SKIPTON
BUILDING SOCIETY

Since 1853

Half-Yearly Financial Report 2022

Contents

Forward-looking statements

This half-yearly financial report may contain forward-looking statements based on current expectations of, and assumptions and forecasts made by, Group management. Various known and unknown risks, uncertainties and other factors including, but not limited to: changes in general economic and business conditions in the UK and internationally; political and economic uncertainties created by the events in Ukraine; ongoing uncertainty regarding the impacts of the UK's exit 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.

Group Chief Executive's Review of the Half Year

I am pleased to present to you my first report as Skipton's Interim Group Chief Executive, having temporarily taken over the reins after David Cutter stood down in April as planned.

For most of us, the first half of 2022 has been dominated by soaring inflation and the mounting pressure on household finances. The current economic environment is understandably causing concern for our members and our colleagues. Our role at Skipton is to help people navigate these challenging times, and it's reassuring to know that our competitive offering and first-rate service have enabled us in recent months to help more people than ever before.

As a mutual, we're accountable to our members, not shareholders. Our priority will always be the long-term sustainability of our business, not short-term profit maximisation. So it is a relatively straightforward decision that we take to reinvest profits into the business for the benefit of everyone - our customers, our colleagues and our communities. We seek to invest purposefully, from strengthening our IT, digital and data platforms, through to reimagining how we attract and retain talent, to ensure we are fit for the future. And that goes for our green ambitions too, with increased investment to deliver our transition to net zero and support our customers to live in greener and more efficient homes.

For the first half of 2022 the Group generated pre-tax profits of £160.0m (six months ended 30 June 2021: £159.2m), of which the Mortgages and Savings division contributed £128.3m (six months ended 30 June 2021: £86.9m). These results, including the excellent growth achieved in both mortgages and savings, are product of the great work by colleagues across the Society and their unwavering focus on helping our members at every life stage by offering great value, great service and a strong proposition that meets their needs.

Skipton's focus on offering competitive mortgages for homebuyers saw the Society's records repeatedly broken in the period; May was the Society's highest ever month for mortgage applications, totalling £1.1bn. This robust performance saw the Group's mortgage portfolio grow 3.1% in the period to reach £24.0bn; our net lending accounted for 2.2% of growth in the UK residential mortgage market, compared to the Society's 1.4% share of UK residential mortgage balances (source: Bank of England statistics, June 2022). We at all times lend responsibly and within our risk appetite.

In the first half of the year, the Society enabled over 6,200 first-time buyers to get their first home with a Skipton mortgage. Continuing our efforts to support first-time buyers, we also hosted a special *Keys To Your First Home* event in London, the first in a series of unique experiences designed to bring to life the home buying journey. The event saw a panel of experts, including the UK's leading millennial money expert, Iona Bain, together with industry experts and those who've recently bought their first home, share their own experiences and give guidance on the home buying process.

The Bank of England increased bank base rate four times in the period, from 0.25% at the start of the year to 1.25% by June. Given the immediate cost of living crisis for households, we took decisions to protect our mortgage variable rate borrowers from these base rate increases; only 0.1% of the total 1.0% increase was passed on to the Society's variable rate borrowers.

For savers, the Society has increased the rate of interest paid on all variable rate savings accounts and now pays a minimum rate of 0.85% (31 December 2021: 0.15%) on all variable rate savings accounts. For the five months to 31 May 2022 the average savings rate paid by Skipton was 0.77%, which was 0.44% above the rest of market average for banks and building societies (source: CACI Current Account & Savings Database, Stock).

Our competitive savings rates resulted in balances growing in the period by 6% (or £1.2bn) to £21.0bn and the Society saw record cash ISA transfer volumes across the tax year-end; that meant in April, for the value of new account openings, the Society secured a remarkable 13.8% share of the fixed rate cash ISA market and a 10.7% share of the total cash ISA market (source: CACI Current Account & Savings Database).

Being the UK's first and one of the biggest providers of the Cash Lifetime ISA (LISA), Skipton now holds balances of £1.2bn for LISA customers saving hard either for their first home or for later life. These customers benefitted from Government bonuses in the period of £45.8m.

Already a living wage employer, in January the Society brought forward its annual pay review for colleagues (below Executive Committee level), awarding on average an 11% increase to their pay; this was to keep pace with market benchmarks in a dynamic employment market, ensuring all colleagues are fairly rewarded for their role. In addition, to support colleagues with the increased cost of living, the Society has committed to a payment of £1,500 for each colleague (below Senior Leader level), to be paid in September.

Connells, the Group's estate agency division, delivered underlying pre-tax profits of £29.0m (six months ended 30 June 2021: £50.0m); the higher profits in 2021 benefitted from exceptional housing market demand, fuelled by stamp duty reliefs and people's changing housing needs following the pandemic.

The environment in which we operate is subject to significant economic and geopolitical uncertainties, including that arising from the ongoing conflict in Ukraine. It is possible that these uncertain conditions will continue for some time to come.

Public and personal finances have rarely been under such pressure as they are today. Whilst faced with significant uncertainties, Skipton is in a robust position to meet the challenges ahead. The trust our customers and colleagues place in us to do the right thing by them will never be taken for granted. We will continue to do everything we can to support them and their families in these extraordinary times.

Looking ahead, I'm delighted to confirm that, subject to regulatory approval, Stuart Haire will join Skipton as Group Chief Executive at the end of the year. In a career spanning over 20 years, Stuart has held executive leadership roles across a variety of functions within financial services. Stuart will be joining us in our 170th year and his leadership and vision will bring exactly what we need for the next chapter of our long and proud history.

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Ian Cornelius

Interim Group Chief Executive

4 August 2022

Business Review

Background and context

Whilst 2020 and 2021 were dominated by the COVID-19 pandemic, the long-term effects of which continue to unfold, 2022 has been heavily shaped to date by the events in Ukraine. The combined impacts of these unprecedented global shocks are extensive and have profound social, political and economic implications which undoubtedly will be felt for years to come.

From an economic perspective, we face significant uncertainties as the UK sees escalating prices and a weakened growth outlook. In attempts to curb inflation, the Bank of England has responded with five interest rate hikes so far this year, with the expectation of more to come.

The Group's future performance will be impacted by the performance of the UK economy as events and conditions evolve. Skipton is in a robust position to meet the challenges ahead.

Business model and Group structure

Skipton Building Society is the UK's fourth largest building society, with consolidated total assets of £31.4bn and 1,103,652 members.

Founded in 1853, our purpose is to help more people have a home, help people save for the future and to support their long term financial well-being. 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 financial advice offering for 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. The Society's capital position is reinforced by dividends from our subsidiaries, which are invested back into the Society for the benefit of our members.

Further details on the Group's strategic priorities, which remained unchanged during the six months ended 30 June 2022 and are as relevant as ever, can be found in the Strategic Report in the 2021 Annual Report and Accounts.

The Group's operating results are reviewed regularly by the Board in the following reportable segments (divisions) which have been revised with effect from 1 January 2022 (see note 20 for details):

- Mortgages and Savings – principally the Society, together with Skipton International Limited (SIL) which carries out mortgage lending in the Channel Islands and the UK and accepts deposits in Guernsey. Our specialist lending businesses Amber Homeloans Limited (Amber) and North Yorkshire Mortgages Limited (NYM), which both ceased lending in 2008, were historically part of this division; the activities of these two entities were hived-up into the Society in June 2021. The division also includes the Group's special purpose vehicles, formed to acquire funds from the wholesale markets;
- Estate Agency – includes property sales, surveys and valuations, conveyancing, lettings, asset management and mortgage and insurance broking carried out through the Connells group;
- Investment Portfolio – includes invoice discounting and debt factoring through Skipton Business Finance Limited and the provision of software solutions to a range of industries through Jade Software Corporation Limited, who also assist in the development of the Society's core technology; and
- Central – principally the intermediate holding company Skipton Group Holdings Limited (SGHL), together with certain consolidation adjustments.

Objectives and Key Performance Indicators (KPIs)

The Board and senior management use the KPIs listed on page 7 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 typically 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 entities have their own specific objectives.

Absolute Customer Focus – This strategic priority is centred on delivering outstanding experiences and compelling propositions for our customers.

This is about being there to help our customers and adding real value at those moments that matter. We are focused on ensuring we have a deep understanding of our customers' needs and use these insights to continually develop, refine and improve how we do things. Our reputation for outstanding service with a human touch remains ever important across all the ways our customers interact with us, be that digitally, by video (Skipton Link), by phone or in branch; this is reflected in the Society's strong net customer satisfaction score of 84% (year ended 31 December 2021: 86%).

Also key to 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 2022, Society membership numbers grew by 20,655, taking our total membership base to 1,103,652.

At the Moneyfacts Consumer Awards in March, the Society was proud to win High Street Savings Provider of the Year. We were also rated as 'highly commended' in the First-Time Mortgage Buyers' Choice category. These awards are voted for by customers, so this is valuable recognition for both our mortgage and savings propositions.

Group mortgage balances grew by 3.1% in the period (six months ended 30 June 2021: 4.4%; year ended 31 December 2021: 6.8%), whilst maintaining our prudent credit risk appetite; our mortgage growth in the period was ahead of the UK residential mortgage market where net mortgage growth was 2.2% (source: Bank of England statistics, June 2022). Further, May was the Society's highest month on record for mortgage applications, totalling £1.1bn; this performance was driven by our competitive product positioning, excellent service levels and sustained demand in the housing market.

Savings balances grew by 6.0% in the first half of the year (six months ended 30 June 2021: 3.9%; year ended 31 December 2021: 5.8%) compared to the UK savings market where net savings growth was 1.7% (source: Bank of England statistics, June 2022). We paid on average 0.44% higher interest (2021 full year: 0.37% higher interest) than the rest of market average for banks and building societies in the five months to 31 May 2022, being the latest period for which comparable data is available (Source: CACI Current Account & Savings Database, Stock). Despite subdued ISA activity across the market, the Society's cash ISA range resonated with our customers and we saw record cash ISA transfer volumes across the tax year end.

In the first half of 2022 we supported 4,027 customers with financial advice. Funds under management at 30 June 2022 totalled £3.8bn (30 June 2021: £3.8bn; 31 December 2021: £4.1bn), the movement in the period reflecting the impact on investment values of market fluctuations.

Brilliant People – This strategic priority is focused on providing a diverse and inclusive culture that supports our colleagues to be their best – highly skilled, highly engaged, and high performing.

Encouraging a diverse and inclusive culture, representative of our communities, is a key element of Skipton's core values. Our policies to support this include, but are not limited to, a flexible working policy, a career break policy, a carer's leave policy, a family-friendly policy and a diversity policy. In April we were proud to welcome the Society's first female Chair, Gwyn Burr.

Our culture is strongly customer-focused and is based on our mutual values of One Team, Trust and Ownership. We encourage our people to be curious and to display agility. We promote a learning culture for colleagues to develop the knowledge and expertise needed to provide the best possible service to our customers.

The investment we make in our people and our culture is aligned to the delivery of our purpose and our vision of 'Building a better Society'. A key element of this is our reward strategy. Our ambition is to offer a fair and competitive reward package for all, encouraging the right behaviours and customer outcomes. This was demonstrated in January when we brought forward the annual April pay review for colleagues (below Executive Committee level); we awarded on average an 11% increase to their pay, to keep pace with market benchmarks in a dynamic employment market and ensure all our people are fairly rewarded for their role.

A key measure of the success of the Society's people strategy is employee engagement, which was 85% when last measured in September 2021. Our colleagues tell us they increasingly value the provisions we make to support flexible and hybrid working in this post-pandemic era, which is balanced at all times with how we provide the best possible service for our customers.

Powered by Digital Technology & Data – This strategic priority aims to ensure we are equipped with the right technology and data to make insightful decisions and deliver outstanding experiences.

Outstanding customer service depends on two distinct elements of our digital approach. Firstly, our digital user interface must be engaging, slick and easy to use. Secondly, our core banking system and technology infrastructure must support colleagues to deliver an outstanding experience and also remain resilient against cyber risks and other threats.

Skipton has a significant change agenda, focused on delivering effortless customer and colleague journeys and ensuring we are fit for the future. A key priority is to progress our omnichannel offering, providing customers with the ability to interact with us seamlessly across all channels. In June we launched a pilot omnichannel savings product for customers to open either online, over the phone, or via our seven 'test and learn' branches; this is a significant milestone on our journey to offering our customers a true omnichannel experience.

We want our customers to experience the best of Skipton more easily, including via our digital and social media platforms. This is reflected in our digital customer satisfaction score, which stands at 84% (30 June 2021: 86%; 31 December 2021: 85%). Over 256,900 members are now signed-up to our mobile app, and we plan to add further functionality to the app.

Financial Strength – This strategic priority is focused on creating mutual value for customers, colleagues and communities for generations to come. To achieve this, we will maintain our strong capital and liquidity position which enables us to continue to invest in the Society over the long term despite economic uncertainty. We seek to grow our mortgage and savings balances in a sustainable way, manage our cost base and actively manage the risk of losses that may arise from our mortgage portfolios. Regular receipt of dividends from our subsidiaries, principally Connells, creates additional financial strength for the Society, and hence for our members.

A more detailed review of our financial performance and position can be found on pages 8 to 13.

Key Performance Indicator (KPI)	Purpose	**6 months to 30.06.22**	6 months to 30.06.21	12 months to 31.12.21
Absolute Customer Focus				
Total member numbers (Society only)	To ensure we are attracting and retaining members	**1,103,652**	1,075,231	1,082,997
Growth in membership numbers (Society only)	To ensure we are attracting and retaining members	**20,655**	14,093	21,859
Increase in member savings balances (Society only)	To help more members save for their future	**£1,195m**	£735m	£1,087m
Group gross mortgage advances	To help us to meet our goal of helping more people into homes through prudent and controlled lending	**£2,675m**	£2,974m	£5,426m
Group net mortgage growth	To help us to meet our goal of helping more people into homes through prudent and controlled lending	**£725m**	£965m	£1,481m
Society net customer satisfaction score (note 1)	To ensure we are putting the customer at the heart of our business	**84%**	87%	86%
Society Financial Ombudsman Service (FOS) complaints - change in outcome rate (note 2)	To ensure we are treating customers fairly	**22%**	25%	29%
Brilliant People				
Employee engagement (Society only) (note 3)	To ensure our people are passionate, loyal and committed	**n/a**	n/a	85%
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	**57%**	53%	54%
Financial Strength				
Total Group profit before tax	To ensure we generate the necessary capital to grow the business	**£160.0m**	£159.2m	£271.8m
Underlying Group profit before tax (as defined on page 8)	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	**£148.5m**	£122.4m	£233.4m
Group net interest margin (% of mean assets)	To manage the earnings of our core Mortgages and Savings division	**1.29%**	0.97%	1.03%
Mortgages and Savings division cost income ratio (note 4)	To maintain a manageable cost base to ensure the business remains efficient	**44.9%**	55.6%*	52.6%*
Mortgages and Savings division management expense ratio	To maintain a manageable cost base to ensure the business remains efficient	**0.63%**	0.59%*	0.60%*
Group residential mortgages in arrears by three months or more (note 5)	To manage and monitor our arrears and credit risk management	**0.19%**	0.27%	0.22%
Liquidity Coverage Ratio	To ensure we hold sufficient levels and quality of overall liquidity	**177%**	187%	173%
Group retail funding as a % of total funding	To ensure we fund the majority of our mortgages through retail savings, in line with our customer proposition	**79.6%**	80.3%	80.2%
Group Common Equity Tier 1 (CET 1) ratio (note 6)	To ensure the Group remains financially strong by having a strong (risk weighted) capital base	**36.5%**	42.2%	44.6%
UK Leverage ratio (note 7)	To ensure the Group remains financially strong by having a strong (non-risk weighted) capital base	**6.7%**	6.5%	6.8%

* These comparative figures are restated following a revision of the Group's reportable segments with effect from 1 January 2022, as set out in note 20. The Mortgages and Savings division cost income ratio was previously reported as 56.4% (6 months to 30 June 2021) and 53.0% (12 months to 31 December 2021). The Mortgages and Savings division management expense ratio was previously reported as 0.60% (6 months to 30 June 2021) and 0.61% (12 months to 31 December 2021).

Notes

1. As measured from an in-house survey of c.3,600 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 published by FOS in April 2022 in respect of the six month period to 31 December 2021 (data published every six months); the Society rate of 22% compares favourably to the industry average for that period of 37%.
3. As measured by Willis Towers Watson, an independent company who provide benchmarking on employee surveys in both the UK and globally. The annual survey is conducted in September each year; this is complemented by more regular pulse surveys which are carried out periodically throughout the year, allowing us to quickly respond to our colleagues' changing needs.
4. For the purposes of this ratio, costs and income exclude items that are not included in arriving at underlying Group profit before tax, which is defined on page 8.
5. In line with regulatory guidance, customers granted mortgage payment deferrals in response to COVID-19 were not treated as in arrears (unless already in arrears) and therefore any impact of COVID-19 on arrears may have been suppressed in the short term. Applications for COVID-19 payment deferrals closed on 31 March 2021 and all outstanding payment deferrals ended on or before 31 July 2021.
6. This ratio applies IFRS 9 transitional arrangements; see page 13 for further details.
7. This ratio represents the UK regulatory regime implemented on 1 January 2022, which excludes deposits with central banks from the leverage exposure measure, and which applies IFRS 9 transitional arrangements; see page 13 for further details.

Financial performance

Total Group profit before tax (PBT) for the first half of the year was £160.0m (six months ended 30 June 2021: £159.2m; year ended 31 December 2021: £271.8m).

The Mortgages and Savings division has made a strong start to 2022, generating profits of £128.3m (six months ended 30 June 2021: £86.9m restated; year ended 31 December 2021: £172.2m restated). This is £41.4m higher than for the first half of 2021, principally due to improved net interest income and margins which have benefitted from increases in the Bank of England base rate.

Our Estate Agency division, Connells, generated pre-tax profits in the period of £28.9m (six months ended 30 June 2021: £80.2m; year ended 31 December 2021: £111.3m). This result reflects more challenging housing market conditions following the exceptional levels of demand seen in 2021, and a housing market impacted by lack of stock, slow pipeline conversion (due to market-wide delays in conveyancing) and wider economic headwinds affecting consumer confidence. Also, profits in the comparative six month period to 30 June 2021 benefitted from a number of one-off gains, details of which are on page 10.

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 2021 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 amortisation charges or acquisition costs when calculating underlying profits. Details of amortisation charges arising from the acquisition of Countrywide by Connells in March 2021 are discussed on page 10; these charges will not recur in the medium term.

Underlying Group PBT for the six months ended 30 June 2022 was £148.5m (six months ended 30 June 2021: £122.4m; year ended 31 December 2021: £233.4m) as follows:

	6 months to 30.06.22 £m	6 months to 30.06.21 £m	12 months to 31.12.21 £m
Total Group PBT	**160.0**	159.2	271.8
Less profit on disposal of subsidiary undertakings	**(0.1)**	(0.3)	(0.5)
Less fair value gains in relation to the equity release portfolio (note 1)	**(11.5)**	(6.3)	(5.5)
Add back / (less) fair value losses / (gains) on share warrants and equity share investments	**0.1**	(3.3)	(5.5)
Less fair value gains on step-acquisition of Group undertakings (note 2)	**-**	(26.9)	(26.9)
Underlying Group PBT	**148.5**	122.4	233.4

Notes

1. The £11.5m gain (six months ended 30 June 2021: £6.3m gain; year ended 31 December 2021: £5.5m gain) is comprised of fair value losses of £61.5m (six months ended 30 June 2021: £18.6m losses; year ended 31 December 2021: £27.3m losses) as shown in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement, and fair value gains of £73.0m (six months ended 30 June 2021: £24.9m gains; year ended 31 December 2021: £32.8m gains) on the associated derivatives held to economically hedge these fair value movements, as shown in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Derivatives associated with equity release portfolio' line in the Income Statement.
2. This comprised a £27.1m fair value gain in relation to the Group's former 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.

Performance by division

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

	6 months to 30.06.22 £m	6 months to 30.06.21 Restated* £m	12 months to 31.12.21 Restated* £m
Mortgages and Savings	**128.3**	86.9	172.2
Estate Agency	**28.9**	80.2	111.3
Investment Portfolio	**3.6**	1.7	5.5
Central^	**(0.8)**	(9.6)	(17.2)
Profit before tax	**160.0**	159.2	271.8

* The comparative analyses by division are restated following a revision of the Group's reportable segments with effect from 1 January 2022. The impacts are presentational only and there is no impact on total Group amounts reported. See note 20 for further details.

^ Central includes SGHL and the elimination of inter-divisional trading. The results of SGHL include the cost of the management incentive scheme for senior managers of Connells Limited and also include additional profit on disposal recognised in relation to the sale in 2014 of Homeloan Management Limited.

Underlying performance by division

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

	6 months to 30.06.22 £m	6 months to 30.06.21 Restated* £m	12 months to 31.12.21 Restated* £m
Mortgages and Savings	**116.8**	80.6	166.7
Estate Agency	**29.0**	50.0	78.9
Investment Portfolio	**3.6**	1.7	5.5
Central^	**(0.9)**	(9.9)	(17.7)
Underlying Group PBT	**148.5**	122.4	233.4

* The comparative analyses by division are restated following a revision of the Group's reportable segments with effect from 1 January 2022. The impacts are presentational only and there is no impact on total Group amounts reported. See note 20 for further details.

^ Central includes SGHL and the elimination of inter-divisional trading. The results of SGHL include 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 £116.8m for the first six months of the year (six months ended 30 June 2021: £80.6m restated; year ended 31 December 2021: £166.7m restated).

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, subscribed capital and subordinated debt). The division's net interest income amounted to £190.2m for the first half of the year (six months ended 30 June 2021: £135.4m restated; year ended 31 December 2021: £291.8m restated).

The Group's net interest margin, one of our key measures of performance, measures net interest income as a percentage of mean total assets and was 1.29% for the first half of 2022 (six months ended 30 June 2021: 0.97%; year ended 31 December 2021: 1.03%). The rising interest rate environment created opportunities in the period to generate higher net income, through our competitive customer proposition, and to optimise our funding mix. Mortgage new business margins remain under significant pressure, due to continued fierce competition in the mortgage market. Conversely, savings margins have benefitted from base rate changes and from the abundance of UK savings built up during the pandemic which has limited competition for the acquisition of new savings.

Group gross mortgage advances in the first half of the year were £2,675m (six months ended 30 June 2021: £2,974m; year ended 31 December 2021: £5,426m), whilst Group net lending was £725m (six months ended 30 June 2021: £965m; year ended 31 December 2021: £1,481m). Despite the uncertain economic environment, we achieved strong net growth in our mortgage book in the period of 3.1% (six months ended 30 June 2021: 4.4%; year ended December 2021: 6.8%), without compromising the quality of our mortgage assets.

Following a prolonged period of record-low bank base rates, recent rate rises mean our savers have access to higher returns and we continue to offer rates above the market average. Savings balances increased by £1,195m since the end of 2021, which represents growth of 6.0% (six months ended 30 June 2021: 3.9%; year ended 31 December 2021: 5.8%). Cash Lifetime ISA (LISA) customers continue to be well represented in our customer base and as at 30 June 2022 we had 158,080 LISA customers with total balances of £1,173.0m (six months ended 30 June 2021: £1,141.0m; year ended 31 December 2021: £1,087.6m). Government bonuses of £45.8m were received by our LISA customers during the first half of 2022.

Financial advice generated £17.0m of income (six months ended 30 June 2021: £15.2m; year ended 31 December 2021: £32.2m), with funds under management totalling £3.7bn as at 30 June 2022 (30 June 2021: £3.8bn; 31 December 2021: £4.1bn).

Administrative expenses in the Mortgages and Savings division were £94.0m for the period (six months ended 30 June 2021: £82.8m restated; year ended 31 December 2021: £171.5m restated). Spend in the period reflects investments made in our people, such as the colleague pay awards discussed on page 6, and in technology, such as moving to cloud-based facilities.

The ratio of administrative expenses to mean total assets for the division, a traditional building society measure of efficiency, increased slightly in the period to 0.63% (six months ended 30 June 2021: 0.59% restated; year ended 31 December 2021: 0.60% restated).

The ratio of administrative expenses to income improved significantly in the period to 44.9% (six months ended 30 June 2021: 55.6% restated; year ended 31 December 2021: 52.6% restated); this improvement reflects the division's strong income growth without a commensurate increase in our cost base.

The percentage of the Society's residential mortgage accounts in arrears by three months or more was 0.20% (30 June 2021: 0.28%; 31 December 2021: 0.23%), which compares very favourably to the UK Finance industry average for mortgages in arrears by more than three months of 0.77% (UK Finance figures as at 31 March 2022, being the latest available data).

At 30 June 2022 the residential impairment loss allowance was £9.9m (30 June 2021: £9.9m; 31 December 2021: £10.9m), with a related credit to the Income Statement of £0.8m (six months ended 30 June 2021: £12.7m credit; year ended 31 December 2021: £11.4m credit). These movements reflect improvements in the quality of the portfolio and also the impact of revisions to certain post model adjustments (as discussed on page 29); this is offset in part by the impact of changes to the Group's forward-looking economic assumptions that include an increase to the downside weighting.

The commercial lending portfolio, which has been closed to new business since 2008, stands at £178.1m as at 30 June 2022 (30 June 2021: £207.9m; 31 December 2021: £195.0m) with an average loan size of £227k. Arrears levels within the portfolio remain low. At 30 June 2022 the commercial impairment loss allowance stood at £13.6m (30 June 2021: £15.6m; 31 December 2021: £16.2m), with a related credit to the Income Statement of £1.5m (six months ended 30 June 2021: £2.1m credit; year ended 31 December 2021: £1.6m credit). The reduction in the impairment allowance is principally due to improvements in arrears and redemption of accounts, offset in part by the impact of changes to the Group's forward-looking economic assumptions.

The Group holds an equity release mortgage book which is closed to new business. We have seen a net fair value gain on our equity release portfolio and associated derivatives of £11.5m (six months ended 30 June 2021: net gain of £6.3m; year ended 31 December 2021: net gain of £5.5m). This net fair value gain is driven by changes in market expectations of long term interest rates, inflation and house price growth.

Skipton International (SIL), our Channel Islands operation, performed strongly in the first six months of the year, reporting pre-tax profits of £18.0m (six months ended 30 June 2021: £11.4m; year ended 31 December 2021: £25.5m). SIL reported strong growth in its mortgage book, which increased by 4.5% to £1,812.7m (30 June 2021: £1,656.5m; 31 December 2021: £1,735.1m). SIL's savings book remained stable at £2,019.6m (30 June 2021: £1,943.2m; 31 December 2021: £2,051.1m).

The quality of the SIL mortgage book remains excellent, with no cases in arrears by three months or more (30 June 2021: one case; 31 December 2021: one case).

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 for the period of £28.9m (six months ended 30 June 2021: £80.2m; year ended 31 December 2021: £111.3m); this includes a full six months of Countrywide, which was acquired part-way through the comparative period on 8 March 2021. Integration of the Countrywide business continues to progress well, which includes improving the overall control environment.

Profits for the comparative six month period ended 30 June 2021 benefitted from one-off fair value gains of £26.9m on step-acquisition of two subsidiary businesses, and also a £2.2m gain relating to an equity investment that was sold. Underlying profits for the six months ended 30 June 2022 were £29.0m (six months ended 30 June 2021: £50.0m; year ended 31 December 2021: £78.9m).

The division's underlying results for the half year include amortisation charges of £10.4m against the intangible assets that were recognised on acquisition of Countrywide (six months ended 30 June 2021: £38.3m; year ended 31 December 2021: £52.4m).

In 2022 the housing market has been less frenetic, following the exceptional conditions in 2021 where the combined impact of stamp duty concessions, low interest rates and pent-up demand led to record-high market transaction levels. The changing housing market conditions are reflected in the division's results for the period, with a market impacted by lack of stock, slow pipeline conversion (due to market-wide delays in conveyancing that have increased the time taken between exchange and completion) and wider economic headwinds affecting consumer confidence.

Confidence in the housing market remains good, with the sales pipeline 11% higher at 30 June 2022 compared with 30 June 2021. The availability of housing stock remains a key market challenge with the number of properties for sale 3% lower than June 2021. While there is some uncertainty, with the cost of living crisis and rising interest rates impacting affordability, there remain buyers for the properties on the market.

Investment Portfolio

Skipton Business Finance Limited (SBF) (a provider of debt factoring and invoice discounting to small and medium-sized enterprises) generated a pre-tax profit for the period of £3.2m (six months ended 30 June 2021: £1.9m; year ended 31 December 2021: £5.4m). Results for the period have recovered well as pandemic related restrictions were lifted in early 2022 and demand for goods and services increased across all sectors supported by the company. SBF took the opportunity to increase its national presence during the period by establishing a regional footprint within Scotland, recognising that this geographical area provides growth opportunities for the company.

SBF continued during the period to offer both term loans and invoice finance facilities under the Recovery Loan Scheme (RLS), following a six-month extension to this scheme by the British Business Bank to 30 June 2022.

Jade Software Corporation (a software solutions provider based in New Zealand, specialist in delivering digital business solutions and the provider of the Society's core database and software development language) reported a £0.3m profit for the period (six months ended 30 June 2021: £0.2m loss; year ended 31 December 2021: broke even).

Central

The Income Statement charge in the period relating to the management incentive scheme for senior managers of Connells Limited was £1.0m (six months ended 30 June 2021: £8.1m charge; year ended 31 December 2021:

£15.5m charge) which reflects the latest view of the expected future performance of the Connells group. During the period two managers in the scheme exercised a proportion of their options in line with the scheme rules which resulted in payments of £8.9m 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 2021 Annual Report and Accounts.

The fifth and final instalment of contingent consideration relating to the sale in 2014 of Homeloan Management Limited (HML) was received in the period, amounting to £6.4m; the contingent consideration asset is therefore £nil at 30 June 2022 (30 June 2021: £6.2m; 31 December 2021: £6.3m). The related profit recognised in the Income Statement for the period was £0.1m (six months ended 30 June 2021: £0.3m; year ended 31 December 2021: £0.5m) and is included in the line 'Profit on disposal of subsidiary undertakings'. 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 recognised in previous years.

Other comprehensive income

During the period, the Group recognised net income of £2.4m through other comprehensive income (net of tax) (six months ended 30 June 2021: £27.5m net income; year ended 31 December 2021: £42.9m net income). This includes:

- The remeasurement of retirement benefit obligations to reflect latest market conditions, which resulted in a loss of £4.0m (before tax) (six months ended 30 June 2021: £15.9m gain; year ended 31 December 2021: £23.9m gain);
- Fair value gains of £0.9m (before tax) on equity share investments designated as Fair Value Through Other Comprehensive Income (six months ended 30 June 2021: £nil; year ended 31 December 2021: £2.5m gain);
- Movements in the Group's fair value reserve, cost of hedging reserve, translation reserve and cash flow hedging reserve totalling a gain of £7.4m (before tax) (six months ended 30 June 2021: £16.1m gain; year ended 31 December 2021: £27.8m gain); and
- Income tax on the above-listed items totalling a £1.9m charge (six months ended 30 June 2021: £4.5m charge; year ended 31 December 2021: £11.3m charge).

Financial position

Liquidity

The Group continues to hold healthy levels of liquid assets to ensure it can meet its liabilities as they fall due and to help mitigate the risks from present economic uncertainties. The Liquidity Coverage Ratio (LCR), a measure designed to ensure that financial institutions have sufficient high quality assets available to meet their liquidity needs for a 30 day liquidity stress scenario, was 177% at 30 June 2022 (30 June 2021: 187%; 31 December 2021: 173%). Liquidity remains well above both the regulatory limit of 100% and the internal limit set by the Board throughout the period.

At 30 June 2022, the Society held £4.8bn (30 June 2021: £3.8bn; 31 December 2021: £3.8bn) of High Quality Liquid Assets (HQLA) as analysed below:

	30.06.22 £m	30.06.21 £m	31.12.21 £m
Balances with the Bank of England	**2,749.1**	2,203.6	2,343.3
Gilts	**261.8**	221.7	261.9
Treasury bills	**454.5**	-	-
Fixed rate bonds	**605.9**	722.0	559.4
Floating rate notes	**169.2**	236.0	193.3
Residential mortgage backed securities	**178.3**	138.0	136.1
Covered bonds	**416.2**	266.4	260.3
	4,835.0	3,787.7	3,754.3

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

	30.06.22 £m	30.06.21 £m	31.12.21 £m
Cash with other institutions	**-**	44.6	-
Certificates of deposit	**445.2**	-	314.9
Residential mortgage backed securities	**4.1**	12.2	30.8
	449.3	56.8	345.7

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. This is due to certain items being excluded from the above tables where they have been encumbered, such as liquid assets used as collateral and those used in repurchase, or 'repo', transactions; such items are ring-fenced for the sole purpose of collateralisation.

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 2021: 100%; 31 December 2021: 100%). 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 remained well in excess of the minimum regulatory requirement of 100% during the six month period.

When measured as a percentage of shares, deposits and borrowings, the liquidity ratio remained strong at 22.0% compared with 19.3% at 31 December 2021. The Group regularly conducts an Internal Liquidity Adequacy Assessment Process (ILAAP) in accordance with the Prudential Regulation Authority's (PRA) liquidity guidelines and the Board remains satisfied that the Group has sufficient liquid assets at its disposal in order to meet its obligations as they fall due.

Loans and advances to customers

The Group continues to grow its mortgage assets in a controlled manner, lending within its own clearly defined risk appetites through both the Society and SIL. Group mortgage balances saw growth of 3.1% in the period (six months ended 30 June 2021: 4.4%; year ended 31 December 2021: 6.8%), increasing from £23.2bn at the end of 2021 to £24.0bn.

The Society has continued to lend to a broad spectrum of borrowers, within our credit risk appetite, throughout the period. The Society's average LTV of new lending in the period (calculated on a valuation-weighted basis) was 60.0% (six months ended 30 June 2021: 57.5%; year ended 31 December 2021: 56.4%). We consider our new lending to remain prudent and the mortgage book is well diversified by geographical location.

As at 30 June 2022, the average valuation-weighted LTV of the total residential mortgage book (excluding equity release) was 41.6% (30 June 2021: 44.2%; 31 December 2021: 42.8%).

At 30 June 2022, the fair value of the Group's equity release portfolio was £348.0m (30 June 2021: £414.5m; 31 December 2021: £406.6m). The decrease in fair value of equity release mortgages is primarily due to an increase in expected future interest rates, which are used to discount the portfolio's cash flows (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. Following Bank of England base rate increases in the period to June, we now pay a minimum rate of 0.85% (31 December 2021: 0.15%) on all variable rate savings accounts.

As at 30 June 2022, £20.9bn (30 June 2021: £19.4bn; 31 December 2021: £19.8bn) of our funding came from retail savings, representing 79.6% (30 June 2021: 80.3%; 31 December 2021: 80.2%) 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 £2.0bn (30 June 2021: £1.9bn; 31 December 2021: £2.1bn). 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 2022, having successfully issued a £500m 5-year covered bond in April, our wholesale funding balances amounted to £5.3bn (30 June 2021: £4.5bn; 31 December 2021: £4.6bn). The Group's wholesale funding ratio increased slightly to 20.4% as at 30 June 2022 (30 June 2021: 19.7%; 31 December 2021: 19.8%).

At 30 June 2022 the Society had £1.9bn outstanding under the Bank of England's 'Term Funding Scheme with additional incentives for SMEs' (TFSME) (30 June 2021: £0.85bn; 31 December 2021: £2.0bn), having refinanced in October 2021 all of the £1.15bn that remained outstanding at that date from the original Term Funding Scheme (TFS) (30 June 2021: £1.15bn; 31 December 2021: £nil). The TFSME scheme closed in October 2021.

The credit ratings of the Society are assigned by two major credit rating agencies, Fitch and Moody's. The Society's current ratings, which have not changed during 2022 to date, are summarised in the following table.

	Fitch	Moody's
Covered Bonds	AAA	Aaa
Senior Preferred	A	A2
Baseline Credit Assessment (BCA)	N/A	A3
Issuer Default Rating (IDR)	A-	N/A
Short Term	F1	P-1
Senior Non Preferred	A-	Baa1
Outlook	Stable	Stable
Last change of rating	August 2021	July 2021

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 UK Capital Requirements Regulation (UK CRR), as implemented in 2022.

The capital requirements under the prudential consolidation group are higher than under the individual consolidation group. On the basis that the prudential consolidation group represents the lowest capital adequacy and leverage positions, and the same risk management framework is applied to both consolidation groups, the analysis throughout these disclosures has 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 £91.7m from 31 December 2021 to £1,907.2m as at 30 June 2022 (30 June 2021: £1,718.2m; 31 December 2021: £1,815.5m). This is mainly due to the retained profits accumulated during the period and dividend income received from Connells.

Risk weighted exposure amounts (RWEAs; previously known as risk weighted assets (RWAs)) have increased by £1,132.4m in the period to £5,117.1m (30 June 2021: £3,981.0m; 31 December 2021: £3,984.7m). This increase is principally driven by regulatory changes introduced on 1 January 2022. The largest of these is the inclusion of a temporary model adjustment (TMA) to uplift the Society's regulatory approved IRB Point in Time model outputs to align with the Society's best view of 2022 hybrid IRB model outputs. The Society's approach aligns to the updated regulation outlined in PRA Supervisory Statement SS11/13. The Society submitted the updated IRB models to the PRA in 2021; the process for review and approval is ongoing and therefore the models remain subject to change.

The CET 1 ratio has reduced to 36.5% from 44.6% at 31 December 2021, driven primarily by the move to the hybrid IRB models as described above.

The UK leverage ratio has remained stable at 6.7% (30 June 2021: 6.5%; 31 December 2021: 6.8%).

The following table shows the composition of the prudential group's regulatory capital as at 30 June 2022. IFRS 9 transitional arrangements are applied throughout.

	30.06.22 £m	30.06.21 £m	31.12.21 £m
Capital resources:			
Common Equity Tier 1 capital	**1,867.2**	1,678.2	1,775.5
Total Tier 1 capital	**1,867.2**	1,687.2	1,784.5
Total Tier 2 capital	**40.0**	31.0	31.0
Total regulatory capital	**1,907.2**	1,718.2	1,815.5
Risk weighted exposure amounts	**5,117.1**	3,981.0	3,984.7
Capital and leverage ratios (note 1):			
Common Equity Tier 1 (CET 1) ratio	**36.5%**	42.2%	44.6%
Tier 1 ratio	**36.5%**	42.4%	44.8%
Total capital ratio	**37.3%**	43.2%	45.6%
UK leverage ratio (note 2)	**6.7%**	6.5%	6.8%

Notes

1. The capital ratios are calculated as relevant capital divided by risk weighted exposure amounts and the UK 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).
2. The UK leverage ratio represents the UK regulatory regime implemented on 1 January 2022, 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 UK CRR as implemented in 2022.

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 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.

At 30 June 2022, total MREL resources, including MREL eligible senior non-preferred debt, were 44.1% of RWEAs (31 December 2021: 54.4%). The decrease in the period is mainly due to the increase in RWEAs as a result of regulatory changes; 44.1% remains above the 2022 requirement of 18% of RWEAs plus capital buffers issued by the Bank of England.

Regulatory changes from 1 January 2023 mean we expect the MREL requirement to become equal to 2x (pillar 1 plus pillar 2A capital requirements). Compliance with MREL is reflected in the Society's corporate plans.

Further information can be found in the Group's Pillar 3 Disclosures, which are published on the Society's website skipton.co.uk.

Responsible and sustainable

As a mutual, Skipton's commitment to building a better, more sustainable society for all has always been at the heart of what we do. We have evolved our organisational strategy so that this is woven throughout, ensuring we are sustainable socially, financially and environmentally.

In March we published our Group Responsible Business Report, which sets out in detail our sustainability commitments, progress and ambitions. We have set ourselves challenging environmental, social and governance (ESG) targets and ambitions over the short, medium and longer terms.

In the first half of 2022 we continued to drive progress forward in line with our goals. Key highlights include the launch of our Green Additional Borrowing mortgage products, providing finance for homeowners to make green home improvements. The Society's Head Office and branches are now operating on certified green gas and electric, which will significantly reduce operational carbon emissions and means that all the Society's energy is now procured from 100% renewable energy sources. The Society has also engaged a specialist provider to support the work we are doing to assess the sustainability credentials of our suppliers, ensuring our supply chain meets the Group's robust ESG standards. Further details, including more about our social and governance goals, can be found in the Group Responsible Business Report.

The challenges of sustainability are ever-changing; we continually reassess our understanding of the issues and the actions we are taking to make a positive impact, both within the Society and across the wider Group.

Principal risks and uncertainties

Economies across the globe currently face significant uncertainties, created by an unprecedented set of circumstances. The impacts of Russia's invasion of Ukraine, together with the after-effects of the COVID-19 pandemic, have combined to cause considerable inflationary pressures, supply-chain disruption, concerns over energy security and a slower growth outlook. In the UK, we have seen record price increases, for energy and fuel in particular, resulting in a cost of living crisis and government support for households. The Bank of England has responded with several interest rate hikes in recent months.

Whilst the outlook for the Group and Society currently remains positive, the future performance of the Group will be impacted by the performance of the UK economy as events and conditions evolve. 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 changing economic environment outlined above, the Directors do not consider that the principal risks and uncertainties affecting the Group have changed materially since the publication of the 2021 Annual Report and Accounts.

The principal risks categorised in the 2021 Annual Report and Accounts are set out below, with updates provided in relation to the changing economic environment. The key risks faced by the Skipton Group are summarised 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 1c) 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 1c) to the Condensed Consolidated Financial Statements for further details.
- **Liquidity risk** is the risk that the Group is unable to meet its current and future financial obligations as they fall due. The Group maintains a high quality liquidity portfolio and continues to hold liquidity well in excess of the regulatory minimum.
- **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 continue to steadily rise in the short-term, as the Bank of England responds to inflationary pressures. The potential impact of rising interest rates on our customers' ability to meet mortgage repayments is considered when updating impairment loss allowances for latest economic assumptions (see credit risk above).
- **Capital risk** is the risk that the business does not maintain sufficient capital levels to protect itself against the principal risks it faces such as severe recession or business shocks. The Group conducts an ICAAP at least annually to assess the Group's current and projected capital requirements to support the current risks in the business and future risks arising from its corporate plans.

  As noted on page 13, regulatory changes were introduced with effect from 1 January 2022 with resulting changes to our IRB models.
- **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.
- **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** refers to the commercial impact that climate and environmental changes present to our business model. The Executive Committee is responsible for management of the financial and operational risks arising from climate change and the management strategy to mitigate these risks.

  Progress has been made towards embedding our approach to managing climate change risks, with focus on the four key pillars of governance, risk management, scenario analysis and disclosures. In addition, the Society has identified a series of sustainable development goals, and developed a sustainability strategy, which outline the steps the Society is taking to ensure it acts responsibly in response to climate change. It is recognised that the Group will need to remain responsive to the evolving nature of this risk.
- **Conduct risk** is the risk of delivering poor or inappropriate outcomes for customers. The framework to control this area, which includes the operation of rigorous procedures and compliance monitoring, is maintained by the Conduct and Operational Risk Group and overseen by the Board Risk Committee.

- **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 execution – the scale, scope and pace of change across the business is hugely demanding and creates the risk of management attention being diverted from core business activities, negatively impacting planned performance. Management has identified the key areas for attention; these are the successful integration of Countrywide, the Group's response to regulatory change and management of the Group's change portfolio.
    - 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 remote working. 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 handled 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 extent and detailed requirements of this legislation has seen significant resource and investment dedicated to this area across the Group to build appropriate control frameworks and oversight arrangements.
    - Succession planning – this is the risk that holders of key posts unexpectedly leave employment without there being an obvious successor in place. Mitigation of this risk for the Group's principal businesses has been a key focus of the Nominations Committee. Agreed frameworks with talent development programmes are in place.
    - People & talent – this is the inability to retain or attract new talent with key technical skills in an increasingly competitive market which may limit our ability to effectively deliver key strategic and operational objectives. Benchmarking of remuneration for all roles has been completed in the period and talent development programmes are being enhanced.
- **Reputational risk** is the risk to earnings, liquidity or capital arising from negative market or public opinion. This risk is managed through maintaining and investing in control structures, focusing on customer outcomes and working within the Group's risk management framework.

A more detailed explanation of the risks above, which are common to most financial services firms in the UK, and how the Group seeks to mitigate them can be found on pages 75 to 81 of the 2021 Annual Report and Accounts.

Bobby Ndawula

Bobby Ndawula

Group Finance Director

4 August 2022

Condensed Consolidated Income Statement

For the half year ended 30 June 2022

	Notes	**Unaudited 6 months to 30.06.22 £m**	Unaudited 6 months to 30.06.21 £m	Audited 12 months to 31.12.21 £m
Interest receivable and similar income:				
Accounted for using effective interest rate method	3	**307.6**	221.4	457.3
Other	3	**4.6**	(2.3)	(2.9)
Total interest receivable and similar income		**312.2**	219.1	454.4
Interest payable and similar charges	4	**(117.9)**	(81.4)	(157.7)
Net interest receivable		**194.3**	137.7	296.7
Fees and commissions receivable	5	**539.4**	501.3	1,054.5
Fees and commissions payable		**(6.9)**	(5.0)	(8.4)
Fair value gains / (losses) on financial instruments mandatorily held at FVTPL:				
Hedging instruments and hedged items		**0.1**	(2.1)	0.5
Derivatives associated with equity release portfolio	12	**73.0**	24.9	32.8
Equity release portfolio	12	**(61.5)**	(18.6)	(27.3)
Share warrants		**(0.8)**	1.1	3.2
Put options held by minority shareholders		**0.3**	(0.9)	(1.3)
Equity share investments		**0.7**	2.2	2.3
Fair value gains on step-acquisition of Group undertakings		**-**	26.9	26.9
Realised profits on treasury assets held at FVOCI		**-**	0.1	0.1
Profit on disposal of subsidiary undertakings		**0.1**	0.3	0.5
Share of profits from joint ventures		**0.4**	0.9	1.2
Other income		**1.8**	1.3	2.6
Total income		**740.9**	670.1	1,384.3
Administrative expenses	6	**(581.4)**	(525.6)	(1,125.1)
Operating profit before impairment and provisions		**159.5**	144.5	259.2
Impairment credit on loans and advances to customers	7	**2.2**	14.8	12.9
Impairment (losses) / credit on liquid assets		**(0.1)**	0.1	(0.2)
Realised losses on equity release portfolio	12	**(0.4)**	(0.2)	(0.5)
Provisions for liabilities	9	**(1.2)**	-	0.4
Profit before tax		**160.0**	159.2	271.8
Tax expense	10	**(36.2)**	(25.7)	(55.9)
Profit for the period		**123.8**	133.5	215.9
Profit for the period attributable to:				
Members of Skipton Building Society		**123.8**	133.4	215.8
Non-controlling interests		**-**	0.1	0.1
		123.8	133.5	215.9

Segmental performance of the Group is shown in note 20.

The notes on pages 24 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 2022

	Unaudited 6 months to 30.06.22 £m	Unaudited 6 months to 30.06.21 £m	Audited 12 months to 31.12.21 £m
Profit for the period	**123.8**	133.5	215.9
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement (losses) / gains on defined benefit obligations	**(4.0)**	15.9	23.9
Gains on equity share investments designated at FVOCI	**0.9**	-	2.5
Income tax on items that will not be reclassified to profit or loss	**-**	(0.3)	(3.1)
	(3.1)	15.6	23.3
Items that may be reclassified subsequently to profit or loss:			
Movement in cash flow hedging reserve:			
Gains taken to equity	**35.0**	13.9	26.8
Realised gains transferred to Income Statement	**(17.0)**	(0.1)	(0.1)
Movement in fair value reserve (debt securities):			
(Losses) / gains taken to equity	**(12.3)**	2.1	1.6
Impairment loss allowance on debt securities held at FVOCI	**0.1**	-	0.3
Realised losses transferred to Income Statement	**-**	-	0.1
Movement in cost of hedging reserve:			
Gains / (losses) taken to equity	**1.5**	0.5	(0.5)
Exchange differences on translation of foreign operations	**0.1**	(0.3)	(0.4)
Income tax on items that may be reclassified to profit or loss	**(1.9)**	(4.2)	(8.2)
	5.5	11.9	19.6
Other comprehensive income for the period, net of tax	**2.4**	27.5	42.9
Total comprehensive income for the period	**126.2**	161.0	258.8
Total comprehensive income attributable to:			
Members of Skipton Building Society	**126.2**	160.9	258.7
Non-controlling interests	**-**	0.1	0.1
	126.2	161.0	258.8

The notes on pages 24 to 64 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Financial Position

As at 30 June 2022

	Notes	**Unaudited as at 30.06.22 £m**	Unaudited as at 30.06.21 £m	Audited as at 31.12.21 £m
Assets				
Cash in hand and balances with the Bank of England		**2,843.0**	2,286.9	2,433.6
Loans and advances to credit institutions		**471.6**	593.3	468.7
Debt securities	8	**2,904.9**	1,999.4	2,193.2
Derivative financial instruments		**759.3**	78.2	227.9
Loans and advances to customers held at amortised cost	11	**23,355.0**	22,722.1	23,024.8
Loans and advances to customers held at FVTPL		**1.1**	1.2	1.2
Equity release portfolio held at FVTPL	12	**348.0**	414.5	406.6
Current tax asset		**-**	-	1.0
Investments in joint ventures		**9.1**	9.1	9.5
Equity share investments mandatorily held at FVTPL		**2.4**	1.5	1.7
Equity share investments designated at FVOCI		**9.4**	-	8.5
Assets held for sale	13	**-**	106.4	-
Property, plant and equipment		**70.2**	75.9	73.2
Right-of-use assets		**96.3**	101.0	95.8
Investment property		**6.3**	7.8	6.6
Intangible assets	14	**334.1**	361.9	345.6
Deferred tax asset		**30.3**	46.1	33.1
Retirement benefit surplus		**1.5**	0.5	1.2
Other assets		**147.1**	167.0	135.8
Total assets		**31,389.6**	28,972.8	29,468.0
Liabilities				
Shares		**20,902.3**	19,432.2	19,759.8
Amounts owed to credit institutions		**2,556.4**	2,066.0	2,203.4
Amounts owed to other customers		**2,182.8**	2,126.9	2,249.2
Debt securities in issue	15	**2,614.0**	2,293.2	2,218.1
Derivative financial instruments		**323.0**	342.0	292.1
Current tax liability		**1.4**	5.3	-
Lease liabilities		**110.3**	124.9	114.4
Other liabilities		**100.1**	110.8	114.2
Accruals		**72.2**	90.5	102.3
Deferred income		**5.6**	4.6	5.6
Provisions for liabilities	9	**36.5**	36.9	36.4
Deferred tax liability		**-**	0.2	0.1
Liabilities directly associated with assets held for sale	13	**-**	16.6	-
Retirement benefit obligations		**30.5**	39.0	30.1
Subordinated liabilities		**322.3**	343.8	336.3
Subscribed capital		**41.6**	41.6	41.6
Total liabilities		**29,299.0**	27,074.5	27,503.6
Members' interests				
General reserve		**2,071.3**	1,863.9	1,951.5
Fair value reserve		**(0.3)**	5.2	7.5
Cash flow hedging reserve		**17.4**	(4.6)	4.0
Cost of hedging reserve		**(2.8)**	(2.9)	(3.5)
Translation reserve		**4.6**	4.6	4.5
Attributable to members of Skipton Building Society		**2,090.2**	1,866.2	1,964.0
Non-controlling interests		**0.4**	32.1	0.4
Total members' interests		**2,090.6**	1,898.3	1,964.4
Total liabilities and members' interests		**31,389.6**	28,972.8	29,468.0

The notes on pages 24 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 2022

	General reserve	Fair value reserve	Cash flow hedging reserve	Cost of hedging reserve	Trans-lation reserve	Sub-total	Non-controlling interests	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2022	**1,951.5**	**7.5**	**4.0**	**(3.5)**	**4.5**	**1,964.0**	**0.4**	**1,964.4**
Profit for the period	123.8	-	-	-	-	**123.8**	-	**123.8**
Other comprehensive income								
Remeasurement losses on defined benefit obligations	(4.0)	-	-	-	-	**(4.0)**	-	**(4.0)**
Net (losses) / gains from changes in fair value	-	(7.9)	27.2	0.7	-	**20.0**	-	**20.0**
Debt securities at FVOCI: impairment loss allowance	-	0.1	-	-	-	**0.1**	-	**0.1**
Realised gains transferred to Income Statement	-	-	(13.8)	-	-	**(13.8)**	-	**(13.8)**
Exchange differences on translation of foreign operations	-	-	-	-	0.1	**0.1**	-	**0.1**
Total other comprehensive income	**(4.0)**	**(7.8)**	**13.4**	**0.7**	**0.1**	**2.4**	**-**	**2.4**
Total comprehensive income for the period	**119.8**	**(7.8)**	**13.4**	**0.7**	**0.1**	**126.2**	**-**	**126.2**
Balance at 30 June 2022	**2,071.3**	**(0.3)**	**17.4**	**(2.8)**	**4.6**	**2,090.2**	**0.4**	**2,090.6**

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

Unaudited for the half year ended 30 June 2021

	General reserve	Fair value reserve	Cash flow hedging reserve	Cost of hedging reserve	Translation reserve	Sub-total	Non-controlling interests	Total
	£m	£m	£m	£m	£m	£m	£m	£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

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

Audited for the year ended 31 December 2021

	General reserve	Fair value reserve	Cash flow hedging reserve	Cost of hedging reserve	Translation reserve	Sub-total	Non-controlling interests	Total
	£m	£m	£m	£m	£m	£m	£m	£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 year	215.8	-	-	-	-	215.8	0.1	215.9
Other comprehensive income								
Remeasurement gains on defined benefit obligations	20.8	-	-	-	-	20.8	-	20.8
Net gains from changes in fair value	-	3.1	19.2	-	-	22.3	-	22.3
Debt securities at FVOCI: impairment loss allowance	-	0.2	-	-	-	0.2	-	0.2
Realised losses / (gains) transferred to Income Statement	-	0.1	(0.1)	-	-	-	-	-
Exchange differences on translation of foreign operations	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Total other comprehensive income	20.8	3.4	19.1	-	(0.4)	42.9	-	42.9
Total comprehensive income for the year	236.6	3.4	19.1	-	(0.4)	258.7	0.1	258.8
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)	(0.1)	(0.5)
Disposal of subsidiary undertaking held for sale	-	-	-	-	-	-	(31.8)	(31.8)
Balance at 31 December 2021	1,951.5	7.5	4.0	(3.5)	4.5	1,964.0	0.4	1,964.4

The notes on pages 24 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 2022

	Notes	**Unaudited 6 months to 30.06.22 £m**	Unaudited 6 months to 30.06.21 £m	Audited 12 months to 31.12.21 £m
Cash flows from operating activities				
Profit before tax		**160.0**	159.2	271.8
Adjustments for:				
Impairment credit on loans and advances to customers	7	**(2.2)**	(14.8)	(12.9)
Loans and advances written off, net of recoveries		**(1.3)**	(0.7)	(0.9)
Impairment losses / (credit) on liquid assets		**0.1**	(0.1)	0.2
Impairment credit on trade receivables		**(0.5)**	-	(0.2)
Depreciation and amortisation		**38.4**	63.8	107.1
Impairment of property, plant and equipment, right-of-use assets and investment property		**0.2**	0.1	1.3
Income Statement charge for fair value of subsidiary management incentive scheme liability		**1.0**	8.1	15.5
Fair value gains on equity share investments at FVTPL		**(0.7)**	(2.2)	(2.3)
Interest on subordinated liabilities and subscribed capital	4	**5.8**	5.8	11.8
Interest on lease liabilities	4	**1.0**	0.8	1.8
Profit on disposal of property, plant and equipment, investment property and intangible assets		**(0.1)**	-	(0.4)
Profit on disposal of treasury assets		**-**	(0.1)	(0.1)
Share of profits from joint ventures		**(0.4)**	(0.9)	(1.2)
Profit on disposal of subsidiary undertakings		**(0.1)**	(0.3)	(0.5)
Fair value losses on equity release portfolio	12	**61.5**	18.6	27.3
Fair value gains on step-acquisition of Group undertakings		**-**	(26.9)	(26.9)
Fair value losses / (gains) on share warrants		**0.8**	(1.1)	(3.2)
Realised losses on equity release portfolio	12	**0.4**	0.2	0.5
Other non-cash movements		**10.2**	(24.5)	31.3
		274.1	185.0	420.0
Changes in operating assets and liabilities:				
Movement in prepayments and accrued income		**(11.3)**	(21.1)	(16.2)
Movement in accruals and deferred income		**(10.1)**	(2.9)	6.0
Movement in provisions for liabilities		**0.1**	(1.2)	(1.8)
Movement in fair value of derivatives		**(500.5)**	(118.0)	(317.6)
Movement in fair value adjustments for hedged risk		**331.1**	102.8	217.5
Fair value movements in debt securities	8	**58.0**	16.3	33.1
Movement in loans and advances to customers		**(722.7)**	(961.5)	(1,474.3)
Movement in shares		**1,180.2**	750.2	1,105.5
Net movement in amounts owed to credit institutions and other customers		**283.5**	(85.2)	173.8
Repayment of amounts owed to credit institutions acquired on purchase of subsidiary undertaking		**-**	(94.0)	(93.0)
Net movement in debt securities in issue		**394.5**	(116.8)	(167.8)
Net movement in loans and advances to credit institutions		**(13.0)**	134.7	236.1
Net movement in other assets		**(14.3)**	(2.7)	20.3
Net movement in other liabilities		**(6.8)**	(65.5)	(71.6)
Income taxes paid		**(33.1)**	(26.6)	(57.0)
Net cash flows from operating activities		**1,209.7**	(306.5)	13.0

Condensed Consolidated Statement of Cash Flows (continued)

For the half year ended 30 June 2022

	Notes	**Unaudited 6 months to 30.06.22 £m**	Unaudited 6 months to 30.06.21 £m	Audited 12 months to 31.12.21 £m
Net cash flows from operating activities		**1,209.7**	(306.5)	13.0
Cash flows from investing activities				
Purchase of debt securities	8	**(1,140.1)**	(776.9)	(1,795.4)
Proceeds from maturities and disposals of debt securities		**370.3**	266.3	1,074.1
Purchase of property, plant and equipment and investment property		**(4.0)**	(5.0)	(10.8)
Purchase of intangible assets		**(3.0)**	(3.1)	(6.8)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		**0.2**	1.4	2.3
Dividends received from joint ventures		**0.8**	2.1	2.1
Proceeds from disposal of assets held for sale		**-**	-	58.0
Contingent consideration received in respect of prior period disposals of subsidiary undertakings (net of costs)		**6.4**	6.4	6.4
Purchase of subsidiary undertakings in the period, net of cash acquired		**-**	(121.8)	(121.8)
Investment in equity share investments		**-**	(0.1)	(6.5)
Purchase of other business units		**(0.2)**	(0.2)	(0.2)
Proceeds from disposal of associate		**-**	7.8	7.8
Proceeds from disposal of equity share investments		**-**	-	0.4
Net cash flows from investing activities		**(769.6)**	(623.1)	(790.4)
Cash flows from financing activities				
Exercise of share options in subsidiary management incentive scheme		**(8.9)**	(0.8)	(0.8)
Exercise of put options held by non-controlling shareholders		**(2.0)**	-	-
Purchase of non-controlling interests		**-**	(0.6)	(0.6)
Interest paid on subordinated liabilities and subscribed capital		**(5.8)**	(5.8)	(11.8)
Interest paid on lease liabilities		**(1.0)**	(0.8)	(1.8)
Payment of lease liabilities		**(23.4)**	(20.8)	(42.5)
Net cash flows from financing activities		**(41.1)**	(28.8)	(57.5)
Net increase / (decrease) in cash and cash equivalents		**399.0**	(958.4)	(834.9)
Cash and cash equivalents at 1 January		**2,481.0**	3,315.8	3,315.8
Decrease in impairment loss allowance on cash and cash equivalents		**-**	0.1	0.1
Cash and cash equivalents at end of period		**2,880.0**	2,357.5	2,481.0

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

	Unaudited as at 30.06.22 £m	Unaudited as at 30.06.21 £m	Audited as at 31.12.21 £m
Cash in hand and balances with the Bank of England	**2,843.0**	2,286.9	2,433.6
Mandatory reserve deposit with the Bank of England	**(90.9)**	(81.1)	(87.8)
	2,752.1	2,205.8	2,345.8
Loans and advances to credit institutions	**127.9**	151.7	135.2
Cash and cash equivalents at end of period	**2,880.0**	2,357.5	2,481.0

The notes on pages 24 to 64 form an integral part of this condensed consolidated half-yearly financial report.

Notes to the Condensed Consolidated Financial Statements

1. Introduction

These financial statements show the financial performance of the Group for the half year ended 30 June 2022 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 2021.

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited financial statements (except for certain revisions to segmental reporting, as set out in note 20), which were prepared in accordance with UK-adopted 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.

Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of uncertainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of applicable accounting standards. We have considered the impact of transitioning to a low-carbon economy and the physical risks from climate change on key estimates in the financial statements. Consideration was given, in particular, to the impact of climate risks on areas of estimation, and our going concern assessment. Given the uncertainties on the extent and timing of the manifestation of climate-related risks, the Group is currently unable to determine the full future economic impact on our business model, operational plans and our customers, and therefore, the potential future impacts are not fully incorporated in these financial statements.

b) Changes to significant accounting policies

There have been no changes to significant accounting policies within the period.

c) Critical accounting estimates and judgements in applying accounting policies

Note 1w) to the 2021 Annual Report and Accounts sets out the key estimates, assumptions and judgements made by the Group which affect the amounts recognised in the financial statements. Updated information for certain key estimates and judgements is set out below.

Impairment of mortgage loans and advances

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 multiples applied by the Group. Details of these changes, which do not materially impact these consolidated financial statements, are shown below:

	Multiple by which remaining lifetime PD has increased compared to initial estimate		
Lifetime PD band at initial recognition	**Unaudited Applied at 30.06.22**	Unaudited Applied at 30.06.21	Audited Applied at 31.12.21
Slight risk	**initial estimate x 9**	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 4**	initial estimate x 3	initial estimate x 3
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.

1. Introduction (continued)

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. Given the high degree of uncertainty, the scenarios and weightings are continually reassessed by management and subject to formal update at least quarterly.

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 2022 were determined with due consideration to the significant economic uncertainties arising from current inflationary pressures (domestic and global), from the ongoing events in Ukraine and from the long-term effects of the COVID-19 pandemic.

The Group's central scenario as at 30 June 2022 assumes the post-pandemic recovery begins to slow, hampered by low consumer confidence and the increased cost of living, stagnating in 2023. Geopolitical tensions remain throughout 2022, keeping the pressure on gas and oil prices. The cost of living crisis continues, though the impact is partly offset by steady wages growth and unemployment is stable. Businesses feel the impact of escalating fuel and energy costs and rising wage bills. The Bank of England continues to steadily increase interest rates throughout 2022. House price inflation is more moderate than that seen in 2021.

The Group's upside scenario as at 30 June 2022 assumes GDP recovers more swiftly than in the central scenario and unemployment remains low. The government introduces expansionary fiscal measures to mitigate the cost of living crisis, whilst pressures on gas and oil prices also ease. Inflation is transitory, easing after 2022, and consumer confidence rises. The Bank of England increases interest rates, but less high than in the central scenario. House price growth is stronger than in the central scenario.

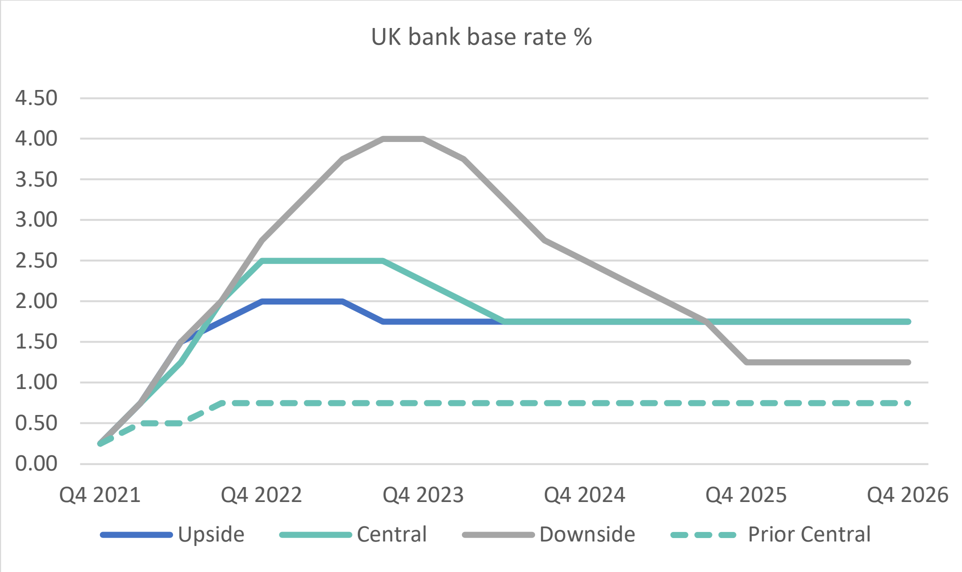
The Group's downside scenario as at 30 June 2022 assumes a period of severe stagflation. Geopolitical tensions escalate, adding further pressure on oil and gas prices and also supply chain difficulties. Significant inflationary pressure hurts households and businesses alike, leading to high unemployment, house price falls and recessionary conditions. Inflation is persistent and embedded until 2025, whilst wages fail to keep pace. The Bank of England responds to spiralling inflation with significant interest rate hikes, but then reducing again from early 2024 to support GDP growth.

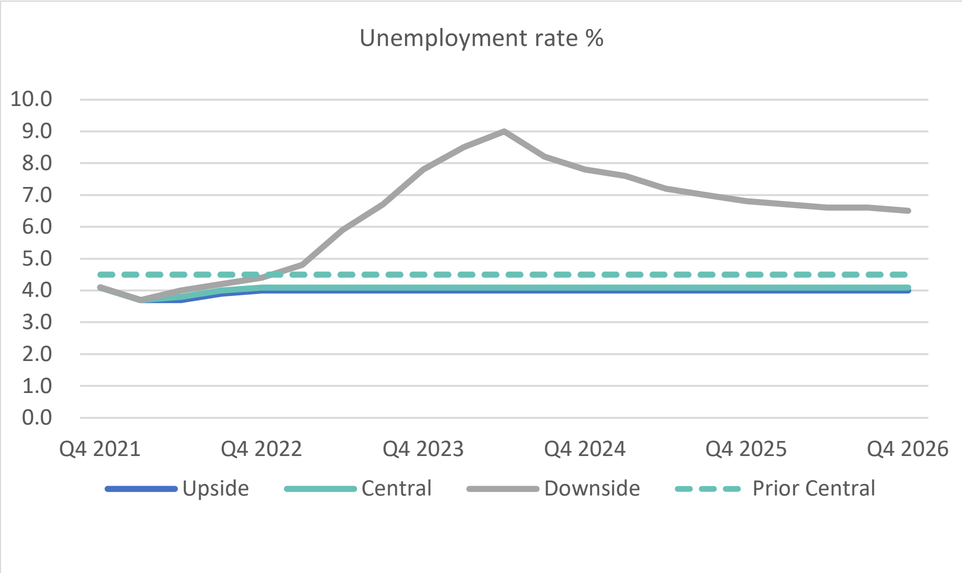
The key economic variables considered by the Group when developing the forecast scenarios are set out below for the first five years of each of the Group's scenarios. For years six to ten the Group applies phased transition assumptions, arriving at a view of long-run averages from year eleven onwards; 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 significant economic uncertainties.

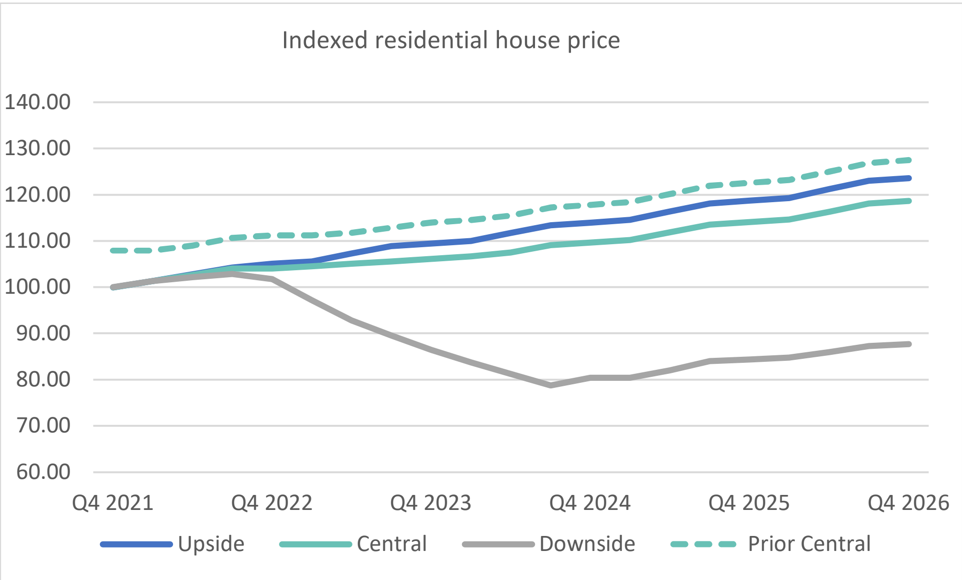
The graphs below show the historical and forecasted bank base rate, unemployment rate and indexed residential house prices for the Group's three economic scenarios, along with the prior year central scenario (as forecasted at 31 December 2021) for context. The indexed residential house price graph uses a starting value of 100 in the fourth quarter of 2021 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	Scenario	Unaudited as at 30.06.22 2022	2023	2024	2025	2026
Bank of England base rate (%) (note 1)	Upside	**2.00**	**1.75**	**1.75**	**1.75**	**1.75**
	Central	**2.50**	**2.25**	**1.75**	**1.75**	**1.75**
	Downside	**2.75**	**4.00**	**2.50**	**1.25**	**1.25**
Unemployment (%) (note 1)	Upside	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**
	Central	**4.1**	**4.1**	**4.1**	**4.1**	**4.1**
	Downside	**4.4**	**7.8**	**7.8**	**6.8**	**6.5**
House price inflation (UK) (%) (note 2)	Upside	**5.0**	**4.2**	**4.2**	**4.2**	**4.2**
	Central	**4.0**	**2.0**	**3.3**	**4.1**	**4.0**
	Downside	**1.7**	**(15.1)**	**(7.0)**	**5.0**	**4.0**
Commercial property price growth (%) (note 2)	Upside	**0.0**	**2.0**	**2.0**	**2.0**	**2.0**
	Central	**(5.7)**	**(4.8)**	**1.0**	**1.0**	**1.0**
	Downside	**(11.2)**	**(11.2)**	**0.0**	**0.0**	**0.0**

Economic variables	Scenario	Unaudited as at 30.06.21 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

Economic variables	Scenario	Audited as at 31.12.21 2022	2023	2024	2025	2026
Bank of England base rate (%) (note 1)	Upside	0.75	1.00	1.25	1.25	1.25
	Central	0.75	0.75	0.75	0.75	0.75
	Downside	(0.25)	(0.25)	0.00	0.00	0.00
Unemployment (%) (note 1)	Upside	4.3	4.2	4.0	4.0	4.0
	Central	4.5	4.5	4.5	4.5	4.5
	Downside	8.5	7.6	6.7	6.5	5.5
House price inflation (UK) (%) (note 2)	Upside	5.1	4.2	4.2	4.2	4.2
	Central	3.0	2.5	3.3	4.1	4.0
	Downside	(16.0)	(7.0)	5.0	4.0	4.0
Commercial property price growth (%) (note 2)	Upside	2.0	2.0	2.0	2.0	2.0
	Central	(14.7)	0.0	0.0	0.0	0.0
	Downside	(18.6)	(3.2)	0.0	0.0	0.0

Notes

1. The Bank of England base rates and unemployment rates represent positions at 31 December each year.
2. House price inflation (HPI) and commercial property price growth represent annual growth rates each year. The Group's views for commercial property price growth are specific to the Group's own commercial portfolio and are not intended as views for the entire UK commercial property market. In addition to HPI/commercial property price growth, the Group's loan impairment calculations 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, considering 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 30.06.22**	Unaudited as at 30.06.21	Audited as at 31.12.21
	Upside	**0.75 / 2.00**	0.10 / 1.25	0.50 / 1.25
Bank of England base rate (%) (note 1)	Central	**0.75 / 2.50**	0.10 / 0.75	0.50 / 0.75
	Downside	**0.75 / 4.00**	(0.25) / 0.10	(0.25) / 0.00
	Upside	**4.0**	5.0	4.3
Unemployment (%) (note 2)	Central	**4.1**	5.5	4.5
	Downside	**9.0**	9.0	9.0
	Upside	**23.6 / 0.0**	27.9 / 0.0	23.7 / 0.0
House price inflation (UK) (%) (note 3)	Central	**18.7 / 0.0**	22.7 / 0.0	18.1 / 0.0
	Downside	**2.9 / (21.2)**	2.8 / (19.5)	0.0 / (23.4)
	Upside	**8.2 / 0.0**	8.2 / 0.0	10.4 / 0.0
Commercial property price growth (%) (note 3)	Central	**0.0 / (10.2)**	0.0 / (14.7)	0.0 / (14.7)
	Downside	**0.0 / (21.2)**	0.0 / (21.2)	0.0 / (21.2)

Notes

1. The Bank of England base rate is shown as the lowest / highest rate over the 5 year forecast period.
2. Unemployment is shown as the highest rate over the 5 year forecast period. In the downside scenario for example, the peak is assumed to occur in Q2 2024, which is therefore higher than the year-end positions shown in the table on page 27.
3. House price inflation and commercial property price growth are shown as the largest cumulative growth / fall from 1 January 2022 (30 June 2021: from 1 January 2021; 31 December 2021: from 1 January 2022) over the 5 year forecast period.

The relative weightings assigned to each scenario have also been revised during the period taking into account the basis of each scenario and also the level of uncertainty over the economic outlook, both domestic and global. The Group's scenario weightings as at 30 June 2022 are 50% for the central scenario, 10% for the upside scenario and 40% for the downside scenario (30 June 2021: central scenario 60%, upside scenario 15%, downside scenario 25%; 31 December 2021: central scenario 50%, upside scenario 15%, downside scenario 35%).

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.

1. Introduction (continued)

With respect to residential mortgages, the Group held PMAs as follows:

	Unaudited as at 30.06.22 £m	Unaudited as at 30.06.21 £m	Audited as at 31.12.21 £m
COVID-19 payment deferrals (note 1)	**0.4**	0.4	0.3
Flats subject to fire safety risks (note 2)	**0.9**	0.9	0.8
Model risk in downturn scenario (note 3)	**1.8**	1.5	1.6
Move to ONS HPI (note 4)	**-**	-	1.6
Other	**-**	0.4	0.2
	3.1	3.2	4.5

Notes

1. 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. PMAs are therefore held 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.
2. This PMA is held 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.
3. This PMA is held 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.
4. In January 2022 the Group changed the index used in its models to estimate UK house prices from the Halifax index to the UK House Price Index published by the Office for National Statistics (ONS index), which impacts current and historical property valuations used in the Group's models; this change was made as it is considered a more representative index due to its large sample size and comprehensive coverage of all regions. The change has a consequential impact on the calculation of key model parameters which include forced sale discounts and cure rates. This PMA was held at 31 December 2021 to reflect an estimate of these impacts.

Given the current economic climate, consideration has been given by management to the credit risks associated with increased inflation; this includes specific consideration of the impact on mortgage affordability of the current and expected future gap between price inflation and wages growth. Based on assessments performed specific to the Group's mortgage portfolios and credit risk profile, the potential impact on the Group's ECL allowance at 30 June 2022 is not considered to be material.

Notes to the Condensed Consolidated Financial Statements (continued)

1. Introduction (continued)

To give an indication of the sensitivity of ECLs to different economic scenarios, the tables below show what the ECL would be if a 100% weighting is applied to each scenario. The tables also show for each scenario what percentage of gross loan balances would be held in Stage 2.

Unaudited as at 30.06.22	**Upside %**	**Central %**	**Downside %**	**ECL £m**	**Stage 2 share of gross balances %**
Residential:					
Actual probability weighted ECL	**10**	**50**	**40**	**9.9**	**3.3**
100% upside	**100**	**-**	**-**	**3.9**	**2.4**
100% central	**-**	**100**	**-**	**4.4**	**2.5**
100% downside	**-**	**-**	**100**	**23.6**	**17.2**
Commercial:					
Actual probability weighted ECL	**10**	**50**	**40**	**13.6**	**75.1**
100% upside	**100**	**-**	**-**	**4.1**	**75.1[1]**
100% central	**-**	**100**	**-**	**8.9**	**75.1[1]**
100% downside	**-**	**-**	**100**	**21.8**	**75.1[1]**

Unaudited as at 30.06.21	Upside %	Central %	Downside %	ECL £m	Stage 2 share of gross balances %
Residential:					
Actual probability weighted ECL	15	60	25	9.9	2.7
100% upside	100	-	-	4.6	1.9
100% central	-	100	-	5.2	2.1
100% downside	-	-	100	24.5	10.4
Commercial:					
Actual probability weighted ECL	15	60	25	15.6	73.5
100% upside	100	-	-	6.0	73.5[1]
100% central	-	100	-	12.8	73.5[1]
100% downside	-	-	100	28.2	73.5[1]

Audited as at 31.12.21	Upside %	Central %	Downside %	ECL £m	Stage 2 share of gross balances %
Residential:					
Actual probability weighted ECL	15	50	35	10.9	2.2
100% upside	100	-	-	4.9	1.6
100% central	-	100	-	5.5	1.6
100% downside	-	-	100	22.5	6.1
Commercial:					
Actual probability weighted ECL	15	50	35	16.2	75.5
100% upside	100	-	-	5.6	75.5[1]
100% central	-	100	-	12.0	75.5[1]
100% downside	-	-	100	26.5	75.5[1]

Note

1. For the Commercial portfolio, the staging of balances is driven by arrears, watchlist cases and sector factors and does not therefore change according to scenario weightings.

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.

1. Introduction (continued)

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.

Assumption	**Change to current assumption**	**Increase / (decrease) in impairment loss allowance**		
		Unaudited as at 30.06.22 £m	Unaudited as at 30.06.21 £m	Audited as at 31.12.21 £m
Downside scenario weighting (note 1)	Absolute increase of 10%	**1.5**	1.9	2.1
Significant increase in credit risk criteria (note 2)	Relative reduction by 25%	**0.9**	0.7	0.7
Future house price inflation (note 3)	+ / - 0.5% pa	**(0.5) / 0.5**	(0.4) / 0.5	(0.5) / 0.5
Unemployment (note 4)	+ / - 0.5% pa	**0.7 / (0.5)**	0.7 / (0.6)	0.6 / (0.5)

Notes

1. This sensitivity shows the impact of an increase of 10% to the probability weighting assigned to the downside scenario, from 40% to 50% (30 June 2021: from 25% to 35%; 31 December 2021: from 35% to 45%), with a relative decrease to the probability weighting assigned to each of the central and upside scenarios.
2. As outlined on page 24, 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.

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 30.06.22 £m	Unaudited as at 30.06.21 £m	Audited as at 31.12.21 £m
Downside scenario weighting	Absolute increase of 10%	**1.4**	1.6	1.5
Significant increase in credit risk criteria (note 1)	5% of Stage 1 balances added to watchlist / 5% of Stage 2 balances removed from watchlist	**0.1 / (0.5)**	0.1 / (0.5)	0.1 / (0.6)
Future commercial property price growth	+ / - 0.5% pa	**(0.3) / 0.3**	(0.3) / 0.3	(0.3) / 0.3

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 of at least 50% of the contractual monthly payment. This sensitivity shows the impact of management identifying an additional 5% of Stage 1 gross loan balances to be placed on a watchlist and, separately, the impact of management identifying 5% of Stage 2 gross loan balances to remove from the watchlist. For each period presented, the impact has been estimated by reference to the average ECL coverage ratios by stage for the commercial loan portfolio as at the relevant period end.

1. Introduction (continued)

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 2022, the relative weightings assigned to each scenario were 95% for the central scenario and 5% for the downside scenario (30 June 2021: central scenario 95%, downside scenario 5%; 31 December 2021: 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, decease or a move to long term care) and market driven yield curves.

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 significant economic uncertainties arising from current inflationary pressures (domestic and global), from the ongoing events in Ukraine and from the long-term effects of 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 25. As at 30 June 2022, the fair value of the equity release portfolio was £348.0m (30 June 2021: £414.5m; 31 December 2021: £406.6m); 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		
		Unaudited as at 30.06.22	Unaudited as at 30.06.21	Audited as at 31.12.21
Assumption	**Change to current assumption**	**£m**	£m	£m
Redemption rates	+ / - 1% pa	**(5.4) / 6.0**	(10.8) / 12.0	(10.0) / 11.2
Illiquidity premia	+ / - 0.2%	**(7.1) / 7.4**	(9.6) / 10.0	(9.2) / 9.6
HPI forecast	+ / - 0.5% pa	**6.1 / (6.7)**	7.3 / (8.0)	8.2 / (8.8)
Property volatility	+ / - 1%	**(3.9) / 3.8**	(4.7) / 4.6	(4.9) / 4.8

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

Scenario analysis has been undertaken to identify the impact of climate-related risks on the Group's equity release portfolio. This includes assessing the potential impact of alternative paths for the key inputs of the HPI forecast and yield curves. The future impact of climate-related risks on the Group's equity release portfolio is uncertain, and the Group will continue to monitor developments in future periods.

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.

1. Introduction (continued)

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 30.06.22 £m**	Unaudited as at 30.06.21 £m	Audited as at 31.12.21 £m
Redemption rates (note 1)	+ / - 1% pa	**(5.9) / 6.5**	(12.3) / 13.8	(11.5) / 12.9
RPI volatility (note 1)	+ / - 0.5% pa	**(4.4) / 4.0**	(5.6) / 4.7	(6.4) / 5.8

Note

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

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 (CGUs) are based on the latest detailed five year corporate plans available and are sensitive to, inter alia, 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 2021 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 CGU and can have a significant effect on the valuation of a CGU. 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.

Profit and cash flow forecasts are subject to inherent uncertainties, such as Brexit, the impact of COVID-19, and the impacts of physical and transition risks of climate change on the creditworthiness of borrowers, asset values, and other indirect effects including the erosion of the Group's competitiveness, profitability, or reputation.

The majority of the Group's goodwill is held within the Estate Agency division (see note 14). There is significant headroom in relation to the majority of CGUs within the Estate Agency division; the two CGUs where headroom is lowest are The Asset Management Group Limited (AMG) and Lambert Smith Hampton (LSH).

For AMG, an increase of 2.5% to the discount rate used (e.g. from 11% to 13.5%) would result in impairment of £2.1m (31 December 2021: £1.1m). A decrease of 2.5% to the long-term growth rate would result in impairment of £0.2m (31 December 2021: £0.1m).

For LSH, an increase of 2.5% to the discount rate used (e.g. from 11% to 13.5%) would result in impairment of £3.6m (31 December 2021: £nil). A decrease of 2.5% to the long-term growth rate would result in impairment of £1.0m (31 December 2021: £nil).

1. Introduction (continued)

For all other CGUs within the Estate Agency division, and also in respect of goodwill held in the Mortgages and Savings division and Investment Portfolio, headroom is significant and no reasonably possible alternative assumptions in relation to any of the key inputs used would result in impairment.

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 CGU. The pre-tax discount rates are as follows:

Operating segment	**Unaudited as at 30.06.22 %**	Unaudited as at 30.06.21 %	Audited as at 31.12.21 %
Mortgages and Savings	**12**	12	12
Estate Agency	**15**	12	14
Investment Portfolio	**11**	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 CGU (which comprises the CGU's net assets, plus any brands relating to that CGU and any goodwill allocated to that CGU) against its recoverable amount. Recoverable amount is 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 2022 (30 June 2021: no impairment; year ended 31 December 2021: no impairment).

Equity share investments designated at FVOCI

The Group holds an equity share investment in a start-up bank, Bank North Limited, which is held at fair value in the Group's Statement of Financial Position. At 30 June 2022 the investment is held at a fair value of £9.4m; in accordance with the Group's accounting policies, this fair value is based on latest available information that includes the ongoing and expected future trading performance of Bank North and which also considers information from recent or ongoing capital issuances by Bank North. As Bank North is in its infancy, it is acknowledged by the Group that certain risks may arise such as the Bank North business under-performing or not achieving its funding goals; in this event it would be necessary to review the fair value of the Group's equity investment which, in extremis, could reduce to £nil if the major risks materialised.

In accordance with accounting standards, fair value movements on this equity share investment, which is designated at FVOCI, are recognised within other comprehensive income through the fair value reserve.

d) Going concern

The Group's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance are set out in the Business Review on pages 5 to 15.

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 significant uncertainties arising from current inflationary pressures, from the ongoing events in Ukraine and from the long-term effects of the COVID-19 pandemic, 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.

1. Introduction (continued)

The Directors' Report in the 2021 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 2026. Having considered various options, the Directors determined that a five year period is an appropriate period for the purposes of the Group's viability statement; this period reflects the Group's five year corporate planning horizon over which the prospects of the Group and the principal risks threatening these prospects are assessed, and also the period over which associated stress testing is performed.

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 (the Act).

The financial information in respect of the year ended 31 December 2021 has been extracted from the audited 2021 Annual Report and Accounts, which have been filed with the Financial Conduct Authority.

The Independent Auditor's Report on the 2021 Annual Report and Accounts was unqualified and it did not draw attention to any matters by way of emphasis nor contain any statement under section 79(6) of the Act.

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 2021 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 2022 was approved by the Board of Directors on 4 August 2022.

Notes to the Condensed Consolidated Financial Statements (continued)

3. Interest receivable and similar income

	Unaudited 6 months to 30.06.22 £m	Unaudited 6 months to 30.06.21 £m	Audited 12 months to 31.12.21 £m
On financial assets held at amortised cost:			
On loans fully secured on residential property	**271.3**	251.7	508.8
On other loans and advances	**5.5**	4.6	9.5
On other liquid assets	**11.0**	1.7	3.3
	287.8	258.0	521.6
On financial assets held at FVOCI:			
On debt securities	**10.7**	5.0	10.9
On financial instruments at FVTPL:			
Net income / (expense) on derivative financial instruments held to hedge assets in qualifying hedge accounting relationships	**9.1**	(41.6)	(75.2)
Interest receivable accounted for using effective interest rate method	**307.6**	221.4	457.3
On financial instruments held at FVTPL:			
On loans and advances to customers	**-**	-	0.1
On equity release portfolio	**11.0**	9.3	21.8
Net expense on derivative financial instruments held to hedge assets in non-qualifying hedge accounting relationships	**(6.4)**	(11.6)	(24.8)
Other interest and similar income	**4.6**	(2.3)	(2.9)
	312.2	219.1	454.4

4. Interest payable and similar charges

	Unaudited 6 months to 30.06.22 £m	Unaudited 6 months to 30.06.21 £m	Audited 12 months to 31.12.21 £m
On financial liabilities held at amortised cost:			
On shares held by individuals	**76.4**	66.1	126.4
On shares held by others	**0.4**	0.4	0.8
On subscribed capital	**2.2**	2.2	4.5
On deposits and other borrowings:			
Subordinated liabilities	**3.6**	3.6	7.3
Wholesale and other funding	**26.9**	12.9	24.2
Lease liabilities	**1.0**	0.8	1.8
	110.5	86.0	165.0
On financial instruments held at FVTPL:			
Net expense / (income) on derivative financial instruments held to hedge liabilities	**7.4**	(4.6)	(7.4)
Finance charge on put option liability	**-**	-	0.1
	117.9	81.4	157.7

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 30.06.22	**Products and services transferred at a point in time £m**	**Products and services transferred over time £m**	**Total £m**
Mortgage origination fees	**43.4**	**6.8**	**50.2**
Other mortgage related fees	**1.5**	**-**	**1.5**
General insurance income	**36.5**	**0.4**	**36.9**
Commissions earned on property sales	**157.5**	**-**	**157.5**
Commissions earned on property lettings	**101.5**	**-**	**101.5**
Commercial property services fees	**22.5**	**21.3**	**43.8**
Survey and valuation fees	**74.5**	**-**	**74.5**
Asset management commission	**6.0**	**0.1**	**6.1**
Conveyancing fees	**29.7**	**-**	**29.7**
Financial advice fees	**17.0**	**-**	**17.0**
Software and consultancy fees	**-**	**9.1**	**9.1**
Factoring and invoice discounting services	**6.0**	**-**	**6.0**
Other fees and commissions	**5.3**	**0.3**	**5.6**
	501.4	**38.0**	**539.4**

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
Commercial property services fees	16.9	15.6	32.5
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	5.7	1.0	6.7
	469.6	31.7	501.3

5. Fees and commissions receivable (continued)

Audited 12 months to 31.12.21	Products and services transferred at a point in time £m	Products and services transferred over time £m	Total £m
Mortgage origination fees	81.8	12.8	94.6
Other mortgage related fees	2.9	-	2.9
General insurance income	69.2	1.1	70.3
Commissions earned on property sales	351.1	-	351.1
Commissions earned on property lettings	183.0	-	183.0
Commercial property services fees	44.4	34.9	79.3
Survey and valuation fees	123.1	-	123.1
Asset management commission	9.5	0.1	9.6
Conveyancing fees	68.0	-	68.0
Financial advice fees	32.2	-	32.2
Software and consultancy fees	-	14.9	14.9
Factoring and invoice discounting services	11.1	-	11.1
Other fees and commissions	13.9	0.5	14.4
	990.2	64.3	1,054.5

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 30.06.22	**Mortgages and Savings £m**	**Estate Agency £m**	**Investment Portfolio £m**	**Central £m**	**Total £m**
Mortgage origination fees	**-**	**50.2**	**-**	**-**	**50.2**
Other mortgage related fees	**1.5**	**-**	**-**	**-**	**1.5**
General insurance income	**0.4**	**36.5**	**-**	**-**	**36.9**
Commissions earned on property sales	**-**	**157.5**	**-**	**-**	**157.5**
Commissions earned on property lettings	**-**	**101.5**	**-**	**-**	**101.5**
Commercial property services fees	**-**	**43.8**	**-**	**-**	**43.8**
Survey and valuation fees	**-**	**74.5**	**-**	**-**	**74.5**
Asset management commission	**-**	**6.1**	**-**	**-**	**6.1**
Conveyancing fees	**-**	**29.7**	**-**	**-**	**29.7**
Financial advice fees	**17.0**	**-**	**-**	**-**	**17.0**
Software and consultancy fees	**-**	**-**	**10.0**	**(0.9)**	**9.1**
Factoring and invoice discounting services	**-**	**-**	**6.0**	**-**	**6.0**
Other fees and commissions	**0.3**	**5.5**	**-**	**(0.2)**	**5.6**
Fees and commissions receivable	**19.2**	**505.3**	**16.0**	**(1.1)**	**539.4**
Other	**(0.1)**	**(0.9)**	**(0.5)**	**(3.6)**	**(5.1)**
Net non-interest income	**19.1**	**504.4**	**15.5**	**(4.7)**	**534.3**

5. Fees and commissions receivable (continued)

Unaudited 6 months to 30.06.21	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Central £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
Commercial property services fees	-	32.5	-	-	32.5
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	6.6	-	(0.1)	6.7
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

Audited 12 months to 31.12.21	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Central £m	Total £m
Mortgage origination fees	-	95.8	-	(1.2)	94.6
Other mortgage related fees	2.9	-	-	-	2.9
General insurance income	0.9	69.4	-	-	70.3
Commissions earned on property sales	-	351.1	-	-	351.1
Commissions earned on property lettings	-	183.0	-	-	183.0
Commercial property services fees	-	79.3	-	-	79.3
Survey and valuation fees	-	132.0	-	(8.9)	123.1
Asset management commission	-	9.6	-	-	9.6
Conveyancing fees	-	68.7	-	(0.7)	68.0
Financial advice fees	32.2	-	-	-	32.2
Software and consultancy fees	-	-	16.4	(1.5)	14.9
Factoring and invoice discounting services	-	-	11.1	-	11.1
Other fees and commissions	0.6	13.9	-	(0.1)	14.4
Fees and commissions receivable	36.6	1,002.8	27.5	(12.4)	1,054.5
Other	(2.8)	(2.7)	(0.4)	0.1	(5.8)
Net non-interest income	33.8	1,000.1	27.1	(12.3)	1,048.7

6. Administrative expenses

	Unaudited 6 months to 30.06.22 £m	Unaudited 6 months to 30.06.21 £m	Audited 12 months to 31.12.21 £m
Employee costs:			
Wages and salaries	**345.6**	290.9	636.7
Social security costs	**36.6**	30.4	67.1
Pension costs:			
Defined contribution arrangements	**12.8**	10.5	22.4
Settlement loss	**-**	0.7	0.7
	395.0	332.5	726.9
Other administrative expenses	**186.4**	193.1	398.2
	581.4	525.6	1,125.1

7. Impairment on loans and advances to customers

	Unaudited 30.06.22 £m	Unaudited 30.06.21 £m	Audited 31.12.21 £m
(Credit) / charge during the period:			
Loans fully secured on residential property	**(0.8)**	(12.7)	(11.4)
Loans fully secured on land	**(1.5)**	(2.1)	(1.6)
Other loans and advances	**0.1**	-	0.1
	(2.2)	(14.8)	(12.9)
Expected credit loss (ECL) allowance at the end of the period (see note 11):			
Loans fully secured on residential property	**9.9**	9.9	10.9
Loans fully secured on land	**13.6**	15.6	16.2
Other loans and advances	**1.1**	0.9	1.0
	24.6	26.4	28.1

8. Debt securities

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

	Unaudited as at 30.06.22 £m	Unaudited as at 30.06.21 £m	Audited as at 31.12.21 £m
At 1 January	**2,193.2**	1,505.0	1,505.0
Additions	**1,140.1**	776.9	1,795.4
Maturities and disposals	**(370.3)**	(266.2)	(1,074.0)
Changes in fair value	**(58.0)**	(16.3)	(33.1)
Other	**(0.1)**	-	(0.1)
At end of period	**2,904.9**	1,999.4	2,193.2

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 2022 was £0.1m (six months ended 30 June 2021: £nil; year ended 31 December 2021: £0.3m charge).

9. Provisions for liabilities

	Unaudited as at 30.06.22 £m	Unaudited as at 30.06.21 £m	Audited as at 31.12.21 £m
Provision for the costs of surplus properties	**10.2**	9.9	11.0
Commission clawbacks	**15.5**	15.3	15.0
Survey and valuation claims	**8.3**	10.1	7.6
Customer compensation	**0.9**	0.6	0.8
Other provisions	**1.6**	1.0	2.0
	36.5	36.9	36.4

The movement in provisions for liabilities in the period has resulted in a net Income Statement charge for the period of £8.5m, of which a £1.2m charge is recognised in the line 'Provisions for liabilities' and a £7.3m charge is recognised against 'Fees and commissions receivable' (six months ended 30 June 2021: £5.1m charge, which is recognised against 'Fees and commissions receivable'; year ended 31 December 2021: £12.7m charge, of which a £0.4m credit is recognised in the line 'Provisions for liabilities' and a £13.1m charge is recognised against 'Fees and commissions receivable').

10. Taxation

The tax expense for the period, summarised below, has been calculated by estimating and applying individual tax rates for each tax jurisdiction:

	Unaudited 6 months to 30.06.22 £m	Unaudited 6 months to 30.06.21 £m	Audited 12 months to 31.12.21 £m
Current tax expense	**35.8**	34.6	58.5
Deferred tax expense / (credit)	**0.4**	(8.9)	(2.6)
Total tax expense	**36.2**	25.7	55.9

The Group's effective tax rate for the period was 22.7% (six months ended 30 June 2021: 16.2%; year ended 31 December 2021: 20.7%), which differs from the standard rate of corporation tax in the UK of 19% (2021: 19.0%). The effective tax rate is impacted by disallowable expenditure, non-taxable income, future corporation tax rate changes and the lower tax rate in Guernsey which applies to the taxable profits of Skipton International Limited. Further, the Society's annual profits above £25m are subject to an 8% banking companies surcharge.

Legislation was enacted during the period to reduce the banking companies surcharge rate from 8% to 3% with effect from 1 April 2023. Any impacted deferred tax assets and liabilities that are expected to reverse after 1 April 2023 have been remeasured at this new rate.

11. Loans and advances to customers held at amortised cost

Unaudited as at 30.06.22	**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)	**23,585.8**	**(9.9)**	**(581.6)**	**22,994.3**	**98.4**
Loans fully secured on land (note 2)	**178.1**	**(13.6)**	**-**	**164.5**	**0.7**
Other lending:					
Debt factoring advances	**138.3**	**(1.1)**	**-**	**137.2**	**0.6**
Other loans (note 3)	**59.0**	**-**	**-**	**59.0**	**0.3**
	23,961.2	**(24.6)**	**(581.6)**	**23,355.0**	**100.0**

Notes
1. Also known as residential mortgages.
2. Also known as commercial loans.
3. Includes certain advances made to residential mortgage customers in Guernsey and Jersey by 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 30.06.21	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	22,337.7	(9.9)	29.0	22,356.8	98.4
Loans fully secured on land	207.9	(15.6)	-	192.3	0.8
Other lending:					
Debt factoring advances	105.0	(0.9)	-	104.1	0.5
Other loans	68.9	-	-	68.9	0.3
	22,719.5	(26.4)	29.0	22,722.1	100.0

Audited as at 31.12.21	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	22,855.2	(10.9)	(183.2)	22,661.1	98.4
Loans fully secured on land	195.0	(16.2)	-	178.8	0.8
Other lending:					
Debt factoring advances	120.5	(1.0)	-	119.5	0.5
Other loans	65.4	-	-	65.4	0.3
	23,236.1	(28.1)	(183.2)	23,024.8	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.

Scenario analysis has been undertaken to identify the impact of climate-related risks on the Group's credit risk management. This includes assessing the residential lending portfolio at property level to determine the potential impact of key climate-related physical and transitional risks. The future impact of climate-related risks on the Group's credit risk profile is uncertain, and the Group will continue to monitor developments in future periods.

At 30 June 2022 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 41.6% (30 June 2021: 44.2%; 31 December 2021: 42.8%). With effect from January 2022, the Group's LTV profile is calculated by reference to property valuations that are based on the ONS index (previously based on the Halifax index, as discussed on page 29); the Group's comparative LTV information is not restated in this respect.

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

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 increased slightly during the period ended 30 June 2022; this is principally due to the impact of changes to the Group's forward-looking economic assumptions that include an increase to the downside weighting (as discussed on page 28).

	Unaudited as at 30.06.22			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount as at 1 January 2022	**22,326.2**	**458.9**	**70.1**	**22,855.2**
Transfers due to changes in credit risk:				
To Stage 1	**106.4**	**(109.4)**	**(0.1)**	**(3.1)**
To Stage 2	**(286.3)**	**287.8**	**(9.1)**	**(7.6)**
To Stage 3	**(2.7)**	**(6.6)**	**8.9**	**(0.4)**
Modification of contractual cashflows	**(12.6)**	**6.9**	**2.9**	**(2.8)**
Increases due to origination	**2,655.5**	**1.5**	**-**	**2,657.0**
Decreases due to derecognition and repayments	**(1,863.3)**	**(44.8)**	**(5.2)**	**(1,913.3)**
Written off	**(0.1)**	**-**	**(2.9)**	**(3.0)**
Other movements	**3.4**	**0.3**	**0.1**	**3.8**
Gross carrying amount as at 30 June 2022	**22,926.5**	**594.6**	**64.7**	**23,585.8**

	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)
Written off	-	(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

	Audited as at 31.12.21			
	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	1,515.5	(1,572.1)	(2.7)	(59.3)
To Stage 2	(136.7)	138.7	(8.6)	(6.6)
To Stage 3	(3.2)	(13.9)	16.7	(0.4)
Modification of contractual cashflows	3.0	(12.3)	6.6	(2.7)
Increases due to origination	5,275.4	3.8	0.2	5,279.4
Decreases due to derecognition and repayments	(3,440.3)	(266.8)	(14.9)	(3,722.0)
Written off	(0.1)	(0.2)	(2.4)	(2.7)
Other movements	(7.0)	(2.7)	0.4	(9.3)
Gross carrying amount as at 31 December 2021	22,326.2	458.9	70.1	22,855.2

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

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

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 2022, Stage 3 loans include £19.3m being held in Stage 3 under this probation period (30 June 2021: £21.0m; 31 December 2021: £19.2m).

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

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

Unaudited as at 30.06.22	**Gross carrying amount**				**Loss allowance**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Probability of default	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
<0.15%	**2,062.5**	**0.4**	**-**	**2,062.9**	**0.2**	**-**	**-**	**0.2**
0.15% - <0.25%	**6,624.0**	**0.2**	**-**	**6,624.2**	**0.8**	**-**	**-**	**0.8**
0.25% - <0.5%	**11,785.5**	**0.3**	**-**	**11,785.8**	**1.7**	**-**	**-**	**1.7**
0.5% - <0.75%	**1,974.9**	**0.5**	**-**	**1,975.4**	**0.4**	**-**	**-**	**0.4**
0.75% - <2.5%	**477.3**	**8.3**	**-**	**485.6**	**0.1**	**-**	**-**	**0.1**
2.5% - <10%	**2.3**	**142.0**	**-**	**144.3**	**-**	**0.2**	**-**	**0.2**
10% - <100%	**-**	**442.9**	**0.2**	**443.1**	**-**	**2.9**	**-**	**2.9**
Default	**-**	**-**	**64.5**	**64.5**	**-**	**-**	**3.2**	**3.2**
	22,926.5	**594.6**	**64.7**	**23,585.8**	**3.2**	**3.1**	**3.2**	**9.5**
Additional allowance for payment deferrals								**0.4**
								9.9
ECL coverage by stage (%)					**0.01%**	**0.52%**	**4.95%**	**0.04%**

Unaudited as at 30.06.21	Gross carrying amount				Loss allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Probability of default	£m	£m	£m	£m	£m	£m	£m	£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
	21,673.1	585.3	79.3	22,337.7	3.1	2.7	3.7	9.5
Additional allowance for payment deferrals								0.4
								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)

Audited as at 31.12.21	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%	1,271.9	0.7	-	1,272.6	0.1	-	-	0.1
0.15% - <0.25%	4,576.3	0.2	-	4,576.5	0.6	-	-	0.6
0.25% - <0.5%	11,542.4	0.8	-	11,543.2	1.8	-	-	1.8
0.5% - <0.75%	3,906.2	1.5	-	3,907.7	0.6	-	-	0.6
0.75% - <2.5%	1,023.2	10.4	-	1,033.6	0.3	-	-	0.3
2.5% - <10%	6.2	107.8	0.4	114.4	-	0.1	-	0.1
10% - <100%	-	337.5	0.1	337.6	-	2.2	-	2.2
Default	-	-	69.6	69.6	-	-	4.9	4.9
	22,326.2	458.9	70.1	22,855.2	3.4	2.3	4.9	10.6
Additional allowance for payment deferrals								0.3
								10.9
ECL coverage by stage (%)					0.02%	0.50%	6.99%	0.05%

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 30.06.22			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Loss allowance as at 1 January 2022 attributable by stage	**3.4**	**2.3**	**4.9**	**10.6**
Additional allowance for payment deferrals (note 1)				**0.3**
Loss allowance as at 1 January 2022				**10.9**
Transfers due to changes in credit risk:				
To Stage 1	**-**	**(0.2)**	**-**	**(0.2)**
To Stage 2	**(0.1)**	**1.3**	**(0.1)**	**1.1**
To Stage 3	**-**	**(0.1)**	**0.2**	**0.1**
Remeasurements within existing stage	**(0.4)**	**-**	**(0.6)**	**(1.0)**
Increases due to origination	**0.6**	**-**	**-**	**0.6**
Decreases due to derecognition and repayments	**(0.3)**	**(0.2)**	**(0.1)**	**(0.6)**
Written off	**-**	**-**	**(1.1)**	**(1.1)**
	3.2	**3.1**	**3.2**	**9.8**
Increase in additional allowance for payment deferrals (note 1)				**0.1**
Loss allowance as at 30 June 2022	**3.2**	**3.1**	**3.2**	**9.9**

Note

1. Since June 2020 the Group has recognised an additional allowance for credit losses 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. The additional allowance held at 30 June 2022 is £0.4m (30 June 2021: £0.4m; 31 December 2021: £0.3m). This additional allowance has not been allocated to the underlying loans, nor has it been attributed to ECL stages, but is shown in the 'total' column of the table. Further details are included in note 1c).

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

	Unaudited as at 30.06.21			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance as at 1 January 2021 attributable by stage	3.3	12.2	6.0	21.5
Additional allowance for payment deferrals				1.6
Loss allowance as at 1 January 2021				23.1
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)
Written off	-	-	(0.2)	(0.2)
Other movements	-	-	(0.1)	(0.1)
	3.1	2.7	3.7	11.1
Decrease in additional allowance for payment deferrals				(1.2)
Loss allowance as at 30 June 2021	3.1	2.7	3.7	9.9

	Audited as at 31.12.21			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance as at 1 January 2021 attributable by stage	3.3	12.2	6.0	21.5
Additional allowance for payment deferrals				1.6
Loss allowance as at 1 January 2021				23.1
Transfers due to changes in credit risk:				
To Stage 1	0.4	(5.7)	-	(5.3)
To Stage 2	(0.1)	0.5	(0.3)	0.1
To Stage 3	-	(0.5)	1.0	0.5
Remeasurements within existing stage	(0.8)	(2.2)	0.2	(2.8)
Modification of contractual cashflows	-	(0.8)	-	(0.8)
Increases due to origination	1.1	-	-	1.1
Decreases due to derecognition and repayments	(0.5)	(1.2)	(1.5)	(3.2)
Written off	-	-	(0.5)	(0.5)
	3.4	2.3	4.9	12.2
Decrease in additional allowance for payment deferrals				(1.3)
Loss allowance as at 31 December 2021				10.9

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 30.06.22	**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	**22,926.5**	**522.9**	**12.3**	**23,461.7**	**3.2**	**2.2**	**0.7**	**6.1**
Past due:								
Up to 30 days	**-**	**41.8**	**1.0**	**42.8**	**-**	**0.4**	**-**	**0.4**
31 to 60 days	**-**	**21.7**	**4.7**	**26.4**	**-**	**0.3**	**0.1**	**0.4**
61 to 90 days	**-**	**8.2**	**7.1**	**15.3**	**-**	**0.2**	**0.2**	**0.4**
Over 90 days	**-**	**-**	**39.6**	**39.6**	**-**	**-**	**2.2**	**2.2**
Additional allowance for payment deferrals								**0.4**
	22,926.5	**594.6**	**64.7**	**23,585.8**	**3.2**	**3.1**	**3.2**	**9.9**

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

Audited as at 31.12.21	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	22,326.2	381.0	10.5	22,717.7	3.4	1.5	0.4	5.3
Past due:								
Up to 30 days	-	46.7	2.9	49.6	-	0.3	0.2	0.5
31 to 60 days	-	22.1	4.5	26.6	-	0.3	0.4	0.7
61 to 90 days	-	9.1	6.2	15.3	-	0.2	0.2	0.4
Over 90 days	-	-	46.0	46.0	-	-	3.7	3.7
Additional allowance for payment deferrals								0.3
	22,326.2	458.9	70.1	22,855.2	3.4	2.3	4.9	10.9

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 30.06.22			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount as at 1 January 2022	**33.6**	**147.4**	**14.0**	**195.0**
Transfers due to changes in credit risk:				
To Stage 2	**(0.2)**	**0.2**	**-**	**-**
To Stage 3	**(3.3)**	**(0.4)**	**3.5**	**(0.2)**
Modification of contractual cashflows	**1.0**	**(2.4)**	**0.1**	**(1.3)**
Decreases due to derecognition and repayments	**(2.7)**	**(10.9)**	**(0.1)**	**(13.7)**
Write-offs	**-**	**-**	**(1.7)**	**(1.7)**
Gross carrying amount as at 30 June 2022	**28.4**	**133.9**	**15.8**	**178.1**

	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

	Audited as at 31.12.21			
	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 1	-	-	-	-
To Stage 2	-	0.2	(0.2)	-
To Stage 3	-	-	-	-
Modification of contractual cashflows	1.0	1.3	(6.1)	(3.8)
Decreases due to derecognition and repayments	(3.4)	(16.0)	(0.8)	(20.2)
Gross carrying amount as at 31 December 2021	33.6	147.4	14.0	195.0

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 2022, Stage 3 loans include no amounts being held in Stage 3 under this probation period (30 June 2021: no amounts; 31 December 2021: no amounts).

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

Details of forbearance activity in the period can be found in note 11c) below.

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 30.06.22			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Loss allowance as at 1 January 2022	**-**	**12.0**	**4.2**	**16.2**
Transfers due to changes in credit risk:				
To Stage 3	-	(0.1)	0.2	0.1
Remeasurements within existing stage	-	(0.3)	(0.1)	(0.4)
Decreases due to derecognition and repayments	-	(0.5)	-	(0.5)
Modification of contractual cashflows	-	(0.3)	(0.1)	(0.4)
Write-offs	-	-	(1.4)	(1.4)
Loss allowance as at 30 June 2022	**-**	**10.8**	**2.8**	**13.6**

	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

	Audited as at 31.12.21			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance as at 1 January 2021	-	13.5	4.3	17.8
Transfers due to changes in credit risk:				
To Stage 2	-	0.1	-	0.1
Remeasurements within existing stage	-	(0.6)	0.2	(0.4)
Modification of contractual cashflows	-	(0.4)	(0.3)	(0.7)
Decreases due to derecognition and repayments	-	(0.6)	-	(0.6)
Loss allowance as at 31 December 2021	-	12.0	4.2	16.2

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

Unaudited as at 30.06.22	**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	**28.2**	**127.2**	**10.9**	**166.3**	**-**	**10.5**	**2.5**	**13.0**
Past due:								
Up to 30 days	**0.2**	**4.9**	**0.2**	**5.3**	**-**	**0.2**	**-**	**0.2**
31 to 60 days	**-**	**1.7**	**-**	**1.7**	**-**	**0.1**	**-**	**0.1**
61 to 90 days	**-**	**0.1**	**0.4**	**0.5**	**-**	**-**	**-**	**-**
Over 90 days	**-**	**-**	**4.3**	**4.3**	**-**	**-**	**0.3**	**0.3**
	28.4	**133.9**	**15.8**	**178.1**	**-**	**10.8**	**2.8**	**13.6**
ECL coverage (%)					**0.00%**	**8.07%**	**17.72%**	**7.64%**

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

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%

Audited as at 31.12.21	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	33.5	136.1	1.8	171.4	-	11.4	0.7	12.1
Past due:								
Up to 30 days	0.1	6.4	-	6.5	-	0.2	-	0.2
31 to 60 days	-	3.7	-	3.7	-	0.3	-	0.3
61 to 90 days	-	1.2	-	1.2	-	0.1	-	0.1
Over 90 days	-	-	12.2	12.2	-	-	3.5	3.5
	33.6	147.4	14.0	195.0	-	12.0	4.2	16.2
ECL coverage (%)					0.00%	8.14%	30.00%	8.31%

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 2021 Annual Report and Accounts and our approach to forbearance remained materially unchanged in the period. At 30 June 2022, the percentage of residential mortgage balances that have been subject to forbearance is 0.6% (30 June 2021: 0.5%; 31 December 2021: 0.5%). For commercial balances the percentage is 26.6% (30 June 2021: 25.3%; 31 December 2021: 25.5%).

12. Equity release portfolio held at FVTPL

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

	Unaudited as at 30.06.22 £m	Unaudited as at 30.06.21 £m	Audited as at 31.12.21 £m
At 1 January	**406.6**	433.8	433.8
Redemptions	**(2.1)**	(3.2)	(6.5)
Movements in fair value	**(61.5)**	(18.6)	(27.3)
Realised losses on redemption	**(0.4)**	(0.2)	(0.5)
Accrued interest	**5.4**	2.7	7.1
At end of period	**348.0**	414.5	406.6

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

The Group holds derivative financial instruments to economically hedge the movements in fair value of the equity release portfolio, as outlined in note 1c). The movement in fair value of the derivatives held to hedge the portfolio during the period was a £73.0m gain and is included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Derivatives associated with equity release portfolio' (30 June 2021: £24.9m gain; 31 December 2021: £32.8m gain).

13. Assets held for sale

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

	Unaudited as at 30.06.22 £m	Unaudited as at 30.06.21 £m	Audited as at 31.12.21 £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	-

The assets held for sale as at 30 June 2021 related to the Group's shareholding in former subsidiary undertaking TM Group (UK) Limited, which was sold by the Group in July 2021.

14. Intangible assets

	Unaudited as at 30.06.22 £m	Unaudited as at 30.06.21 £m	Audited as at 31.12.21 £m
Goodwill	**217.5**	217.6	218.4
Other intangible assets	**116.6**	144.3	127.2
	334.1	361.9	345.6

Goodwill	**Unaudited as at 30.06.22 £m**	Unaudited as at 30.06.21 £m	Audited as at 31.12.21 £m
Cost, less amortisation to 1 January 2004*			
At 1 January	**230.1**	147.1	147.1
Acquisitions of subsidiary undertakings and business units	**-**	82.2	82.6
Revaluations of put options	**(0.9)**	-	0.4
At end of period	**229.2**	229.3	230.1
Impairment losses			
At 1 January	**11.7**	11.7	11.7
At end of period	**11.7**	11.7	11.7
Net book value at 1 January	**218.4**	135.4	135.4
Net book value at end of period	**217.5**	217.6	218.4

* 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.

14. Intangible assets (continued)

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

Operating segment	**Unaudited as at 30.06.22** Cost of goodwill £m	Accumulated impairment £m	Carrying value £m	Unaudited as at 30.06.21 Cost of goodwill £m	Accumulated impairment £m	Carrying value £m	Audited as at 31.12.21 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	**217.9**	**6.7**	**211.2**	218.0	6.7	211.3	218.8	6.7	212.1
Investment Portfolio	**8.4**	**4.9**	**3.5**	8.4	4.9	3.5	8.4	4.9	3.5
Total goodwill	**229.2**	**11.7**	**217.5**	229.3	11.7	217.6	230.1	11.7	218.4

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 2022 (six months to 30 June 2021: £nil; year ended 31 December 2021: £nil).

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

15. Debt securities in issue

	Unaudited as at 30.06.22 £m	Unaudited as at 30.06.21 £m	Audited as at 31.12.21 £m
Certificates of deposit	**-**	7.0	5.0
Senior unsecured debt	**-**	66.5	66.6
Covered bonds	**2,393.6**	1,890.9	1,890.5
Securitisations	**270.8**	355.1	305.4
Fair value adjustment for hedged risk	**(50.4)**	(26.3)	(49.4)
	2,614.0	2,293.2	2,218.1
Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:			
In not more than one year	**400.9**	73.6	71.7
In more than one year	**2,213.1**	2,219.6	2,146.4
	2,614.0	2,293.2	2,218.1

16. Related party transactions

Transactions with related parties are entered into in the normal course of business. The Group has not entered into any new related party transactions during the half year ended 30 June 2022 that have materially affected the financial position or the performance of the Group during that period.

Related party transactions for the half year ended 30 June 2022 are similar in nature to those for the year ended 31 December 2021. Full details of the Group's related party transactions for the year ended 31 December 2021 can be found in note 8 *Related party transactions* in the 2021 Annual Report and Accounts.

17. Subsequent events

There have been no material post balance sheet events between 30 June 2022 and the approval of this half-yearly financial report by the Board.

18. Other financial commitments and contingent liabilities

In the 2021 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 30.06.22			
	Amortised cost £m	FVOCI £m	FVTPL £m	Total £m
Cash in hand and balances with the Bank of England	2,843.0	-	-	2,843.0
Loans and advances to credit institutions	471.6	-	-	471.6
Debt securities	-	2,904.9	-	2,904.9
Derivative financial instruments	-	-	759.3	759.3
Loans and advances to customers	23,355.0	-	1.1	23,356.1
Equity release portfolio	-	-	348.0	348.0
Equity share investments	-	9.4	2.4	11.8
Trade receivables	86.3	-	-	86.3
Share warrants	-	-	12.1	12.1
Other assets	0.4	-	-	0.4
Total financial assets	26,756.3	2,914.3	1,122.9	30,793.5
Non-financial assets				596.1
Total assets				31,389.6
Shares	20,902.3	-	-	20,902.3
Amounts owed to credit institutions and other customers	4,739.2	-	-	4,739.2
Debt securities in issue	2,614.0	-	-	2,614.0
Derivative financial instruments	-	-	323.0	323.0
Lease liabilities	110.3	-	-	110.3
Trade payables	14.1	-	-	14.1
Fair value of put option obligation	-	-	5.5	5.5
Subordinated liabilities	322.3	-	-	322.3
Subscribed capital	41.6	-	-	41.6
Total financial liabilities	28,743.8	-	328.5	29,072.3
Non-financial liabilities				226.7
Total liabilities				29,299.0

19. Financial instruments (continued)

	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
Share warrants	-	-	9.0	9.0
Contingent consideration	-	-	6.2	6.2
Other assets	0.6	-	-	0.6
Total financial assets	25,703.6	1,999.4	510.6	28,213.6
Non-financial assets (note 1)				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 (note 1)				277.6
Total liabilities				27,074.5

Note

1. As outlined in note 13, the Group's former subsidiary undertaking TM Group (UK) Limited (TMG) was classified as held for sale as at 30 June 2021 and its assets and liabilities therefore presented separately within the Statement of Financial Position as at that date (within the line items 'Assets held for sale' and 'Liabilities directly associated with assets held for sale'); in the above table, 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)

	Audited as at 31.12.21			
	Amortised cost £m	FVOCI £m	FVTPL £m	Total £m
Cash in hand and balances with the Bank of England	2,433.6	-	-	2,433.6
Loans and advances to credit institutions	468.7	-	-	468.7
Debt securities	-	2,193.2	-	2,193.2
Derivative financial instruments	-	-	227.9	227.9
Loans and advances to customers	23,024.8	-	1.2	23,026.0
Equity release portfolio	-	-	406.6	406.6
Equity share investments	-	8.5	1.7	10.2
Trade receivables	71.1	-	-	71.1
Share warrants	-	-	11.0	11.0
Contingent consideration	-	-	6.3	6.3
Other assets	-	-	1.9	1.9
Total financial assets	25,998.2	2,201.7	656.6	28,856.5
Non-financial assets				611.5
Total assets				29,468.0
Shares	19,759.8	-	-	19,759.8
Amounts owed to credit institutions and other customers	4,452.6	-	-	4,452.6
Debt securities in issue	2,218.1	-	-	2,218.1
Derivative financial instruments	-	-	292.1	292.1
Lease liabilities	114.4	-	-	114.4
Trade payables	14.7	-	-	14.7
Fair value of put option obligation	-	-	8.6	8.6
Subordinated liabilities	336.3	-	-	336.3
Subscribed capital	41.6	-	-	41.6
Total financial liabilities	26,937.5	-	300.7	27,238.2
Non-financial liabilities				265.4
Total liabilities				27,503.6

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, treasury bills, 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 cleared 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, foreign currency exchange rates and equity index prices. Critical judgement is applied by management in utilising unobservable inputs including expected price volatilities, expected mortality rates and prepayment rates, based on industry practice or historical observation. The objective of valuation techniques is to arrive at a fair value determination that

19. Financial instruments (continued)

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 30.06.22			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Financial assets held at FVOCI:				
Debt securities	**2,439.7**	**465.2**	**-**	**2,904.9**
Equity share investments	**-**	**-**	**9.4**	**9.4**
Financial assets at FVTPL:				
Derivative financial instruments	**-**	**737.7**	**21.6**	**759.3**
Loans and advances to customers	**-**	**-**	**1.1**	**1.1**
Equity release portfolio	**-**	**-**	**348.0**	**348.0**
Equity share investments	**0.1**	**-**	**2.3**	**2.4**
Share warrants	**-**	**-**	**12.1**	**12.1**
	2,439.8	**1,202.9**	**394.5**	**4,037.2**
Financial liabilities				
Financial liabilities at FVTPL:				
Derivative financial instruments	**-**	**224.2**	**98.8**	**323.0**
Fair value of put option obligation	**-**	**-**	**5.5**	**5.5**
	-	**224.2**	**104.3**	**328.5**
	2,439.8	**978.7**	**290.2**	**3,708.7**

	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)

	Audited as at 31.12.21			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets held at FVOCI:				
Debt securities	1,858.3	334.9	-	2,193.2
Equity share investments	-	8.5	-	8.5
Financial assets at FVTPL:				
Equity share investments	0.2	-	1.5	1.7
Derivative financial instruments	-	221.5	6.4	227.9
Equity release portfolio	-	-	406.6	406.6
Loans and advances to customers	-	-	1.2	1.2
Contingent consideration	-	6.3	-	6.3
Share warrants	-	-	11.0	11.0
Other assets	-	-	1.9	1.9
	1,858.5	571.2	428.6	2,858.3
Financial liabilities				
Financial liabilities at FVTPL:				
Derivative financial instruments	-	135.0	157.1	292.1
Fair value of put option obligation	-	-	8.6	8.6
	-	135.0	165.7	300.7
	1,858.5	436.2	262.9	2,557.6

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.

On 30 June 2022 the Group's equity share investment in Bank North Limited, designated at FVOCI, was transferred from Level 2 to Level 3; this is on the grounds that certain inputs into the fair valuation were no longer considered observable as at that date. There were no other transfers between different levels of the fair value hierarchy during the six months ended 30 June 2022 (six months ended 30 June 2021: no transfers; year ended 31 December 2021: on 31 December 2021 the contingent consideration asset held by the Group was transferred from Level 3 to Level 2 on the grounds that the fair value of this asset, determined by calculating the present value of expected future cashflows, was no longer materially impacted by the discount rate applied).

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 30.06.22							
	Equity share investments £m	Equity release portfolio £m	Loans and advances to customers £m	Derivative financial instruments £m	Fair value of put option obligation £m	Share warrants £m	Other assets £m	Total £m
At 1 January	1.5	406.6	1.2	(150.7)	(8.6)	11.0	1.9	262.9
Gain/(loss) recognised in Income Statement	0.8[1]	(61.5)[2]	-	73.0[3]	0.3[4]	(0.8)[5]	-	11.8
Exercise of put options by non-controlling interests	-	-	-	-	2.0	-	-	2.0
Revaluations to goodwill	-	-	-	-	0.9	-	-	0.9
Accrued interest	-	5.4[6]	-	0.5[6]	-	-	-	5.9
Repayments	-	(2.1)	(0.1)	-	-	-	-	(2.2)
Realised losses	-	(0.4)[7]	-	-	-	-	-	(0.4)
Additions/other	9.4	-	-	-	(0.1)	1.9	(1.9)	9.3
At 30 June	11.7	348.0	1.1	(77.2)	(5.5)	12.1	-	290.2

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

19. Financial instruments (continued)

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

Notes

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

19. Financial instruments (continued)

Audited as at 31.12.21

	Equity share invest-ments £m	Equity release portfolio £m	Loans and advances to customers £m	Derivative financial instruments £m	Fair value of put option obligation £m	Contingent consid-eration £m	Share warrants £m	Other assets £m	Total £m
At 1 January	1.4	433.8	1.3	(181.3)	(6.9)	12.3	6.5	1.4	268.5
Gain/(loss) recognised in Income Statement	2.3[1]	(27.3)[2]	-	32.8[3]	(0.1)[6]	0.5[4]	3.2[5]	-	11.4
Contingent consideration received	-	-	-	-	-	(6.5)	-	-	(6.5)
Revaluation of market values	-	-	-	-	(1.6)[6]	-	-	-	(1.6)
Accrued interest	-	7.1[7]	0.1[7]	(2.2)[7]	-	-	-	-	5.0
Repayments	-	(6.5)	(0.2)	-	-	-	-	-	(6.7)
Realised losses	-	(0.5)[8]	-	-	-	-	-	-	(0.5)
Additions/other	(2.2)	-	-	-	-	(6.3)	1.3	0.5	(6.7)
At 31 December	1.5	406.6	1.2	(150.7)	(8.6)	-	11.0	1.9	262.9

Notes

1. These are unrealised gains and are included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Equity share investments'.
2. These are unrealised losses and are included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Equity release portfolio'.
3. These are unrealised gains and are included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Derivatives associated with equity release portfolio'.
4. Included in the Income Statement line 'Profit on disposal of subsidiary undertakings'.
5. Included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Share warrants'.
6. Included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Put options held by minority shareholders'.
7. Included in the Income Statement line 'Interest receivable and similar income'.
8. Included in the Income Statement line 'Realised losses on equity release portfolio'.

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 2021 Annual Report and Accounts.

Equity release portfolio

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

Derivative financial instruments

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

Any change in fair value of the derivative liabilities associated with the equity release portfolio is offset to some extent by a corresponding but opposite change in the fair value of the equity release portfolio. These sensitivities are outlined in note 1c). The characteristics and the valuation requirements differ slightly between the derivatives and the equity release portfolio resulting in the changes in fair value not offsetting completely. For the six months ended 30 June 2022 the net impact to the Income Statement was a £11.5m credit (six months ended 30 June 2021: £6.3m credit; year ended 31 December 2021: £5.5m credit).

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 presented within the Statement of Financial Position at fair value.

	Unaudited as at 30.06.22		Unaudited as at 30.06.21		Audited as at 31.12.21	
	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	**2,843.0**	**2,843.0**	2,286.9	2,286.9	2,433.6	2,433.6
Loans and advances to credit institutions	**471.6**	**471.6**	593.3	593.3	468.7	468.7
Loans and advances to customers held at amortised cost	**23,355.0**	**23,577.2**	22,722.1	22,888.0	23,024.8	23,303.3
Trade receivables	**86.3**	**86.3**	100.7	100.7	71.1	71.1
Other assets	**0.4**	**0.4**	0.6	0.6	-	-
	26,756.3	**26,978.5**	25,703.6	25,869.5	25,998.2	26,276.7
Financial liabilities						
Shares	**20,902.3**	**20,824.0**	19,432.2	19,527.1	19,759.8	19,807.5
Amounts owed to credit institutions	**2,556.4**	**2,556.4**	2,066.0	2,066.0	2,203.4	2,203.4
Amounts owed to other customers	**2,182.8**	**2,175.1**	2,126.9	2,132.5	2,249.2	2,250.0
Debt securities in issue	**2,614.0**	**2,615.9**	2,293.2	2,310.6	2,218.1	2,232.6
Lease liabilities	**110.3**	**110.3**	124.9	124.9	114.4	114.4
Trade payables	**14.1**	**14.1**	18.5	18.5	14.7	14.7
Subordinated liabilities	**322.3**	**327.8**	343.8	357.9	336.3	352.6
Subscribed capital	**41.6**	**66.2**	41.6	75.7	41.6	77.5
	28,743.8	**28,689.8**	26,447.1	26,613.2	26,937.5	27,052.7

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 247 of the 2021 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 5.

As noted on page 5, the Group's reportable segments have been revised with effect from 1 January 2022. SGHL, which was previously presented within the Mortgages and Savings division, is now presented within the Central division (the Central division was previously labelled 'Sundry including inter-divisional adjustments'); management considers that this revised presentation better reflects the nature of SGHL's current activities. The comparative amounts shown in the tables below for the six months ended 30 June 2021 and for the year ended 31 December 2021 are restated accordingly.

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. The Group has not aggregated any of its operating segments for the purposes of financial reporting.

No geographical analysis is presented because substantially all of the Group's activities are conducted within the UK. Of the total external income, £23.5m (six months ended 30 June 2021: £15.4m; year ended 31 December 2021: £31.9m) was generated outside the UK.

Unaudited 6 months to 30.06.22

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Central £m	Total £m
Net interest income	190.2	(2.3)	1.8	4.6	194.3
Net non-interest income	19.1	504.4	15.5	(4.7)	534.3
Fair value gains on hedged items and derivatives	73.1	-	-	-	73.1
Fair value losses on equity release portfolio	(61.5)	-	-	-	(61.5)
Fair value losses on share warrants	-	(0.8)	-	-	(0.8)
Fair value gains on put options held by minority shareholders	-	0.3	-	-	0.3
Fair value gains on equity share investments mandatorily held at FVTPL	-	0.7	-	-	0.7
Profit on disposal of Group undertakings	-	-	-	0.1	0.1
Share of profits from joint ventures	-	0.4	-	-	0.4
Total income	220.9	502.7	17.3	-	740.9
Administrative expenses	(94.0)	(473.0)	(13.6)	(0.8)	(581.4)
Realised losses on equity release portfolio	(0.4)	-	-	-	(0.4)
Impairment and provisions for liabilities	1.8	(0.8)	(0.1)	-	0.9
Profit / (loss) before tax	128.3	28.9	3.6	(0.8)	160.0
Taxation	(33.0)	(1.9)	(0.6)	(0.7)	(36.2)
Profit / (loss) after tax	95.3	27.0	3.0	(1.5)	123.8
Total assets	30,917.2	634.3	154.3	(316.2)	31,389.6
Total liabilities	29,036.6	405.4	143.9	(286.9)	29,299.0

Total income can be analysed as follows:

	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Central £m	Total £m
External income	218.7	500.1	17.2	4.9	740.9
Income from other segments	2.2	2.6	0.1	(4.9)	-
Total income	220.9	502.7	17.3	-	740.9

20. Segmental reporting (continued)

Unaudited 6 months to 30.06.21

	Mortgages and Savings Restated* £m	Estate Agency £m	Investment Portfolio £m	Central Restated* £m	Total £m
Net interest income	135.4	(2.8)	1.1	4.0	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	155.1	502.9	13.8	(1.7)	670.1
Administrative expenses	(82.8)	(422.8)	(12.1)	(7.9)	(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	86.9	80.2	1.7	(9.6)	159.2
Taxation	(14.9)	(11.8)	(0.6)	1.6	(25.7)
Profit / (loss) after tax	72.0	68.4	1.1	(8.0)	133.5
Total assets	28,417.7	868.6	117.9	(431.4)	28,972.8
Total liabilities	26,781.7	624.0	117.2	(448.4)	27,074.5

Total income can be analysed as follows:

	Mortgages and Savings Restated* £m	Estate Agency £m	Investment Portfolio £m	Central Restated* £m	Total £m
External income	152.1	499.7	13.8	4.5	670.1
Income from other segments	3.0	3.2	-	(6.2)	-
Total income	155.1	502.9	13.8	(1.7)	670.1

* As noted on page 62, the amounts shown above for the six months ended 30 June 2021 are restated to reflect that SGHL (previously presented within 'Mortgages and Savings') is now presented within 'Central' (the Central division was previously labelled 'Sundry including inter-divisional adjustments'). The impacts for 'Mortgages and Savings' are that profit after tax has increased by £1.1m, total assets has reduced by £44.7m and total liabilities has increased by £1.5m. The corresponding impacts for 'Central' are that loss after tax has increased by £1.1m, the deduction against total assets has reduced by £44.7m and the deduction against total liabilities has increased by £1.5m. These impacts are presentational only and there is no impact on total Group amounts reported for the six months ended 30 June 2021.

20. Segmental reporting (continued)

Audited 12 months to 31.12.21*

	Mortgages and Savings Restated*	Estate Agency	Investment Portfolio	Central Restated*	Total
	£m	£m	£m	£m	£m
Net interest income	291.8	(6.2)	2.6	8.5	296.7
Net non-interest income	33.8	1,000.1	27.1	(12.3)	1,048.7
Fair value gains on hedged items and derivatives	33.3	-	-	-	33.3
Fair value losses on equity release portfolio	(27.3)	-	-	-	(27.3)
Fair value gains on share warrants	-	3.2	-	-	3.2
Fair value losses on put options held by minority shareholders	-	(1.3)	-	-	(1.3)
Fair value gains on equity share investments mandatorily held at FVTPL	-	2.3	-	-	2.3
Realised profits on treasury assets held at FVOCI	0.1	-	-	-	0.1
Profit on disposal of Group undertakings	-	-	-	0.5	0.5
Fair value gains on step-acquisition of Group undertakings	-	26.9	-	-	26.9
Share of profits from joint ventures	-	1.2	-	-	1.2
Total income	331.7	1,026.2	29.7	(3.3)	1,384.3
Administrative expenses	(171.5)	(915.6)	(24.1)	(13.9)	(1,125.1)
Realised losses on equity release portfolio	(0.5)	-	-	-	(0.5)
Impairment and provisions for liabilities	12.5	0.7	(0.1)	-	13.1
Profit / (loss) before tax	172.2	111.3	5.5	(17.2)	271.8
Taxation	(38.9)	(16.5)	(1.3)	0.8	(55.9)
Profit / (loss) after tax	133.3	94.8	4.2	(16.4)	215.9
Total assets	29,006.2	693.8	141.7	(373.7)	29,468.0
Total liabilities	27,226.4	475.9	132.5	(331.2)	27,503.6

Total income can be analysed as follows:

	Mortgages and Savings Restated*	Estate Agency	Investment Portfolio	Central Restated*	Total
	£m	£m	£m	£m	£m
External income	325.3	1,020.5	29.3	9.2	1,384.3
Income from other segments	6.4	5.7	0.4	(12.5)	-
Total income	331.7	1,026.2	29.7	(3.3)	1,384.3

* As noted on page 62, the amounts shown above for the year ended 31 December 2021 are restated to reflect that SGHL (previously presented within 'Mortgages and Savings') is now presented within 'Central' (the Central division was previously labelled 'Sundry including inter-divisional adjustments'). The impacts for 'Mortgages and Savings' are that profit after tax has increased by £1.4m, total assets has reduced by £30.2m and total liabilities has reduced by £20.3m. The corresponding impacts for 'Central' are that loss after tax has increased by £1.4m, the deduction against total assets has reduced by £30.2m and the deduction against total liabilities has reduced by £20.3m. These impacts are presentational only and there is no impact on total Group amounts reported for the year ended 31 December 2021. These restatements are unaudited for the purposes of this half-yearly financial report.

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 as required by DTR 4.2.4R of the *Disclosure Guidance and Transparency Rules*;
- 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 Guidance 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 Guidance 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:

Gwyn Burr	(Chair; appointed 27 April 2022)
Robert East	(former Chair; resigned 26 April 2022)
Mark Lund	(Deputy Chair)
Andrew Bottomley*	
Amanda Burton	(resigned 26 April 2022)
Richard Coates	
Ian Cornelius*	(Interim Group Chief Executive)
David Cutter*	(former Group Chief Executive; resigned 26 April 2022)
Denis Hall	
Heather Jackson	
Philip Moore	
Bobby Ndawula*	
Helen Stevenson	

* Executive Directors

Signed on behalf of the Board by

Gwyn Burr

Chair

4 August 2022

Independent Review Report to Skipton Building Society

Conclusion

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 2022 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 2022 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) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. 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 international accounting standards. 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".

Conclusions Relating To Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis For Conclusion section of this report, nothing has come to our attention to suggest that management has inappropriately adopted the going concern basis of accounting or that management has identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

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.

In preparing the half-yearly financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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, including our conclusions relating to going concern, are 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) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. 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
4 August 2022

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