Half-Yearly
Financial Report 2017

For your life ahead

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Forward-looking statements

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

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

The financial information in respect of the year ended 31 December 2016 has been extracted from the audited 2016 Annual Report and Accounts with the exception of a prior year adjustment in respect of the change in accounting policy outlined in note 1b) to these condensed consolidated financial statements.

Group Chief Executive's Review of the Half Year

I'm very pleased to report we delivered another strong performance in the first half of 2017. We increased our membership with a 25,907 increase in customers to 886,310 (an increase of 3%), recorded a Group profit before tax of £67.0m (six months ended 30 June 2016: £76.8m), a 19% increase in underlying Group profit before tax (as defined on page 7) to £87.4m (from £73.2m for the six months ended 30 June 2016), and increased the Society's Common Equity Tier 1 ratio to 28.9% (from 23.9% at 31 December 2016).

The Society's already strong capital position was further strengthened following the disposal of a £220m portfolio of non-performing or recently non-performing loans. This initiative to reduce risk resulted in a £15.0m loss on disposal which is not included in the underlying profit figure.

During the six month period our mortgage and savings balances grew by 4.4% and 3.7% respectively, the former being in spite of the mortgage portfolio sale. We also broadened our wholesale funding base and lengthened its maturity, returning to the senior unsecured market for the first time in a decade, raising £350m for a five year term.

Key highlights over the first half of 2017 include:

- Total Group profit before tax (PBT) was £67.0m (six months ended 30 June 2016: £76.8m);
- Underlying Group PBT (as defined on page 7) was £87.4m (six months ended 30 June 2016: £73.2m);
- The Society continued to grow its membership with a 25,907 increase in customers to 886,310 (six months ended 30 June 2016: an increase of 20,389);
- Group gross mortgage lending increased to £2.4bn (six months ended 30 June 2016: £1.9bn);
- Mortgage balances grew by £0.7bn, a growth rate of 4.4% since the end of 2016 (six months ended 30 June 2016: by £0.5bn, a growth rate of 3.8%) despite the disposal of a £220m mortgage portfolio during the period, as mentioned above;
- Savings balances grew by £0.5bn to £14.6bn, a growth rate of 3.7% since the end of 2016 (six months ended 30 June 2016: by £1.1bn, a growth rate of 8.7%);
- The Group net interest margin reduced to 1.11% (six months ended 30 June 2016: 1.18%; year ended 31 December 2016: 1.18%), a reflection of a more competitive mortgage market and the ongoing low Bank Base Rate environment;
- Group administrative expenses totalled £253.9m (six months ended 30 June 2016: £243.0m), of which £169.1m relates to the Connells estate agency group (six months ended 30 June 2016: £162.7m);
- The Group's prudent approach to lending is demonstrated by the number of Group residential mortgages in arrears by three months or more. These represent only 0.37% of mortgage accounts (31 December 2016: 0.73%), the reduction benefitting from the £220m portfolio disposal of non-performing or recently non-performing loans, and compares to an industry average of 0.91% of mortgages in arrears by more than three months (source: Council of Mortgage Lenders, March 2017);

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

- The Society now reports its capital ratios using the Internal Ratings Based (IRB) approach and its Common Equity Tier 1 (CET 1) ratio at 30 June 2017 was strong at 28.9% (31 December 2016: 23.9%). Part of this increase was due to the disposal of a £220m mortgage portfolio as noted above;
- The leverage ratio, calculated on an IRB basis, stood at 5.9% (31 December 2016: 5.9%), comfortably ahead of the regulator's expected minimum; and
- In April 2017, global ratings agency Moody's upgraded the Society's long term rating to Baa1 (stable outlook) from Baa2 (positive outlook) and affirmed its short term rating of P-2. This reflects the continued improvement of the Society's financial position.

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

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

- The Society was the first, and to date only, financial services provider to launch a Cash Lifetime ISA, helping 17,711 people in the first month of its launch in June to save for their first home or longer term financial needs;
- The Society helped 13,118 homeowners during the six month period to purchase or remortgage their properties, including 2,374 first time buyers – 809 of those through our participation in the Government's Help to Buy equity loan scheme;
- We paid an average savings rate of 1.23%, nearly five times the Bank Base Rate, during the six months ended 30 June 2017 (six months ended 30 June 2016: 1.60%). For the four months ended 30 April 2017 the Society paid an average of 1.24% which was 0.51% above the industry average for which comparable data is available (Source: CACI Savings Market Database for the four months ended 30 April 2017); and
- The attractiveness of our mortgage and savings products was endorsed by 69 independent media best-buy table mentions during the period, as well as numerous editorial mentions.

Giving something back to our communities

- In January this year, the Society selected the Alzheimer's Society and Alzheimer's Scotland as their charity partner for 2017 and 2018. As part of this partnership Skipton colleagues are going through training to become "dementia friends", helping them to better understand those living with dementia; and
- In May, Skipton's award winning Grassroots Giving community funding scheme was launched for the year, having first started in 2013, and will give £500 each to 164 small community groups across the UK voted for by the public.

Delivering through our people

- A key factor in the Society's strong performance seen during the period and the ongoing high satisfaction of our customers is our people. The Society is focused on ensuring its people are highly engaged and motivated to deliver a great experience for our customers both now and in the future;
- In June this year, the Society achieved an employee engagement score of 88% (2016: 90%), well above financial services industry norms; and
- For the third year in a row the Society was included in the Sunday Times *Top 100 Companies to Work For*.

Economic and market backdrop

During the period, Bank Base Rate remained at a record low of 0.25%. Unemployment, reducing to 4.5%, helped maintain consumer spending but a rise in inflation to 2.9% (largely due to the effects of a reduction in the exchange rate last summer), at a rate above that of average pay awards, meant disposable income was squeezed and the UK Savings Ratio reduced to 1.7% of income, its lowest since records began in 1963.

Ever cheaper mortgages, arising from an increase in competition (particularly from the large lenders returning to the market) and the existence of the Bank of England's Term Funding Scheme, helped to maintain borrower demand. A continued shortage of housing stock has underpinned house prices, although the increases witnessed in recent years have begun to fade and the housing market has been subdued since Easter.

Looking ahead

The more challenging economic environment coincides with a period of increased political uncertainty, as not only is the Government in the early stages of negotiating the UK's withdrawal from the European Union, but an unexpected General Election resulted in a hung Parliament. These conditions make forecasting difficult and create a need for caution. We remain vigilant regarding potential economic headwinds, but the capital and funding actions taken during the period mean we are well placed to manage the risks that we face and to capitalise upon any opportunities that may arise for the benefit of our members.

David Cutter
Group Chief Executive
31 July 2017

Business Review

Business Model and Group Structure

Skipton Building Society is the UK's fourth largest building society, with £20.1bn of assets and 886,310 customers.

The Society's business model centres on providing a secure home for our growing number of customers' savings, which allows us to lend to borrowers, both directly and through mortgage brokers, to enable home ownership. The provision of high quality financial advice is also fundamental to our strategy to help guide customers to and through retirement. This is supported by maintaining a significant presence in estate agency through the Connells group, dividends from which help strengthen the Society's capital position for the benefit of all our members. In addition, the Skipton Group holds interests in a small number of companies comprising the Investment Portfolio.

Further details on the Group's strategic priorities, which remained unchanged during the six months ended 30 June 2017, can be found in the Strategic Report in the 2016 Annual Report and Accounts.

The Group's operating results are reviewed regularly by the Board in the following reportable segments (divisions):

- Mortgages and Savings – principally the Society, but also includes deposit taking and mortgage lending in the Channel Islands and the UK through Skipton International Limited (SIL). Our specialist mortgage businesses Amber Homeloans Limited (Amber) and North Yorkshire Mortgages Limited (NYM), which both ceased lending in 2008, are also part of the division.
- 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 IT solutions to a range of industries through Jade Software Corporation Limited.

On 1 August 2016, financial advice activities, previously carried out through Skipton Financial Services Limited (SFS) were integrated into the Society. Historically the performance of SFS was reported within the Financial Advice division and following the integration the Financial Advice division ceased to be a reportable segment. As such 30 June 2016 comparatives have been re-presented to be shown within the Mortgages and Savings division and, therefore, where performance is reported by division throughout this report, the Mortgages and Savings division's comparative figures for that period have been re-presented accordingly.

Objectives and Key Performance Indicators (KPIs)

The Board and senior management continue to use the KPIs listed on page 6 to monitor business performance against the Group's strategic objectives. These are reported to the Board on an ongoing basis and are key to the Board's management of the business and to its decision making process.

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

Our customer strategy is to put the customer at the heart of our business, providing a compelling and differentiated proposition that resonates with our customers and makes them want to become and remain Skipton customers. A key measure of success of a mutual building society is the long term sustainable growth of its customer base and mortgage and savings balances. In the first half of 2017 the Society's customer numbers grew by 25,907 to 886,310. Our savings balances increased to £14.6bn compared to £14.1bn at the end of 2016 and our mortgage book grew to £16.2bn compared to £15.5bn at the end of last year.

Our people strategy requires people who are able to deliver our strategy and a culture that enables them to do so. Our people strategy is focused on ensuring we have the right people, with the right skills and knowledge, who are highly engaged and who perform well to deliver a great experience for our customers both now and in the future. The delivery of the Society's people strategy is primarily measured by employee engagement and the ongoing focus is to maintain employee engagement at a level of more than 85% over the coming years. In June 2017 we achieved an employee engagement score of 88% (2016: 90%).

Our proposition seeks to provide good value products and consistently excellent service to our customers across all channels of interaction with us. One of the ways in which we monitor the success of our proposition is by measuring net customer satisfaction. For the first half of the year, our net customer satisfaction score was 92% (six months ended 30 June 2016: 92%; year ended 31 December 2016: 90%), demonstrating our ongoing commitment to the delivery of high quality products and services to our customers. Independent third party recognition of our products and services also demonstrates the value we are delivering to our members. We received 69 independent 'best-buy' mentions for our products during the first six months of the year (six months ended 30 June 2016: 136; year ended 31 December 2016: 181).

Our financial strength objective is to maintain our strong capital position, in order to be here for our members over the long term. We do this by continuing to provide mortgage and savings products, supplemented by dividends principally from our estate agency business, balanced with controlled management of our cost base and a prudent approach to risk management. A more detailed review of our financial performance and position can be found on pages 7 to 11.

Key Performance Indicator (KPI)	Purpose	**6 months to 30.06.17**	6 months to 30.06.16	12 months to 31.12.16
Our Customers				
Growth in customer numbers (Society only)	To ensure we are attracting and retaining customers	**25,907**	20,389	22,316
Increase in customer savings balances (Society only)	To help more customers save for their future	**£525m**	£1,117m	£1,285m
Group gross mortgage advances	To help us to meet our goal of enabling homeownership through prudent and controlled lending	**£2,353m**	£1,949m	£3,968m
Group net mortgage growth	To help us to meet our goal of enabling homeownership through prudent and controlled lending	**£675m**	£544m	£1,298m
Our People				
Employee engagement (Society only) (note 1)	To ensure our people are passionate, loyal and committed	**88%**	90%	90%
Our Proposition				
Society net customer satisfaction score (note 2)	To ensure we are putting the customer at the heart of our business	**92%**	92%	90%
Our Financial Strength				
Total Group profit before tax	To ensure we generate the necessary capital to enable the business to develop	**£67.0m**	£76.8m	£168.9m
Underlying Group profit before tax (as defined on page 7)	To ensure we generate the necessary capital to enable the business to develop regardless of any costs or benefits not arising from the Group's ongoing trading operations	**£87.4m**	£73.2m	£151.5m
Group net interest margin (% of mean assets) (note 3)	To manage the earnings of our core Mortgages and Savings division	**1.11%**	1.18%	1.18%
Mortgages and Savings division cost income ratio (note 4)	To maintain a manageable cost base to ensure the business is cost efficient	**55.3%**	57.6%	57.3%
Mortgages and Savings division management expense ratio (note 4)	To maintain a manageable cost base to ensure the business is cost efficient	**0.72%**	0.74%	0.75%
Group residential mortgages in arrears by three months or more	To manage and monitor our arrears and credit risk management	**0.37%**	0.81%	0.73%
Liquidity as a % of shares, deposits and borrowings	To ensure we hold sufficient levels of overall liquidity	**17.36%**	19.32%	15.90%
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	**87.33%**	88.83%	89.59%
Group Common Equity Tier 1 ratio (note 5)	To ensure the Group remains financially strong by having a strong (risk weighted) capital base	**28.9%**	17.0%	23.9%
Group leverage ratio (note 5)	To ensure the Group remains financially strong by having a strong (non-risk weighted) capital base	**5.9%**	6.0%	5.9%

Notes

1. As measured by Willis Towers Watson, an independent company who provides benchmarking on employee surveys in both the UK and globally.
2. As measured from an independent survey by a customer experience management services provider of 1,200 Society members. The net customer satisfaction score is calculated by subtracting dissatisfied customers (those scoring satisfaction with the Society as 1-3 on a scale of 1-7) from those who are satisfied (those scoring satisfaction as 5-7 on the same scale).
3. The 31 December 2016 comparative figure has been restated due to a change in accounting policy relating to the netting of gains on and costs arising from the sale of treasury assets. Further details are provided in note 1b).
4. The 30 June 2016 comparative figures have been re-presented following the integration of financial advice activities (previously carried out through SFS) into the Society from 1 August 2016.
5. These ratios are calculated on an Internal Ratings Based (IRB) basis, following IRB status approval during the second half of 2016. The 30 June 2016 comparative figures, prepared on a standardised basis, have not been re-presented.

Financial performance

Total Group profit before tax (PBT) for the first half of the year was £67.0m (six months ended 30 June 2016: £76.8m; year ended 31 December 2016: £168.9m). Further information can be found in the Income Statement on page 13.

The Board monitors and reports profit at both a total statutory level and at an underlying level. Underlying Group PBT excludes items from the statutory profit figure that are not generated from the Group's core strategic operations to give greater transparency of the performance of the Group's ongoing trading activities. The underlying Group PBT excludes Financial Services Compensation Scheme charges, gains and losses on disposal of Group undertakings and impairment of Group undertakings as outlined in the 2016 Annual Report and Accounts. In 2017 underlying Group PBT also excludes the loss on sale of the portfolio of non-performing or recently non-performing loans which occurred during the period, as the sale of mortgage assets is not considered to be an ongoing trading activity of the Group.

Underlying Group PBT for the six months ended 30 June 2017 was £87.4m (six months ended 30 June 2016: £73.2m; year ended 31 December 2016: £151.5m) as follows:

	6 months to 30.06.17	6 months to 30.06.16	12 months to 31.12.16
	£m	£m	£m
Total Group profit before tax	**67.0**	76.8	168.9
Add back loss / less profit on disposal of subsidiary undertakings	**3.9**	(9.4)	(15.8)
Less profit / add back loss on full or part disposal of other Group undertakings	**(0.9)**	0.9	(16.1)
Add back loss on disposal of mortgage assets	**15.0**	-	-
Add back impairment of associate and equity share investments	**0.1**	1.1	12.4
Add back FSCS levy	**2.3**	3.8	2.1
Underlying Group profit before tax	**87.4**	73.2	151.5

Performance by business area

The Group's results by business area were as follows:

	6 months to 30.06.17	6 months to 30.06.16 Re-presented*	12 months to 31.12.16
	£m	£m	£m
Mortgages and Savings	**41.5**	45.7	96.6
Estate Agency	**31.5**	31.3	73.4
Investment Portfolio	**(2.8)**	(3.4)	(12.2)
Sundry, including inter-divisional adjustments^	**(3.2)**	3.2	11.1
Profit before tax	**67.0**	76.8	168.9

* The comparative figures have been re-presented following integration of financial advice activities into the Society, further details of which can be found on page 5 of this report.

^ Sundry, including inter-divisional adjustments relates primarily to the elimination of inter-divisional trading, the cost of the management incentive scheme for senior managers of Connells Limited and contingent consideration recognised following the disposal of Homeloan Management Limited in 2014.

Underlying performance by business area

The Group's underlying performance by business area was as follows:

	6 months to 30.06.17	6 months to 30.06.16 Re-presented*	12 months to 31.12.16
	£m	£m	£m
Mortgages and Savings	**58.8**	49.5	98.7
Estate Agency	**30.7**	31.3	57.1
Investment Portfolio	**2.1**	(1.4)	0.4
Sundry, including inter-divisional adjustments^	**(4.2)**	(6.2)	(4.7)
Underlying Group profit before tax	**87.4**	73.2	151.5

* The comparative figures have been re-presented following integration of financial advice activities into the Society, further details of which can be found on page 5 of this report.

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

A more detailed breakdown of the results of each business area can be found in note 19.

Mortgages and Savings

The Mortgages and Savings division has had a good lending performance in the first six months of the year; despite margin pressures it has reported pre-tax profits of £41.5m (six months ended 30 June 2016: £45.7m; year ended 31 December 2016: £96.6m). The pre-tax profit for the six months ended 30 June 2017 includes a loss on sale of £15.0m on the disposal of a £219.6m portfolio of non-performing or recently non-performing mortgage assets, which is detailed on page 8.

Gross mortgage advances in the first half of the year increased by 20.7% to £2,353m (six months ended 30 June 2016: £1,949m; year ended 31 December 2016: £3,968m), whilst net lending was £675m (six months ended 30 June 2016: £544m; year ended 31 December 2016: £1,298m), despite the £219.6m mortgage assets disposed of within the period, as described on page 8. This increase in lending was achieved as a result of our strong relationships with our intermediary partners and our competitive offerings across a range of mortgage products. This growth in lending was achieved without extending our credit risk appetite and without compromising the quality of our mortgage assets.

We understand the impact the ongoing low interest rate environment has on our savers and we continue to offer competitive rates above the market average. The Society achieved a growth in savings customers of 19,796 (16,358 in the six months ended 30 June 2016) and has seen its savings balances increase by £525m since the end of 2016, representing growth of 3.7% (six months ended 30 June 2016: 8.7%).

Net interest income, which is the main source of income for the Mortgages and Savings division, is the amount earned on assets (mortgages, other loans and advances and liquidity), less that paid on liabilities (retail savings, wholesale funding and subscribed and subordinated capital). The division's net interest income amounted to £103.6m for the first half of the year (six months ended 30 June 2016: £104.4m; year ended 31 December 2016: £209.5m).

Business Review *(continued)*

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 1.11% for the first half of 2017 (six months ended 30 June 2016: 1.18%; year ended 31 December 2016: 1.18%). The anticipated decrease in net interest margin over the last 12 months is a reflection of a more competitive mortgage market and a low Bank Base Rate environment.

Financial advice generated £15.4m of income (six months ended 30 June 2016: £11.4m; year ended 31 December 2016: £27.6m), with funds under management totalling £3.3bn (30 June 2016: £2.9bn; 31 December 2016: £3.1bn).

During the period administrative expenses in the division increased to £68.8m (six months ended 30 June 2016: £66.1m; year ended 31 December 2016: £135.9m) as we continue to make investments in our customer proposition and develop our people.

Despite these investments, the ratio of administrative expenses to average assets for the division, a traditional building society measure of efficiency, improved to 0.72% in the first half of the year (six months ended 30 June 2016: 0.74%; year ended 31 December 2016: 0.75%). The cost income ratio at a Mortgages and Savings division level also improved to 55.3% (six months ended 30 June 2016: 57.6%; year ended 31 December 2016: 57.3%).

The total number of mortgages in arrears in the Society has reduced, with the number of residential mortgages in arrears by three months or more falling to 0.35% (30 June 2016: 0.38%; 31 December 2016: 0.38%), which compares favourably to the Council of Mortgage Lenders (CML) industry average for mortgages in arrears by more than three months of 0.91% (CML figures as at 31 March 2017).

During the period a portfolio of non-performing or recently non-performing loans, held in the Group's specialist mortgage businesses Amber and NYM, were disposed of, resulting in a £15.0m loss and a reduction in the aggregate size of Amber and NYM mortgage balances by £219.6m. These loans were sold to de-risk our balance sheet and further strengthen the capital position of the Society. The disposal resulted in an increase to the Society's prudential group's CET 1 ratio of 2%. Further details can be found on page 10.

The number of mortgages in arrears by three months or more has also reduced in the first six months of 2017 within Amber and NYM, reducing to 1.43% and 0.08% respectively (30 June 2016: 6.44% and 5.10% respectively; 31 December 2016: 5.95% and 4.31% respectively), a significant reduction as a result of the disposal of the £220m portfolio of mortgage loans. The run-off of these portfolios is managed through efficient and proactive collection processes, including a number of appropriate forbearance measures for borrowers in financial difficulty.

The total aggregate size of mortgage balances within Amber and NYM, including the mortgage loans disposed of during the period, reduced by 24.0% during the six months ended 30 June 2017 (six months ended 30 June 2016: 5.6%; year ended 31 December 2016: 10.7%).

The impairment credit on loans and advances to customers for the division (excluding the equity release portfolio) was £1.2m (six months ended 30 June 2016: £1.3m credit; year ended 31 December 2016: £4.2m credit).

The expected losses on the equity release portfolio held by the Society arise from the 'no negative equity guarantee' provided to customers (as described in note 18b)), which is accounted for as an embedded derivative. The expected losses on this portfolio represent the fair value movement of this embedded derivative, and are a function of the actual and projected interrelationship between market-wide long term house prices and retail price inflation and the specific characteristics of this portfolio. During the period we have updated the associated key assumptions we expect to observe within this portfolio which resulted in a credit of £3.1m (six months ended 30 June 2016: £nil; 31 December 2016: £3.8m charge).

Arrears levels within our commercial lending portfolio (closed to new business in 2008) remain low. There was a credit to the Income Statement in the period of £0.3m for the impairment provision on this portfolio (six months ended 30 June 2016: £0.3m credit; year ended 31 December 2016: £1.5m credit).

SIL, our Channel Islands operation, performed well over the first half of the year, reporting an increase in pre-tax profits to £8.5m (six months ended 30 June 2016: £7.1m; year ended 31 December 2016: £15.2m). SIL also reported increases in both its mortgage and savings books, which increased to £1,140.9m and £1,373.6m respectively (31 December 2016: £1,044.0m and £1,184.9m respectively), representing growth of 9.3% in the mortgage book and 15.9% growth in savings balances since the year end. The quality of the mortgage book remains good, with only two cases in arrears by three months or more (30 June 2016: nil; 31 December 2016: nil).

The Income Statement charge for provisions for liabilities in the division predominantly consists of the Society's share of the costs of the Financial Services Compensation Scheme (FSCS), which amounted to £2.3m (six months ended 30 June 2016: £3.8m; year ended 31 December 2016: £2.1m).

Estate Agency

The Connells group continued to perform well and achieved a pre-tax profit of £31.5m for the first six months of 2017 compared to £31.3m for the same period last year.

The Connells group retains a good spread of revenue generating activities and, despite a fall in the number of house sales of 3% during the period, total income across the division increased by 4.0% compared to the first half of 2016, to £204.8m. Lettings income (up 14.5%), mortgage services revenue (up 11.8%) and surveying income (up 4.5%) all increased during the period.

Administrative expenses increased by 3.9% during the half-year, compared to a 19.0% increase for the same period in 2016. The larger increase seen in the comparable period in 2016 was due to investment in expanding the division's lettings footprint and increasing

the number of mortgage services consultants and surveyors.

Investment Portfolio

Skipton Business Finance Limited (a provider of debt factoring and invoice discounting to small and medium-sized enterprises) consistently performs well and produced a pre-tax profit for the period of £1.6m (six months ended 30 June 2016: £1.5m; year ended 31 December 2016: £3.3m).

Jade Software Corporation (a software solutions provider based in New Zealand that specialises in digital solutions and large IT enterprise solutions), which has reported losses over recent years as it invested in its future growth, delivered encouraging year-on-year sales growth and reported a profit of £0.2m for the six months ended 30 June 2017 (six months ended 30 June 2016: loss of £0.5m; year ended 31 December 2016: loss of £0.4m).

In June 2017 the Group purchased further shares in Jade for £6.6m, increasing its shareholding from 56.4% to 99.9%. In addition, the Group disposed of a small group of companies, Jade Logistics Holding Company and its subsidiary undertakings which were previously part of the Jade group, resulting in a loss on disposal of £4.9m shown in the '(Loss) / profit on disposal of subsidiary undertakings' line in the Income Statement. The disposal of this group of subsidiaries allows Jade to focus on further strengthening its core solutions business.

Sundry, including inter-divisional adjustments

The cost for the first six months of 2017 of the management incentive scheme for the senior managers of Connells Limited was £2.5m (six months ended 30 June 2016: £3.3m; year ended 31 December 2016: £1.0m). During the period a number of managers in the scheme exercised a proportion of their options in line with the scheme rules which resulted in total payments of £6.5m being made. Further details of the scheme, including the calculation of the liability and the assumptions used, can be found in note 25 in the 2016 Annual Report and Accounts.

During 2014, the Group sold its then subsidiary Homeloan Management Limited (HML). The sale of HML included contingent consideration dependent on HML's performance over a period following the disposal and this will result in amounts being receivable by the Group between 2018 and 2022. The amount recognised in the period of £0.3m relates to the unwinding of the discounted cash flows of the contingent consideration receivable and is included in the '(Loss) / profit on disposal of subsidiary undertakings' line in the Income Statement. A further £0.7m (30 June 2016: £nil; 31 December 2016: £5.8m) profit is also recognised in this line following the release of a provision held in relation to the disposal of HML. At 30 June 2017 £10.2m (30 June 2016: £9.6m; 31 December 2016: £9.9m) is recognised in the Statement of Financial Position based on the Directors' best estimate of the present value of an element of the contingent consideration that can be reliably estimated at this stage. An additional element may become due, albeit the amount cannot be reliably estimated at present.

Inter-divisional adjustments during the period, which relate primarily to the elimination of inter-divisional trading between Group entities, amounted to £1.7m (six months ended 30 June 2016: £3.1m; year ended 31 December 2016: £3.6m).

Other comprehensive income

During the period, the Group recognised other comprehensive income (net of tax) of £5.1m (six months ended 30 June 2016: expense of £11.9m; year ended 31 December 2016: expense of £29.9m). This includes:

- The remeasurement of retirement benefit obligations to reflect latest market conditions, which resulted in a gain of £5.9m (before tax) (six months ended 30 June 2016: loss of £29.4m; year ended 31 December 2016: loss of £50.0m);
- Gains of £4.8m (before tax) (six months ended 30 June 2016: £4.4m; year ended 31 December 2016: £14.0m) arising from an increase in the market value of Connells' equity shareholding in ZPG Plc (previously known as Zoopla Property Group Plc). The gain is based on the share price as at 30 June 2017 and has been recognised in the available-for-sale reserve; and
- Various other movements in the Society's available-for-sale and cash flow hedging reserves of £(3.7)m (six months ended 30 June 2016: £6.5m; year ended 31 December 2016: £(5.0)m) account for the majority of the remainder of the overall movement (before tax) in the Group's other comprehensive income.

Financial position

Loans and advances to customers

The Group has again increased its lending during the period and continues to lend through the Society and SIL in a conservative manner. Gross mortgage advances in the period increased to £2,353m across the Group compared with £1,949m in the same period in 2016 (year ended 31 December 2016: £3,968m). Group mortgage balances totalled £16.2bn, up from £15.5bn at the end of 2016, an increase of 4.4%, despite the disposal of a £220m portfolio of mortgage loans during the period, as discussed on page 8.

Our new lending remains prudent and the mortgage book is well diversified by geographical location. During the first half of the year, the Society helped a broad spectrum of borrowers, house movers and first time buyers by offering our customers a variety of products, such as loans that only require a 10% deposit and longer term deals offering payment certainty for up to five years. The average loan-to-value (LTV) on new lending in the Society was 60.9% (30 June 2016: 65.2%; 31 December 2016: 64.3%).

Our well-managed spread of risk ensures that the quality of the Group's lending remains high. As at 30 June 2017, the average indexed LTV of the total residential mortgage book was 48.5% (30 June 2016: 48.4%; 31 December 2016: 47.9%).

Liquidity

The Group continues to hold healthy levels of liquid assets to support the business and to counter economic uncertainty, with the liquidity ratio (as a percentage of shares, deposits and borrowings) increasing from 15.9% at the end of 2016 to 17.4% as at 30 June 2017. The Group's liquidity levels are closely managed by the Board and senior management and they have remained above internal and regulatory limits throughout the period.

The Liquidity Coverage Ratio (LCR), which is a measure designed to ensure that financial institutions have sufficient high quality assets available to meet their liquidity needs for a 30 day liquidity stress scenario, was 188% at 30 June 2017 (31 December 2016: 170%), well above both the regulatory and internal limits set by the Board throughout the period.

The Group's treasury investments are held to provide liquidity and at the end of the reporting period 99.0% (30 June 2016: 99.8%; 31 December 2016: 98.8%) of the Group's treasury investments are rated A3 or better.

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.

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. Finding the right mix of retail and wholesale funding is essential to the Group achieving both its retail savings and lending growth objectives.

Retail funding

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

As at 30 June 2017, £14.7bn (30 June 2016: £14.0bn; 31 December 2016: £14.2bn) of our funding came from retail savings, representing 87.3% (30 June 2016: 88.8%; 31 December 2016: 89.6%) of total funding.

In addition to our UK retail funding, the Group also accepts deposits through our Channel Islands based subsidiary, SIL. SIL has again increased its funding base in the period, to £1.4bn (30 June 2016: £1.1bn; 31 December 2016: £1.2bn). These balances are included in 'Amounts owed to other customers' within the Statement of Financial Position.

Wholesale funding

The Society accesses the remainder of its funding through the wholesale markets, as there are certain benefits that wholesale funding brings, such as longer term funding. At 30 June 2017 our wholesale funding balances amounted to £1,967.8m (30 June 2016: £1,618.0m; 31 December 2016: £1,497.5m), an increase of £470.3m during the six month period. The Group's wholesale funding ratio increased to 12.7% as at 30 June 2017 (30 June 2016: 11.2%; 31 December 2016: 10.4%).

During the six month period, the Society drew down £500m of funding under the Government's Term Funding Scheme (TFS) (six months ended 30 June 2016: £nil; year ended 31 December 2016: £300m) and at the end of the period had drawn a total of £800m (30 June 2016: £nil; 31 December 2016: £300m). In addition the Society had £400m of funding from the Government's Funding for Lending Scheme (FLS) outstanding at 30 June 2017 (30 June 2016: £880m; 31 December 2016: £980m).

In April 2017, global ratings agency Moody's upgraded the Society's long term rating to Baa1 (stable outlook) from Baa2 (positive outlook) and affirmed its short term rating of P-2. This reflects the continued improvement of the Society's financial position.

In June 2017, the Society raised £350m of wholesale funding under a senior unsecured funding transaction for a term of five years.

Capital

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

Under CRD IV the key level at which we monitor our capital is at a prudential consolidation group level. This consists of the entire Group except Connells and a small number of entities whose activities are not closely aligned with the core financial services businesses.

Total capital has increased by £62.9m from 31 December 2016 to £1,239.9m under the fully loaded definition of CRD IV (30 June 2016: £1,148.4m; 31 December 2016: £1,177.0m). This is due to profits accumulated during the six month period which are added to the general reserve.

During the period a portfolio of non-performing or recently non-performing mortgage assets was sold, as discussed on page 8, resulting in a decrease in our Risk Weighted Assets (RWAs) of £463m which strengthened our capital position.

In April 2017, the Society repaid and cancelled £50.0m of its Permanent Interest Bearing Shares (PIBS) and £35.4m of its subordinated debt on their call dates. In May 2017, the Society also repaid and cancelled £30.0m of its subordinated debt on its call date.

The following table shows the capital ratios for the prudential group as at 30 June 2017 under the CRD IV fully loaded and transitional rules by applying the IRB approach to the applicable exposures. The comparative figures for June 2016 are calculated under the standardised approach and have not been re-presented.

	Fully loaded (note 1)		
	6 months to 30.06.17 £m	6 months to 30.06.16 £m	12 months to 31.12.16 £m
Capital Resources:			
Common Equity Tier 1 (CET 1) capital	**1,199.9**	1,107.0	1,136.6
Tier 1 capital	**1,199.9**	1,107.0	1,136.6
Total capital	**1,239.9**	1,148.4	1,177.0
Risk Weighted Assets	**4,156.9**	6,524.1	4,763.2
CRD IV ratios:	**%**	%	%
CET 1 ratio (note 2)	**28.9**	17.0	23.9
Leverage ratio (note 3)	**5.9**	6.0	5.9

	Transitional		
	6 months to 30.06.17 £m	6 months to 30.06.16 £m	12 months to 31.12.16 £m
Capital Resources:			
Common Equity Tier 1 (CET 1) capital	**1,199.9**	1,107.0	1,136.6
Tier 1 capital	**1,239.9**	1,161.0	1,190.6
Total capital	**1,239.9**	1,228.4	1,257.0
Risk Weighted Assets	**4,156.9**	6,524.1	4,763.2
CRD IV ratios:	**%**	%	%
CET 1 ratio (note 2)	**28.9**	17.0	23.9
Leverage ratio (note 3)	**6.1**	6.3	6.2

Notes

1. Under the CRD IV fully loaded rules all existing additional Tier 1 instruments will be phased out of Tier 1 capital into Tier 2 capital over a transitional period to 1 January 2022. In the fully loaded position shown in the table, all Tier 1 instruments have been reallocated in full.
2. At 30 June 2017, under the standardised approach, the CET 1 ratio would have been 17.5% at a fully loaded and transitional level.
3. The leverage ratio is defined as Tier 1 capital divided by total exposure i.e. total assets per the prudential group consolidated position (subject to some regulatory adjustments). Under the standardised approach the leverage ratio at 30 June 2017 would have been 6.2% on a fully loaded basis and 6.4% on a transitional basis.

The Society holds capital to meet Pillar 1 requirements for credit risk, operational risk and market risk. The Prudential Regulatory Authority (PRA) requires the Society to hold additional Pillar 2A capital for the risks not covered under Pillar 1. At 30 June 2017 this was 3.4% of risk weighted assets, a point in time estimate set by the PRA.

On 1 January 2016 a Minimum Requirement for Own Funds and Eligible Liabilities (MREL) was implemented by the Bank of England. This is being phased in over a transitional period to 1 January 2022. The MREL set for the Society, by the Bank of England, for the transitional period is equal to the regulatory capital requirements for the period to 31 December 2019, increasing to 18% of risk-weighted assets by 1 January 2020 for the period to 31 December 2021. MREL at the end of the transitional period is subject to review by the Bank of England and may change. Compliance with MREL is reflected in the Society's strategic plans.

Principal risks and uncertainties

The Directors continue to monitor political, economic and regulatory developments since the decision was made to leave the EU and since the outcome of the UK general election. The Directors acknowledge that uncertainties remain regarding how the business environment will change and the potential impact of these events on the Society's principal risks and uncertainties, however the Directors do not consider at this stage that the principal risks and uncertainties affecting the Group have changed materially since the publication of the 2016 Annual Report and Accounts.

The principal risks were categorised in the 2016 Annual Report and Accounts as follows:

- Credit risk, which is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group. The Group faces credit risk from its lending to individuals, businesses and wholesale counterparties, and manages this risk through maintaining a prudent approach to new lending and through the presence of a robust risk management framework.
- Liquidity risk, which is the risk that the Group is unable to meet its current and future financial obligations as they fall due. The Group maintains a high quality liquidity portfolio and continues to hold liquidity well in excess of the regulatory minimum.
- Interest rate risk, which is the risk of loss arising from adverse movements in market interest rates. This risk is managed through the use of appropriate financial instruments, including derivatives used to hedge exposures, with established risk limits, reporting lines, mandates and other control procedures.
- Equity risk, which is the risk of loss due to adverse movements in equity markets. The value of equity investments can fluctuate and therefore the Group holds capital to absorb such fluctuations in order to protect its regulatory capital position.
- Conduct and operational risk – conduct risk is the risk of delivering poor or inappropriate outcomes for customers, while operational risk is the risk of financial loss or reputational damage arising from inadequate or failed internal processes or systems or human error. This category of risk also includes:
    - Cyber crime – cyber risk incorporates a wide array of potential threats to the Group, which are of increasing significance given the expected growth in online customer transaction levels. The Group continues to focus on proactively managing the evolving nature of cyber threat to ensure the Group is best placed to protect its customers and the business.
    - Business resilience – the Society continues to review its approach to business resilience and continuity to ensure that this is reflective of business changes over time and remains fit for purpose in the event of a disaster.

Business Review *(continued)*

- Reputational risk, which is the risk to earnings, liquidity or capital arising from negative market or public opinion. This is effectively managed through maintaining and investing in good control structures, focusing on customer outcomes and working within the risk management framework.
- Model risk, which is the risk that, as a result of weaknesses or failures in the design or use of a model, a financial loss occurs or a poor business or strategic decision is made. This is mitigated by a formal review forum, provided by the Model Governance Committee, for managing model risk.
- Pension obligation risk is managed by the Trustees of the Group's two defined benefit schemes, and 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 pensions legislation.
- Business risk, which is the risk of changes in the environment in which the Group operates or the occurrence of events which damage the franchise or operating economics of the Group's businesses. These risks are addressed in the Group's corporate plans, approved annually by the Board, and by associated stress testing carried out on these plans.
- Capital risk, which is the risk that the business does not maintain sufficient capital levels to protect against the principal risks it faces such as severe recession or business shocks. The Internal Capital Adequacy Assessment Process (ICAAP) is conducted at least annually and is used to assess the Group's capital adequacy and determine the levels of capital required to mitigate where possible the current and future risks in the business as identified in the Group's corporate plan.

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 55 to 59 of the 2016 Annual Report and Accounts.

The Group Chief Executive's Report on pages 3 to 4 also provides some context to the current state of the UK economy and the challenges currently facing the Group, the risks from which we are confident we remain well placed to manage.

Bobby Ndawula
Group Finance Director
31 July 2017

Condensed Consolidated Income Statement

For the half year ended 30 June 2017

	Notes	**Unaudited 6 months to 30.06.17 £m**	Unaudited 6 months to 30.06.16 £m	Unaudited 12 months to 31.12.16 Restated* £m
Interest receivable and similar income	3	**194.9**	219.9	430.2
Interest payable and similar charges	4	**(87.1)**	(112.7)	(214.6)
Net interest receivable		**107.8**	107.2	215.6
Fees and commissions receivable	5	**230.6**	219.8	452.9
Fees and commissions payable		**(4.3)**	(4.8)	(9.6)
Fair value gains / (losses) on financial instruments		**1.6**	(4.7)	(3.7)
Profit on treasury assets	6	**2.7**	0.3	1.4
Loss on disposal of mortgage assets	7	**(15.0)**	-	-
(Loss) / profit on disposal of subsidiary undertakings		**(3.9)**	9.4	15.8
Profit on disposal of joint ventures		**0.9**	-	-
Loss on disposal of associate		**-**	(0.9)	(0.9)
Profit on part disposal of equity share investments		**-**	-	17.0
Dividend income from equity share investments		**0.6**	0.7	0.7
Share of profits from joint ventures		**1.0**	1.1	1.8
Share of losses from associate		**-**	(2.4)	(2.4)
Other income		**2.3**	1.0	2.4
Total income		**324.3**	326.7	691.0
Administrative expenses	8	**(253.9)**	(243.0)	(499.1)
Operating profit before impairment losses and provisions		**70.4**	83.7	191.9
Impairment credit on loans and advances to customers	9	**4.2**	1.3	0.3
Impairment losses on associate		**-**	(1.1)	(1.1)
Impairment losses on equity share investments		**(0.1)**	-	(11.3)
Provisions for liabilities	11	**(7.5)**	(7.1)	(10.9)
Profit before tax		**67.0**	76.8	168.9
Tax expense		**(16.5)**	(17.5)	(39.1)
Profit for the period		**50.5**	59.3	129.8
Profit for the period attributable to:				
Members of Skipton Building Society		**50.5**	59.6	130.1
Non-controlling interests		**-**	(0.3)	(0.3)
		50.5	59.3	129.8

* The comparative figures have been restated due to a change in accounting policy relating to the netting of gains on and costs arising from the sale of treasury assets. Further details are provided in note 1b).

Segmental performance of the Group is shown in note 19.

The notes on pages 20 to 38 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 2017

	Unaudited 6 months to 30.06.17 £m	Unaudited 6 months to 30.06.16 £m	Audited 12 months to 31.12.16 £m
Profit for the period	**50.5**	59.3	129.8
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement gains / (losses) on defined benefit obligations	**5.9**	(29.4)	(50.0)
Movement in reserves attributable to non-controlling interests	**-**	0.6	0.9
Income tax on items that will not be reclassified to profit or loss	**(1.3)**	6.7	10.2
	4.6	(22.1)	(38.9)
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments: valuation gains taken to equity	**6.6**	4.5	6.5
Available-for-sale investments: realised gains transferred to Income Statement	**(2.8)**	(0.4)	(6.2)
Cash flow hedges: (losses) / gains taken to equity	**(1.0)**	7.2	8.9
Cash flow hedges: realised gains transferred to Income Statement	**-**	(0.4)	(0.2)
Cash flow hedges: gains reclassified to Income Statement	**(1.7)**	-	-
Exchange differences on translation of foreign operations	**-**	1.2	1.7
Translation loss transferred to Income Statement on deemed disposal of associate	**-**	0.5	0.5
Income tax on items that may be reclassified to profit or loss	**(0.6)**	(2.4)	(2.2)
	0.5	10.2	9.0
Other comprehensive expense for the period, net of tax	**5.1**	(11.9)	(29.9)
Total comprehensive income for the period	**55.6**	47.4	99.9
Total comprehensive income attributable to:			
Members of Skipton Building Society	**55.6**	47.1	99.3
Non-controlling interests	**-**	0.3	0.6
	55.6	47.4	99.9

The notes on pages 20 to 38 form an integral part of this condensed consolidated half-yearly financial report.

Condensed Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	**Unaudited as at 30.06.17 £m**	Unaudited as at 30.06.16 £m	Audited as at 31.12.16 £m
Assets				
Cash in hand and balances with the Bank of England		**1,856.6**	1,588.8	1,212.7
Loans and advances to credit institutions		**397.4**	419.5	409.6
Debt securities	10	**870.0**	1,224.2	1,055.1
Derivative financial instruments		**101.5**	139.9	116.1
Loans and advances to customers	13	**16,380.6**	15,054.0	15,781.6
Deferred tax asset		**30.3**	26.2	30.4
Investments in joint ventures		**11.8**	11.7	12.5
Equity share investments		**41.2**	56.7	36.4
Property, plant and equipment		**79.6**	73.9	77.8
Investment property		**14.5**	15.5	15.0
Intangible assets		**162.9**	163.4	164.8
Other assets		**115.7**	121.1	107.7
Total assets		**20,062.1**	18,894.9	19,019.7
Liabilities				
Shares		**14,655.3**	14,006.0	14,152.5
Amounts owed to credit institutions		**895.1**	705.3	655.3
Amounts owed to other customers		**1,713.4**	1,371.8	1,493.2
Debt securities in issue	14	**733.2**	647.1	534.2
Derivative financial instruments		**330.2**	456.5	412.3
Current tax liability		**15.6**	15.8	19.7
Other liabilities		**160.9**	128.5	106.2
Accruals and deferred income		**45.8**	36.5	52.6
Provisions for liabilities	11	**26.1**	28.8	23.3
Deferred tax liability		**13.8**	12.7	12.2
Retirement benefit obligations		**104.7**	90.7	110.9
Subordinated liabilities		**-**	77.0	77.2
Subscribed capital		**41.6**	93.2	92.6
Total liabilities		**18,735.7**	17,669.9	17,742.2
Members' interests				
General reserve		**1,285.0**	1,183.2	1,236.6
Available-for-sale reserve		**34.4**	35.1	32.0
Cash flow hedging reserve		**1.4**	1.9	3.3
Translation reserve		**5.6**	6.1	6.6
Attributable to members of Skipton Building Society		**1,326.4**	1,226.3	1,278.5
Non-controlling interests		**-**	(1.3)	(1.0)
Total members' interests		**1,326.4**	1,225.0	1,277.5
Total members' interests and liabilities		**20,062.1**	18,894.9	19,019.7

The notes on pages 20 to 38 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 2017

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

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

Unaudited for the half year 30 June 2016

	General reserve £m	Available-for-sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Sub total £m	Non-controlling interests £m	Total £m
Balance at 1 January 2016	1,146.3	31.7	(3.2)	4.4	1,179.2	(1.6)	1,177.6
Profit / (loss) for the period	59.6	-	-	-	59.6	(0.3)	59.3
Other comprehensive income:							-
Remeasurement losses on defined benefit obligations	(22.7)	-	-	-	(22.7)	-	(22.7)
Movement in reserves attributable to non-controlling interests	-	-	-	-	-	0.6	0.6
Net gains from changes in fair value	-	3.7	5.4	-	9.1	-	9.1
Available-for-sale: realised gains transferred to Income Statement	-	(0.3)	-	-	(0.3)	-	(0.3)
Cash flow hedges: realised gains transferred to Income Statement	-	-	(0.3)	-	(0.3)	-	(0.3)
Exchange differences on translation of foreign operations	-	-	-	1.2	1.2	-	1.2
Translation loss transferred to Income Statement on deemed disposal of associate	-	-	-	0.5	0.5	-	0.5
Total other comprehensive income	(22.7)	3.4	5.1	1.7	(12.5)	0.6	(11.9)
Total comprehensive income for the period	36.9	3.4	5.1	1.7	47.1	0.3	47.4
Balance at 30 June 2016	1,183.2	35.1	1.9	6.1	1,226.3	(1.3)	1,225.0

Audited for the year ended 31 December 2016

	General reserve £m	Available-for-sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Sub total £m	Non-controlling interests £m	Total £m
Balance at 1 January 2016	1,146.3	31.7	(3.2)	4.4	1,179.2	(1.6)	1,177.6
Profit / (loss) for the period	130.1	-	-	-	130.1	(0.3)	129.8
Other comprehensive income:							
Remeasurement losses on defined benefit obligations	(39.8)	-	-	-	(39.8)	-	(39.8)
Movement in reserves attributable to non-controlling interests	-	-	-	-	-	0.9	0.9
Net gains from changes in fair value	-	3.2	6.7	-	9.9	-	9.9
Available-for-sale: realised gains transferred to Income Statement	-	(2.9)	-	-	(2.9)	-	(2.9)
Cash flow hedges: realised gains transferred to Income Statement	-	-	(0.2)	-	(0.2)	-	(0.2)
Exchange differences on translation of foreign operations	-	-	-	1.7	1.7	-	1.7
Translation loss transferred to Income Statement on deemed disposal of associate	-	-	-	0.5	0.5	-	0.5
Total other comprehensive income	(39.8)	0.3	6.5	2.2	(30.8)	0.9	(29.9)
Total comprehensive income for the year	90.3	0.3	6.5	2.2	99.3	0.6	99.9
Balance at 31 December 2016	1,236.6	32.0	3.3	6.6	1,278.5	(1.0)	1,277.5

The notes on pages 20 to 38 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 2017

	Notes	**Unaudited 6 months to 30.06.17 £m**	Unaudited 6 months to 30.06.16 £m	Unaudited 12 months to 31.12.16 Restated* £m
Cash flows from operating activities				
Profit before tax		**67.0**	76.8	168.9
Adjustments for:				
Impairment credit on loans and advances to customers	9	**(4.2)**	(1.3)	(0.3)
Loans and advances written off, net of recoveries		**(1.1)**	(1.3)	(4.7)
Depreciation and amortisation		**10.2**	9.9	20.6
Impairment losses on associate		**-**	1.1	1.1
Impairment losses on equity share investments		**0.1**	-	11.3
Dividend income from equity share investments		**(0.6)**	(0.7)	(0.7)
Interest on subscribed capital and subordinated liabilities		**4.5**	5.7	11.4
Profit on sale of property, plant and equipment, investment property and intangible assets		**(1.5)**	-	(0.1)
Profit on treasury assets	6	**(2.7)**	(0.3)	(1.4)
Loss on disposal of mortgage assets	7	**15.0**	-	-
Share of (profits) / losses from joint ventures and associates		**(1.0)**	1.3	0.6
(Profit) / loss on disposal of associates and joint ventures		**(0.9)**	0.9	0.9
Profit on part disposal of equity share investments		**-**	-	(17.0)
Loss / (profit) on disposal of subsidiary undertakings		**3.9**	(9.4)	(15.8)
Net (losses) / gains from changes in fair value of cash flow hedges		**(1.0)**	7.2	8.9
Remeasurement gains / (losses) on defined benefit obligations		**5.9**	(29.4)	(50.0)
Other non-cash movements		**(4.2)**	1.8	7.8
		89.4	62.3	141.5
Changes in operating assets and liabilities:				
Movement in prepayments and accrued income		**(0.6)**	(8.3)	(4.2)
Movement in accruals and deferred income		**(32.5)**	(20.2)	7.4
Movement in provisions for liabilities		**3.5**	2.3	(3.4)
Movement in fair value of derivatives		**(67.5)**	114.8	94.4
Movement in fair value adjustments for hedged risk		**63.5**	(85.1)	(79.9)
Fair value movements in debt securities	10	**9.6**	(17.9)	(9.6)
Movement in loans and advances to customers		**(893.2)**	(543.2)	(1,298.4)
Disposal of mortgage assets		**197.3**	-	-
Movement in shares		**551.5**	1,131.4	1,284.6
Income Statement charge for fair value of management incentive scheme liability		**2.5**	3.3	1.0
Net movement in amounts owed to credit institutions and other customers		**457.1**	(49.9)	25.5
Net movement in debt securities in issue		**202.5**	38.1	(74.5)
Net movement in loans and advances to credit institutions		**21.8**	(67.8)	(94.9)
Net movement in other assets		**(12.5)**	(11.1)	1.4
Net movement in other liabilities		**54.6**	18.5	24.3
Income taxes paid		**(20.8)**	(18.1)	(37.0)
Net cash flows from operating activities		**626.2**	549.1	(21.8)

* The comparative figures have been restated due to a change in accounting policy relating to the netting of gains on and costs arising from the sale of treasury assets. Further details are provided in note 1b).

Condensed Consolidated Statement of Cash Flows *(continued)*

For the half year ended 30 June 2017

	Notes	**Unaudited 6 months to 30.06.17 £m**	Unaudited 6 months to 30.06.16 £m	Unaudited 12 months to 31.12.16 Restated* £m
Net cash flows from operating activities		**626.2**	549.1	(21.8)
Cash flows from investing activities				
Purchase of debt securities	10	**(403.4)**	(599.5)	(1,130.2)
Proceeds from disposal of debt securities		**581.8**	497.9	1,190.0
Purchase of property, plant and equipment and investment property		**(10.0)**	(11.6)	(22.6)
Purchase of intangible assets		**(3.2)**	(1.8)	(5.7)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		**3.4**	0.4	1.3
Dividends received from equity share investments		**0.6**	0.7	0.7
Exercise of share options in management incentive scheme		**(6.5)**	(10.0)	(10.0)
Proceeds from part disposal of equity share investments		**-**	-	18.2
Proceeds from disposal of joint ventures		**1.0**	-	-
Dividends received from joint ventures		**1.6**	2.2	2.1
Purchase of subsidiary undertakings, net of cash acquired		**-**	(4.3)	(6.6)
Purchase of non-controlling interest		**(6.6)**	-	-
Cash paid on disposal of subsidiary		**(1.5)**	-	-
Investment in joint ventures and equity share investments		**-**	(0.4)	(0.4)
Investment in associate		**-**	(2.5)	(2.5)
Purchase of other business units, net of cash acquired		**-**	(7.4)	(7.1)
Net cash flows from investing activities		**157.2**	(136.3)	27.2
Cash flows from financing activities				
Redemption of subordinated liabilities		**(10.0)**	-	-
Repurchase of subordinated liabilities		**(65.4)**	-	-
Repurchase of subscribed capital		**(50.0)**	-	-
Interest paid on subordinated liabilities		**(1.2)**	(1.5)	(3.0)
Interest paid on subscribed capital		**(3.3)**	(4.2)	(8.4)
Net cash flows from financing activities		**(129.9)**	(5.7)	(11.4)
Net increase / (decrease) in cash and cash equivalents		**653.5**	407.1	(6.0)
Cash and cash equivalents at 1 January		**1,285.6**	1,291.6	1,291.6
Cash and cash equivalents at end of period		**1,939.1**	1,698.7	1,285.6

* The comparative figures have been restated due to a change in accounting policy relating to the netting of gains on and costs arising from the sale of treasury assets. Further details are provided in note 1b).

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

	Unaudited 6 months to 30.06.17 £m	Unaudited 6 months to 30.06.16 £m	Audited 12 months to 31.12.16 £m
Cash in hand and balances with the Bank of England	**1,856.6**	1,588.8	1,212.7
Mandatory reserve deposit with the Bank of England	**(25.1)**	(23.7)	(25.4)
	1,831.5	1,565.1	1,187.3
Loans and advances to credit institutions	**107.6**	133.6	98.3
Cash and cash equivalents at end of period	**1,939.1**	1,698.7	1,285.6

The notes on pages 20 to 38 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 2017 and the financial position of the Group as at that date.

a) Basis of preparation

This half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the European Union (EU), and should be read in conjunction with the Group's last annual financial statements for the year ended 31 December 2016.

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited financial statements, with the exception of the change to accounting policy outlined below in note 1b), which were prepared in accordance with IFRS as adopted by the EU.

b) Change to accounting policy

During the period the Group has changed its accounting policy for recognising the cost of unwinding hedging instruments following disposal of associated treasury investments held as available-for-sale.

The disposal of these investments often includes a resulting cost relating to the unwinding of hedging instruments, which are held as a hedge against these treasury investments in line with the Group risk management policies. The cost of unwinding these instruments on disposal was previously recognised in 'Interest receivable and similar income' in the Income Statement, as this is where the income or expense on the hedging instruments is recognised. The gain or loss on disposal of the treasury investment itself is recognised in 'Profit on treasury assets' in the Income Statement.

The change to the accounting policy is to net the cost of unwinding the hedging instrument and the gain or loss on disposal of the investment and present the net profit or loss within 'Profit on treasury assets' in the Income Statement, as they arise as a result of one transaction and gives a clearer presentation of the underlying substance of the transaction.

In accordance with IAS 8 *Accounting policies, changes in accounting estimates and errors* the comparative periods have been restated to apply this accounting policy to prior periods. The tables below show the impact of the change to accounting policy on these condensed consolidated financial statements, which has no impact on profit before tax:

Condensed Consolidated Income Statement

Unaudited 12 months to 31.12.16	Previously published £m	Change in accounting policy £m	**Restated £m**
Interest receivable and similar income	427.0	3.2	**430.2**
Net interest receivable	212.4	3.2	**215.6**
Profit on treasury assets	4.6	(3.2)	**1.4**

Condensed Consolidated Statement of Cash Flows

Unaudited 12 months to 31.12.16	Previously published £m	Change in accounting policy £m	**Restated £m**
Profit on treasury assets	(4.6)	3.2	**(1.4)**
Other non-cash movements	7.3	0.5	**7.8**
Net cash flows from operating activities	(25.5)	3.7	**(21.8)**
Proceeds from disposal of debt securities	1,193.7	(3.7)	**1,190.0**
Net cash flows from investing activities	30.9	(3.7)	**27.2**

Key performance indicator

Unaudited 12 months to 31.12.16	Previously published %	Change in accounting policy %	**Restated %**
Group net interest margin	1.16	0.02	**1.18**

There were no disposals of hedged treasury investments held as available-for-sale that included a cost of unwinding the associated hedging instrument for the six months ended 30 June 2016 and so no comparatives for that period have been restated.

1. Introduction *(continued)*

c) Critical accounting estimates and judgements in applying accounting policies

Note 1s) to the 2016 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.

There have been no changes to the areas of significant estimate and judgement from those disclosed in the 2016 Annual Report and Accounts.

d) Going concern

The Group's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance are set out in the Business Review on pages 5 to 12.

In common with many financial institutions, the Group meets its day-to-day liquidity requirements through managing both its retail and wholesale funding sources, and is required to maintain sufficient buffers over regulatory liquidity and capital requirements in order to continue to be authorised to carry on its business. The Group's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Group should be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

Consequently, after reviewing the Group's forecasts and the key risks it faces, the Directors are satisfied that there are no material uncertainties that may cast significant doubt over the Group's ability to continue as a going concern for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, the Group continues to adopt the going concern basis in preparing the half-yearly financial report.

The Directors' Report in the 2016 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 2021. The Directors determined that a five year period is an appropriate period over which to provide the viability statement, based on the Group's five year corporate planning period.

2. Other information

The half-yearly financial report information set out in this announcement is unaudited and does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The comparative figures for the year ended 31 December 2016 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditor and the report of the auditor was (i) unqualified and (ii) did not include a reference to matters to which the auditor drew attention by way of emphasis without qualifying their report.

A copy of this half-yearly financial report has been placed on the website of Skipton Building Society. The Directors are responsible for the maintenance and integrity of information on the Society's website. Copies of the 2016 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 2017 was approved by the Board of Directors on 31 July 2017.

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

3. Interest receivable and similar income

	Unaudited 6 months to 30.06.17	Unaudited 6 months to 30.06.16	Unaudited 12 months to 31.12.16 Restated*
	£m	£m	£m
On financial assets not at fair value through profit or loss:			
On loans fully secured on residential property	**222.6**	237.8	473.7
On other loans and advances	**5.3**	5.2	11.9
On debt securities	**5.4**	8.5	16.5
On other liquid assets	**2.0**	4.0	6.4
	235.3	255.5	508.5
On financial assets at fair value through profit or loss:			
Net expense on derivative financial instruments held for hedging assets	**(40.4)**	(35.6)	(78.3)
	194.9	219.9	430.2

* The comparative figures have been restated due to a change in accounting policy relating to the netting of gains on and costs arising from the sale of treasury assets. Further details are provided in note 1b).

4. Interest payable and similar charges

	Unaudited 6 months to 30.06.17	Unaudited 6 months to 30.06.16	Audited 12 months to 31.12.16
	£m	£m	£m
On financial liabilities not at fair value through profit or loss:			
On shares held by individuals	**86.5**	110.2	209.0
On shares held by others	**0.5**	0.6	1.4
On subscribed capital	**3.3**	4.2	8.4
On deposits and other borrowings:			
Subordinated liabilities	**1.2**	1.5	3.0
Wholesale and other funding	**11.4**	16.9	31.0
Finance charge on unwind of put option liability	**-**	-	0.2
	102.9	133.4	253.0
On financial liabilities at fair value through profit or loss:			
Net income on derivative financial instruments held for hedging liabilities	**(15.8)**	(20.7)	(38.4)
	87.1	112.7	214.6

5. Fees and commissions receivable

	Unaudited 6 months to 30.06.17	Unaudited 6 months to 30.06.16	Audited 12 months to 31.12.16
	£m	£m	£m
Mortgage origination fees	**17.0**	15.3	32.3
Other mortgage related fees	**1.0**	0.9	1.8
General insurance fees	**25.5**	23.3	47.4
Commissions earned on property sales	**77.9**	81.8	165.4
Commissions earned on property lettings	**30.2**	26.3	55.5
Survey and valuation fees	**28.6**	27.2	55.2
Financial advice fees	**15.7**	14.2	31.4
Other fees and commissions	**34.7**	30.8	63.9
	230.6	219.8	452.9

6. Profit on treasury assets

Profits on treasury assets arise on the sale of debt securities and similar treasury instruments, which have been sold in the normal course of business. Following a change in accounting policy, profits on the disposal of treasury assets held as available-for-sale financial assets are shown net of any associated costs of the unwinding of hedging instruments held in relation to the treasury assets disposed of. Further details are provided in note 1b).

For the six months ended 30 June 2017 the net profit on disposal of treasury assets was £2.7m (six months ended 30 June 2016: £0.3m; year ended 31 December 2016: £1.4m). The gross profit on the disposal of treasury assets held as available-for-sale, prior to the cost of unwinding any associated swaps, was £2.9m (six months ended 30 June 2016: £0.3m; year ended 31 December 2016: £0.9m).

7. Loss on disposal of mortgage assets

On 28 April 2017 the Group disposed of the beneficial title to a portfolio of non-performing or recently non-performing mortgage loans held in the Group's specialist mortgage businesses Amber Homeloans Limited and North Yorkshire Mortgages Limited, which both ceased new lending in 2008. The legal title of the portfolio is expected to transfer to the purchaser in the second half of the year.

The disposal resulted in a £219.6m reduction in loans and advances to customers and a loss on disposal of £15.0m, which includes the impact of releasing £8.7m of provisions for impairment losses held in relation to these mortgages.

8. Administrative expenses

	Unaudited 6 months to 30.06.17 £m	Unaudited 6 months to 30.06.16 £m	Audited 12 months to 31.12.16 £m
Employee costs:			
Wages and salaries	**150.7**	143.2	294.8
Social security costs	**14.7**	14.0	28.4
Pension costs:			
Defined contribution arrangements	**4.5**	3.8	7.9
Settlement gain	**-**	-	(0.1)
	169.9	161.0	331.0
Other administrative expenses	**84.0**	82.0	168.1
	253.9	243.0	499.1

9. Impairment (credit) / losses on loans and advances to customers

	Unaudited 30.06.17 £m	Unaudited 30.06.16 £m	Audited 31.12.16 £m
Impairment (credit) / charge for the period:			
Loans fully secured on residential property	**(0.9)**	(1.0)	(2.7)
Loans fully secured on land	**(0.3)**	(0.3)	(1.5)
Other loans and advances	**0.1**	-	0.1
Fair value movements of embedded derivatives on equity release loans	**(3.1)**	-	3.8
	(4.2)	(1.3)	(0.3)
Impairment provision at the end of the period:			
Loans fully secured on residential property	**8.7**	22.9	19.2
Loans fully secured on land	**8.9**	11.7	9.3
Other loans and advances	**0.7**	0.6	0.6
Fair value of embedded derivatives on equity release loans	**24.5**	24.0	27.7
	42.8	59.2	56.8

The 'no negative equity guarantee' provided to equity release customers is accounted for as an embedded derivative due to its economic characteristics (as described in note 18b)). The fair value movement of this embedded derivative represents the expected losses on this portfolio. The fair value is calculated as a function of the interrelationship between projected market-wide long term house prices, projected retail price inflation and actual and projected specific characteristics of this portfolio. This is in line with market practice for valuing this type of instrument.

9. Impairment (credit) / losses on loans and advances to customers *(continued)*

During the period the impairment provision for loans fully secured on residential property reduced as a result of the release of £8.7m of provisions no longer required on mortgage assets disposed of, as outlined in note 7. This release of provisions is included in the 'Loss on disposal of mortgage assets' line in the Income Statement.

10. Debt securities

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

	Unaudited as at 30.06.17 £m	Unaudited as at 30.06.16 £m	Audited as at 31.12.16 £m
At 1 January	**1,055.1**	1,104.4	1,104.4
Additions	**403.4**	599.5	1,130.2
Disposals	**(578.9)**	(497.6)	(1,189.1)
Changes in fair value	**(9.6)**	17.9	9.6
At end of period	**870.0**	1,224.2	1,055.1

11. Provisions for liabilities

	Unaudited as at 30.06.17 £m	Unaudited as at 30.06.16 £m	Audited as at 31.12.16 £m
Provision for the costs of surplus properties	**4.3**	4.5	4.3
Financial Services Compensation Scheme (FSCS)	**4.6**	7.4	2.3
Commission clawbacks / rebates	**6.3**	5.4	5.4
Survey and valuation claims	**5.6**	9.1	6.7
Customer compensation	**4.8**	1.9	4.2
Other provisions	**0.5**	0.5	0.4
	26.1	28.8	23.3

The movement in provisions for liabilities in the period has resulted in an Income Statement charge of £7.5m for the period (six months ended 30 June 2016: £7.1m; year ended 31 December 2016: £10.9m).

12. Tax expense

The effective tax rate for the period was 25.0% (six months ended 30 June 2016: 22.4%; year ended 31 December 2016: 23.1%). This differs from the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%) as the Society's profits above £25m are subject to an 8% banking companies surcharge, whilst the effective tax rate is also impacted by disallowable expenditure, offset by non-taxable income, and prior period tax adjustments.

13. Loans and advances to customers

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

	Unaudited as at 30.06.17		Unaudited as at 30.06.16		Audited as at 31.12.16	
	£m	**%**	£m	%	£m	%
Total residential mortgages*	**15,733.2**	**97.3**	14,285.7	96.9	15,046.5	97.1
Commercial loans^	**311.4**	**1.9**	339.5	2.3	326.7	2.1
Other lending:						
Debt factoring advances	**74.5**	**0.5**	73.6	0.5	75.4	0.5
Other loans	**53.6**	**0.3**	45.0	0.3	49.0	0.3
Gross balances	**16,172.7**	**100.0**	14,743.8	100.0	15,497.6	100.0
Impairment provisions (note 9)	**(42.8)**		(59.2)		(56.8)	
Fair value adjustment for hedged risk	**250.7**		369.4		340.8	
	16,380.6		15,054.0		15,781.6	

* Including equity release portfolio of £277.2m (30 June 2016: £274.4m; 31 December 2016: £274.3m).
^ Also known as loans fully secured on land.

13. Loans and advances to customers *(continued)*

a) Residential mortgages

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

The Group's portfolio of loans fully secured on residential properties includes lending by the Society, by Skipton International Limited (which lends in the Channel Islands and in the UK), and the specialist mortgage books of Amber Homeloans Limited and North Yorkshire Mortgages Limited (both closed to new lending since 2008). It also includes the equity release mortgage portfolio. The credit risk appetite explicitly considers geographical regions to manage concentration risk.

The average indexed loan-to-value (LTV) of Group residential mortgages at 30 June 2017 is 48.5% (30 June 2016: 48.4%; 31 December 2016: 47.9%).

The table below provides further information on residential loans and advances by payment due status:

	Unaudited as at 30.06.17		Unaudited as at 30.06.16		Audited as at 31.12.16	
	£m	**%**	£m	%	£m	%
Neither past due nor individually impaired	**15,616.7**	**99.3**	14,021.3	98.1	14,810.4	98.5
Past due but not impaired:						
Up to 3 months	**58.7**	**0.4**	127.7	0.9	112.2	0.7
	15,675.4	**99.7**	14,149.0	99.0	14,922.6	99.2
Individually impaired:						
Low risk	**35.9**	**0.2**	62.0	0.4	60.8	0.4
High risk	**19.6**	**0.1**	67.1	0.5	58.2	0.4
Possessions	**2.3**	**-**	7.6	0.1	4.9	-
	15,733.2	**100.0**	14,285.7	100.0	15,046.5	100.0

Individually impaired accounts in the table above relate only to accounts in arrears by three months or more. Low risk accounts in the table above relate to loans with an indexed LTV of less than or equal to 70%. High risk accounts relate to loans with an indexed LTV of more than 70%.

b) Commercial loans

The commercial mortgage portfolio (also known as loans fully secured on land) was closed to new business in November 2008. Loans secured on commercial property are well diversified by both industry type and geographical location. The table below provides further information on commercial loans and advances by payment due status:

	Unaudited as at 30.06.17		Unaudited as at 30.06.16		Audited as at 31.12.16	
	£m	**%**	£m	%	£m	%
Neither past due nor individually impaired	**303.9**	**97.6**	329.7	97.1	317.3	97.1
Past due but not impaired:						
Up to 3 months	**5.1**	**1.6**	6.3	1.9	5.6	1.7
	309.0	**99.2**	336.0	99.0	322.9	98.8
Individually impaired:						
Low risk	**0.2**	**0.1**	0.4	0.1	0.5	0.2
High risk	**2.2**	**0.7**	3.1	0.9	3.3	1.0
	311.4	**100.0**	339.5	100.0	326.7	100.0

Low risk accounts in the table above relate to loans with an LTV of less than or equal to 70%. High risk accounts relate to loans with an LTV of more than 70%.

13. Loans and advances to customers *(continued)*

Individually impaired accounts in the table above relate only to accounts in arrears by three months or more. The non-standard nature of the properties within the commercial mortgage portfolio means that there are also a number of loans that are not past due or are past due by less than three months at the reporting date, but where objective evidence indicates that losses are likely (e.g. due to significant financial difficulty of the borrower), as described in the Group's accounting policy in note 1f) of the 2016 Annual Report and Accounts. A total individual impairment provision of £8.1m (30 June 2016: £9.7m; 31 December 2016: £8.4m) is held against these accounts and the individually impaired loans in the table above. The total gross balances against which this individual impairment provision has been made are £39.5m (30 June 2016: £35.9m; 31 December 2016: £33.2m).

c) Forbearance

Where appropriate for customers, the Group applies a policy of forbearance. The Group's approach to forbearance is described in note 36 to the 2016 Annual Report and Accounts and our approach to, and the extent of, forbearance remained materially unchanged in the period. At 30 June 2017, the percentage of residential mortgage balances that have been subject to forbearance, which is where terms have been renegotiated during the last two years, is 0.7% (30 June 2016: 0.9%; 31 December 2016: 0.9%). For commercial balances the percentage is 6.5% (30 June 2016: 5.5%; 31 December 2016: 6.2%).

14. Debt securities in issue

	Unaudited as at 30.06.17 £m	Unaudited as at 30.06.16 £m	Audited as at 31.12.16 £m
Certificates of deposit	**12.6**	10.1	14.6
Securitisations	**375.5**	637.0	519.6
Senior unsecured debt	**348.3**	-	-
Fair value adjustment for hedged risk	**(3.2)**	-	-
	733.2	647.1	534.2
Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows:			
In not more than one year	**12.9**	157.6	136.8
In more than one year	**720.3**	489.5	397.4
	733.2	647.1	534.2

15. Related party transactions

Transactions with related parties are entered into in the normal course of business. The Group has had no related party transactions during the half year ended 30 June 2017 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 2017 are similar in nature to those for the year ended 31 December 2016. Full details of the Group's related party transactions for the year ended 31 December 2016 can be found in note 9 *Related party transactions* in the 2016 Annual Report and Accounts.

16. Subsequent events

There have been no material post balance sheet events between 30 June 2017 and the approval of this half-yearly financial report by the Board.

17. Other financial commitments and contingent liabilities

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

b) The Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. Following the failure of a number of financial institutions, the FSCS has raised borrowings from the UK Government to cover compensation in relation to protected deposits. The FSCS raises levies against financial institutions to cover the interest cost of the borrowings from the UK Government and charges ongoing management expenses as part of this levy.

As the ongoing management expenses and interest costs are subject to change, and the Society is potentially exposed to future levies from further capital losses, the Society's ultimate FSCS contribution is uncertain.

18. Financial instruments

a) Classification and measurement

The table below summarises the classification of the carrying amounts of the Group's financial assets and liabilities:

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

18. Financial instruments *(continued)*

	Unaudited as at 30.06.16			
	Amortised cost £m	Held at fair value as available-for-sale assets £m	Fair value through profit or loss £m	Total £m
Cash in hand and balances with the Bank of England	1,588.8	-	-	1,588.8
Loans and advances to credit institutions	419.5	-	-	419.5
Debt securities	1.7	1,222.5	-	1,224.2
Derivative financial instruments	-	-	139.9	139.9
Loans and advances to customers	15,078.0	-	(24.0)	15,054.0
Equity share investments	-	56.7	-	56.7
Trade receivables	35.5	-	-	35.5
Contingent consideration	9.6	-	-	9.6
Total financial assets	17,133.1	1,279.2	115.9	18,528.2
Non-financial assets				366.7
Total assets				18,894.9
Shares	14,006.0	-	-	14,006.0
Amounts owed to credit institutions and other customers	2,077.1	-	-	2,077.1
Debt securities in issue	647.1	-	-	647.1
Derivative financial instruments	-	-	456.5	456.5
Trade payables	7.9	-	-	7.9
Fair value of put option obligation	-	-	12.3	12.3
Subordinated liabilities and subscribed capital	170.2	-	-	170.2
Total financial liabilities	16,908.3	-	468.8	17,377.1
Non-financial liabilities				292.8
Total liabilities				17,669.9

18. Financial instruments (continued)

	Audited as at 31.12.16			
	Amortised cost £m	Held at fair value as available-for-sale assets £m	Fair value through profit or loss £m	Total £m
Cash in hand and balances with the Bank of England	1,212.7	-	-	1,212.7
Loans and advances to credit institutions	409.6	-	-	409.6
Debt securities	1.7	1,053.4	-	1,055.1
Derivative financial instruments	-	-	116.1	116.1
Loans and advances to customers	15,809.3	-	(27.7)	15,781.6
Equity share investments	-	36.4	-	36.4
Trade receivables	32.8	-	-	32.8
Contingent consideration	9.9	-	-	9.9
Total financial assets	17,476.0	1,089.8	88.4	18,654.2
Non-financial assets				365.5
Total assets				19,019.7
Shares	14,152.5	-	-	14,152.5
Amounts owed to credit institutions and other customers	2,148.5	-	-	2,148.5
Debt securities in issue	534.2	-	-	534.2
Derivative financial instruments	-	-	412.3	412.3
Trade payables	5.4	-	-	5.4
Fair value of put option obligation	-	-	11.7	11.7
Subordinated liabilities and subscribed capital	169.8	-	-	169.8
Total financial liabilities	17,010.4	-	424.0	17,434.4
Non-financial liabilities				307.8
Total liabilities				17,742.2

b) Valuation of financial instruments carried at fair value

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs used in measuring fair value.

Level 1

The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Group's Level 1 portfolio mainly comprises gilts, fixed rate bonds and floating rate notes for which traded prices are readily available.

Level 2

These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. Examples of Level 2 instruments are certificates of deposit and interest rate swaps.

Level 3

These are valuation techniques for which one or more significant inputs are not based on observable market data.

Valuation techniques include deriving the net present value by way of discounted cash flow models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, similar market products, foreign currency exchange rates and equity index prices. Critical judgement is applied by management in utilising unobservable inputs including expected price volatilities, expected mortality rates and prepayment rates, based on industry practice or historical observation. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's-length.

18. Financial instruments *(continued)*

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 30.06.17			
	Quoted prices in active markets (Level 1) £m	**Valuation techniques using observable inputs (Level 2) £m**	**Valuation techniques using significant unobservable inputs (Level 3) £m**	**Total £m**
Financial assets				
Financial assets held at fair value as available-for-sale:				
Debt securities	660.5	207.8	-	**868.3**
Equity share investments	40.8	-	0.4	**41.2**
Financial assets at fair value through profit and loss:				
Derivative financial instruments	-	99.6	1.9	**101.5**
Embedded derivatives within loans and advances to customers	-	-	(24.5)	**(24.5)**
	701.3	**307.4**	**(22.2)**	**986.5**
Financial liabilities				
Financial liabilities at fair value through profit and loss:				
Derivative financial instruments	-	114.8	215.4	**330.2**
Fair value of put option obligation	-	-	9.8	**9.8**
	-	**114.8**	**225.2**	**340.0**
	701.3	**192.6**	**(247.4)**	**646.5**

	Unaudited as at 30.06.16			
	Quoted prices in active markets (Level 1) £m	Valuation techniques using observable inputs (Level 2) £m	Valuation techniques using significant unobservable inputs (Level 3) £m	Total £m
Financial assets				
Financial assets held at fair value as available-for-sale:				
Debt securities	871.6	350.9	-	1,222.5
Equity share investments	55.6	-	1.1	56.7
Financial assets at fair value through profit and loss:				-
Derivative financial instruments	-	132.3	7.6	139.9
Embedded derivatives within loans and advances to customers	-	-	(24.0)	(24.0)
	927.2	483.2	(15.3)	1,395.1
Financial liabilities				
Financial liabilities at fair value through profit and loss:				
Derivative financial instruments	-	228.8	227.7	456.5
Fair value of put option obligation	-	-	12.3	12.3
	-	228.8	240.0	468.8
	927.2	254.4	(255.3)	926.3

18. Financial instruments *(continued)*

	Audited as at 31.12.16			
	Quoted prices in active markets (Level 1) £m	Valuation techniques using observable inputs (Level 2) £m	Valuation techniques using significant unobservable inputs (Level 3) £m	Total £m
Financial assets				
Financial assets held at fair value as available-for-sale:				
Debt securities	820.5	232.9	-	1,053.4
Equity share investments	36.0	-	0.4	36.4
Financial assets at fair value through profit and loss:				-
Derivative financial instruments	-	112.2	3.9	116.1
Embedded derivatives within loans and advances to customers	-	-	(27.7)	(27.7)
	856.5	345.1	(23.4)	1,178.2
Financial liabilities				
Financial liabilities at fair value through profit and loss:				
Derivative financial instruments	-	161.5	250.8	412.3
Fair value of put option obligation	-	-	11.7	11.7
	-	161.5	262.5	424.0
	856.5	183.6	(285.9)	754.2

Transfers between different levels of the fair value hierarchy

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

There have been no transfers between different levels of the fair value hierarchy during the six months ended 30 June 2017, nor in the six months ended 30 June 2016 or year ended 31 December 2016.

Movements in the Level 3 portfolio

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

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

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

18. Financial instruments *(continued)*

	Unaudited as at 30.06.16				
	Equity share investments £m	Embedded derivatives £m	Derivative financial instruments £m	Fair value of put option obligation £m	Total £m
At 1 January	0.7	(24.0)	(195.6)	(11.9)	(230.8)
Loss recognised in Income Statement	-	-	(24.5)[1]	-	(24.5)
Acquisition of subsidiary undertakings	0.4	-	-	(0.4)	-
At end of period	1.1	(24.0)	(220.1)	(12.3)	(255.3)

Note

1. Included in the 'Fair value gains / (losses) on financial instruments' line in the Income Statement. As noted below, the majority of these derivatives are held to hedge the Group's equity release mortgage book and a gain, largely offsetting the above amount, was recognised through the same line in the Income Statement in respect of the underlying mortgages that are being hedged. However some hedge ineffectiveness resulted during the period and this resulted in an overall charge to the Income Statement of £2.7m.

	Audited as at 31.12.16				
	Equity share investments £m	Embedded derivatives £m	Derivative financial instruments £m	Fair value of put option obligation £m	Total £m
At 1 January	0.7	(24.0)	(195.6)	(11.9)	(230.8)
Loss recognised in Income Statement	(11.3)[1]	(3.8)[2]	(51.3)[3]	(0.2)[4]	(66.6)
Losses written off during the year	-	0.1	-	-	0.1
Reclassification of associate investments	10.6	-	-	-	10.6
Revaluation of market values	-	-	-	0.8	0.8
Additions	0.4	-	-	-	0.4
Acquisition of subsidiary undertakings	-	-	-	(0.4)	(0.4)
At end of period	0.4	(27.7)	(246.9)	(11.7)	(285.9)

Notes

1. Included in the 'Impairment losses on equity share investments' line in the Income Statement.
2. Included in the 'Impairment credit on loans and advances to customers' line in the Income Statement.
3. Included in the 'Fair value gains / (losses) on financial instruments' line in the Income Statement. As noted below, the majority of these derivatives are held to hedge the Group's equity release mortgage book and a gain, largely offsetting the above amount, was recognised through the same line in the Income Statement in respect of the underlying mortgages that are being hedged. However, some hedge ineffectiveness resulted during the year and this resulted in an overall charge to the Income Statement of £7.8m.
4. Included in the 'Interest payable and similar charges' line in the Income Statement and arises from the unwind of the liability and changes to exercise dates.

Equity share investments

The Group's equity share investments represent a 2.6% holding in ZPG Plc (previously known as Zoopla Property Group Plc) (30 June 2016: 4.0%; 31 December 2016: 2.7%), a 13.9% holding in Hearthstone Investments Limited (30 June 2016: 13.9%; 31 December 2016: 13.9%) and an 8.7% holding in Tactile Limited (30 June 2016: 7.1%; 31 December 2016: 8.7%).

The Group's holding in ZPG Plc is measured based on the fair value of the shareholding by reference to a quoted share price in an active market and therefore represents a Level 1 fair value measurement. Any movement in the fair value of the Group's holding in this investment is recognised in the available-for-sale reserve. At 30 June 2017 the cumulative balance recognised in the available-for-sale reserve in respect of ZPG Plc, gross of tax, is £38.5m (30 June 2016: £41.2m; 31 December 2016: £33.7m).

The carrying value of the Group's investment in Tactile is £0.4m. The Directors have reviewed the carrying value of this investment and have concluded that the current carrying value is equivalent to the fair value in the absence of any observable inputs or other relevant information. The carrying value of the Group's investment in Hearthstone is £nil after being fully written down in previous reporting periods. During the period, the Group subscribed for £0.1m of additional shares in Hearthstone, which was immediately written down to £nil.

The Group previously held a 17.7% holding in Wynyard Group Limited (30 June 2016: 17.7%; 31 December 2016: 17.7%), however the carrying value of the Group's investment in Wynyard was written down to £nil in 2016 following Wynyard entering administration and it subsequently entered liquidation in February 2017.

18. Financial instruments *(continued)*

Embedded derivatives

The Group holds an equity release mortgage book under the terms of which the Group is required to provide a 'no negative equity guarantee' to its customers. This guarantee means that the Group's maximum return is limited to the value of the customer's property on redemption.

In accordance with the Group accounting policy, this guarantee is accounted for as an embedded derivative as the characteristics and risks of the guarantee are not closely related to the economic characteristics and risks of the underlying mortgages. The guarantee is impacted by the interaction of a number of factors, not all of which also impact on the performance of the underlying equity release book. These factors include future expected house prices, future expected inflation, mortality rates and estimated redemption profiles. As a result the embedded derivatives are bifurcated from the underlying mortgage book and measured at fair value, with any changes in fair value recognised within the 'Impairment credit on loans and advances to customers' line in the Income Statement. As certain of these inputs are not market observable, the fair value of the embedded derivative is regarded as a Level 3 valuation technique.

The following table outlines the impact of reasonably possible alternative assumptions of certain inputs outlined above. Each sensitivity considers one change in isolation and the combined impact on the valuation of the embedded derivative of all sensitivities occurring would not necessarily be equal to the sum of the impact of the individual sensitivities.

Assumption	**Change to current assumption**	**Unaudited as at 30.06.17 (Decrease) / increase in impairment provision £m**	Unaudited as at 30.06.16 (Decrease) / increase in impairment provision £m	Audited as at 31.12.16 (Decrease) / increase in impairment provision £m
Future change in house prices	+/-10% in any one year*	**(7.7) / 11.3**	(5.8) / 8.9	(8.1) / 11.8
Redemption rates	+/-1% pa	**(2.8) / 3.2**	(2.5) / 3.0	(3.3) / 3.8
Retail Price Index (RPI)	+/-0.1% pa	**2.3 / (2.1)**	1.8 / (1.6)	2.4 / (2.3)

* For example, a 13% increase or 7% fall in house prices compared to an assumption of a 3% increase.

There would be a corresponding (credit) / charge to the Income Statement within 'Impairment credit on loans and advances to customers' arising from the (decrease) / increase in the impairment provision shown in the table above.

Derivative financial instruments

Some of the Level 3 derivative financial instruments included in the tables on pages 31 and 32 comprise derivatives which are used to hedge the Group's interest rate risk arising from the equity release mortgage book (this is separate to the 'no negative equity guarantee' described above, i.e. the embedded derivative, for which the Group holds no natural hedging instrument). These derivatives that hedge the equity release mortgages are valued using discounted cash flow models using market observable benchmark rates consistent with accepted economic methodologies for pricing financial instruments, and, as the notional values of the derivatives are intended to match the balance of the underlying mortgage assets, also include estimated redemption profiles that are based on historical data and reviewed periodically to ensure forecasts remain broadly in line with actual data.

These redemption profiles are not market observable, therefore these derivatives are categorised as Level 3 financial instruments within the fair value hierarchy.

Two of the derivative financial instruments described above contain contractual 'boundaries', within which any change in fair value of the derivatives will be offset by a corresponding but opposite change in the value of the associated hedged item within loans and advances to customers. These boundaries exist in order to alleviate risk to the counterparty. If the boundaries are crossed, then hedge ineffectiveness and therefore Income Statement volatility can arise and this resulted in an Income Statement credit of £2.6m during the period (six months ended 30 June 2016: charge of £2.7m; year ended 31 December 2016: charge of £7.8m), which is included in the 'Fair value gains / (losses) on financial instruments' line in the Income Statement. In addition, as described above, certain inputs into the valuation of these derivatives are not market observable and the effect on the fair value of these derivatives of reasonably possible alternative valuation assumptions of certain of these inputs is outlined below.

Each sensitivity considers one change in isolation and the combined impact on the valuation of the derivatives of all sensitivities occurring would not necessarily be equal to the sum of the impact of the individual sensitivities.

18. Financial instruments (continued)

Assumption	Change to current assumption	Unaudited as at 30.06.17 Increase / (decrease) in liability £m	Unaudited as at 30.06.16 Increase / (decrease) in liability £m	Audited as at 31.12.16 Increase / (decrease) in liability £m
Retail Price Index (RPI)	+/- 0.1% pa	**6.8 / (6.6)**	6.9 / (6.8)	7.8 / (7.7)
Redemption rates	+/- 1% pa	**(17.0) / 20.1**	(22.0) / 26.9	(21.7) / 26.0

Any change in fair value of the derivative liabilities would be largely offset by a corresponding but opposite change in the value of the associated hedged item within loans and advances to customers.

A 0.1% increase in RPI would result in an Income Statement charge of £0.1m (30 June 2016: £nil; 31 December 2016: £0.2m), whilst a 0.1% decrease in RPI would result in an Income Statement credit of £0.1m (30 June 2016: £nil; 31 December 2016: £0.2m). A 1% increase in redemption rates would result in an Income Statement charge of £0.2m (30 June 2016: £1.0m; 31 December 2016: £nil), whilst a 1% decrease in redemption rates would result in an Income Statement charge of £0.3m (30 June 2016: £0.8m credit; 31 December 2016: £0.4m charge).

As can be seen, the valuation of these derivatives is sensitive to the underlying assumptions, however as described above, changes in fair value of these derivatives are generally offset to a significant degree by changes in fair value of the associated hedged item within loans and advances to customers.

Fair value of put option obligation

Key inputs into the calculation of the fair value of the put option obligation include an estimate of the market value of the non-controlling shareholding and an estimate of when the put option will be exercised by the non-controlling shareholders. As these inputs are based on the judgement of senior management, the valuation of the put option obligation is considered to be a Level 3 valuation technique.

c) Fair values of financial assets and liabilities not carried at fair value

The table below summarises the carrying values and fair values of those financial assets and liabilities not held within the Statement of Financial Position at fair value.

	Unaudited as at 30.06.17		Unaudited as at 30.06.16		Audited as at 31.12.16	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets						
Cash in hand and balances with the Bank of England	**1,856.6**	**1,856.6**	1,588.8	1,588.8	1,212.7	1,212.7
Loans and advances to credit institutions	**397.4**	**397.4**	419.5	419.5	409.6	409.6
Debt securities	**1.7**	**1.7**	1.7	1.7	1.7	1.7
Loans and advances to customers	**16,405.1**	**16,326.9**	15,078.0	14,873.5	15,809.3	15,613.2
Trade receivables	**38.7**	**38.7**	35.5	35.5	32.8	32.8
Contingent consideration	**10.2**	**10.2**	9.6	9.6	9.9	9.9
	18,709.7	**18,631.5**	17,133.1	16,928.6	17,476.0	17,279.9
Financial liabilities						
Shares	**14,655.3**	**14,742.4**	14,006.0	14,112.0	14,152.5	14,238.0
Amounts owed to credit institutions	**895.1**	**905.8**	705.3	715.6	655.3	666.4
Amounts owed to other customers	**1,713.4**	**1,719.6**	1,371.8	1,378.7	1,493.2	1,498.8
Debt securities in issue	**733.2**	**742.2**	647.1	649.4	534.2	541.1
Trade payables	**4.5**	**4.5**	7.9	7.9	5.4	5.4
Subordinated liabilities and subscribed capital	**41.6**	**72.0**	170.2	188.8	169.8	190.4
	18,043.1	**18,186.5**	16,908.3	17,052.4	17,010.4	17,140.1

The methodology and assumptions for determining the fair values of those financial assets and liabilities not presented in the Statement of Financial Position at fair value are set out on page 161 of the 2016 Annual Report and Accounts, and remained materially unchanged in the period.

19. Group segmental reporting

The Group's structure and reportable segments are outlined in the Business Review on page 5.

Transactions between the segments are on normal commercial terms and conditions. The accounting policies of the reportable segments are consistent with the Group's accounting policies.

No geographical analysis is presented because substantially all of the Group's activities are conducted within the UK. Of the total external income, £17.6m (six months ended 30 June 2016: £14.3m; year ended 31 December 2016: £36.7m) was generated outside the UK.

Unaudited 6 months to 30.06.17

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

Total income can be analysed as follows:

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

19. Group segmental reporting (continued)

Unaudited 6 months to 30.06.16

	Mortgages and Savings Re-presented*	Estate Agency	Investment Portfolio	Sundry incl. inter-divisional adjustments Re-presented*	Total
	£m	£m	£m	£m	£m
Net interest income	104.4	0.3	0.9	1.6	107.2
Net non-interest income	14.7	194.8	11.5	(5.0)	216.0
Fair value losses on financial instruments	(4.7)	-	-	-	(4.7)
Profit on treasury assets	0.3	-	-	-	0.3
(Loss) / profit on disposal of Group undertakings	-	-	(0.9)	9.4	8.5
Dividend income from equity share investments	-	0.7	-	-	0.7
Share of profits / (losses) from joint ventures and associates	-	1.1	(2.4)	-	(1.3)
Total income	114.7	196.9	9.1	6.0	326.7
Administrative expenses	(66.1)	(162.7)	(11.4)	(2.8)	(243.0)
Impairment and provisions for liabilities	(2.9)	(2.9)	(1.1)	-	(6.9)
Profit / (loss) before tax	45.7	31.3	(3.4)	3.2	76.8
Taxation	(10.9)	(6.7)	(0.4)	0.5	(17.5)
Profit / (loss) after tax	34.8	24.6	(3.8)	3.7	59.3
Total assets	18,636.0	290.6	146.2	(177.9)	18,894.9
Total liabilities	17,505.8	151.5	130.6	(118.0)	17,669.9

* On 1 August 2016, SFS was integrated into the Society and so the Financial Advice division ceased to be a reportable segment. The prior year results of SFS have been re-presented to be shown within the Mortgages and Savings division.

Total income can be analysed as follows:

	Mortgages and Savings Re-presented*	Estate Agency	Investment Portfolio	Sundry incl. inter-divisional adjustments Re-presented*	Total
	£m	£m	£m	£m	£m
External income	114.2	191.2	9.5	11.8	326.7
Income from other segments	0.5	5.7	(0.4)	(5.8)	-
Total income	114.7	196.9	9.1	6.0	326.7

* The prior year results of SFS have been re-presented to be shown within the Mortgages and Savings division.

19. Group segmental reporting (continued)

Unaudited 12 months to 31.12.16

	Mortgages and Savings Restated*	Estate Agency	Investment Portfolio	Sundry incl. inter-divisional adjustments	Total
	£m	£m	£m	£m	£m
Net interest income	209.5	0.3	1.8	4.0	215.6
Net non-interest income	30.1	397.6	27.0	(9.0)	445.7
Fair value losses on financial instruments	(3.7)	-	-	-	(3.7)
Profit on treasury assets	1.4	-	-	-	1.4
(Loss) / profit on disposal of Group undertakings	-	17.0	(0.9)	15.8	31.9
Dividend income from equity share investments	-	0.7	-	-	0.7
Share of profits / (losses) from joint ventures and associates	-	1.8	(2.4)	-	(0.6)
Total income	237.3	417.4	25.5	10.8	691.0
Administrative expenses	(135.9)	(337.7)	(25.8)	0.3	(499.1)
Impairment and provisions for liabilities	(4.8)	(6.3)	(11.9)	-	(23.0)
Profit / (loss) before tax	96.6	73.4	(12.2)	11.1	168.9
Taxation	(23.3)	(15.2)	(0.9)	0.3	(39.1)
Profit / (loss) after tax	73.3	58.2	(13.1)	11.4	129.8
Total assets	18,736.3	289.1	129.6	(135.3)	19,019.7
Total liabilities	17,540.7	154.0	124.1	(76.6)	17,742.2

* The comparative figures have been restated due to a change in accounting policy relating to the netting of gains on and costs arising from the sale of treasury assets. Further details are provided in note 1b).

Total income can be analysed as follows:

	Mortgages and Savings	Estate Agency	Investment Portfolio	Sundry incl. inter-divisional adjustments	Total
	£m	£m	£m	£m	£m
External income	236.1	405.8	26.3	22.8	691.0
Income from other segments	1.2	11.6	(0.8)	(12.0)	-
Total income	237.3	417.4	25.5	10.8	691.0

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

There are no new accounting standards or amendments to existing standards which have been adopted during the period.

Amendments to accounting standards effective but not yet EU endorsed

The Group notes a number of amendments to accounting standards which are effective for accounting periods starting on or after 1 January 2017 but have not yet been EU endorsed. These are amendments to IAS 7 *Statement of Cash Flows,* which enhance disclosure requirements to enable users of financial statements to better evaluate changes in liabilities arising from financing activities; amendments to IAS 12 *Income Taxes*, which clarifies how to account for deferred tax assets related to debt instruments measured at fair value; and amendments to IFRS 12 *Disclosures of Interests in Other Entities* and IAS 23 *Investments in Associates and Joint Ventures* as part of the Annual Improvements to IFRS Standards 2014 – 2016 cycle. These amendments are not expected to have a material impact on the Group's financial statements.

Standards issued but not yet effective

The Group notes a number of new accounting standards which will be effective for future reporting periods (subject, for IFRS 16 *Leases*, to EU endorsement). The Group has not early adopted the following new standards in preparing this half-yearly financial report.

20. Adoption of new and revised International Financial Reporting Standards and interpretations *(continued)*

IFRS 9 Financial Instruments

IFRS 9 replaces the existing requirements in IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual reporting periods beginning on or after 1 January 2018. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments, for which preparations are at an advanced stage.

The Group continues to assess the potential impact of IFRS 9 application on its consolidated financial statements. However the actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not yet known and cannot be reliably estimated; this will be dependent on the financial instruments held by the Group and the economic conditions at that time, as well as accounting elections and judgements that the Group will make in the future.

The Group also continues to assess the potential impact of IFRS 9 application for regulatory capital purposes. The supervisory bodies are currently consulting on possible capital treatments, including transitional arrangements, and we await confirmation of the final rules. The actual impact of adopting IFRS 9 for capital planning purposes is not yet known and cannot be reliably estimated. The quantitative effect will depend on, inter alia, the actual impact of adopting IFRS 9 on the Group's consolidated financial statements and also the final capital rules.

Further details can be found in note 40 of the 2016 Annual Report and Accounts.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018.

The Group continues to assess the potential impact of IFRS 15 application on its financial statements, which may be significant. The quantitative impact of adopting IFRS 15 is not yet known and cannot be reliably estimated. The Group will continue to assess the impact and expects to disclose further information prior to adopting IFRS 15. Further details can be found in note 40 of the 2016 Annual Report and Accounts.

IFRS 16 Leases

IFRS 16 is effective for accounting periods beginning on or after 1 January 2019, with early adoption permitted (subject to also applying IFRS 15). The Group currently plans to adopt IFRS 16 in its consolidated financial statements for the year ending 31 December 2019.

The Group continues to assess the potential impact of IFRS 16 application on its financial statements. The quantitative impact of adopting IFRS 16 on the Group's reported assets and liabilities is not yet known and cannot be reliably estimated. The Group expects to disclose further information prior to adopting IFRS 16. Further details can be found in note 40 of the 2016 Annual Report and Accounts.

Responsibility Statement of the Directors in respect of the Half-Yearly Financial Report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the European Union; and
- the half-yearly financial report includes a fair review of the information required by:

  DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year.

The current Board of Directors represents those individuals responsible for the half-yearly financial report.

The Directors who served during the period are listed below:

Mr R D East	(Chairman, appointed to position 24 April 2017)
Mr G E Picken	(Deputy Chairman)
Mr A P Bottomley*	
Ms A J Burton	
Ms M Cassoni	
Mr J R Coates	(appointed 27 March 2017)
Mrs D P Cockrem	
Mr I M Cornelius*	
Mr D J Cutter*	(Group Chief Executive)
Mr M H Ellis	(former Chairman, resigned 24 April 2017)
Mr D A Hall	(appointed 27 March 2017)
Mr M J Lund	
Mr R S D M Ndawula*	
Ms H C Stevenson	

* Executive Directors

Signed on behalf of the Board by

Robert East
Chairman

31 July 2017

Independent Review Report to Skipton Building Society

Conclusion

We have been engaged by the Society to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in members' interests, the condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the *Disclosure Guidance and Transparency Rules* ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1a), the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

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

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

This report is made solely to the Society in accordance with the terms of our engagement to assist the Society in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Society those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society for our review work, for this report, or for the conclusions we have reached.

Jonathan Holt
for and on behalf of KPMG LLP
Chartered Accountants
Leeds
31 July 2017

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