended 31 December 2020: £22.4m losses) on the associated derivatives held to economically hedge these fair value movements, as shown in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Derivatives associated with the equity release portfolio' line in the Income Statement.
2. This comprises a £27.1m fair value gain in relation to the Group's shareholding in TM Group (UK) Limited and a £0.2m fair value loss in relation to the Group's shareholding in Vibrant Energy Matters Limited; further details are provided in note 1b) to the Condensed Consolidated Financial Statements.

Business Review *(continued)*

Performance by division

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

	6 months to 30.06.21 £m	6 months to 30.06.20 £m	12 months to 31.12.20 £m
Mortgages and Savings	**85.8**	15.6	64.6
Estate Agency	**80.2**	17.2	51.8
Investment Portfolio	**1.7**	1.2	3.6
Sundry including inter-divisional adjustments^	**(8.5)**	0.4	(1.2)
Profit before tax	**159.2**	34.4	118.8

^ 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 30.06.21 £m	6 months to 30.06.20 £m	12 months to 31.12.20 £m
Mortgages and Savings	**79.5**	26.0	67.3
Estate Agency	**50.0**	20.8	55.1
Investment Portfolio	**1.7**	1.2	3.6
Sundry including inter-divisional adjustments^	**(8.8)**	(0.1)	(2.0)
Underlying Group PBT	**122.4**	47.9	124.0

^ 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 20 to the Condensed Consolidated Financial Statements.

Mortgages and Savings

The Mortgages and Savings division reported underlying pre-tax profits of £79.5m for the first six months of the year (six months ended 30 June 2020: £26.0m; year ended 31 December 2020: £67.3m).

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 and subordinated debt). The division's net interest income amounted to £135.3m for the first half of the year (six months ended 30 June 2020: £106.5m; year ended 31 December 2020: £228.7m).

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 0.97% for the first half of 2021 (six months ended 30 June 2020: 0.87%; year ended 31 December 2020: 0.89%). Mortgage margins were noticeably stronger during the first quarter of 2021 compared to the same period in 2020, but began to narrow towards the end of the six month period, and savings margins were also better due to the abundance of UK savings built up during the pandemic.

The onset of the pandemic caused great uncertainty, and the suspension of in-person house valuations meant higher loan-to-value (LTV) lending was temporarily suspended. However, improving economic confidence, together with easing of restrictions, meant in January this year we were able to re-offer 90% LTV products for people purchasing or re-mortgaging their homes. Furthermore, in March we also re-entered the 95% LTV mortgage market. This year we're looking to help even more first time buyers into homes and 90-95% LTV mortgages are often more attractive to first time buyers with a smaller deposit. By widening our product range more people can apply for mortgages to buy their dream home. We are able to support first time buyers in this way due to the financial strength of the Society which we have built up over many years.

Group gross mortgage advances in the first half of the year were £2,974m (six months ended 30 June 2020: £2,086m; year ended 31 December 2020: £4,472m), whilst Group net lending was £965m (six months ended 30 June 2020: £938m; year ended 31 December 2020: £1,730m). Despite the challenging environment, we achieved strong net growth in our mortgage book in the period of 4.4% (six months ended 30 June 2020: 4.7%; year ended December 2020: 8.6%), 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 £734.7m since the end of 2020 as household spending has been lower than usual due to the pandemic, which represents growth of 3.9% in the six months (six months ended 30 June 2020: 1.4%; year ended 31 December 2020: 7.7%). Cash Lifetime ISA (LISA) customers continue to make up a reasonable proportion of our savers and at 30 June 2021 we had 157,710 LISA customers with total balances of £1,141.0m (six months ended 30 June 2020: £1,082.0m; year ended 31 December 2020: £1,022.8m). Government bonuses of £64.4m were received by our LISA customers during the first half of 2021.

In May this year we launched our first limited access savings bond, a 2 year fixed rate bond which allows withdrawals of up to 25% during the fixed term. There are not many competitors in this space and so this is a new market we are excited to be entering which provides flexibility to our savers in these uncertain times.

The financial advice part of the business generated £15.2m of income (six months ended 30 June 2020: £12.7m; year ended 31 December 2020: £25.2m), with funds under management totalling £3.8bn (30 June 2020: £3.3bn; 31 December 2020: £3.5bn). Having experienced restrictions on offering financial advice through the branch network during various stages of lockdown in the UK, the use of Skipton Link video services has played a significant part in being able to offer financial advice to more customers in a safe manner, providing more options for customers as to the way they interact with us.

During the period, administrative expenses in the Mortgages and Savings division were £83.8m (six months ended 30 June 2020: £76.4m; year ended 31 December 2020: £160.5m). In the prior year the Society took precautionary steps in reducing and/or delaying non-essential spend because of the pandemic, helping to mitigate some of the fall in income and increased impairment charges seen in 2020. The cost base for 2021 reflects the increased activity across the business to meet the stronger demand and the incurring of necessary spend that was delayed and/or avoided in 2020.

However, due to the growth in mortgage lending the ratio of administrative expenses to average assets for the division, a traditional building society measure of efficiency, has been maintained at 0.60% in the first half of the year (six months ended 30 June 2020: 0.60%; year ended 31 December 2020: 0.60%), and the cost income ratio improved to 56.4% (six months ended 30 June 2020: 62.9%; year ended 31 December 2020: 63.3%).

With effect from 1 June 2021, we hived-up into the Society our specialist lending businesses, Amber and NYM. The existing mortgage books, previously serviced externally, are now managed by the Society. This will be more cost efficient in the medium term and allows former Amber and NYM customers access to the Society's full product range. They have become Society members, allowing them access to the benefits membership brings, and ensuring they receive the same high quality service we provide to our existing Skipton customers. There is no impact of this hive-up on the financial position or performance of the Group as a whole, and hence on these Group Half-Yearly financial statements; the impacts on the Society's performance and financial position will be provided in the 2021 Annual Report & Accounts.

The percentage of the Society's mortgage accounts in arrears by three months or more, excluding the impacts of the Amber and NYM hive-up, was 0.18% (30 June 2020: 0.17%; 31 December 2020: 0.20%), which compares favourably to the UK Finance industry average for mortgages in arrears by more than three months of 0.85% (UK Finance figures as at 31 March 2021, being the latest available data). There has not been a material impact on the reported arrears levels for the Society when including the specialist lending businesses; this equates to 0.28% as at 30 June 2021.

We are continuing to provide 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. However, only 45 payment deferrals remained in place as at 30 June 2021; applications for new payment deferrals closed on 31 March 2021 with all outstanding payment deferrals ending on or before 31 July 2021.

At 30 June 2021, the residential impairment loss allowance was £9.9m (30 June 2020: £21.2m; 31 December 2020: £23.1m) The impairment credit in the Income Statement on residential loans and advances to customers for the Mortgages and Savings division was £12.7m (six months ended 30 June 2020: £11.6m charge; year ended 31 December 2020: £13.7m charge). The key driver for the improved position is changes made to the Society's forward-looking economic assumptions which have been updated to reflect the improving economic outlook. The net impairment credit in the period does take account of the credit risk associated with the support measures provided to borrowers during the pandemic, 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 £207.9m at 30 June 2021 (30 June 2020: £229.2m; 31 December 2020: £219.0m) with an average loan size of £248k. Arrears levels within the portfolio remain low. There was a small credit to the Income Statement in the period of £2.1m for the impairment allowance on this portfolio (six months ended 30 June 2020: £7.1m charge; year ended 31 December 2020: £11.5m charge). Whilst the majority of COVID related concessionary arrangements have now ended, impairment provisions remain higher than pre-pandemic levels due to concerns around the longer term recovery of some sectors, notably retail and offices. This has been reflected in additional forced sale discount values in the impairment model.

At 30 June 2021, commercial impairment loss allowances stood at £15.6m (30 June 2020: £13.5m; 31 December 2020: £17.8m).

Skipton International (SIL), our Channel Islands operation, once again performed well in the first six months of the year, reporting pre-tax profits of £11.4m (six months ended 30 June 2020: £9.9m; year ended 31 December 2020: £19.9m). SIL reported increases in both its mortgages and savings books, which increased to £1,656.5m and £1,943.2m respectively (30 June 2020: £1,495.4m and £1,728.7m respectively; 31 December 2020: £1,579.4m and £1,937.9m respectively), representing growth of 4.9% in the mortgage book and 0.3% growth in savings balances since the year end.

The quality of the SIL mortgage book remains good, with only one case in arrears by three months or more (30 June 2020: two cases; 31 December 2020: one case). SIL has been managing COVID-19 related forbearance requests on a case-by-case basis and as at 30 June 2021, only 0.2% of accounts were on forbearance 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 Connells group reported a pre-tax profit of £80.2m for the first six months of the year (six months ended 30 June 2020: £17.2m) inclusive of the results of Countrywide from the acquisition date of 8 March 2021.

The reported profit includes £26.9m of fair value gains on step-acquisition of two businesses where both Connells and Countrywide previously held a non-controlling investment (see note 1b) to the Condensed Consolidated Financial Statements for further details). A further £3.3m of gains were also recognised on share warrants and other investments, including a £2.2m gain on the Connells group's shareholding in Fixflo which was subsequently sold on 21 May 2021. Underlying profits were £50.0m (six months ended June 2020: £20.8m).

The half year results also include IFRS 3 amortisation accounting charges on all of Countrywide's intangibles recognised on acquisition, including its pipeline, totalling £38.3m, together with transaction costs of £2.1m. Even including these costs, Connells group profits have improved considerably on the same period last year. The market has been boosted by the stamp duty concessions, which saw a push for completions ahead of the initial cut-off in March 2021, and subsequent extension to June, with a further tapering to September.

Exchanges were 34% higher in the period compared to the first six months of 2019 (on a like-for-like basis, taking into account Countrywide's figures prior to its acquisition and adjusted for closed branches), a more meaningful comparative period due to the fact the housing market was effectively closed for almost two months in 2020. Confidence in the housing market is strong, with buyer registrations up 49% (in the Connells group, excluding Countrywide) on the first half of 2019. Supported by low interest rates and competitive mortgage products, buyers are driving increased sales activity. However, the availability of stock remains a key market challenge with the number of properties available for sale 14% lower than June 2019 (on a like-for-like basis, taking into account Countrywide's figures prior to its acquisition and adjusted for closed branches).

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 £1.9m (six months ended 30 June 2020: £1.1m; year ended 31 December 2020: £3.6m). Profit for the period has recovered well following the adverse impacts of the pandemic and associated lockdown measures that were introduced.

Following the cessation of the Government-backed Coronavirus Business Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS), SBF successfully gained accreditation to offer both term loans and invoice finance facilities to new and existing clients under the newly introduced Recovery Loan Scheme (RLS). This accreditation enables SBF to offer facilities to small and medium sized enterprises (SMEs) under this scheme with the Government guaranteeing 80% of any future losses.

Jade Software Corporation (a software solutions provider based in New Zealand that specialises in digital solutions and large IT enterprise solutions, as well as being the provider of the Society's core database and software development language) reported a loss of £0.2m for the period (six months ended 30 June 2020: profit of £0.1m; year ended 31 December 2020: broke even).

Sundry, including inter-divisional adjustments

The charge to the Income Statement for the first six months of 2021 for the long term management incentive scheme for the senior managers of Connells Limited was £8.1m (six months ended 30 June 2020: £0.4m credit; year ended 31 December 2020: £1.2m charge) which reflects an updated view of the expected future performance of the Connells group following the acquisition of Countrywide earlier in the year. 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 £0.8m 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 2020 Annual Report and Accounts.

The fourth of a total of five instalments 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 £6.2m at 30 June 2021 (30 June 2020: £12.0m; 31 December 2020: £12.3m) and the profit recognised in the Income Statement for the period was £0.3m (six months ended 30 June 2020: £0.5m; year ended 31 December 2020: £0.8m); this is included in the 'Profit on disposal of subsidiary undertakings' line. The profit recognised in the period represents the unwind of the discounted cash flows on the contingent consideration asset; the majority of the contingent consideration was booked in previous years.

Other comprehensive income

During the period, the Group recognised a net amount through other comprehensive income (net of tax) of £27.5m income (six months ended 30 June 2020: expense of £26.6m); year ended 31 December 2020: expense of £23.5m). This includes:

- The remeasurement of retirement benefit obligations to reflect latest market conditions, which resulted in a gain of £15.9m (before tax) (six months ended 30 June 2020: loss of £28.8m; year ended 31 December 2020: loss of £22.7m); and
- Movements in the Group's fair value reserve, cost of hedging reserve, translation reserve and cash flow hedging reserve totalling a gain of £16.1m (before tax) (six months ended 30 June 2020: loss of £9.0m; year ended 31 December 2020: loss of £10.3m).

Financial position

Liquidity

The Group continues to hold healthy levels of liquid assets to support the business and to help mitigate the continued 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 187% at 30 June 2021 (30 June 2020: 173%; 31 December 2020: 194%). Liquidity remains well above both the regulatory limit of 100% and the internal limit set by the Board throughout the period. The Society also continues to have 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 2021, the Society held £3.8bn (30 June 2020: £2.8bn; 31 December 2020: £4.2bn) of High Quality Liquid Assets (HQLA) as analysed below:

	30.06.21 £m	30.06.20 £m	31.12.20 £m
Balances with the Bank of England	**2,203.6**	751.4	3,163.6
Gilts	**221.7**	293.5	105.2
Treasury bills	**-**	670.6	-
Fixed rate bonds	**722.0**	573.5	429.3
Floating rate notes	**236.0**	204.0	204.6
Residential mortgage backed securities	**138.0**	72.3	101.0
Covered bonds	**266.4**	278.4	202.8
	3,787.7	2,843.7	4,206.5

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

	30.06.21 £m	30.06.20 £m	31.12.20 £m
Cash with other institutions	**44.6**	23.7	40.4
Local authority investments	**-**	8.0	-
Residential mortgage backed securities	**12.2**	61.6	7.4
	56.8	93.3	47.8

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 100% 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 2020: 97.8%; 31 December 2020: 99.9%). 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 140% at 30 June 2021 (30 June 2020: 142%; 31 December 2020: 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 18.8% compared with 21.5% at 31 December 2020. The Group regularly conducts an Internal Liquidity Adequacy Assessment Process (ILAAP) in accordance with the Prudential Regulation Authority's (PRA's) liquidity guidelines and the Board remains satisfied that the Group has sufficient liquid assets at its disposal in order to meet its obligations as they fall due.

Loans and advances to customers

The Group continues to grow its mortgage book in a controlled manner, lending within its own clearly defined risk appetite through both the Society and SIL. Group mortgage balances saw growth of 4.4% in the period (six months ended 30 June 2020: 4.7%; year ended 31 December 2020: 8.6%), increasing from £21.8bn at the end of 2020 to £22.7bn.

The Society has continued to lend to a broad spectrum of borrowers, within our risk appetite, throughout the period, increasing its offering through the re-introduction of both 90% and 95% LTV residential lending. The Society's LTV of new lending in the period (calculated on a valuation-weighted basis) was 57.5% (six months ended 30 June 2020: 53.1%; year ended 31 December 2020: 54.2%). We consider our new lending to remain prudent and the mortgage book is well diversified by geographical location.

As at 30 June 2021, the average indexed LTV of the total residential mortgage book (excluding equity release) was 44.2% (30 June 2020: 46.3%; 31 December 2020: 44.8%) (calculated on a valuation-weighted basis).

The Group holds an equity release mortgage book which is closed to new business. At 30 June 2021, the fair value of the Group's equity release portfolio was £414.5m (30 June 2020: £430.6m; 31 December 2020: £433.8m). The reduction in fair value of equity release mortgages is due to an expected increase in future interest rates, partially offset by the more favourable House Price Index (HPI) forecast (see note 12 to the Condensed Consolidated Financial Statements for further details).

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 maintained at a record low of 0.1% which has reduced the average savings rates we can offer our customers.

As at 30 June 2021, £19.4bn (30 June 2020: £17.6bn; 31 December 2020: £18.7bn) of our funding came from retail savings, representing 80.3% (30 June 2020: 79.7%; 31 December 2020: 79.0%) 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 £1.9bn (30 June 2020: £1.7bn; 31 December 2020: £1.9bn). 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 2021, our wholesale funding balances amounted to £4.5bn (30 June 2020: £4.3bn; 31 December 2020: £4.8bn). The Group's wholesale funding ratio remained relatively stable at 19.7% as at 30 June 2021 (30 June 2020: 20.3%; 31 December 2020: 21.0%).

At 30 June 2021 the Society had balances outstanding of £1,150m drawn from the Term Funding Scheme (TFS) (30 June 2020: £1,250m; 31 December 2020: £1,250m), and £850m from the Term Funding Scheme with additional incentives for SMEs (TFSME) (30 June 2020: £nil; 31 December 2020: £850m).

The credit ratings of the Society are assigned by two major credit rating agencies, Fitch and Moody's. In March 2021, Fitch affirmed the Society's long-term rating of A- and short-term rating of F1. The current outlook of Negative reflects the wider economic and financial market fallout from the COVID-19 pandemic. On 13 July 2021, Moody's announced that it had upgraded the Society's long-term senior unsecured credit rating by two notches to A2 and the short-term rating to P-1, with a

Stable outlook. The ratings reflect the continued financial strength of the Society, which compares favourably to other larger building societies.

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 and individual consolidation group level by applying the Capital Requirements Directive V (CRD V) effective from 31 December 2020, and the Capital Requirements Regulation (CRR), as amended by the onshored provisions within the CRR II regulation (EU) 2019/876 and the CRR 'Quick Fix' package.

The difference between the capital position of the individual consolidation group and the prudential consolidation group is not material; the analysis throughout these disclosures has therefore been disclosed at a prudential consolidation group level only. 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 £87.7m from 31 December 2020 to £1,718.2m as at 30 June 2021 (30 June 2020: £1,555.4m; 31 December 2020: £1,630.5m). This is mainly due to the retained profits accumulated during the period.

Risk weighted assets (RWAs) have decreased by £15.7m in the period to £3,981.0m (30 June 2020: £4,042.0m; 31 December 2020: £3,996.7m). This is principally driven by a decrease in the fair value of hedge adjustments on fixed rate assets, a reduction in counterparty credit risk and, whilst we have seen strong mortgage book growth, risk weighted mortgage assets have decreased as a result of house price growth. The reduction in RWAs has been partly offset by a loan made by the Society to its subsidiary company Connells Limited, to facilitate the acquisition of Countrywide plc (£230.2m as at 30 June 2021; £253.0m on acquisition at 8 March 2021).

As a result of these movements, the CET 1 ratio has increased to 42.2% from 39.7% at 31 December 2020.

The leverage ratio, which is reported on an end-point basis, has increased to 6.0% (30 June 2020: 6.0%; 31 December 2020: 5.7%) driven by the increase in capital resources during the period.

The following table shows the composition of the prudential group's regulatory capital as at 30 June 2021. The capital ratios are reported on a CRD V 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 V end-point rules the PIBS are fully transitioned into Tier 2 capital. On an end-point basis our CET 1 and Tier 1 ratios would be 42.2% and the total capital ratio would be 43.2%. IFRS 9 transitional arrangements are applied to all transitional and end-point ratios.

	30.06.21 £m	30.06.20 £m	31.12.20 £m
Capital resources			
Common Equity Tier 1 capital	**1,678.2**	1,515.4	1,585.6
Total Tier 1 capital	**1,687.2**	1,533.4	1,603.6
Total Tier 2 capital	**31.0**	22.0	26.9
Total regulatory capital	**1,718.2**	1,555.4	1,630.5
Risk weighted assets	**3,981.0**	4,042.0	3,996.7
Capital and leverage ratios (note 1)			
Common Equity Tier 1 (CET 1) ratio	**42.2%**	37.5%	39.7%
Tier 1 ratio	**42.4%**	37.9%	40.1%
Total capital ratio	**43.2%**	38.5%	40.8%
Leverage ratio	**6.0%**	6.0%	5.7%
UK leverage ratio (note 2)	**6.5%**	6.2%	6.5%

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 consolidation group (subject to some regulatory adjustments). The UK leverage ratios are reported on a CRD V end-point basis with IFRS 9 transitional arrangements applied; under CRD V end-point rules all existing Additional Tier 1 instruments that become ineligible as capital under CRD V 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 is required to manage its capital in accordance with the rules and guidance issued by the PRA under CRD V and the CRR as amended by the onshored provisions within the CRR II regulation (EU) 2019/876 and the CRR 'Quick Fix' package.

The Group completes an Internal Capital Adequacy Assessment Process (ICAAP) at least annually to assess current and projected capital requirements to support the current risks in the business and future risks arising from the corporate plan. The ICAAP addresses all the Group's material risks and includes Board-approved stress scenarios which are intended, as a minimum, to meet regulatory requirements.

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. The amount of MREL that institutions will need to have is linked to the resolution strategy chosen for each firm and is being phased in over a transitional period to 1 January 2023. The Bank of England's preferred resolution strategy for Skipton Building Society is a single point of entry bail-in under Part 1 of the Banking Act 2009.

The Bank of England has issued the Society with a binding requirement of 18% of risk weighted assets for the period 1 January 2020 to 31 December 2021 and the Society has met this requirement comfortably during the reporting period. The issued indicative MREL requirement is also 18% of risk weighted assets from 1 January 2022 to 31 December 2022. From 1 January 2023 we expect the MREL requirement to be equal to 2x (pillar 1 plus pillar 2A capital requirements) based on our interpretation of the Bank of England's consultation paper, '*The Bank of England's review of its approach to* *setting a minimum requirement for own funds and eligible liabilities (MREL)*', published in July 2021. Compliance with MREL is reflected in the Society's corporate plans.

Pillar 3 disclosures

The Group has a policy for complying with Pillar 3 disclosures in line with the European Banking Authority (EBA) guidelines on materiality, proprietary and confidentiality and disclosure frequency.

As at 30 June 2021 the Group's consolidated assets have exceeded the €30 billion threshold as detailed in the EBA's guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 and therefore the Group is required to assess whether to provide certain Pillar 3 disclosures more frequently than annually.

In accordance with Article 433 of the CRR the Group based its assessment mainly on the relevant characteristics of its business such as scale of operations, range of activities, presence in different countries, involvement in different financial sectors, and participation in international financial markets and payment, settlement and clearing systems.

Our assessment concluded that no additional Pillar 3 disclosures are required as at 30 June 2021 given that the Group is considered to have a relatively simple business model, there have not been any material changes to the prudential group since December 2020 and an appropriate level of the additional Pillar 3 disclosures recommended by the EBA are already reported in the Group's half-yearly financial report.

Principal risks and uncertainties

There remains significant uncertainties in assessing the duration of the outbreak of COVID-19 and its long term impact. Although the outlook for the Group and Society is currently positive, the future performance of the Group will be impacted by the performance of the UK economy as the recovery from the pandemic evolves. 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.

At this stage, other than in respect of the acquisition of Countrywide in the period, the Directors do not consider that the principal risks and uncertainties affecting the Group have changed materially since the publication of the 2020 Annual Report and Accounts.

The principal risks categorised in the 2020 Annual Report and Accounts are set out below, with updates provided in relation to the Countrywide acquisition. Our key exposure relates to the loan which the Society advanced to Connells to make the acquisition. The acquisition has to a degree at a gross level, i.e. before the application of the control environment, increased the level of potential conduct and operational risk within our estate agency division. A summary of the key risks faced by the Skipton Group are set out as follows:

- 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 loss allowances in the period have been updated to reflect the latest economic assumptions; refer to note 1d) to the Condensed Consolidated Financial Statements for further details.

  The valuation of the equity release portfolio has also been updated to reflect the latest economic assumptions. Refer to note 1d) 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 throughout the pandemic and is in a much stronger position than previous economic crises. Liquidity is being closely monitored, and the Society is approved to access the Bank of England's TFSME.

- 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 predict that interest rates will be low for a considerable period, which along with increased competition in the mortgage market 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 a 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.

  From January 2022 our IRB models will be subject to material change to ensure that the models remain in line with regulation. Key changes are reflected in an updated version of the PRA's Supervisory Statement SS11/13 and in 2020 the implementation deadline was extended by one year to 2022.

- 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 and are responsible for the investment strategy with advice from professional consultants.

Business Review *(continued)*

Following a joint tendering process between the sponsoring employers and Trustee, BlackRock were appointed as fiduciary manager to set and deliver the investment strategy on behalf of the Trustee. The assets of the Skipton Building Society (2015) Group Pension Scheme and the Connells (2014) Group Pension Scheme transitioned to BlackRock in February 2021. Steps continue to be taken to manage the deficits and, during the first half of the year, total one-off contributions of £40.5m were paid into these two schemes.

Benefits for the membership of the Holmesdale Building Society Pension Scheme were secured outside of the Scheme in June 2021. The Trustee triggered wind-up on 10 June 2021 and the Scheme was terminated with effect from 30 June 2021.

Upon acquisition of Countrywide, Connells has responsibility for the Countrywide pension scheme. The scheme is a well-funded hybrid scheme with 80% of defined benefit section assets invested in matching assets/insurance policies and the scheme is expected to progress towards buy-out in the near future.

- 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.
- Climate change risk is the risk that climate and environmental changes present to our business model. The Group 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 Group will need to be responsive to the evolving nature of this risk.
- 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.
- 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:
  - Change management – the scale and pace of regulatory change has been significant in recent years, which may impact our ability to progress defined business growth strategies. The regulatory horizon is scanned continuously to enable us to respond in a timely manner to mitigation of this risk.
  - 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 and in working from home practices. 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 – market experience has shown that executing IT change has significant risk attached to it and can lead to the loss of core systems and the ability to provide expected levels of customer service. Specialist teams oversee this area and assist first line teams to assess and challenge their operational resilience and ability to deliver a reliable service to our customers.
  - Financial crime – as authorised deposit-takers, the Society and SIL carry the inherent risk of being used for money laundering and fraud. The buying and selling of properties, as undertaken by Connells, is also a known target for money launderers. To manage this risk, customer facing Group businesses maintain financial crime teams which oversee their frameworks to reduce the likelihood of their services being used for the furtherance of crime.
  - GDPR - the extent of the GDPR regulations allied with the ongoing threat of cyber crime (referred to above) has increased the weighting attributed to this area within our risk profile. Whilst protection of our customer data has always been a focus within the Group, the increased extent and detailed requirements of new legislation has seen significant resource and investment dedicated to this area across the Group to build appropriate control frameworks and oversight arrangements. Our focus has been to embed our data culture as a business as usual activity rather than as a series of additional tasks to ensure compliance.

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 72 to 79 of the 2020 Annual Report and Accounts.

Bobby Ndawula

Bobby Ndawula

Group Finance Director

2 August 2021

Condensed Consolidated Income Statement

For the half year ended 30 June 2021

	Notes	**Unaudited 6 months to 30.06.21** £m	Unaudited 6 months to 30.06.20 Re-presented* £m	Audited 12 months to 31.12.20 £m
Interest receivable and similar income:				
Accounted for using the effective interest rate method	3	**221.4**	228.5	441.7
Other	3	**(2.3)**	(0.2)	(2.1)
Total interest receivable and similar income		**219.1**	228.3	439.6
Interest payable and similar charges	4	**(81.4)**	(117.1)	(201.7)
Net interest receivable		**137.7**	111.2	237.9
Fees and commissions receivable	5	**501.3**	185.8	420.8
Fees and commissions payable		**(5.0)**	(3.5)	(7.3)
Fair value (losses) / gains on financial instruments mandatorily held at FVTPL:				
Hedging instruments and hedged items		**(2.1)**	0.5	(0.1)
Derivatives associated with the equity release portfolio	12	**24.9**	(28.0)	(22.4)
Equity release portfolio	12	**(18.6)**	17.6	19.7
Share warrants		**1.1**	(0.6)	0.1
Put options held by minority shareholders		**(0.9)**	0.4	(0.3)
Equity share investments		**2.2**	-	0.1
Fair value gains on step-acquisition of Group undertakings		**26.9**	-	-
Realised profits on treasury assets held at FVOCI		**0.1**	-	0.6
Profit on disposal of subsidiary undertakings		**0.3**	0.5	0.8
Share of profits from joint ventures		**0.9**	0.6	3.4
Other income		**1.3**	2.8	1.0
Total income		**670.1**	287.3	654.3
Administrative expenses	6	**(525.6)**	(230.6)	(506.3)
Operating profit before impairment and provisions		**144.5**	56.7	148.0
Impairment credit / (losses) on loans and advances to customers	7	**14.8**	(19.1)	(25.7)
Impairment credit / (losses) on liquid assets		**0.1**	0.1	(0.1)
Impairment of goodwill		**-**	(2.0)	(2.0)
Impairment of joint ventures		**-**	(1.0)	(1.5)
Realised losses on equity release portfolio	12	**(0.2)**	-	(0.1)
Provisions for liabilities	9	**-**	(0.3)	0.2
Profit before tax		**159.2**	34.4	118.8
Tax expense		**(25.7)**	(6.4)	(21.8)
Profit for the period		**133.5**	28.0	97.0
Profit for the period attributable to:				
Members of Skipton Building Society		**133.4**	28.0	97.0
Non-controlling interests		**0.1**	-	-
		133.5	28.0	97.0

* The 30 June 2020 comparative amounts for 'Fees and commissions receivable' and 'Provisions for liabilities' have been re-presented. There is no impact on overall profit and no impact on reserves (see note 5 for further details).

Segmental performance of the Group is shown in note 20.

The notes on pages 26 to 64 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 2021

	Unaudited 6 months to 30.06.21 £m	Unaudited 6 months to 30.06.20 £m	Audited 12 months to 31.12.20 £m
Profit for the period	**133.5**	28.0	97.0
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement gains / (losses) on defined benefit obligations	**15.9**	(28.8)	(22.7)
Income tax on items that will not be reclassified to profit or loss	**(0.3)**	8.5	7.1
	15.6	(20.3)	(15.6)
Items that may be reclassified subsequently to profit or loss:			
Movement in cash flow hedging reserve:			
Gains / (losses) taken to equity	**13.9**	(10.6)	(12.9)
Realised gains transferred to Income Statement	**(0.1)**	(2.7)	(3.2)
Movement in fair value reserve (debt securities):			
Gains taken to equity	**2.1**	0.9	4.6
Impairment loss allowance on debt securities held at FVOCI	**-**	-	(0.1)
Movement in cost of hedging reserve:			
Gains taken to equity	**0.5**	3.1	0.9
Exchange differences on translation of foreign operations	**(0.3)**	0.3	0.4
Income tax on items that may be reclassified to profit or loss	**(4.2)**	2.7	2.4
	11.9	(6.3)	(7.9)
Other comprehensive income / (expense) for the period, net of tax	**27.5**	(26.6)	(23.5)
Total comprehensive income for the period	**161.0**	1.4	73.5
Total comprehensive income attributable to:			
Members of Skipton Building Society	**160.9**	1.4	73.5
Non-controlling interests	**0.1**	-	-
	161.0	1.4	73.5

The notes on pages 26 to 64 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	**Unaudited as at 30.06.21 £m**	Unaudited as at 30.06.20 £m	Audited as at 31.12.20 £m
Assets				
Cash in hand and balances with the Bank of England		**2,286.9**	819.8	3,237.8
Loans and advances to credit institutions		**593.3**	729.5	724.7
Debt securities	8	**1,999.4**	2,439.7	1,505.0
Derivative financial instruments		**78.2**	90.3	64.1
Loans and advances to customers held at amortised cost	11	**22,722.1**	21,155.0	21,865.0
Loans and advances to customers held at FVTPL		**1.2**	1.3	1.3
Equity release portfolio held at FVTPL	12	**414.5**	430.6	433.8
Current tax asset		**-**	0.5	-
Deferred tax asset		**46.1**	48.8	46.4
Investments in joint ventures		**9.1**	12.1	13.3
Equity share investments		**1.5**	1.5	1.7
Assets held for sale	13	**106.4**	-	-
Property, plant and equipment		**75.9**	75.5	72.5
Right-of-use assets		**101.0**	63.8	60.9
Investment property		**7.8**	9.3	8.1
Intangible assets	14	**361.9**	159.5	157.7
Retirement benefit surplus		**0.5**	-	-
Other assets		**167.0**	67.4	71.1
Total assets		**28,972.8**	26,104.6	28,263.4
Liabilities				
Shares		**19,432.2**	17,645.1	18,709.4
Amounts owed to credit institutions		**2,066.0**	1,313.5	2,149.2
Amounts owed to other customers		**2,126.9**	1,857.8	2,130.3
Debt securities in issue	15	**2,293.2**	2,813.5	2,452.5
Derivative financial instruments		**342.0**	514.3	445.9
Current tax liability		**5.3**	4.2	4.0
Lease liabilities		**124.9**	63.9	62.5
Other liabilities		**110.8**	52.6	50.9
Accruals		**90.5**	26.7	42.9
Deferred income		**4.6**	2.0	2.3
Provisions for liabilities	9	**36.9**	20.7	18.9
Deferred tax liability		**0.2**	2.1	1.2
Liabilities directly associated with assets held for sale	13	**16.6**	-	-
Retirement benefit obligations		**39.0**	113.0	96.4
Subordinated liabilities		**343.8**	-	349.7
Subscribed capital		**41.6**	41.6	41.6
Total liabilities		**27,074.5**	24,471.0	26,557.7
Members' interests				
General reserve		**1,863.9**	1,641.6	1,715.3
Fair value reserve		**5.2**	2.1	4.1
Cash flow hedging reserve		**(4.6)**	(13.0)	(15.1)
Cost of hedging reserve		**(2.9)**	(1.9)	(3.5)
Translation reserve		**4.6**	4.8	4.9
Attributable to members of Skipton Building Society		**1,866.2**	1,633.6	1,705.7
Non-controlling interests		**32.1**	-	-
Total members' interests		**1,898.3**	1,633.6	1,705.7
Total members' interests and liabilities		**28,972.8**	26,104.6	28,263.4

The notes on pages 26 to 64 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 2021

	General reserve £m	Fair value reserve £m	Cash flow hedging reserve £m	Cost of hedging reserve £m	Translation reserve £m	Sub Total £m	Non-controlling interests £m	Total £m
Balance at 1 January 2021	**1,715.3**	**4.1**	**(15.1)**	**(3.5)**	**4.9**	**1,705.7**	**-**	**1,705.7**
Profit for the period	133.4	-	-	-	-	**133.4**	0.1	**133.5**
Other comprehensive income:								
Remeasurement gains on defined benefit obligations	15.6	-	-	-	-	**15.6**	-	**15.6**
Net gains from changes in fair value	-	1.1	10.6	0.6	-	**12.3**	-	**12.3**
Cash flow hedges: realised gains transferred to Income Statement	-	-	(0.1)	-	-	**(0.1)**	-	**(0.1)**
Exchange differences on translation of foreign operations	-	-	-	-	(0.3)	**(0.3)**	-	**(0.3)**
Total other comprehensive income	**15.6**	**1.1**	**10.5**	**0.6**	**(0.3)**	**27.5**	**-**	**27.5**
Total comprehensive income for the period	**149.0**	**1.1**	**10.5**	**0.6**	**(0.3)**	**160.9**	**0.1**	**161.0**
Non-controlling interests arising on recognition of subsidiary undertakings with less than 100% ownership	-	-	-	-	-	**-**	32.2	**32.2**
Acquisition of non-controlling interests without change in control	(0.4)	-	-	-	-	**(0.4)**	(0.2)	**(0.6)**
Balance at 30 June 2021	**1,863.9**	**5.2**	**(4.6)**	**(2.9)**	**4.6**	**1,866.2**	**32.1**	**1,898.3**

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

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

Audited for the year ended 31 December 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 year	97.0	-	-	-	-	97.0
Other comprehensive income:						
Remeasurement losses on defined benefit obligations	(15.6)	-	-	-	-	(15.6)
Net gains / (losses) from changes in fair value	-	2.8	(9.2)	0.8	-	(5.6)
Debt securities at FVOCI: impairment loss allowance	-	(0.1)	-	-	-	(0.1)
Cash flow hedges: realised gains transferred to Income Statement	-	-	(2.6)	-	-	(2.6)
Exchange differences on translation of foreign operations	-	-	-	-	0.4	0.4
Total other comprehensive income	(15.6)	2.7	(11.8)	0.8	0.4	(23.5)
Total comprehensive income for the year	81.4	2.7	(11.8)	0.8	0.4	73.5
Balance at 31 December 2020	1,715.3	4.1	(15.1)	(3.5)	4.9	1,705.7

The notes on pages 26 to 64 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 2021

	Notes	**Unaudited 6 months to 30.06.21 £m**	Unaudited 6 months to 30.06.20 £m	Audited 12 months to 31.12.20 £m
Cash flows from operating activities				
Profit before tax		**159.2**	34.4	118.8
Adjustments for:				
Impairment (credit) / charge on loans and advances to customers	7	**(14.8)**	19.1	25.7
Loans and advances written off, net of recoveries		**(0.7)**	(0.1)	(0.7)
Impairment (credit) / losses on liquid assets		**(0.1)**	(0.1)	0.1
Impairment losses on trade receivables		**-**	0.4	0.9
Impairment of goodwill	14	**-**	2.0	2.0
Impairment of joint ventures		**-**	1.0	1.5
Depreciation and amortisation		**63.8**	18.9	38.1
Impairment of property, plant and equipment, right-of-use assets and investment property		**0.1**	-	2.6
Income Statement charge / (credit) for fair value of subsidiary management incentive scheme liability		**8.1**	(0.4)	1.2
Fair value gains on equity share investments		**(2.2)**	-	(0.1)
Interest on subordinated liabilities and subscribed capital	4	**5.8**	2.2	6.3
Interest on lease liabilities	4	**0.8**	0.6	1.3
Loss on disposal of property, plant and equipment, investment property and intangible assets		**-**	-	0.5
Profit on disposal of treasury assets		**(0.1)**	-	(0.6)
Share of profits from joint ventures		**(0.9)**	(0.6)	(3.4)
Profit on disposal of subsidiary undertakings		**(0.3)**	(0.5)	(0.8)
Fair value losses / (gains) on equity release portfolio	12	**18.6**	(17.6)	(19.7)
Fair value gains on step-acquisition of Group undertakings		**(26.9)**	-	-
Fair value (gains) / losses on share warrants		**(1.1)**	0.6	(0.1)
Realised losses on equity release portfolio	12	**0.2**	-	0.1
Other non-cash movements		**(24.5)**	(13.2)	(20.0)
		185.0	46.7	153.7
Changes in operating assets and liabilities:				
Net movement in prepayments and accrued income		**(21.1)**	2.2	5.8
Net movement in accruals and deferred income		**(2.9)**	(41.4)	(35.1)
Net movement in provisions for liabilities		**(1.2)**	(3.0)	(4.8)
Net movement in fair value of derivatives		**(118.0)**	101.4	59.2
Net movement in fair value adjustments for hedged risk		**102.8**	(110.8)	(39.6)
Fair value movements in debt securities	8	**16.3**	(12.4)	(14.7)
Net movement in loans and advances to customers		**(961.5)**	(936.7)	(1,725.7)
Net movement in shares		**750.2**	267.4	1,376.3
Net movement in amounts owed to credit institutions and other customers		**(85.2)**	(323.3)	785.7
Repayment of amounts owed to credit institutions acquired on purchase of subsidiary undertaking	1b)	**(94.0)**	-	-
Net movement in debt securities in issue		**(116.8)**	490.4	97.7
Net movement in loans and advances to credit institutions		**134.7**	(189.3)	(152.5)
Net movement in other assets		**(2.7)**	5.9	1.3
Net movement in other liabilities		**(65.5)**	(2.1)	(15.6)
Income taxes paid		**(26.6)**	(16.5)	(31.7)
Net cash flows from operating activities		**(306.5)**	(721.5)	460.0

Condensed Consolidated Statement of Cash Flows *(continued)*

For the half year ended 30 June 2021

	Notes	**Unaudited 6 months to 30.06.21 £m**	Unaudited 6 months to 30.06.20 £m	Audited 12 months to 31.12.20 £m
Net cash flows from operating activities		**(306.5)**	(721.5)	460.0
Cash flows from investing activities				
Purchase of debt securities	8	**(776.9)**	(1,507.4)	(2,414.6)
Proceeds from maturities and disposals of debt securities		**266.3**	1,263.0	3,108.2
Purchase of property, plant and equipment and investment property		**(5.0)**	(6.2)	(11.6)
Purchase of intangible assets		**(3.1)**	(2.0)	(3.9)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		**1.4**	0.5	0.9
Dividends received from joint ventures		**2.1**	-	1.1
Contingent consideration received following disposal of subsidiary		**6.4**	6.4	6.4
Purchase of subsidiary undertakings in the period, net of cash acquired		**(121.8)**	-	-
Investment in equity share investments		**(0.1)**	-	(0.1)
Purchase of other business units		**(0.2)**	(1.2)	(1.3)
Proceeds from disposal of associate		**7.8**	-	-
Net cash flows from investing activities		**(623.1)**	(246.9)	685.1
Cash flows from financing activities				
Exercise of share options in subsidiary management incentive scheme		**(0.8)**	(0.6)	(0.6)
Purchase of non-controlling interests		**(0.6)**	-	-
Proceeds from issue of subordinated liabilities		**-**	-	348.6
Interest paid on subordinated liabilities and subscribed capital		**(5.8)**	(2.2)	(4.6)
Interest paid on lease liabilities		**(0.8)**	(0.6)	(1.3)
Payment of lease liabilities		**(20.8)**	(7.7)	(16.3)
Net cash flows from financing activities		**(28.8)**	(11.1)	325.8
Net (decrease) / increase in cash and cash equivalents		**(958.4)**	(979.5)	1,470.9
Cash and cash equivalents at 1 January		**3,315.8**	1,845.1	1,845.1
Decrease / (increase) in impairment loss allowance on cash and cash equivalents		**0.1**	0.2	(0.2)
Cash and cash equivalents at end of period		**2,357.5**	865.8	3,315.8

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

	Unaudited as at 30.06.21 £m	Unaudited as at 30.06.20 £m	Audited as at 31.12.20 £m
Cash in hand and balances with the Bank of England	**2,286.9**	819.8	3,237.8
Mandatory reserve deposit with the Bank of England	**(81.1)**	(65.7)	(71.9)
	2,205.8	754.1	3,165.9
Loans and advances to credit institutions	**151.7**	111.7	149.9
Cash and cash equivalents at end of period	**2,357.5**	865.8	3,315.8

The notes on pages 26 to 64 form an integral part of this condensed consolidated half-yearly financial report.

1. Introduction

These financial statements show the financial performance of the Group for the half year ended 30 June 2021 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 contained in UK-adopted international accounting standards, and should be read in conjunction with the Group's latest annual financial statements for the year ended 31 December 2020.

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 Accounting Standards in conformity with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 that are applicable and, as regards the Group financial statements, International Financial Reporting Standards (IFRS) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

On 8 March 2021, Connells Limited, a subsidiary of the Group, acquired the entire issued share capital of Countrywide plc (now Countrywide Limited). These financial statements include the results of Countrywide from the date of acquisition.

b) Acquisition of Countrywide

On 8 March 2021, Connells acquired the entire issued share capital of Countrywide for £3.95 per share for total cash consideration of £131.8m.

The table below sets out the provisional fair values of the identifiable assets and liabilities acquired. In accordance with IFRS 3 *Business Combinations*, the acquisition accounting is subject to finalisation within 12 months of the acquisition date.

	Book value at 8 March 2021	Fair value adjustments	Accounting policy adjustments	Fair value at 8 March 2021
	£m	£m	£m	£m
Assets				
Loans and advances to credit institutions (note 1)	21.5	-	-	**21.5**
Trade and other receivables	77.5	3.7	(1.6)	**79.6**
Property, plant and equipment (note 2)	45.4	14.6	(8.6)	**51.4**
Intangible assets (note 3)	56.9	115.0	(10.5)	**161.4**
Investments (notes 4 to 6)	3.3	31.6	-	**34.9**
Deferred tax assets (note 7)	20.4	10.6	3.9	**34.9**
Total assets	225.0	175.5	(16.8)	**383.7**
Liabilities				
Trade and other payables	109.2	0.5	-	**109.7**
Corporation tax	1.3	-	-	**1.3**
Provisions	19.2	-	-	**19.2**
Amounts owed to credit institutions (note 8)	94.0	-	-	**94.0**
Deferred tax liabilities (note 9)	8.5	22.4	-	**30.9**
Retirement benefit obligations	0.9	(0.8)	-	**0.1**
Other liabilities	1.8	-	-	**1.8**
Lease liabilities (note 10)	65.7	10.7	-	**76.4**
Total liabilities	300.6	32.8	-	**333.4**
Net assets / (liabilities)	(75.6)	142.7	(16.8)	**50.3**

Fair value of net assets acquired	**50.3**
Goodwill arising on acquisition	**81.5**
Total consideration	**131.8**

Notes

1. With respect to 'Loans and advances to credit institutions', amounts acquired on 8 March 2021 of £21.5m includes cash and cash equivalents of £10.8m.
2. The fair value adjustment of £14.6m relates to right-of-use assets (see note 10 below). The accounting policy adjustment of £(8.6)m is to align with the Group's existing capitalisation policies.

1. Introduction *(continued)*

3. The total fair value of intangible assets represents amounts in respect of brands £54.7m, sales pipeline £28.4m, customer contracts and relationships £74.5m and computer software £3.8m. The fair value adjustments totalling £115.0m reflect management's assessments, using methodologies that are in line with industry best practice. The accounting policy adjustment of £(10.5)m is to align with the Group's existing capitalisation policy for computer software. Brands are judged by management to have an indefinite life; the amounts in respect of other intangibles will be amortised on a straight line basis over periods of up to five years (sales pipeline: less than one year; customer contracts and relationships: one to five years; computer software: three to five years).
4. The book value of investments acquired includes £3.2m in respect of Countrywide's 33.3% shareholding as at 8 March 2021 in TM Group (UK) Limited (TMG). This investment was deemed to have a fair value at that date of £29.3m, based on sale proceeds which the Group subsequently received on disposal of this investment; a fair value adjustment of £26.1m is therefore recognised at acquisition. In addition, Connells separately held an existing 33.3% shareholding in TMG; prior to 8 March 2021, the Group accounted for this investment as a joint venture using the equity accounting method. Immediately following the acquisition of Countrywide on 8 March 2021, the Group held a combined shareholding in TMG of 66.6%; management judged that control of TMG was acquired by the Group with effect from that date such that TMG became a subsidiary undertaking. The acquisition of TMG as a subsidiary undertaking was achieved in stages (a 'step-acquisition') and, in accordance with IFRS 3 *Business Combinations*, the Group remeasured its previously held 33.3% shareholding in TMG to fair value as at 8 March 2021; the Group assessed this fair value to be £29.3m, based on sale proceeds which the Group subsequently received on disposal of this investment, and the resulting gain of £27.1m is recognised in the Income Statement for the period (included within the line item 'Fair value gains on step-acquisition of Group undertakings'). Also on 8 March 2021, the Group disposed of a 1.9% shareholding in TMG for sale proceeds of £0.6m; the cash proceeds for this disposal were received in July 2021 and are therefore included within 'other receivables' as at 30 June 2021. On 8 July 2021, the Group disposed of its remaining 64.7% shareholding in TMG for sale proceeds of £58.0m (see note 13 to the Accounts).
5. The book value of investments acquired also includes £0.1m in respect of Countrywide's 15.4% shareholding as at 8 March 2021 in Vibrant Energy Matters Limited (VEM). This investment was deemed to have a fair value at that date of £0.3m; a fair value adjustment of £0.2m is therefore recognised at acquisition. In addition, Connells separately held an existing 46.1% shareholding in VEM; prior to 8 March 2021, the Group accounted for this investment as a joint venture using the equity accounting method. Following the acquisition of Countrywide, the Group held a combined shareholding in VEM of 61.5% as at 8 March 2021; management judged that control of VEM was acquired by the Group with effect from that date such that VEM became a subsidiary undertaking. The acquisition of VEM as a subsidiary undertaking was achieved in stages and, in accordance with IFRS 3 *Business Combinations*, the Group remeasured its previously held 46.1% shareholding in VEM to fair value as at 8 March 2021; the Group assessed this fair value to be £0.5m and the resulting loss of £0.2m is recognised in the Income Statement for the period (included within the line item 'Fair value gains on step-acquisition of Group undertakings'). On 24 June 2021, the Group acquired a further 12.6% shareholding in VEM for cash consideration of £0.6m. As at 30 June 2021 the Group held a 74.1% shareholding in VEM.
6. The fair value of investments includes £5.1m in respect of Countrywide's equity share investment as at 8 March 2021 in Tactile Limited (trading as Fixflo), which was disposed of by the Group on 21 May 2021 for sale proceeds of £5.1m. The book value of this investment as at 8 March 2021 was £nil and therefore a fair value adjustment of £5.1m is recognised at acquisition to reflect the amount subsequently received on disposal. In addition, Connells separately held an existing shareholding in Fixflo which was also disposed of by the Group on 21 May 2021 for sale proceeds of £2.7m; total sale proceeds received by the Group for its combined shareholding in Fixflo were therefore £7.8m.
7. At 8 March 2021 Countrywide had unused tax losses of £64.4m for which the related deferred tax assets had not been recognised; Countrywide had not recognised these assets due to uncertainties regarding the entity's future profitability. Management's latest trading forecasts indicate it is likely that the tax losses could be utilised within three to five years. A fair value adjustment is therefore made to recognise deferred tax assets of £12.2m in respect of these tax losses. In addition, there are further fair value adjustments of £(1.6)m that relate to several minor items, taking the total to £10.6m as shown above. The accounting policy adjustment of £3.9m relates to the deferred tax impacts of the other accounting policy adjustments shown in the table above.
8. Amounts owed to credit institutions consist of £1.0m of non-interest bearing loans and a £93.0m rolling credit facility.
9. The fair value adjustment of £22.4m relates to the deferred tax impact of amounts recognised at acquisition in respect of intangible assets (see note 3 above).
10. The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition, resulting in a fair value adjustment to increase lease liabilities by £10.7m. The related right-of-use assets were measured at an amount equal to the lease liabilities, adjusted for favourable/unfavourable lease terms relative to market terms, and impairment was assessed by reference to branch-level cash generating units; this resulted in fair value adjustments to increase right-of-use assets by £14.6m (per note 2 above).

At the acquisition date, the contractual amount outstanding of trade and other receivables was £83.1m; the best estimate of amounts not expected to be collected was £3.5m. The goodwill arising on the acquisition of Countrywide is mainly attributable to expected cash flows from new customers and significant synergies which are expected to be realised. The goodwill arising on acquisition is not expected to be deductible for tax purposes.

From the date of acquisition, the acquired Countrywide business contributed total income of £214.3m and profit before tax of £35.9m to the Skipton Group's consolidated Income Statement for the period ended 30 June 2021; these amounts exclude the impact of Group-level items relating to this acquisition, including an accounting adjustment to charge £38.3m of amortisation during the period against intangible assets recognised on acquisition. If the results of Countrywide were consolidated for the full six-month period, as if the acquisition had taken place at 1 January 2021, the Skipton Group's total income for the period ended 30 June 2021 would have been £774.4m and Skipton Group profit before tax for the period ended 30 June 2021 would have been £155.3m; these amounts have been determined assuming all other things being equal, including an assumption that the fair values of assets acquired would not be materially different if the acquisition date had been 1 January 2021.

Transaction costs of £2.8m were incurred by the Group in 2021 in relation to the acquisition. These costs were expensed to the Income Statement as incurred and are included within 'Administrative expenses'.

1. Introduction *(continued)*

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

There have been no changes to significant accounting policies within the period; however, the policies set out below have been applied in the period.

Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification are regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Non-current assets (or disposal groups) acquired exclusively with a view to their subsequent disposal are classified as held for sale at the acquisition date only if the one-year requirement is met (with limited exceptions) and it is highly probable that any other criteria not met at that date will be met within a short period following acquisition (usually within three months).

Newly acquired assets (or disposal groups) that meet the criteria to be classified as held for sale at the acquisition date shall, if acquired as part of a business combination, be measured at fair value less costs to sell. Otherwise, non-current assets (or disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expenses.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately within the Statement of Financial Position.

Software as a service (SaaS)

A SaaS arrangement is a type of cloud computing arrangement, in which the supplier provides the customer with access to application software residing on the supplier's cloud infrastructure; this infrastructure typically comprises a collection of hardware and software, including networks, servers, operating systems and storage. SaaS arrangements can include other services, such as technical support, implementation, data migration, business process mapping, training and project management. The customer typically pays an all-inclusive fee on a periodic basis. In addition, implementation costs may be incurred at inception of the arrangement.

Where the Group enters into a SaaS arrangement, the Group recognises a software asset only if such an asset is received at commencement of the arrangement, either in the form of an intangible asset or a software lease, and only from the date on which the Group obtains control of the software; otherwise, the arrangement is accounted for as a service contract.

When accounting for a SaaS arrangement as a service contract, fees paid by the Group are prepaid and amortised on a systematic basis over the period to which they relate. Subject to the terms of the arrangement, implementation costs associated with configuration and customisation of the software may also, where appropriate, be prepaid over the period to which they relate. All other costs associated with implementation, including internal time and resources, are expensed to the Income Statement as incurred.

Fees and commissions – commercial property services

Following the acquisition of Countrywide, the Group generates income from commercial property services, including consultancy and advisory services, property management and valuation services. Income is recognised either at a point in time when services have been fully provided, or over a period of time as activity progresses and reflecting the satisfaction of performance obligations. Under certain service contracts, the Group manages client expenditure and is obliged to purchase goods and services from suppliers that are recharged to the customer at cost; such items are excluded from the amounts reported by the Group for revenue and for expenses.

Prior period adjustments

As described in note 5, the Group's 30 June 2020 comparative amounts for 'Fees and commissions receivable' and 'Provisions for liabilities' within the Income Statement have been re-presented to show certain items on a net basis; this revised presentation more fairly reflects the substance of the arrangements. This reclassification is presentational only; there is no impact on profits and no impact on reserves.

d) Critical accounting estimates and judgements in applying accounting policies

Note 1u) to the 2020 Annual Report and Accounts sets out the key estimates, assumptions and judgements made by the Group which affect the amounts recognised in the financial statements. Updated information for certain key estimates and judgements is set out below.

1. Introduction *(continued)*

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 significant increase in credit risk 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 revised the 'medium risk' threshold applied by the Group. Details of this change, which does not materially impact these consolidated financial statements, are shown below:

Lifetime PD band at initial recognition	**Multiple by which remaining lifetime PD has increased compared to initial estimate**		
	Unaudited Applied at 30.06.21	Unaudited Applied at 30.06.20	Audited Applied at 31.12.20
Slight risk	initial estimate x 8	initial estimate x 8	initial estimate x 8
Low risk	initial estimate x 5	initial estimate x 5	initial estimate x 5
Medium risk	initial estimate x 3	initial estimate x 2.6	initial estimate x 2.6
High risk	initial estimate x 1	initial estimate x 1	initial estimate x 1

The Group also makes 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.

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 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 central scenario represents a view of the most likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. In addition, the Group incorporates an upside scenario (representing a more optimistic view than the central scenario) and a downside scenario (representing a more pessimistic view than the central scenario); 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.

The scenarios applied by the Group as at 30 June 2021 were determined with due consideration to the continued economic uncertainty surrounding the COVID-19 pandemic.

The Group's central scenario assumes increased economic activity as the UK emerges from COVID-19 restrictions and GDP recovers at a steady rate. Unemployment rises moderately as the government's furlough support is unwound, peaking in late 2022, then slowly recovers from 2023. House prices continue to rise as government-backed mortgages help maintain demand, but with slower growth from 2022 onwards.

The Group's upside scenario assumes a swift and strong bounce-back from COVID-19's economic impacts. Whilst unemployment does increase, government support measures preserve many jobs. Inflation rises above government targets and average earnings also increase; the Bank of England responds by increasing interest rates.

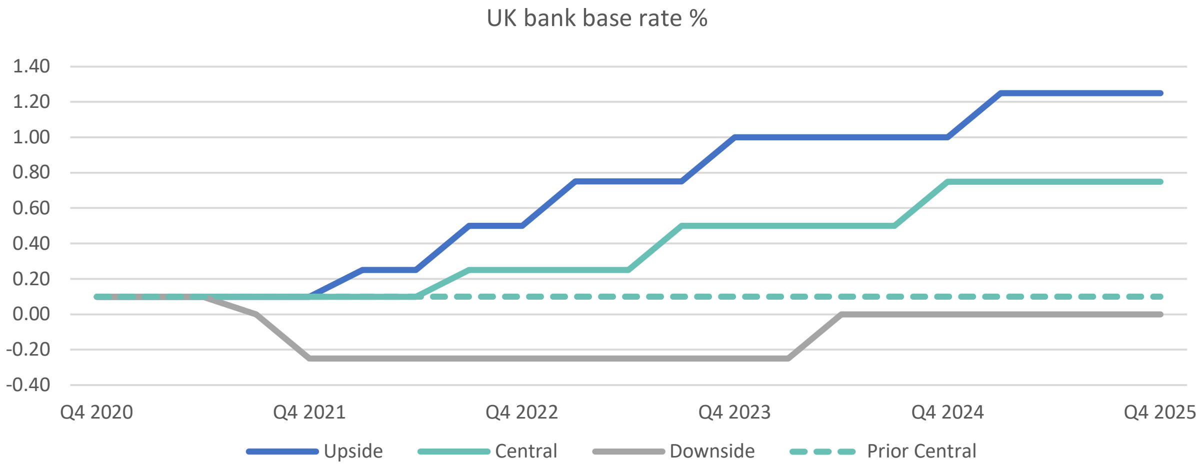
The Group's downside scenario assumes prolonged severe economic disruption as a result of COVID-19, with current vaccines proving ineffective against new variants and legal restrictions being extended. Government support to the housing and labour markets is scaled back, leading to sharp rises in unemployment and a profound effect on the housing market with house prices slumping by a cumulative 19.5% over the period to the second quarter of 2023.

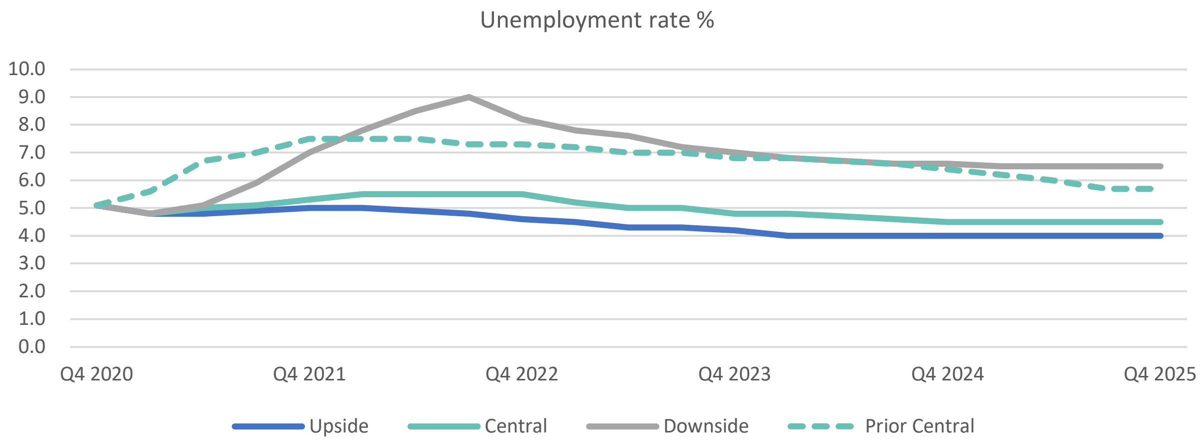
The key economic variables considered by the Group when developing the forecast scenarios are set out below for the first five years of each of the Group's scenarios. For years six to ten the Group applies phased transition assumptions, arriving at a view of long-run averages from year eleven onwards; the Group's view of long-run averages can differ from the historical long-term mean and is derived by reference to both external information, where this is publicly available and appropriate, and internally generated views. As noted above, the assumptions assigned to each scenario have been revised during the period taking account of the significant ongoing economic uncertainties surrounding COVID-19.

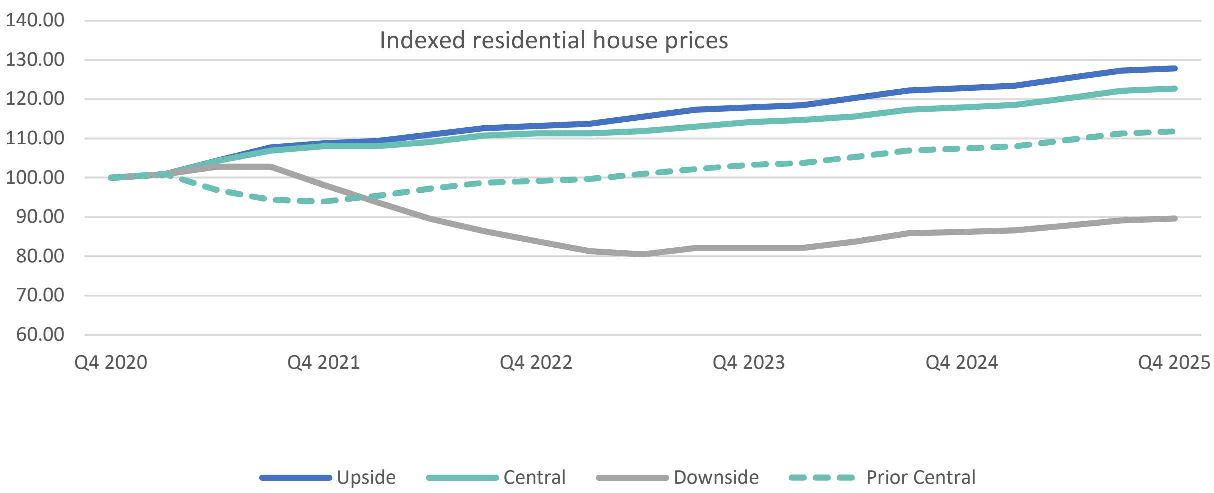
The graphs below show the historical and forecasted bank base rate, unemployment rate and indexed residential house prices for the Group's three economic scenarios along with the prior year central scenario (as forecasted at 31 December 2020) for context. The indexed residential house price graph uses a starting value of 100 in the fourth quarter of 2020 for illustrative purposes to show how a property value moves over time when the annual house price inflation (UK) assumptions are applied:

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

1. Introduction *(continued)*







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

1. Introduction *(continued)*

Economic variables (annual rate (where applicable))		**Unaudited as at 30.06.21**				
	Scenario	**2021**	**2022**	**2023**	**2024**	**2025**
Bank of England base rate (%) (note 1)	Upside	**0.10**	**0.50**	**1.00**	**1.00**	**1.25**
	Central	**0.10**	**0.25**	**0.50**	**0.75**	**0.75**
	Downside	**(0.25)**	**(0.25)**	**(0.25)**	**0.00**	**0.00**
Unemployment (%) (note 1)	Upside	**5.0**	**4.6**	**4.2**	**4.0**	**4.0**
	Central	**5.3**	**5.5**	**4.8**	**4.5**	**4.5**
	Downside	**7.0**	**8.2**	**7.0**	**6.6**	**6.5**
House price inflation (UK) (%) (note 2)	Upside	**8.7**	**4.1**	**4.2**	**4.2**	**4.2**
	Central	**8.0**	**3.0**	**2.5**	**3.3**	**4.1**
	Downside	**(1.8)**	**(14.6)**	**(2.0)**	**5.0**	**4.0**
Commercial property price growth (%) (note 2)	Upside	**0.0**	**2.0**	**2.0**	**2.0**	**2.0**
	Central	**(8.2)**	**(7.1)**	**0.0**	**0.0**	**0.0**
	Downside	**(11.2)**	**(11.2)**	**0.0**	**0.0**	**0.0**

		Unaudited as at 30.06.20				
	Scenario	2020	2021	2022	2023	2024
Bank of England base rate (%) (note 1)	Upside	0.10	0.25	0.50	0.75	1.00
	Central	0.10	0.10	0.10	0.10	0.10
	Downside	0.10	0.00	0.00	0.10	0.10
Unemployment (%) (note 1)	Upside	6.5	5.0	4.6	4.5	4.5
	Central	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
	Central	(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
	Central	(6.6)	(6.0)	0.0	0.0	0.0
	Downside	(15.3)	(12.0)	0.0	0.0	0.0

		Audited as at 31.12.20				
	Scenario	2021	2022	2023	2024	2025
Bank of England base rate (%) (note 1)	Upside	0.10	0.25	0.50	0.50	0.75
	Central	0.10	0.10	0.10	0.10	0.10
	Downside	(0.50)	(0.50)	(0.50)	(0.25)	0.00
Unemployment (%) (note 1)	Upside	5.0	4.8	4.5	4.5	4.5
	Central	7.5	7.3	6.8	6.4	5.7
	Downside	10.0	10.7	9.4	8.0	7.0
House price inflation (UK) (%) (note 2)	Upside	1.0	4.1	4.2	4.2	4.2
	Central	(6.0)	5.6	4.1	4.1	4.1
	Downside	(15.1)	(6.6)	6.1	5.0	4.0
Commercial property price growth (%) (note 2)	Upside	0.0	2.0	2.0	2.0	2.0
	Central	(15.6)	(4.0)	0.0	0.0	0.0
	Downside	(23.3)	(7.5)	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.

1. Introduction *(continued)*

Economic variables (from reporting date to peak or trough over 5 year forecast period)

	Scenario	Unaudited as at 30.06.21	Unaudited as at 30.06.20	Audited as at 31.12.20
Bank of England base rate (%) (note 1)	Upside	**0.10 / 1.25**	0.10 / 1.00	0.10 / 0.75
	Central	**0.10 / 0.75**	0.10	0.10
	Downside	**(0.25) / 0.10**	0.00 / 0.10	(0.50) / 0.10
Unemployment (%) (note 2)	Upside	**5.0**	6.5	6.5
	Central	**5.5**	9.0	7.5
	Downside	**9.0**	11.5	11.0
House price inflation (UK) (%) (note 3)	Upside	**27.9 / 0.0**	19.9 / (0.1)	18.7 / (1.0)
	Central	**22.7 / 0.0**	9.0 / (5.9)	11.8 / (6.0)
	Downside	**2.8 / (19.5)**	1.5 / (20.0)	0.0 / (21.9)
Commercial property price growth (%) (note 3)	Upside	**8.2 / 0.0**	8.2 / 0.0	8.2 / 0.0
	Central	**0.0 / (14.7)**	0.0 / (12.2)	0.0 / (19.0)
	Downside	**0.0 / (21.2)**	0.0 / (25.5)	0.0 / (29.0)

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 downside scenario for example, the peak is assumed to occur in Q3 2022, which is therefore higher than the 2022 year-end position shown in the table above.
3. House price inflation and commercial property price growth are shown as the largest cumulative growth / fall from 1 January 2021 (30 June 2020: from 1 January 2020; 31 December 2020: from 1 January 2021) over the 5 year forecast period.

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 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 2021 are 60% for the central scenario, 15% for the upside scenario and 25% for the downside scenario (30 June 2020: central scenario 60%, upside scenario 5%, downside scenario 35%; 31 December 2020: central scenario 55%, upside scenario 5%, 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 can be volatile; this is due to the inherent uncertainty when incorporating forward-looking information. 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).

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 Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). ECLs are measured by multiplying together the PD, EAD and LGD, and are discounted using the loan's original effective interest rate. EAD is derived by adjusting the current outstanding loan amount for expected cashflows to the date of default. LGD is estimated on a discounted cash flow basis using the effective interest rate. The Group's LGD models consider factors including historical recovery rates and possible future property price changes.

Management assesses the performance of the Group's ECL estimation process by comparison of actual and expected credit losses over a 12 month outcome; as IFRS 9 has been effective only since 2018, there is currently limited experience available for the Group to back-test predicted lifetime ECLs against actual results. Additional assurance is gained from validation of the composite sub-models. The ECL calculation is subject to formal quarterly monitoring, with outputs reported to the Society's Model Governance Committee for review, challenge and approval. In addition, the ECL calculation and all sub-components are subject to regular first-line review and independent validation. Where necessary, post model adjustments (PMAs) are included within ECLs to reflect identified risks not captured in model outputs; each material PMA is subject to review and challenge by the Society's Loan Impairment Working Group, subject to approval by the Group Finance Director and subject to oversight by the Board Audit Committee.

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

1. Introduction *(continued)*

With respect to residential mortgages, the Group held total PMAs as at 30 June 2021 of £3.2m (30 June 2020: £6.3m; 31 December 2020: £9.3m). In accordance with regulatory guidance, payment deferrals granted in response to COVID-19 are not automatically recorded as forbearance cases and do not automatically impact the reported staging of loans except where credit risk is judged to have significantly increased since the loan was initially recognised; the Group holds a PMA as at 30 June 2021 of £0.4m (30 June 2020: £1.5m; 31 December 2020: £1.6m) to reflect the risks associated with COVID-19 payment deferrals where underlying data is yet to be observed that may support migration of some loans to Stage 2. Also in the period an additional PMA of £0.9m has been recognised to reflect the risks associated with flats subject to fire safety risks such as unsuitable cladding. Due to limited available data to identify affected properties individually, an assumption is made, in line with UK market exposure estimates, regarding the affected proportion of flats in the Group's residential portfolio; assumptions relating to property values have also been applied. The remaining PMAs are applied to address model risk in the downturn scenario where key assumptions are expected to behave differently in a recession; there is currently insufficient data available to establish, and thus to model, robust relationships for these assumptions.

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

Residential	**Unaudited as at 30.06.21**		Unaudited as at 30.06.20		Audited as at 31.12.20	
Scenario	**Actual weighting applied %**	**ECL at 100% weighting £m**	Actual weighting applied %	ECL at 100% weighting £m	Actual weighting applied %	ECL at 100% weighting £m
Upside	15	**4.6**	5	7.1	5	9.4
Central	60	**5.2**	60	13.7	55	11.2
Downside	25	**24.5**	35	35.8	40	40.0
Probability-weighted scenario	100	**9.9**	100	21.2	100	23.1

Commercial	**Unaudited as at 30.06.21**		Unaudited as at 30.06.20		Audited as at 31.12.20	
Scenario	**Actual weighting applied %**	**ECL at 100% weighting £m**	Actual weighting applied %	ECL at 100% weighting £m	Actual weighting applied %	ECL at 100% weighting £m
Upside	15	**6.0**	5	4.7	5	5.5
Central	60	**12.8**	60	9.6	55	11.1
Downside	25	**28.2**	35	21.4	40	28.4
Probability-weighted scenario	100	**15.6**	100	13.5	100	17.8

For the purposes of calculating each scenario's 100% weighted ECL, each loan is allocated to a stage by considering only that scenario. For the purposes of the actual probability-weighted ECL, each loan's stage allocation is based on a weighted average PD (that takes account of all scenarios) and this stage allocation is held constant across the scenarios; a probability-weighted 12 month or lifetime ECL (which also takes account of all scenarios) is then calculated for each loan based on that stage allocation.

The table below outlines the impact on the impairment loss allowance for the residential loan portfolio of possible alternative assumptions of certain estimates used in calculating the ECLs. Each sensitivity shown considers one change in isolation and the combined impact on the impairment loss allowance of more than one sensitivity occurring would not necessarily be the sum of the impact of the individual sensitivities. Similarly, the impacts of each sensitivity should not be extrapolated due to the likely non-linear effects.

1. Introduction *(continued)*

Assumption	Change to current assumption	Increase / (decrease) in impairment loss allowance		
		Unaudited as at 30.06.21 £m	Unaudited as at 30.06.20 £m	Audited as at 31.12.20 £m
Downturn scenario weighting (note 1)	Absolute increase of 10%	**1.9**	2.3	2.6
Significant increase in credit risk criteria (note 2)	Relative reduction by 25%	**0.7**	3.1	4.1
Future house price inflation (note 3)	+ / - 0.5% p.a.	**(0.4) / 0.5**	(1.2) / 1.2	(1.3) / 1.5
Unemployment (note 4)	+ / - 0.5% p.a.	**0.7 / (0.6)**	n/a	n/a

Notes
1. This sensitivity shows the impact of an increase of 10% to the probability weighting assigned to the downside scenario, from 25% to 35% (30 June 2020: from 35% to 45%; 31 December 2020: from 40% to 50%), with a relative decrease to the probability weighting assigned to each of the central and upside scenarios.
2. As outlined above, the assessment of whether credit risk has significantly increased since initial recognition includes the degree by which the remaining lifetime PD at the reporting date has increased compared to initial estimates. This sensitivity shows the impact of simultaneously reducing each multiplier threshold by 25%.
3. This sensitivity shows the impact if annual house price inflation in each future year was 0.5% higher / lower than the assumptions applied by the Group.
4. This sensitivity shows the impact if unemployment rates in each future year were 0.5% higher / lower than the assumptions applied by the Group. This sensitivity was not presented in previous periods and therefore comparatives are not shown.

For commercial mortgages, management judges that credit risk has significantly increased when an account is placed on a watchlist or is in arrears of at least 50% of the contractual monthly payment.

The table below outlines the impact on the impairment loss allowance for the commercial loan portfolio of possible alternative assumptions of certain estimates used in calculating the ECLs. Each sensitivity shown considers one change in isolation and the combined impact on the impairment loss allowance of more than one sensitivity occurring would not necessarily be the sum of the impact of the individual sensitivities. Similarly, the impacts of each sensitivity should not be extrapolated due to the likely non-linear effects.

Assumption	Change to current assumption	Increase / (decrease) in impairment loss allowance		
		Unaudited as at 30.06.21 £m	Unaudited as at 30.06.20 £m	Audited as at 31.12.20 £m
Downturn scenario weighting	Absolute increase of 10%	**1.6**	1.2	1.8
Significant increase in credit risk criteria (note 1)	Additional 5% of balances placed on watchlist	**0.1**	0.3	0.1
Future commercial property price growth	+ / - 0.5% p.a.	**(0.3) / 0.3**	(0.3) / 0.3	(0.4) / 0.4

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

Impairment of treasury assets

The Group incorporates forward-looking information into its ECL assessment for treasury assets. In addition to the central scenario, the Group also considers the impact of an extreme economic downturn such as a two-notch downgrade on the entire portfolio. At 30 June 2021, the relative weightings assigned to each scenario were 95% for the central scenario and 5% for the downside scenario (30 June 2020: central scenario 95%, downside scenario 5%; 31 December 2020: central scenario 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 inflation, mortality rates, anticipated redemption profiles (arising due to voluntary redemption, mortality or a move to long term care) and market driven yield curves.

1. Introduction *(continued)*

Some of the factors are based on market expectations (e.g. market-implied RPI swap prices are used to construct a forward-looking inflation curve in order to forecast future expected cash flows receivable from the portfolio), whilst others are derived from historical trends on the portfolio (e.g. anticipated future voluntary redemptions). However, where market prices are not available and historical trends are not deemed to be appropriate the Group uses management judgement; this is the case for future house price index (HPI) growth, property price volatility and RPI volatility. 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 central scenario as outlined on page 29; further detail on the movements in the portfolio in the period can be found in note 12.

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 as at 30.06.21 £m**	Unaudited as at 30.06.20 £m	Audited as at 31.12.20 £m
Redemption rates	+ / - 1% p.a.	**(10.8) / 12.0**	(12.6) / 14.2	(11.7) / 13.2
Illiquidity premia	+ / - 0.2%	**(9.6) / 10.0**	(10.5) / 10.9	(10.6) / 10.9
HPI forecast	+ / - 0.5% p.a.	**7.3 / (8.0)**	10.3 / (10.9)	8.8 / (9.4)
Property volatility	+ / - 1%	**(4.7) / 4.6**	(5.5) / 5.4	(5.4) / 5.3
RPI volatility	+ / - 0.5%	**(3.1) / 1.5**	(1.8) / 1.3	(2.1) / 1.5

For each of the above sensitivities, there would be a corresponding charge / credit to the Income Statement within the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: 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.

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

Derivative financial instruments

The Group holds derivatives which are used to hedge the Group's interest rate risk and inflation risk arising from the equity release portfolio. These derivatives are valued using discounted cash flow models using market observable benchmark rates consistent with accepted market 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, moves permanently into long term care or is deceased) 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.

In order to value these derivatives, the Group uses market-implied RPI swap prices to construct a forward looking inflation curve 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 robust 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 is outlined below.

		(Decrease) / increase in liability		
Assumption	**Change to current assumption**	**Unaudited as at 30.06.21 £m**	Unaudited as at 30.06.20 £m	Audited as at 31.12.20 £m
Redemption rates (note 1)	+ / - 1% pa	**(12.3) / 13.8**	(14.9) / 16.8	(14.3) / 16.2
RPI volatility (note 1)	+ / - 0.5% pa	**(5.6) / 4.7**	(4.5) / 3.5	(4.4) / 3.5

Note

1. There would be a corresponding credit / charge to the Income Statement within the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Derivatives associated with the equity release portfolio' line arising from the decrease / increase in the fair value of the derivative liabilities.

1. Introduction *(continued)*

Any change in fair value of the derivative liabilities is offset to some extent by a corresponding but opposite change in the value of the equity release portfolio. 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.

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 five year corporate plans available 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 reflect the most recent view of key economic indicators as well as wider prevailing circumstances. The key drivers of these cash flows are set out in note 21 to the 2020 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.

At 30 June 2021, to the extent that discount rates were to increase by 25%, e.g. from 10% to 12.5%, there would be a £1.3m increase to the goodwill impairment charge (30 June 2020: £5.0m increase; 31 December 2020: no increase). A reduction in the long term growth rate assumption from 2.5% to 0% would result in a £0.8m increase to the impairment charge (30 June 2020: £2.7m increase; 31 December 2020: no increase).

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 as at 30.06.21 %**	Unaudited as at 30.06.20 %	Audited as at 31.12.20 %
Mortgages and Savings	**12**	10	12
Estate Agency	**12**	13	14
Investment Portfolio	**10**	10	10

Other intangible assets

Other intangible assets such as computer software, databases, brands and customer contracts are regularly reviewed for indicators of impairment. Brands, which are regarded to have an indefinite life and are therefore not amortised, are tested for impairment at the end of each reporting period (or when there is an indication of impairment), using a similar methodology as described for goodwill above.

Where brands exist, the impairment test compares the carrying amount of the cash generating unit (CGU) (which comprises the CGU's net assets, plus any brands relating to that CGU, plus any goodwill allocated to that CGU) against its recoverable amount, determined as the higher of its fair value less costs to sell and its value in use.

As described above, 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 and further detail is provided above.

Other intangible assets, which are regarded to have a finite life, are tested for impairment whenever there is an indication that the intangible asset may be impaired.

No impairment was recognised against other intangible assets for the six months ended 30 June 2021 (30 June 2020: no impairment; year ended 31 December 2020: no impairment).

e) Interest rate benchmark reform (IBOR reform)

The Group early adopted Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7) in its accounts for the year ended 31 December 2019. The Group has continued to apply these amendments during the period and will continue to apply them 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 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.

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

1. Introduction *(continued)*

In addition, the Group early adopted Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16), as outlined in note 1b) to the 2020 Annual Report and Accounts. The Group now has little outstanding exposure to the benchmark interest rate 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 the majority of its mortgage products and all savings products. The project that was established to manage the transition remains on course to close out all of its LIBOR exposures during 2021. The table below indicates the nominal amount and weighted average maturity of the Group's remaining net exposure to LIBOR at 30 June 2021.

	As at 30 June 2021		As at 31 December 2020	
	Nominal amount £m	**Average maturity Years**	Nominal amount £m	Average maturity Years
Non-derivative financial assets				
Loans and advances to customers	280.3	3.6	300.1	4.1
Debt securities	47.1	1.7	64.3	1.6
Non-derivative financial liabilities				
Debt securities in issue	-	-	(57.8)	0.2
Derivative financial instruments				
In non-qualifying hedge accounting relationships	85.9	35.6	192.3	35.2
Net exposure	**413.3**		498.9	

f) 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 7 to 18.

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, taking into account a number of potential changes in trading performance and funding retention, show that the Group should be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

Consequently, after reviewing the Group's 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 at least 12 months from the date of this report. Accordingly, the Group continues to adopt the going concern basis in preparing the half-yearly financial report.

The Directors' Report in the 2020 Annual Report and Accounts included a statement of longer term viability, which stated that the Directors had a reasonable expectation that the Group would be able to continue in operation until at least the end of 2025. The Directors determined that a five year period is an appropriate period over which to provide the viability statement, based on the Group's five year corporate planning period.

2. Other information

The half-yearly financial information set out in this announcement is unaudited and does not constitute statutory accounts within the meaning of section 81A of the Building Societies Act 1986. 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 2020 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 2021 was approved by the Board of Directors on 2 August 2021.

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

3. Interest receivable and similar income

	Unaudited 6 months to 30.06.21 £m	Unaudited 6 months to 30.06.20 £m	Audited 12 months to 31.12.20 £m
On financial assets held at amortised cost:			
On loans fully secured on residential property	**251.7**	244.5	495.7
On other loans and advances	**4.6**	5.4	10.0
On other liquid assets	**1.7**	4.0	5.0
	258.0	253.9	510.7
On financial assets held at FVOCI:			
On debt securities	**5.0**	8.6	14.7
On financial instruments at FVTPL:			
Net expense on derivative financial instruments held to hedge assets in qualifying hedge accounting relationships	**(41.6)**	(34.0)	(83.7)
Interest receivable accounted for using the effective interest rate method	**221.4**	228.5	441.7
On financial instruments held at FVTPL:			
On loans and advances to customers	**-**	-	0.1
On equity release portfolio	**9.3**	7.3	14.8
Net expense on derivative financial instruments held to hedge assets in non-qualifying hedge accounting relationships	**(11.6)**	(7.5)	(17.0)
Other interest and similar income	**(2.3)**	(0.2)	(2.1)
	219.1	228.3	439.6

4. Interest payable and similar charges

	Unaudited 6 months to 30.06.21 £m	Unaudited 6 months to 30.06.20 £m	Audited 12 months to 31.12.20 £m
On financial liabilities held at amortised cost:			
On shares held by individuals	**66.1**	96.8	171.9
On shares held by others	**0.4**	0.8	1.3
On subscribed capital	**2.2**	2.2	4.5
On deposits and other borrowings:			
Subordinated liabilities	**3.6**	-	1.8
Wholesale and other funding	**12.9**	22.5	37.0
Lease liabilities	**0.8**	0.6	1.3
	86.0	122.9	217.8
On financial instruments held at fair value through profit or loss:			
Net income on derivative financial instruments held to hedge liabilities	**(4.6)**	(5.7)	(16.1)
Finance credit on put option liability	**-**	(0.1)	-
	81.4	117.1	201.7

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 30.06.21		
	Products and services transferred at a point in time £m	**Products and services transferred over time £m**	**Total £m**
Mortgage origination fees	37.8	7.0	**44.8**
Other mortgage related fees	1.5	-	**1.5**
General insurance income	35.6	0.6	**36.2**
Commissions earned on property sales	181.1	-	**181.1**
Commissions earned on property lettings	76.1	-	**76.1**
Survey and valuation fees	56.0	-	**56.0**
Asset management commission	4.7	0.1	**4.8**
Conveyancing fees	34.1	-	**34.1**
Financial advice fees	15.2	-	**15.2**
Software and consultancy fees	-	7.4	**7.4**
Factoring and invoice discounting services	4.9	-	**4.9**
Other fees and commissions	22.6	16.6	**39.2**
	469.6	**31.7**	**501.3**

	Unaudited 6 months to 30.06.20 Re-presented*		
	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	21.9	0.4	22.3
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
	173.0	12.8	185.8

* Certain fees and commissions receivable that were previously presented gross of associated clawback provisions have been re-presented on a net basis. This is considered to more fairly reflect the substance of the arrangements and the comparative figures in the above table have been re-presented accordingly. This results in a £4.7m decrease in general insurance income within 'Products and services transferred at a point in time'. There is a corresponding £4.7m decrease in the charge for provisions for liabilities (see note 9) and therefore there is no impact on profits and no impact on reserves.

5. Fees and commissions receivable *(continued)*

	Audited 12 months to 31.12.20		
	Products and services transferred at a point in time £m	Products and services transferred over time £m	Total £m
Mortgage origination fees	38.0	10.6	48.6
Other mortgage related fees	2.0	-	2.0
General insurance income	41.3	1.2	42.5
Commissions earned on property sales	133.6	-	133.6
Commissions earned on property lettings	58.9	-	58.9
Survey and valuation fees	44.1	-	44.1
Asset management commission	9.3	0.2	9.5
Conveyancing fees	27.6	-	27.6
Financial advice fees	25.2	-	25.2
Software and consultancy fees	0.3	14.6	14.9
Factoring and invoice discounting services	9.6	-	9.6
Other fees and commissions	3.7	0.6	4.3
	393.6	27.2	420.8

The tables below provide a reconciliation of fees and commissions receivable by the Group to the amounts presented by reportable segment in note 20.

Unaudited 6 months to 30.06.21	**Mortgages and Savings £m**	**Estate Agency £m**	**Investment Portfolio £m**	**Sundry incl. inter-divisional adjustments £m**	**Total £m**
Mortgage origination fees	-	45.4	-	(0.6)	**44.8**
Other mortgage related fees	1.5	-	-	-	**1.5**
General insurance income	0.5	35.7	-	-	**36.2**
Commissions earned on property sales	-	181.1	-	-	**181.1**
Commissions earned on property lettings	-	76.1	-	-	**76.1**
Survey and valuation fees	-	60.5	-	(4.5)	**56.0**
Asset management commission	-	4.8	-	-	**4.8**
Conveyancing fees	-	34.4	-	(0.3)	**34.1**
Financial advice fees	15.2	-	-	-	**15.2**
Software and consultancy fees	-	-	8.0	(0.6)	**7.4**
Factoring and invoice discounting services	-	-	4.9	-	**4.9**
Other fees and commissions	0.2	39.1	-	(0.1)	**39.2**
Fees and commissions receivable	**17.4**	**477.1**	**12.9**	**(6.1)**	**501.3**
Other	(2.0)	(1.6)	(0.2)	0.1	**(3.7)**
Net non-interest income	**15.4**	**475.5**	**12.7**	**(6.0)**	**497.6**

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

5. Fees and commissions receivable *(continued)*

Unaudited 6 months to 30.06.20

	Mortgages and Savings	Estate Agency Re-presented*	Investment Portfolio	Sundry incl. inter-divisional adjustments	Total Re-presented*
	£m	£m	£m	£m	£m
Mortgage origination fees	-	22.0	-	(0.3)	21.7
Other mortgage related fees	0.8	-	-	-	0.8
General insurance income	0.4	21.9	-	-	22.3
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	164.1	12.6	(5.2)	185.8
Other	0.1	(0.4)	(0.4)	-	(0.7)
Net non-interest income	14.4	163.7	12.2	(5.2)	185.1

* The comparative figures in the table above have been re-presented on the same basis as described under the table on page 39.

Audited 12 months to 31.12.20

	Mortgages and Savings	Estate Agency	Investment Portfolio	Sundry incl. inter-divisional adjustments	Total
	£m	£m	£m	£m	£m
Mortgage origination fees	-	49.5	-	(0.9)	48.6
Other mortgage related fees	2.0	-	-	-	2.0
General insurance income	1.0	41.5	-	-	42.5
Commissions earned on property sales	-	133.6	-	-	133.6
Commissions earned on property lettings	-	58.9	-	-	58.9
Survey and valuation fees	-	51.6	-	(7.5)	44.1
Asset management commission	-	9.5	-	-	9.5
Conveyancing fees	-	28.6	-	(1.0)	27.6
Financial advice fees	25.2	-	-	-	25.2
Software and consultancy fees	-	-	15.9	(1.0)	14.9
Factoring and invoice discounting services	-	-	9.6	-	9.6
Other fees and commissions	0.6	4.0	-	(0.3)	4.3
Fees and commissions receivable	28.8	377.2	25.5	(10.7)	420.8
Other	(4.3)	(1.5)	(0.7)	0.2	(6.3)
Net non-interest income	24.5	375.7	24.8	(10.5)	414.5

6. Administrative expenses

	Unaudited 6 months to 30.06.21 £m	Unaudited 6 months to 30.06.20 £m	Audited 12 months to 31.12.20 £m
Employee costs:			
Wages and salaries	**290.9**	150.9	295.3
Social security costs	**30.4**	14.6	30.7
Pension costs:			
Defined contribution arrangements	**10.5**	6.3	12.9
Past service costs	**-**	-	1.5
Settlement loss	**0.7**	-	-
	332.5	171.8	340.4
Government grants	**-**	(18.1)	(21.2)
Other administrative expenses	**193.1**	76.9	187.1
	525.6	230.6	506.3

7. Impairment on loans and advances to customers

	Unaudited 30.06.21 £m	Unaudited 30.06.20 £m	Audited 31.12.20 £m
(Credit) / charge during the period:			
Loans fully secured on residential property	**(12.7)**	11.6	13.7
Loans fully secured on land	**(2.1)**	7.1	11.5
Other loans and advances	**-**	0.4	0.5
	(14.8)	19.1	25.7
Expected credit loss (ECL) allowance at the end of the period (see note 11):			
Loans fully secured on residential property	**9.9**	21.2	23.1
Loans fully secured on land	**15.6**	13.5	17.8
Other loans and advances	**0.9**	1.2	1.0
	26.4	35.9	41.9

8. Debt securities

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

	Unaudited as at 30.06.21 £m	Unaudited as at 30.06.20 £m	Audited as at 31.12.20 £m
At 1 January	**1,505.0**	2,182.9	2,182.9
Additions	**776.9**	1,507.4	2,414.6
Disposals	**(266.2)**	(1,263.0)	(3,107.6)
Changes in fair value	**(16.3)**	12.4	14.7
Other	**-**	-	0.4
At end of period	**1,999.4**	2,439.7	1,505.0

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 2021 was £nil (six months ended 30 June 2020: £nil; year ended 31 December 2020: £0.1m credit).

9. Provisions for liabilities

	Unaudited as at 30.06.21 £m	Unaudited as at 30.06.20 £m	Audited as at 31.12.20 £m
Provision for the costs of surplus properties	**9.9**	1.3	1.3
Commission clawbacks	**15.3**	13.2	12.5
Survey and valuation claims	**10.1**	3.9	4.2
Customer compensation	**0.6**	0.7	0.6
Other provisions	**1.0**	1.6	0.3
	36.9	20.7	18.9

The movement in provisions for liabilities in the period has resulted in an Income Statement charge of £nil for the period (six months ended 30 June 2020 re-presented: £0.3m charge; year ended 31 December 2020: £0.2m credit).

10. Taxation

The effective tax rate for the period was 16.2% (six months ended 30 June 2020: 18.9%; year ended 31 December 2020: 18.9%), which differs from the standard rate of corporation tax in the UK of 19.0% (2020: 19.0%). The effective tax rate is impacted by disallowable expenditure, non-taxable income and the effects of future corporation tax rate changes. Further, the Society's profits above £25m are subject to an 8% banking companies surcharge.

Legislation to increase the rate of corporation tax to 25% from 1 April 2023 was enacted during the period. Any deferred tax assets and liabilities that are expected to reverse after 1 April 2023 have been remeasured at this new rate. As a result of this change. the deferred tax asset recognised in the Group's Statement of Financial Position increased by £8.7m; this comprises a £5.1m credit to the Income Statement and a £3.6m credit to Other Comprehensive Income.

11. Loans and advances to customers held at amortised cost

	Unaudited as at 30.06.21				
	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)	22,337.7	(9.9)	29.0	22,356.8	**98.4**
Loans fully secured on land (note 2)	207.9	(15.6)	-	192.3	**0.8**
Other lending:					
Debt factoring advances	105.0	(0.9)	-	104.1	**0.5**
Other loans (note 3)	68.9	-	-	68.9	**0.3**
	22,719.5	**(26.4)**	**29.0**	**22,722.1**	**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 Skipton International Limited; these advances are secured on shares in a property management company which owns the building in which the properties are located.

	Unaudited as at 30.06.20				
	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	20,602.3	(21.2)	227.8	20,808.9	98.4
Loans fully secured on land	229.2	(13.5)	-	215.7	1.0
Other lending:					
Debt factoring advances	63.4	(1.2)	-	62.2	0.3
Other loans	68.2	-	-	68.2	0.3
	20,963.1	(35.9)	227.8	21,155.0	100.0

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

	Audited as at 31.12.20				
	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	21,378.8	(23.1)	152.2	21,507.9	98.4
Loans fully secured on land	219.0	(17.8)	-	201.2	0.9
Other lending:					
Debt factoring advances	86.0	(1.0)	-	85.0	0.4
Other loans	70.9	-	-	70.9	0.3
	21,754.7	(41.9)	152.2	21,865.0	100.0

a) Residential mortgages

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

The Group's portfolio of loans fully secured on residential properties includes lending by the Society and by Skipton International Limited (which lends in the Channel Islands and in the UK). It also includes the specialist mortgage books previously held by Amber Homeloans Limited and North Yorkshire Mortgages Limited (both closed to new lending since 2008); the assets and activities of these entities were hived-up into the Society with effect from 1 June 2021. The Group's credit risk appetite explicitly considers geographical regions in order to manage concentration risk.

At 30 June 2021 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 44.2% (30 June 2020: 46.3%; 31 December 2020: 44.8%).

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 shown in the table below, Stage 2 balances have fallen significantly during the period ended 30 June 2021; this is largely due to the impact of the improved economic outlook reflected in the Group's assumptions.

	Unaudited as at 30.06.21			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount as at 1 January 2021	19,119.6	2,184.4	74.8	**21,378.8**
Transfers due to changes in credit risk:				
To Stage 1	1,509.1	(1,540.1)	(1.0)	**(32.0)**
To Stage 2	(111.2)	113.4	(4.8)	**(2.6)**
To Stage 3	(1.5)	(10.6)	12.0	**(0.1)**
Modification of contractual cashflows	1.4	(8.9)	7.0	**(0.5)**
Increases due to origination	2,953.4	1.1	-	**2,954.5**
Decreases due to derecognition and repayments	(1,794.2)	(151.6)	(8.4)	**(1,954.2)**
Write-offs	-	(0.1)	(0.8)	**(0.9)**
Other movements	(3.5)	(2.3)	0.5	**(5.3)**
Gross carrying amount as at 30 June 2021	**21,673.1**	**585.3**	**79.3**	**22,337.7**

	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	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
Decreases 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)*

	Audited as at 31.12.20			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £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	122.9	(126.7)	(1.0)	(4.8)
To Stage 2	(1,826.7)	1,785.4	(14.8)	(56.1)
To Stage 3	(5.9)	(16.3)	22.5	0.3
Modification of contractual cashflows	(19.6)	16.8	1.1	(1.7)
Increases due to origination	4,290.2	51.8	1.1	4,343.1
Decreases due to derecognition and repayments	(2,455.9)	(63.7)	(7.2)	(2,526.8)
Write-offs	(0.3)	(0.8)	(3.3)	(4.4)
Other movements	2.9	3.5	0.4	6.8
Gross carrying amount as at 31 December 2020	19,119.6	2,184.4	74.8	21,378.8

Amounts presented within 'Other movements' in the tables above include movements in the Group's effective interest rate asset.

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 2021, Stage 3 loans include £21.0m being held in Stage 3 under this probation period (30 June 2020: £22.5m; 31 December 2020: £14.3m).

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 1d). 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 30.06.21							
	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%	715.3	9.1	-	**724.4**	-	-	-	**-**
0.15% - <0.25%	3,004.6	1.6	-	**3,006.2**	0.3	-	-	**0.3**
0.25% - <0.5%	11,024.5	1.1	-	**11,025.6**	1.3	-	-	**1.3**
0.5% - <0.75%	4,796.6	1.6	-	**4,798.2**	0.8	-	-	**0.8**
0.75% - <2.5%	2,118.8	15.1	-	**2,133.9**	0.7	-	-	**0.7**
2.5% - <10%	13.2	168.5	-	**181.7**	-	0.2	-	**0.2**
10% - <100%	0.1	388.3	-	**388.4**	-	2.5	-	**2.5**
Default	-	-	79.3	**79.3**	-	-	3.7	**3.7**
Additional allowance for payment deferrals								**0.4**
	21,673.1	**585.3**	**79.3**	**22,337.7**	**3.1**	**2.7**	**3.7**	**9.9**
ECL coverage by stage (%)					**0.01%**	**0.46%**	**4.67%**	**0.04%**

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

	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 allowance 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 31.12.20							
	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%	952.8	0.9	-	953.7	0.1	-	-	0.1
0.15% - <0.25%	2,768.3	0.6	-	2,768.9	0.3	-	-	0.3
0.25% - <0.5%	9,677.2	2.3	-	9,679.5	1.3	-	-	1.3
0.5% - <0.75%	4,410.9	1.7	-	4,412.6	0.9	-	-	0.9
0.75% - <2.5%	1,304.7	73.8	-	1,378.5	0.7	-	-	0.7
2.5% - <10%	5.7	1,069.5	-	1,075.2	-	1.6	-	1.6
10% - <100%	-	1,035.6	-	1,035.6	-	10.6	-	10.6
Default	-	-	74.8	74.8	-	-	6.0	6.0
Additional allowance for payment deferrals								1.6
	19,119.6	2,184.4	74.8	21,378.8	3.3	12.2	6.0	23.1
ECL coverage by stage (%)					0.02	0.56%	8.02%	0.11%

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 30.06.21			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Loss allowance as at 1 January 2021	3.3	12.2	6.0	**21.5**
Transfers due to changes in credit risk:				
To Stage 1	0.4	(4.5)	-	**(4.1)**
To Stage 2	(0.1)	0.3	(0.1)	**0.1**
To Stage 3	-	(0.7)	0.5	**(0.2)**
Remeasurements within existing stage	(0.7)	(3.6)	(0.7)	**(5.0)**
Modification of contractual cashflows	-	(0.4)	(0.6)	**(1.0)**
Increases due to origination	0.5	-	-	**0.5**
Decreases due to derecognition and repayments	(0.3)	(0.6)	(1.1)	**(2.0)**
Write-offs	-	-	(0.2)	**(0.2)**
Other movements	-	-	(0.1)	**(0.1)**
	3.1	**2.7**	**3.7**	**9.5**
Additional allowance for payment deferrals (note 1)				**0.4**
Loss allowance as at 30 June 2021	**3.1**	**2.7**	**3.7**	**9.9**

Note

1. An additional allowance 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 allowance at 30 June 2021 is £0.4m. This additional allowance 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 additional allowance is calculated are included in note 1d).

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

	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
Transfers 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
Decreases due to derecognition and repayments	(0.1)	(0.1)	(0.2)	(0.4)
Write-offs	-	-	(0.4)	(0.4)
	3.8	11.1	4.8	19.7
Additional allowance for payment deferrals				1.5
Loss allowance as at 30 June 2020	3.8	11.1	4.8	21.2

	Audited as at 31.12.20			
	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
Transfers due to changes in credit risk:				
To Stage 1	0.1	(0.2)	-	(0.1)
To Stage 2	(0.6)	7.8	(0.3)	6.9
To Stage 3	-	(0.5)	1.4	0.9
Remeasurements within existing stage	1.0	1.3	0.9	3.2
Modification of contractual cashflows	-	0.2	0.8	1.0
Increases due to origination	0.8	0.2	0.3	1.3
Decreases due to derecognition and repayments	(0.2)	(0.2)	(0.2)	(0.6)
Write-offs	-	(0.2)	(0.5)	(0.7)
	3.3	12.2	6.0	21.5
Additional allowance for payment deferrals				1.6
Loss allowance as at 31 December 2020	3.3	12.2	6.0	23.1

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 30.06.21							
	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	21,673.1	499.8	11.4	**22,184.3**	3.1	1.8	0.3	**5.2**
Past due:								
Up to 30 days	-	53.7	3.5	**57.2**	-	0.5	-	**0.5**
31 to 60 days	-	23.7	3.8	**27.5**	-	0.3	-	**0.3**
61 to 90 days	-	8.1	6.6	**14.7**	-	0.1	0.1	**0.2**
Over 90 days	-	-	54.0	**54.0**	-	-	3.3	**3.3**
Additional allowance for payment deferrals								**0.4**
	21,673.1	**585.3**	**79.3**	**22,337.7**	**3.1**	**2.7**	**3.7**	**9.9**

	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 allowance 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 31.12.20							
	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	19,119.6	2,074.5	8.5	21,202.6	3.3	9.0	0.4	12.7
Past due:								
Up to 30 days	-	69.1	1.4	70.5	-	1.6	-	1.6
31 to 60 days	-	30.1	3.5	33.6	-	0.8	-	0.8
61 to 90 days	-	10.7	5.8	16.5	-	0.8	0.1	0.9
Over 90 days	-	-	55.6	55.6	-	-	5.5	5.5
Additional allowance for payment deferrals								1.6
	19,119.6	2,184.4	74.8	21,378.8	3.3	12.2	6.0	23.1

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 30.06.21			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount as at 1 January 2021	36.0	161.9	21.1	**219.0**
Transfers due to changes in credit risk:				
To Stage 2	-	0.2	(0.2)	**-**
To Stage 3	(0.2)	-	0.2	**-**
Modification of contractual cashflows	0.4	(1.6)	(0.1)	**(1.3)**
Decreases due to derecognition and repayments	(1.9)	(7.6)	(0.3)	**(9.8)**
Gross carrying amount as at 30 June 2021	**34.3**	**152.9**	**20.7**	**207.9**

	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)
Decreases 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

	Audited as at 31.12.20			
	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	(119.6)	114.3	-	(5.3)
To Stage 3	(1.2)	-	1.2	-
Modification of contractual cashflows	(39.9)	21.4	16.3	(2.2)
Decreases due to derecognition and repayments	(8.0)	(0.2)	(2.0)	(10.2)
Gross carrying amount as at 31 December 2020	36.0	161.9	21.1	219.0

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 2021, Stage 3 loans include no amounts being held in Stage 3 under this probation period (30 June 2020: no amounts; 31 December 2020: 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. 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 30.06.21			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Loss allowance as at 1 January 2021	-	13.5	4.3	**17.8**
Remeasurements within existing stage	-	(1.2)	0.3	**(0.9)**
Modification of contractual cashflows	-	(1.3)	-	**(1.3)**
Loss allowance as at 30 June 2021	**-**	**11.0**	**4.6**	**15.6**

	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
Transfers 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

	Audited as at 31.12.20			
	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
Transfers due to changes in credit risk:				
To Stage 2	(0.1)	7.2	-	7.1
Remeasurements within existing stage	-	0.4	-	0.4
Modification of contractual cashflows	-	0.7	3.4	4.1
Decreases due to derecognition and repayments	(0.1)	-	(0.2)	(0.3)
Loss allowance as at 31 December 2020	-	13.5	4.3	17.8

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

	Unaudited as at 30.06.21							
	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	33.7	137.8	4.5	**176.0**	-	9.9	0.7	**10.6**
Past due:								
Up to 30 days	0.6	9.4	-	**10.0**	-	0.8	-	**0.8**
31 to 60 days	-	4.6	-	**4.6**	-	0.3	-	**0.3**
61 to 90 days	-	1.1	2.5	**3.6**	-	-	1.3	**1.3**
Over 90 days	-	-	13.7	**13.7**	-	-	2.6	**2.6**
	34.3	**152.9**	**20.7**	**207.9**	**-**	**11.0**	**4.6**	**15.6**
ECL coverage					**0.00%**	**7.19%**	**22.22%**	**7.50%**

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

	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%

	Audited as at 31.12.20							
	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	35.9	141.3	5.8	183.0	-	11.2	2.0	13.2
Past due:								
Up to 30 days	0.1	4.2	-	4.3	-	0.5	-	0.5
31 to 60 days	-	13.8	0.3	14.1	-	1.3	-	1.3
61 to 90 days	-	2.6	0.8	3.4	-	0.5	-	0.5
Over 90 days	-	-	14.2	14.2	-	-	2.3	2.3
	36.0	161.9	21.1	219.0	-	13.5	4.3	17.8
ECL coverage					0.00%	8.34%	20.38%	8.13%

c) Forbearance

Where appropriate for customers, the Group applies a policy of forbearance. The Group's approach to forbearance is described in note 40 to the 2020 Annual Report and Accounts and our approach to forbearance remained materially unchanged in the period. At 30 June 2021, the percentage of residential mortgage balances that have been subject to forbearance is 0.5% (30 June 2020: 0.8%; 31 December 2020: 0.5%). For commercial balances the percentage is 25.3%, 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 2020: 18.8%; 31 December 2020: 24.4%).

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

Support to customers experiencing payment difficulties caused by COVID-19 has continued to be provided by offering an initial three-month mortgage payment deferral with the ability to extend this to six months for applications made on or before 31 March 2021. In accordance with regulatory guidance, these payment deferrals have not automatically 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.

Very few of these payment deferrals remain in place as at 30 June 2021 as applications for new payment deferrals closed on 31 March 2021, with all outstanding payment deferrals ending on or before 31 July 2021. The following table shows the value of residential mortgages with a residential mortgage payment deferral related to COVID-19 at 30 June 2021. Further information is included in note 1d).

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

Subject to a payment deferral due to COVID-19

	Unaudited as at 30.06.21		Unaudited as at 30.06.20		Audited as at 31.12.20	
	Gross balances	**% of total residential loans and advances to customers**	Gross balances	% of total residential loans and advances to customers	Gross balances	% of total residential loans and advances to customers
Loans and advances to customers	**£7.7m**	**0.03%**	£1,138.2m	5.52%	£179.1m	0.84%

Mortgage payment deferrals have been granted to over 26,100 customers, and only 0.2% of these were outstanding at 30 June 2021 representing gross balances of £7.7m (30 June 2020: £1,138.2m; 31 December 2020: £179.1m).

12. Equity release portfolio held at FVTPL

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

	Unaudited as at 30.06.21 £m	Unaudited as at 30.06.20 £m	Audited as at 31.12.20 £m
At 1 January	**433.8**	410.0	410.0
Redemptions	**(3.2)**	(1.5)	(3.7)
Further advances	**-**	0.1	0.1
Movements in fair value	**(18.6)**	17.6	19.7
Realised losses on redemption	**(0.2)**	-	(0.1)
Accrued interest	**2.7**	4.4	7.8
At end of period	**414.5**	430.6	433.8

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

The Group holds derivative financial instruments to economically hedge the movements in fair value of the equity release portfolio, as outlined in note 1d). The gain in fair value of the derivatives held to hedge the portfolio during the period was £24.9m and is included in the Income Statement line 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Derivatives associated with the equity release portfolio' (30 June 2020: £28.0m loss; 31 December 2020: £22.4m loss).

13. Assets held for sale

TM Group (UK) Limited (TMG), a provider of property searches and services, became a subsidiary undertaking on 8 March 2021. Further details are in note 1b).

As at 30 June 2021 the Group held a 64.7% shareholding in TMG. On 8 July 2021 the Group sold this shareholding for cash consideration of £58.0m. In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the Group's interest in TMG as at 30 June 2021 is classified and presented as held for sale. The Group's interest in TMG was measured to fair value at 8 March 2021, when TMG became a subsidiary undertaking, and amounts were based on the expected sale proceeds (see note 1b)).

The Statement of Financial Position includes the following amounts in respect of assets held for sale:

	Unaudited as at 30.06.21 £m
Assets held for sale	**106.4**
Liabilities directly associated with assets held for sale	**(16.6)**
Net assets held for sale	**89.8**
Non-controlling interests	**(31.8)**
	58.0

14. Intangible assets

	Unaudited as at 30.06.21 £m	Unaudited as at 30.06.20 £m	Audited as at 31.12.20 £m
Goodwill	**217.6**	135.3	135.4
Other intangible assets	**144.3**	24.2	22.3
	361.9	159.5	157.7

Goodwill	**Unaudited as at 30.06.21 £m**	Unaudited as at 30.06.20 £m	Audited as at 31.12.20 £m
Cost, less amortisation to 1 January 2004*			
At 1 January	**147.1**	147.2	147.2
Acquisitions of subsidiary undertakings and business units	**82.2**	0.8	0.8
Revaluations of put options	**-**	(1.0)	(0.9)
At end of period	**229.3**	147.0	147.1
Impairment losses			
At 1 January	**11.7**	9.7	9.7
Impairment loss during the period	**-**	2.0	2.0
At end of period	**11.7**	11.7	11.7
Net book value at start of period	**135.4**	137.5	137.5
Net book value at end of period	**217.6**	135.3	135.4

* 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.

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 as at 30.06.21**			Unaudited as at 30.06.20			Audited as at 31.12.20		
	Cost of goodwill £m	**Accumulated impairment £m**	**Carrying value £m**	Cost of goodwill £m	Accumulated impairment £m	Carrying value £m	Cost of goodwill £m	Accumulated impairment £m	Carrying value £m
Mortgages and Savings	**2.9**	**0.1**	**2.8**	2.9	0.1	2.8	2.9	0.1	2.8
Estate Agency	**218.0**	**6.7**	**211.3**	135.7	6.7	129.0	135.8	6.7	129.1
Investment Portfolio	**8.4**	**4.9**	**3.5**	8.4	4.9	3.5	8.4	4.9	3.5
Total goodwill	**229.3**	**11.7**	**217.6**	147.0	11.7	135.3	147.1	11.7	135.4

Based upon the Directors' assessment of recoverable amounts, the Directors have concluded that no impairment is required to be recognised in respect of goodwill in the six months to 30 June 2021 (six months to 30 June 2020: £2.0m within the Estate Agency division; year ended 31 December 2020: £2.0m within the Estate Agency division).

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 1d).

15. Debt securities in issue

	Unaudited as at 30.06.21 £m	Unaudited as at 30.06.20 £m	Audited as at 31.12.20 £m
Certificates of deposit	**7.0**	22.1	14.1
Senior unsecured debt	**66.5**	349.3	66.5
Covered bonds	**1,890.9**	1,940.0	1,889.7
Securitisations	**355.1**	518.1	465.0
Fair value adjustment for hedged risk	**(26.3)**	(16.0)	17.2
	2,293.2	2,813.5	2,452.5
Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:			
In not more than one year	**73.6**	93.6	66.9
In more than one year	**2,219.6**	2,719.9	2,385.6
	2,293.2	2,813.5	2,452.5

16. Related party transactions

Transactions with related parties are entered into in the normal course of business.

As disclosed in note 1b), Connells Limited acquired the entire share capital of Countrywide plc on 8 March 2021. In order to fund the transaction, enable Connells to repay existing borrowings in Countrywide and provide working capital, the Society agreed to provide a loan of £253.0m to Connells Limited on completion of the acquisition. As at 30 June 2021, the outstanding amount due from Connells to the Society in respect of this loan was £230.2m.

As noted in the Business Review on page 13, the operations of the Group's specialist lending businesses, Amber Homeloans Limited and North Yorkshire Mortgages Limited, were hived-up into the Society with effect from 1 June 2021. There is no impact of this hive-up on these Group half-yearly financial statements; the impacts on the Society's performance and financial position will be reported in the 2021 Annual Report & Accounts.

On 10 June 2021, the Trustee of the Holmesdale Building Society Pension Scheme (a small hybrid scheme assumed by the Society following its merger with Holmesdale Building Society in 2018) triggered the wind-up of that scheme and member benefits have now been discharged from the scheme. This resulted in a settlement loss of £0.7m which is included in the Income Statement for the period within 'Administrative expenses'.

Other than as noted above, related party transactions for the half year ended 30 June 2021 are similar in nature to those for the year ended 31 December 2020. Full details of the Group's related party transactions for the year ended 31 December 2020 can be found in note 8 *Related party transactions* in the 2020 Annual Report and Accounts.

17. Subsequent events

As at 30 June 2021 the Group held a 64.7% shareholding in TM Group (UK) Limited, a subsidiary undertaking. On 8 July 2021 the Group sold this shareholding for cash consideration of £58.0m. Further details are set out in note 13.

Except as noted above, there have been no other material post balance sheet events between 30 June 2021 and the approval of this half-yearly financial report by the Board.

18. Other financial commitments and contingent liabilities

In the 2020 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.

19. 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 30.06.21			
	Amortised cost £m	**FVOCI £m**	**FVTPL £m**	**Total £m**
Cash in hand and balances with the Bank of England	2,286.9	-	-	**2,286.9**
Loans and advances to credit institutions	593.3	-	-	**593.3**
Debt securities	-	1,999.4	-	**1,999.4**
Derivative financial instruments	-	-	78.2	**78.2**
Loans and advances to customers	22,722.1	-	1.2	**22,723.3**
Equity release portfolio	-	-	414.5	**414.5**
Equity share investments	-	-	1.5	**1.5**
Trade receivables	100.7	-	-	**100.7**
Other receivables	0.6	-	-	**0.6**
Share warrants	-	-	9.0	**9.0**
Contingent consideration	-	-	6.2	**6.2**
Total financial assets	**25,703.6**	**1,999.4**	**510.6**	**28,213.6**
Non-financial assets				**759.2**
Total assets				**28,972.8**
Shares	19,432.2	-	-	**19,432.2**
Amounts owed to credit institutions and other customers	4,192.9	-	-	**4,192.9**
Debt securities in issue	2,293.2	-	-	**2,293.2**
Derivative financial instruments	-	-	342.0	**342.0**
Lease liabilities	124.9	-	-	**124.9**
Trade payables	18.5	-	-	**18.5**
Fair value of put option obligation	-	-	7.8	**7.8**
Subordinated liabilities	343.8	-	-	**343.8**
Subscribed capital	41.6	-	-	**41.6**
Total financial liabilities	**26,447.1**	**-**	**349.8**	**26,796.9**
Non-financial liabilities				**277.6**
Total liabilities				**27,074.5**

As outlined in note 13, TM Group (UK) Limited (TMG), a subsidiary undertaking, was classified during the period as held for sale and its assets and liabilities therefore presented separately within the Statement of Financial Position (within the line items 'Assets held for sale' and 'Liabilities directly associated with assets held for sale'); in the above tables, these amounts are included within 'Non-financial assets' and 'Non-financial liabilities' respectively, regardless of the nature of the underlying assets and liabilities of TMG.

19. Financial instruments *(continued)*

	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

	Audited as at 31.12.20			
	Amortised cost £m	FVOCI £m	FVTPL £m	Total £m
Cash in hand and balances with the Bank of England	3,237.8	-	-	3,237.8
Loans and advances to credit institutions	724.7	-	-	724.7
Debt securities	-	1,505.0	-	1,505.0
Derivative financial instruments	-	-	64.1	64.1
Loans and advances to customers	21,865.0	-	1.3	21,866.3
Equity release portfolio	-	-	433.8	433.8
Equity share investments	-	-	1.7	1.7
Trade receivables	27.8	-	-	27.8
Share warrants	-	-	6.5	6.5
Contingent consideration	-	-	12.3	12.3
Other assets	-	-	1.4	1.4
Total financial assets	25,855.3	1,505.0	521.1	27,881.4
Other non-financial assets				382.0
Total assets				28,263.4
Shares	18,709.4	-	-	18,709.4
Amounts owed to credit institutions and other customers	4,279.5	-	-	4,279.5
Debt securities in issue	2,452.5	-	-	2,452.5
Derivative financial instruments	-	-	445.9	445.9
Lease liabilities	62.5	-	-	62.5
Trade payables	4.7	-	-	4.7
Fair value of put option obligation	-	-	6.9	6.9
Subordinated liabilities	349.7	-	-	349.7
Subscribed capital	41.6	-	-	41.6
Total financial liabilities	25,899.9	-	452.8	26,352.7
Non-financial liabilities				205.0
Total liabilities				26,557.7

19. 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 30.06.21			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets held at FVOCI:				
Debt securities	1,999.4	-	-	**1,999.4**
Financial assets at FVTPL:				
Derivative financial instruments	-	73.8	4.4	**78.2**
Loans and advances to customers	-	-	1.2	**1.2**
Equity release portfolio	-	-	414.5	**414.5**
Equity share investments	0.4	-	1.1	**1.5**
Contingent consideration	-	-	6.2	**6.2**
Share warrants	-	-	9.0	**9.0**
	1,999.8	**73.8**	**436.4**	**2,510.0**
Financial liabilities				
Financial liabilities at FVTPL:				
Derivative financial instruments	-	177.1	164.9	**342.0**
Fair value of put option obligation	-	-	7.8	**7.8**
	-	**177.1**	**172.7**	**349.8**
	1,999.8	**(103.3)**	**263.7**	**2,160.2**

19. Financial instruments *(continued)*

	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
Contingent consideration	-	-	12.0	12.0
Share warrants	-	-	5.8	5.8
	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

	Audited as at 31.12.20			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets held at FVOCI:				
Debt securities	1,505.0	-	-	1,505.0
Financial assets at FVTPL:				
Derivative financial instruments	-	59.6	4.5	64.1
Loans and advances to customers	-	-	1.3	1.3
Equity release portfolio	-	-	433.8	433.8
Equity share investments	0.3	-	1.4	1.7
Contingent consideration	-	-	12.3	12.3
Share warrants	-	-	6.5	6.5
Other assets	-	-	1.4	1.4
	1,505.3	59.6	461.2	2,026.1
Financial liabilities				
Financial liabilities at FVTPL:				
Derivative financial instruments	-	260.1	185.8	445.9
Fair value of put option obligation	-	-	6.9	6.9
	-	260.1	192.7	452.8
	1,505.3	(200.5)	268.5	1,573.3

Transfers between different levels of the fair value hierarchy

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

There have been no transfers between different levels of the fair value hierarchy during the six months ended 30 June 2021, nor in the six months ended 30 June 2020 or year ended 31 December 2020.

19. 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 30.06.21								
	Derivative financial instruments £m	Loans and advances to customers £m	Equity release portfolio £m	Equity share investments £m	Contingent Consider-ation £m	Share warrants £m	Fair value of put option obligation £m	Other assets £m	Total £m
At 1 January	(181.3)	1.3	433.8	1.4	12.3	6.5	(6.9)	1.4	**268.5**
Gain / (loss) recognised in Income Statement	24.9[1]	-	(18.6)[2]	2.3[3]	0.3[4]	1.1[5]	-	-	**10.0**
Accrued interest	(4.1)[6]	-	2.7[6]	-	-	-	-	-	**(1.4)**
Realised losses	-	-	(0.2)[7]	-	-	-	-	-	**(0.2)**
Revaluation of market values	-	-	-	-	-	-	(0.9)[8]	-	**(0.9)**
Repayments	-	(0.1)	(3.2)	-	-	-	-	-	**(3.3)**
Contingent consideration received	-	-	-	-	(6.4)	-	-	-	**(6.4)**
Transfer to associate	-	-	-	(2.7)	-	-	-	-	**(2.7)**
Additions and other movements	-	-	-	0.1	-	1.4	-	(1.4)	**0.1**
At 30 June	**(160.5)**	**1.2**	**414.5**	**1.1**	**6.2**	**9.0**	**(7.8)**	**-**	**263.7**

Notes
1. These are unrealised gains and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Derivatives associated with the equity release portfolio' line in the Income Statement.
2. These are unrealised losses and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement.
3. These are unrealised gains, which were subsequently realised during the period, and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity share investments' line in the Income Statement.
4. Included in the 'Profit on disposal of subsidiary undertakings' line in the Income Statement.
5. These are unrealised gains and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Share warrants' line in the Income Statement.
6. Included in the 'Interest receivable and similar income: Other' line in the Income Statement.
7. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.
8. These are unrealised losses and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Put options held by minority shareholders' line in the Income Statement and arise from changes to assumptions regarding the market value of the put options.

	Unaudited as at 30.06.20								
	Derivative financial instruments £m	Loans and advances to customers £m	Equity release portfolio £m	Equity share investments £m	Contingent Consider-ation £m	Share warrants £m	Fair value of put option obligation £m	Other assets £m	Total £m
At 1 January	(210.6)	1.5	410.0	1.3	17.9	3.2	(7.5)	3.2	**219.0**
(Loss) / gain recognised in Income Statement	(28.0)[1]	-	17.6[2]	-	0.5[3]	(0.6)[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**	**12.0**	**5.8**	**(6.0)**	**-**	**223.6**

Notes
1. These are unrealised losses and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Derivatives associated with the equity release portfolio' line in the Income Statement.
2. These are unrealised gains and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement.
3. Included in the 'Profit on disposal of subsidiary undertakings' line in the Income Statement.
4. These are unrealised losses and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Share warrants' line in the Income Statement.

19. Financial instruments *(continued)*

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 (losses) / gains on financial instruments mandatorily held at FVTPL: 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.

	Audited as at 31.12.20								
	Derivative financial instruments £m	Loans and advances to customers £m	Equity release portfolio £m	Equity share investments £m	Contingent Consider-ation £m	Share warrants £m	Fair value of put option obligation £m	Other assets £m	Total £m
At 1 January	(210.6)	1.5	410.0	1.3	17.9	3.2	(7.5)	3.2	219.0
(Loss) / gain recognised in Income Statement	(22.4)[1]	-	19.7[2]	0.1[3]	0.8[4]	0.1[5]	-	-	(1.7)
Contingent consideration received	-	-	-	-	(6.4)	-	-	-	(6.4)
Revaluation of market values	-	-	-	-	-	-	0.6[6]	-	0.6
Accrued interest	0.4[7]	0.1[7]	7.8[7]	-	-	-	-	-	8.3
Cash paid on partial or full cancellation	51.3[8]	-	-	-	-	-	-	-	51.3
Repayments	-	(0.3)	(3.7)	-	-	-	-	-	(4.0)
Realised losses	-	-	(0.1)[9]	-	-	-	-	-	(0.1)
Additions and other movements	-	-	0.1	-	-	3.2	-	(1.8)	1.5
At 31 December	(181.3)	1.3	433.8	1.4	12.3	6.5	(6.9)	1.4	268.5

Notes
1. These are unrealised losses and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Derivatives associated with the equity releasee portfolio' line in the Income Statement.
2. These are unrealised gains and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement.
3. These are unrealised gains and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity share investments' line in the Income Statement.
4. Included in the 'Profit on disposal of subsidiary undertakings' line in the Income Statement.
5. These are unrealised gains and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Share warrants' line in the Income Statement.
6. £0.9m is included in 'Intangible assets' (goodwill) within the Statement of Financial Position and £(0.3)m is included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Put options held by minority shareholders' line in the Income Statement and arises from changes to assumptions regarding the market value of the put options.
7. Included in the 'Interest receivable and similar income' line in the Income Statement.
8. Cash paid on cancellation of derivatives relates to two transactions during the year; the first being a partial cancellation of a derivative financial instrument held to economically hedge part of the equity release portfolio to reduce a hedging mismatch. The other transaction was in relation to the cancellation of a LIBOR-linked derivative financial instrument also held to economically hedge part of the equity release portfolio; the cancelled swap was replaced with a SONIA linked swap. The cash paid was equal to the fair value of the liability extinguished on cancellation or partial cancellation.
9. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.

Level 3 valuation techniques

For the Level 3 financial instruments shown above, the valuation techniques remain unchanged from those disclosed in note 41b) to the 2020 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 1d).

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 1d).

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 1d). 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 2021 the net impact to the Income Statement was a £6.3m credit (six months ended 30 June 2020: £10.4m charge; year ended 31 December 2020: £2.7m charge).

19. 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 30.06.21		Unaudited as at 30.06.20		Audited as at 31.12.20	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets						
Cash in hand and balances with the Bank of England	**2,286.9**	**2,286.9**	819.8	819.8	3,237.8	3,237.8
Loans and advances to credit institutions	**593.3**	**593.3**	729.5	729.5	724.7	724.7
Loans and advances to customers held at amortised cost	**22,722.1**	**22,888.0**	21,155.0	21,157.7	21,865.0	22,034.3
Trade receivables	**100.7**	**100.7**	24.3	24.3	27.8	27.8
Other receivables	**0.6**	**0.6**	-	-	-	-
	25,703.6	**25,869.5**	22,728.6	22,731.3	25,855.3	26,024.6
Financial liabilities						
Shares	**19,432.2**	**19,527.1**	17,645.1	17,753.9	18,709.4	18,828.4
Amounts owed to credit institutions	**2,066.0**	**2,066.0**	1,313.5	1,313.5	2,149.2	2,149.2
Amounts owed to other customers	**2,126.9**	**2,132.5**	1,857.8	1,866.1	2,130.3	2,137.2
Debt securities in issue	**2,293.2**	**2,310.6**	2,813.5	2,823.4	2,452.5	2,471.5
Lease liabilities	**124.9**	**124.9**	63.9	63.9	62.5	62.5
Trade payables	**18.5**	**18.5**	3.7	3.7	4.7	4.7
Subordinated liabilities	**343.8**	**357.9**	-	-	349.7	363.2
Subscribed capital	**41.6**	**75.7**	41.6	71.3	41.6	72.8
	26,447.1	**26,613.2**	23,739.1	23,895.8	25,899.9	26,089.5

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 228 of the 2020 Annual Report and Accounts, and remained materially unchanged in the period.

With respect to subordinated liabilities and subscribed capital, prices are quoted for these instruments in actively traded markets; as a result, these instruments are categorised as having Level 1 fair values.

20. Segmental reporting

The Group's structure and reportable segments are outlined in the Business Review on page 7.

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, £15.4m (six months ended 30 June 2020: £13.0m; year ended 31 December 2020: £34.5m) was generated outside the UK.

Unaudited 6 months to 30.06.21

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Net interest income	135.3	(2.8)	1.1	4.1	**137.7**
Net non-interest income	15.4	475.5	12.7	(6.0)	**497.6**
Fair value gains on hedged items and derivatives	22.8	-	-	-	**22.8**
Fair value losses on equity release portfolio	(18.6)	-	-	-	**(18.6)**
Fair value gains on other financial instruments held at FVTPL	-	2.4	-	-	**2.4**
Realised profits on treasury assets held at FVOCI	0.1	-	-	-	**0.1**
Profit on disposal of subsidiary undertakings	-	-	-	0.3	**0.3**
Fair value gains on step-acquisition of Group undertakings	-	26.9	-	-	**26.9**
Share of profits from joint ventures	-	0.9	-	-	**0.9**
Total income	**155.0**	**502.9**	**13.8**	**(1.6)**	**670.1**
Administrative expenses	(83.8)	(422.8)	(12.1)	(6.9)	**(525.6)**
Realised losses on equity release portfolio	(0.2)	-	-	-	**(0.2)**
Impairment and provisions for liabilities	14.8	0.1	-	-	**14.9**
Profit / (loss) before tax	**85.8**	**80.2**	**1.7**	**(8.5)**	**159.2**
Taxation	(14.9)	(11.8)	(0.6)	1.6	**(25.7)**
Profit / (loss) after tax	**70.9**	**68.4**	**1.1**	**(6.9)**	**133.5**
Total assets	**28,462.4**	**868.6**	**117.9**	**(476.1)**	**28,972.8**
Total liabilities	**26,780.2**	**624.0**	**117.2**	**(446.9)**	**27,074.5**

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	152.2	499.7	13.8	4.4	**670.1**
Income from other segments	2.8	3.2	-	(6.0)	**-**
Total income	**155.0**	**502.9**	**13.8**	**(1.6)**	**670.1**

20. Segmental reporting *(continued)*

Unaudited 6 months to 30.06.20

	Mortgages and Savings	Estate Agency Re-presented*	Investment Portfolio	Sundry incl. inter-divisional adjustments	Total Re-presented*
	£m	£m	£m	£m	£m
Net interest income	106.5	(0.1)	1.1	3.7	111.2
Net non-interest income	14.4	163.7	12.2	(5.2)	185.1
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 other financial instruments held at FVTPL	-	(0.2)	-	-	(0.2)
Profit on disposal of subsidiary undertakings	-	-	-	0.5	0.5
Share of profits from joint ventures	-	0.6	-	-	0.6
Total income	111.0	164.0	13.3	(1.0)	287.3
Administrative expenses	(76.4)	(143.9)	(11.7)	1.4	(230.6)
Impairment and provisions for liabilities	(19.0)	(2.9)	(0.4)	-	(22.3)
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

* The Estate Agency division comparatives are re-presented as outlined in note 5, resulting in a £4.7m reduction to 'Net non-interest income' and a corresponding £4.7m reduction to the charge for 'Impairment and provisions for liabilities'.

Total income can be analysed as follows:

	Mortgages and Savings	Estate Agency Re-presented*	Investment Portfolio	Sundry incl. inter-divisional adjustments	Total Re-presented*
	£m	£m	£m	£m	£m
External income	110.5	159.0	13.6	4.2	287.3
Income from other segments	0.5	5.0	(0.3)	(5.2)	-
Total income	111.0	164.0	13.3	(1.0)	287.3

*The Estate Agency division comparatives are re-presented as outlined in note 5, resulting in a £4.7m decrease to 'External income' within Estate Agency.

20. Segmental reporting *(continued)*

Audited 12 months to 31.12.20

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Net interest income	228.7	(0.4)	2.1	7.5	237.9
Net non-interest income	24.5	375.7	24.8	(10.5)	414.5
Fair value losses on hedged items and derivatives	(22.5)	-	-	-	(22.5)
Fair value gains on equity release portfolio	19.7	-	-	-	19.7
Fair value losses on other financial instruments held at FVTPL	-	(0.1)	-	-	(0.1)
Realised profits on treasury assets held at FVOCI	0.6	-	-	-	0.6
Profit on disposal of subsidiary undertakings	-	-	-	0.8	0.8
Share of profits from joint ventures	-	3.4	-	-	3.4
Total income	251.0	378.6	26.9	(2.2)	654.3
Administrative expenses	(160.5)	(324.0)	(22.8)	1.0	(506.3)
Realised losses on equity release portfolio	(0.1)	-	-	-	(0.1)
Impairment and provisions for liabilities	(25.8)	(2.8)	(0.5)	-	(29.1)
Profit / (loss) before tax	64.6	51.8	3.6	(1.2)	118.8
Taxation	(11.2)	(10.9)	(0.8)	1.1	(21.8)
Profit / (loss) after tax	53.4	40.9	2.8	(0.1)	97.0
Total assets	28,012.4	348.2	108.6	(205.8)	28,263.4
Total liabilities	26,458.3	175.6	100.1	(176.3)	26,557.7

Total income can be analysed as follows:

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
External income	250.1	368.9	27.1	8.2	654.3
Income from other segments	0.9	9.7	(0.2)	(10.4)	-
Total income	251.0	378.6	26.9	(2.2)	654.3

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 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 contained in UK-adopted international accounting standards; 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	(resigned 31 March 2021)
Mr I M Cornelius*	
Mr D J Cutter*	(Group Chief Executive)
Mr D A Hall	
Ms H L Jackson	
Mr P W Moore	(appointed 1 February 2021)
Mr R S D M Ndawula*	
Ms H C Stevenson	

* Executive Directors

Signed on behalf of the Board by

Robert East

Chair

2 August 2021

Independent Review Report to Skipton Building Society

Introduction

We have been engaged by the Group to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 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 20. 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.

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 2021 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with 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. 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.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with UK adopted IFRSs. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Responsibilities of 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.

Auditor's responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion is based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Group 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 Group, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP
Leeds
2 August 2021

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