North Yorkshire Mortgages Limited

Annual Reports and Accounts

31 December 2017

(Registered number 2238645)

Strategic Report

The Directors present their Strategic Report, Directors' Report and financial statements for the year ended 31 December 2017.

a) Objectives

With the Company having exited from new lending in 2008, its principal objective is to manage the existing mortgage book, and hence to minimise the level of mortgage losses whilst always seeking to treat customers fairly and seek the right outcome for individual borrowers. With the asset trading market now being more active other opportunities to optimise our return may present themselves and be given serious consideration subject to appropriate governance.

b) Principal risks and uncertainties

The Company's objective is to manage appropriately all the risks that arise from its activities and conform to the parent Group's formal structure for managing risks.

The principal risks faced by the Company and an outline of the methods used to reduce them are as follows:

Liquidity risk is the risk that the Company is unable to meet its current and future financial obligations as they fall due. These obligations include repayment of loans.

The Company is funded entirely by its parent, Skipton Building Society, which has confirmed its ongoing intention to continue to support the Company, and the Directors believe this risk is therefore mitigated appropriately.

Market risk is the risk that the value of, or income from, the Company's assets and liabilities is impacted as a result of changes in market risk factors. The Company's principal market risk factor is interest rate risk.

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises from the mortgage products we offer.

Operational risk is the risk of loss arising from inadequate or failed processes, people and systems or from external events.

For the purpose of managing operational risk, we divide it into two discrete operational areas: performance, and data and management information. Responsibility for managing operational risks lies with individual operational areas that identify and assess risk in line with the Group Operational Risk guidelines. An independent operational risk function is also provided by the Company's parent. These risks are reviewed on a quarterly basis and the outcomes from this review are reported to the Legal Board.

Provisions for customer compensations resulted in a £1.2m charge in the year (2016: £0.1m) predominantly due to potential future redress payable in respect of charges identified and added incorrectly to accounts following an evaluation during 2017 of historical terms and conditions.

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations, including failure to perform obligations in a timely manner.

Changes in the credit quality and the recoverability of loans and amounts due from mortgage borrowers influence the Group's exposure to credit risk. Adverse changes in borrower credit quality, collateral values or deterioration in the wider economy, including rising unemployment, changes in interest rates, deterioration in household finances and any contraction in the UK property market leading to falling property values, could affect the recoverability and value of the Company's assets and influence its financial performance. An economic downturn and falls in house prices would affect the level of impairment losses.

As noted above, the Company has mitigated this risk by withdrawing from the new lending market and optimising collection strategies using relevant diagnostics.

During the year approximately 20% of the portfolio was sold. The loans sold included parts of the portfolio considered to be higher risk due to them currently in default or having been in recent years. The sale helped the business to reduce its levels of credit risk and also operational risk.

North Yorkshire Mortgages Limited

Strategic Report (continued)

Credit Risk (continued)

The Company is represented on the Retail Credit Committee (RCC) which meets monthly to ensure processes and policies to monitor, control, mitigate and manage credit risk are effective. The reporting structure ensures timely and accurate reporting of all substantive risk matters to the Board. The RCC is a parent level committee.

Where appropriate for customers' needs, the Company applies a policy of forbearance and may grant a concession to borrowers. This may be applied where the actual or apparent financial stress of the customer is considered to be short term with a potential to be recovered. Forbearance may involve a reduction in the monthly payment (known as a concession), term extensions, conversion to interest only and capitalisation of arrears. These strategies are undertaken in order to achieve the right outcome for both the customer and the business through dealing with arrears at an early stage. The impact of any such forbearance is recognised within our provisioning policy and identified by the deployment of performance impairment indicators.

c) Financial performance

	2017 £000	2016 £000
(Loss)/Profit before tax, as reported in the Statement of Comprehensive Income	**(4,763)**	6,507
Net assets, as reported in the Statement of Financial Position	**11,820**	16,894

The Company ceased new lending in February 2008 and throughout the current year has focussed on managing its existing mortgage portfolio.

A pre-tax loss of £4.8m was realised due to the sale of mortgage assets during the year, excluding this gives a profit for the year of £2.7m.

The number of properties taken into possession in the year has decreased from 18 in 2016 to 8 in 2017.

The number of cases in arrears has decreased from 338 in 2016 to 59 in 2017, with a decrease in the balance of arrears from £925k (2016) to £136k (2017), this is due to the sale of some of the higher risk loans mentioned earlier, as the 2016 figure excluding the accounts sold was £159k.

d) Key performance indicators

The main areas of focus for the Company have been reducing arrears levels and minimising mortgage losses.

Year	**Pre-tax profit/(loss) £000**	**Mortgages in Arrears £000**	**Mortgage losses/(releases) £000**
2015	5,318	62,353	932
2016	6,507	50,444	(1,111)
2017	**(4,763)**	**7,812**	**(238)**

By order of the Board

J J Gibson
Secretary
27 February 2018

Directors' Report

Dividends

No interim dividend has been paid during the year (2016: £nil). No final dividend has been paid in 2017 (2016: £3.6m).

Financial instruments

Note 12 to the financial statements includes the Company's policies and processes for managing its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Strategic Report on pages 1 to 2. The financial position of the Company, its cash flows and liquidity position are set out within the Company accounts on pages 7 to 10.

As described in the Strategic Report on page 2, the Company has reported an operating loss for the year. Although the Directors still consider that the outlook presents significant challenges in terms of mortgage losses and arrears levels most likely to increase at a future interest rate movement, the Directors forecast the Company to return to profitability within the coming year.

The Company is funded entirely by its parent, Skipton Building Society, who provided a letter of support to confirm that Skipton Building Society will provide continuing financial support to the Company for a period of not less than 12 months from the date of the signing of the 2017 Annual Accounts.

After reviewing the Company's forecasts and the principal risks it faces, the Directors are satisfied that there are no material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern for the foreseeable future, specifically for a period of not less than 12 months from the date of signing the accounts Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors

The Directors who served throughout the year were:

R S D M Ndawula (resigned 10/07/2017)
A W Nelson
I Moore
H Varney (appointed 10/07/2017)

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

J J Gibson
Secretary
The Bailey
Skipton
North Yorkshire BD23 1DN
27 February 2018

Statement of Directors' responsibilities in respect of the Strategic Report and the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They generally have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the members of North Yorkshire Mortgages Limited

We have audited the financial statements of North Yorkshire Mortgages Limited ("the company") for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going Concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsrespnsibilities.

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

David Allen (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
27 February 2018

Statement of Comprehensive Income
For the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Interest receivable and similar income	3	**12,980**	18,197
Interest payable and similar charges	4	**(7,964)**	(10,993)
Net interest receivable		**5,016**	7,204
Other operating income	5	**56**	109
Administrative expenses	6	**(1,475)**	(1,804)
Loss on sale of mortgage book	7	**(7,414)**	-
Impairment losses on loans and advances	14	**238**	1,111
Provision for liabilities	18	**(1,184)**	(113)
(Loss)/Profit before tax	2	**(4,763)**	6,507
Tax (expense)/income	9	**(309)**	(1,308)
(Loss)/Profit for the year		**(5,072)**	5,199
Other comprehensive income:			
Deferred tax on items taken directly to equity	16	**207**	208
Current tax on items taken directly to equity		**(209)**	(219)
Total comprehensive income for the year		**(5,074)**	5,188
Attributable to:			
Equity holders of the parent		**(5,074)**	5,188

The Statement of Comprehensive Income is prepared on a historical cost basis.

The notes on pages 11 to 30 form part of these financial statements.

Statement of Financial Position
As at 31 December 2017

	Notes	2017 £000	2016 £000
Assets			
Loans and advances to credit institutions	11	**5,099**	1,296
Loans and advances to customers	13	**288,267**	416,204
Current tax assets		**88**	-
Deferred tax assets	16	**16**	170
Other assets		**8**	7
Total assets		**293,478**	417,677
Equity and liabilities			
Equity attributable to the parent			
Share capital	17	**4,400**	4,400
Retained earnings		**7,420**	12,494
Total equity		**11,820**	16,894
Liabilities			
Amounts owed to credit institutions	15	**279,440**	398,577
Current tax liabilities		**-**	807
Deferred tax liabilities	16	**276**	482
Provision for liabilities	18	**1,298**	114
Other liabilities		**644**	803
Total liabilities		**281,658**	400,783
Total equity and liabilities		**293,478**	417,677

The notes on pages 11 to 30 form part of these financial statements.

These financial statements were approved by the Board of Directors on 27 February 2018 and signed on its behalf by:

....
A W Nelson (Director)

....
I G Moore (Director)

Company registration number 2238645

Statement of Changes in Equity
For the year ended 31 December 2017

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	**4,400**	**12,494**	**16,894**
Dividends paid	-	-	-
Total comprehensive income for the year	-	**(5,074)**	**(5,074)**
Balance at 31 December 2017	**4,400**	**7,420**	**11,820**
Balance at 1 January 2016	4,400	10,906	15,306
Dividends paid	-	(3,600)	(3,600)
Total comprehensive income for the year	-	5,188	5,188
Balance at 31 December 2016	4,400	12,494	16,894

The notes on pages 11 to 30 form part of these financial statements.

North Yorkshire Mortgages Limited

Statement of Cash Flows
For the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Cash flows from operating activities			
Profit/(loss) before tax		**(4,763)**	6,507
Adjustments for:			
Impairment losses	14	**(238)**	(1,111)
Loans and advances written off, net of expenses	14	**(76)**	(629)
Loss on sale of mortgage book		**7,414**	-
Fair value of underlying mortgages		**918**	-
Taxation		**-**	(1)
		3,255	4,766
Net decrease in loans and advances to customers		**50,578**	53,167
Proceeds from sale of mortgage book		**69,341**	-
Net increase in other assets		**(1)**	-
Net increase in provisions and other liabilities		**1,025**	138
Cash received from operations		**124,198**	58,071
Income taxes paid		**(1,258)**	(1,441)
Net cash flows from operating activities		**122,940**	56,630
Cash flows from financing activities			
Net decrease in amounts owed to credit institutions	21	**(119,137)**	(53,779)
Dividends paid	10	**-**	(3,600)
Net cash from financing activities		**(119,137)**	(57,379)
Net increase/(decrease) in cash and cash equivalents		**3,803**	(749)
Cash and cash equivalents at 1 January		**1,296**	2,045
Cash and cash equivalents at 31 December 2017		**5,099**	1,296

All cash and cash equivalents are held as 'Loans and advances to credit institutions'.

The notes on pages 11 to 30 form part of these financial statements.

Notes to the financial statements

1. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

The Statement of Financial Position has been prepared to give a non-classified presentation on the liquidity basis, as the Directors believe that such a presentation provides information that is reliable and more relevant than a current / non-current presentation.

(a) Basis of accounting

The financial statements are presented in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the EU and effective at 31 December 2017.

The financial statements have been prepared on a going concern basis. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 2. The financial position of the Company, its cashflows and liquidity position are described in the Company financial statements on pages 7 to 10.

As described in the Strategic Report on page 2, the Company has reported an operating loss for the year due to the sale of mortgage assets during the year. Although the Directors still consider that the outlook presents significant challenges in terms of mortgage losses and arrears levels most likely to increase at a future interest rate movement, the Directors forecast the Company to return to profitability in the foreseeable future.

The Company is funded entirely by its parent, Skipton Building Society, which has provided a letter of support to confirm that Skipton Building Society will provide continuing financial support to the Company for a period of not less than 12 months from the date of the signing of the 2017 Annual Accounts.

After reviewing the Company's forecasts and the principal risks it faces, the Directors are satisfied that there are no material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern for the foreseeable future, specifically for a period of not less than 12 months from the date of signing the accounts Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Company is incorporated and domiciled in the UK.

The financial statements are presented in pounds Sterling and, except where otherwise indicated, have been rounded to the nearest one thousand pounds.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1(b).

Measurement convention

The financial statements have been prepared under the historical cost convention as modified by financial assets at fair value through the Statement of Comprehensive Income.

(b) Key areas of estimation

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1. Accounting policies (continued)

(b) Key areas of estimation (continued)

The estimates and underlying assumptions are reviewed periodically. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Impairment of loans and advances - the Company reviews its loan portfolio on a monthly basis to assess the level of impairment. In determining whether an impairment loss should be recorded in the Statement of Comprehensive Income, the Company makes judgements as to whether there is any objective data indicating that there is a measurable impairment loss. Specifically, management regularly assesses key assumptions which are approved by the Board such as the probability of an account going into possession, the time period over which an account will exhibit objective evidence of impairment loss (the 'loss crystallisation period') and the eventual loss incurred in the event of forced sale or write off.

Critical estimates in calculating the eventual loss incurred in the event of sale are the movement in UK house prices, default rates and cure rates (being the number of accounts that go into default, but then return to their original position out of default at a later date). The following table outlines the impact of reasonably possible alternative assumptions of certain estimates used in calculating the impairment provision:

Assumption	**Change to current assumption**	**2017** **Increase in impairment provision**	2016 Increase in impairment provision
		£000	£000
House price index	10% decrease	**34**	800
Default rates	10% increase	**4**	158
Cure rates	10% decrease	**56**	356

HPI Sensitivity: The sensitivity to a 10% fall in HPI is calculated at account level using an emulator that recalculates impairment with indexed property valuations reduced by 10%.

Default Rates: It has been assumed that impairment coverage by arrears status remains constant. The impact (on portfolio impairment) of increasing the default population (and reducing the performing population) by 10% has then been calculated.

Cure Rates: An Excel based emulator (that was also used for the recent parameter review) was used. This emulator allows the impact of changing cure rates to be examined – cure rates were reduced by 10% to give the values quoted.

(c) Interest receivable and payable

Interest receivable in respect of loans and advances to customers, which are measured at amortised cost is recognised in the Statement of Comprehensive Income using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant expected life of the asset or liability. The effective interest rate is the rate that exactly discounts the estimated future cash flows over the expected life to the net carrying amount of the financial asset or liability.

Interest payable is also accounted for on an effective interest rate basis.

Notes to the financial statements (continued)

1. Accounting policies (continued)

(d) Revenue recognition

The primary income of the Company is interest receivable on loans fully secured on residential property. Other operating income, which excludes value added tax, represents fees and commissions and other invoiced sales of the Company, is recognised on an accruals basis.

(e) Pensions

The number of persons employed by the Company during the period was nil. The company is recharged by Skipton Building Society in respect of staff services, which includes pension costs.

(f) Impairment of loans and advances secured on residential property or land

Individual assessments are made on all mortgage loans where objective evidence indicates losses are likely or the property is in possession or where fraud or negligence has been identified. Objective evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments or the debt being renegotiated to reduce the burden on the borrower. The key drivers influencing the objective evidence predominantly relate to affordability issues driven by unemployment and the increased costs of living.

For properties that are in possession, the provision is calculated as the difference between the existing carrying value and the present value of the amount ultimately likely to be received. Alternatively, for other individual loans that have reached the point at which an impairment provision is needed but where it is not possible to specifically determine the amount ultimately likely to be received, assumptions are used from groups of loans with similar characteristics, based on historical data including the probability of possession and observed losses and a provision calculated accordingly against this group of loans.

In addition, a collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that credit losses have been incurred but not yet identified at the reporting date. The impairment value is calculated by applying various economic factors to pools within our mortgage portfolio that have similar characteristics. These factors take into account the Group's experience of default rates, the loss emergence periods, the effect of movements in house prices based on a recognised index and adjustments to allow for ultimate forced sales values and realisation costs.

In addition, the impairment provision takes into account the level of forbearance applied to loans, such as, payment reductions, term extensions, conversion to interest only and capitalisation of arrears, and reflects the relative performance of each of these pools. The impairment provision also considers macro-economic indicators affecting affordability such as unemployment rates and interest rates.

Impairment provisions are recognised in the Statement of Comprehensive Income and reflected in a separate account which is netted against the total carrying value of mortgage assets within the Statement of Financial Position. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment losses to decrease, the decrease in impairment loss is recognised through the Statement of Comprehensive Income.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment loss recognised in the Statement of Comprehensive Income.

(g) Taxation

Income tax on the profits for the year comprises current tax and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except where items are recognised directly in equity, in which case the associated income tax asset or liability is recognised via equity.

Current tax is the expected tax payable on the income for the year, using tax rates enacted or substantively enacted at the period end, and any adjustment to tax payable in respect of previous years.

Notes to the financial statements (continued)

1. Accounting policies (continued)

(g) Taxation (continued)

Deferred tax is provided using the balance sheet liability method, which recognises temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the period end.

(h) Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual right to cash flows expires or the financial asset is transferred to another party and the right to receive cash flows is also transferred.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or has expired.

(i) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash comprises cash in hand and loans and advances to credit institutions repayable on demand, and cash and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less.

The Statement of Cash Flows has been prepared using the indirect method.

Notes to the financial statements (continued)

2. (Loss)/Profit before tax

	2017 £000	2016 £000
(Loss)/Profit before tax has been arrived at after charging:		
Auditor's remuneration and expenses (excluding VAT):		
Audit services	**15**	12

3. Interest receivable and similar income

	2017 £000	2016 £000
On loans and advances to customers	**12,980**	18,197

Included within the interest receivable and similar income is interest accrued on impaired financial assets of £0.06m (2016: £0.5m). From April onwards interest receivable relating to the sale of mortgage assets has been removed.

4. Interest payable and similar charges

	2017 £000	2016 £000
Interest payable to parent undertaking	**7,964**	10,993

Due to the sale of mortgage assets there has been a reduction in interest payable as sale monies used to reduce amounts owed to credit institutions.

5. Other operating income

	2017 £000	2016 £000
Fees and commissions receivable	**37**	48
Sundry income	**19**	61
	56	109

6. Administrative expenses

	2017 £000	2016 £000
Mortgage administration expenses	**970**	1,393
Office rental and support services	**280**	269
Legal expenses	**88**	18
Software	**62**	69
Other administrative expenses	**75**	55
	1,475	1,804

7. Loss on sale of Mortgage Book

On 28 April 2017 North Yorkshire Mortgages disposed of the beneficial title to £91.0m worth of mortgage assets which were non-performing or recently non-performing. The legal titles of the loans were transferred to the purchaser on 15 October 2017.

The disposal resulted in a loss on sale of £7.4m which includes the impact of releasing £2.4m of provisions for impairment losses held in relation to these mortgages.

Notes to the financial statements (continued)

7. Loss on sale of mortgage book (continued)

In October a number of loans were repurchased at a discount. This discount will be released over the life time of the assets which is expected to be 9 years.

8. Staff numbers and costs

There were no employees for the Company in the period (2016: nil).

The Company was recharged £52k (2016: £51k) in respect of its 3 Directors whose services were provided by Skipton Building Society. The Company was recharged £0.1m (2016: £0.1m) in respect of staff services provided by Skipton Building Society.

Amounts paid to the Directors of the Company in 2017 in respect of services to North Yorkshire Mortgages Limited were £53,896 (2016: £57,105). The Directors remuneration is paid solely by the ultimate parent undertaking, Skipton Building Society.

9. Tax expense

(a) Analysis of charge in the year

	2017	2016
	£000	£000
Tax charge		
Current tax at 19.25% (2016: 20%)	**(540)**	1,265
Adjustment in respect of previous periods	**694**	-
Deferred Tax	**155**	43
Total tax expense/(income)	**309**	1,308

(b) Factors affecting current tax charge in the year

The tax charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	2017	2016
	£000	£000
(Loss)/Profit on ordinary activities before tax	**(4,763)**	6,507
Tax on (loss)/profit on ordinary activities at UK standard rate of 19.25% (2016: 20%)	**(917)**	1,301
Effects of:		
Adjustment to tax expense in respect of previous periods	**694**	-
Change in tax rates	**(20)**	7
Other	**552**	-
Tax expense/(income)	**309**	1,308

Adjustments to tax expense in respect of previous year (£0.7m) and other adjustments (£0.6m) are due to the calculation of a lower interest rate on the loan with Skipton Building Society if it was completed on an arm's length basis in 2016 and 2017.

10. Dividends

No interim dividend was paid in 2017 (2016: £nil). No final dividend was paid in 2017 (2016: £3.6m).

Notes to the financial statements (continued)

11. Loans and advances to credit institutions

Loans and advances to credit institutions have remaining maturities as follows:

	2017 £000	2016 £000
Repayable on demand	**5,099**	1,296

12. Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity. The Company is a retailer of financial instruments in the form of mortgages.

(a) Financial risks

The financial risks faced by the Company include market risk, credit risk and liquidity risk.

Market risk

Interest rate risk exists where interest rates on assets and liabilities are either set according to different bases or reset at different times. The Company holds floating rate mortgages which are linked to LIBOR or Bank of England Base Rate and is therefore exposed to movements in interest rates.

The Company is funded by its parent entity, Skipton Building Society, through an intercompany balance bearing variable interest determined by the Skipton Building Society Group to be at a market rate. Therefore, although the Company has an exposure to interest rate risk, this is managed at the Group level, by ensuring that the interest rate characteristics of the Group's assets and liabilities are similar and using derivative financial instruments to mitigate any residual interest rate risk.

The Skipton Building Society Group monitors interest rate risk exposure against limits by determining the effect on the Group's current net notional value of assets and liabilities for a parallel shift in interest rates equivalent to 2% for all maturities in line with regulatory requirements. Results are compared to the Board limit and the Operational trigger at least weekly and reported to ALCO and the Board on a monthly basis.

Credit risk

The Company has exposure to credit risk, which is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations, including failure to perform obligations in a timely manner. The Company's exposure to credit risk has been limited by the decision to stop new lending with effect from February 2008 and optimising collection strategies. When the Company was lending, the risk was managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, and by changing lending limits where appropriate.

Impairment provisions are provided for losses that have been incurred at the date of the Statement of Financial Position. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2017 £000	2016 £000
Loans and advances to customers	**288,267**	416,204
Loans and advances to credit institutions	**5,099**	1,296
	293,366	417,500

Notes to the financial statements (continued)

12. Financial instruments (continued)

Credit risk (continued)

The most significant credit risk which the Company is exposed to is in relation to loans and advances to customers and the majority of these loans are secured on UK residential properties. At the end of the period 85% of the book was interest only (2016: 83%) and there were no other significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Statement of Financial Position.

Loan and advances to customers

The table below provides further information on geographical split.

Geographical analysis	2017 £000	2017 %	2016 £000	2016 %
North	**7,276**	**2.5**	11,907	2.8
Yorkshire	**27,342**	**9.5**	35,749	8.5
East Midlands	**18,303**	**6.3**	24,905	5.9
East Anglia	**9,037**	**3.1**	24,919	5.9
London	**68,415**	**23.8**	80,001	19.1
South East	**56,256**	**19.5**	95,983	23.0
South West	**24,945**	**8.6**	34,759	8.3
West Midlands	**21,981**	**7.6**	31,728	7.6
North West	**35,174**	**12.2**	55,531	13.2
Wales	**16,221**	**5.6**	17,546	4.2
Scotland	**3,834**	**1.3**	6,425	1.5
	288,784		419,453	

Loan-to-value information on the Company's loans and advances to customers is set out as follows:

	2017 £000	2017 %	2016 £000	2016 %
Less than 40%	**19,512**	**6.8**	22,082	5.3
40% to 50%	**30,168**	**10.5**	32,514	7.7
50% to 60%	**68,511**	**23.7**	83,318	19.9
60% to 70%	**74,643**	**25.9**	108,418	25.8
70% to 80%	**53,470**	**18.5**	72,020	17.2
80% to 90%	**34,491**	**11.9**	71,680	17.1
90% to 100%	**7,034**	**2.4**	25,608	6.1
Over 100%	**955**	**0.3**	3,813	0.9
Total	**288,784**		419,453	
Average indexed loan-to-value		**56.9**		60.6

The indexed loan-to-value is updated on a quarterly basis to reflect changes in the Market house price index which is applied to the portfolio on a regional basis.

Notes to the financial statements (continued)

12. Financial instruments (continued)

Credit risk (continued)

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

	2017 £000	%	2016 £000	%
Neither past due nor individually impaired	**280,854**	**97.3**	368,128	87.8
Past due but not individually impaired	**5,029**	**1.7**	28,751	6.9
	285,883	**99.0**	396,879	94.7
Individually impaired:				
Risk analysis				
Low risk	**1,669**	**0.6**	10,260	2.4
High risk	**1,089**	**0.4**	11,433	2.7
Possessions	**143**	**0.0**	881	0.2
	288,784	**100.0**	419,453	100.0

Mortgage accounts are regarded as individually impaired if they are in arrears by three months or more.

Low risk accounts in the table above relate to loans with a loan-to-value of less than or equal to 70%. High risk accounts relate to loans either with a loan-to-value of more than 70%, or where other factors indicate that these loans are considered high risk.

At the request of the customer, and where appropriate, the Company applies a policy of forbearance. This may be applied where actual or apparent financial stress of the customer is deemed short term with a potential to be recovered. Forbearance may involve transfer to interest only, a reduction in monthly payment (known as a concession), payment holidays, capitalisation of arrears and term extensions. These strategies are undertaken in order to work towards the right outcome for both the customer and the business through dealing with arrears at an early stage. The customer accounts are monitored to ensure that these strategies remain appropriate.

The tables below provide further information on residential mortgages by the type of account renegotiations applied to customers regarded as being in forbearance as at 31 December 2017. During the year the Group has updated its forbearance disclosures to align with the European Banking Authority's (EBA's) financial reporting definitions of forbearance. This has resulted in exit criteria being introduced for the purposes of these disclosures, whereby loans exit forbearance if they meet certain payment and arrears criteria including a two year probation period following the forbearance event. Previously the Group's disclosures comprised all outstanding residential mortgages that had been renegotiated in the two years prior to the reporting date where the customer had encountered payment difficulties, but did not include loans that were still on renegotiated terms where they were renegotiated prior to this two year period. The 2016 comparatives have been re-presented on a consistent basis. There has been no change to how customers in financial difficulty are treated.

Notes to the financial statements (continued)

12. Financial instruments (continued)

Credit risk (continued)

2017	Loans and advances to customers £000	Capitalisation £000	Reduced payment £000	Transfer to interest only £000	Term extension £000	Total renegotiations £000	%
Neither past due nor individually impaired	280,854	-	1,923	131	1,083	3,137	1.1
Past due but not individually impaired	5,029	-	565	94	-	659	13.1
	285,883	-	2,488	225	1,083	3,796	1.3
Individually impaired:							
Risk analysis							
Low risk	1,669	-	162		-	162	9.7
High risk	1,089	-			-		0.0
Possessions	143	-	-	-	-	-	0.0
	288,784	-	2,650	225	1,083	3,958	1.4
Collective impairment	(108)	-	(2)	(1)	-	(3)	2.5
Individual impairment	(409)	-	-	-	-	-	0.0
	288,267	-	2,648	224	1,083	3,954	1.4

2016 Restated	Loans and advances to customers £000	Capitalisation £000	Reduced payment £000	Transfer to interest only £000	Term extension £000	Total renegotiations £000	%
Neither past due nor individually impaired	368,128	215	4,008	1,044	1,425	6,692	1.8
Past due but not individually impaired	28,751	-	2,312	434	-	2,746	9.6
	396,879	215	6,320	1,478	1,425	9,438	2.4
Individually impaired:							
Risk analysis							
Low risk	10,260	-	2,266	253	-	2,519	24.6
High risk	11,433	-	2,716	277	-	2,993	26.2
Possessions	881	-	-	-	-	-	0.0
	419,453	215	11,302	2,008	1,425	14,950	18.0
Collective impairment	(1,421)	(2)	(149)	(7)	(4)	(162)	11.4
Individual impairment	(1,828)	-	(932)	(27)	(50)	(1,009)	55.2
	416,204	213	10,221	1,974	1,371	13,779	1.9

A collective impairment allowance is made against performing loans where objective evidence indicates that it is likely that credit losses have been incurred but not yet identified at the reporting date.

Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession or where fraud or negligence has been identified.

Notes to the financial statements (continued)

12. Financial instruments (continued)

Credit risk (continued)

Some properties in the Company's mortgage book are in negative equity, which creates the possibility of the Company incurring a loss if the property is taken into possession. For the majority of loans in the book, the Company holds excess collateral however this cannot be used to offset those instances where the loan amount exceeds the collateral held. The fair value of collateral in the below table is therefore calculated, on an individual loan basis, as the lower of the value of the property and the outstanding loan amount. It does not reflect the overall value of properties against which the loans are secured.

	2017	2016
	£000	£000
Not individually impaired	**285,871**	396,755
Individually impaired	**2,754**	21,664
Possessions	**143**	862
	288,768	419,281

The collateral held consists predominantly of residential properties. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indices of similar assets.

Liquidity risk

Liquidity risk is that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost.

The Company is funded entirely by its parent, Skipton Building Society, who provided a letter of support which confirms its ongoing intention to continue to support the Company.

Liquidity is managed by the Company's parent, Skipton Building Society, on a Group basis. The Group's liquidity policy is to maintain sufficient liquid resources to cover imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations as they fall due. Full details are contained within the Group annual report and accounts.

All of the Company's financial liabilities are represented by amounts due to the parent, which are repayable on demand as disclosed in note 15. Consequently no table of contractual cash flows has been disclosed.

(b) Fair values of financial instruments

The table below is a comparison of the book and fair values of the Company's financial instruments by category as at the period end. Where available, market values have been used to determine fair values.

Notes to the financial statements (continued)

12. Financial instruments (continued)

(b) Fair values of financial instruments (continued)

Where market values are not available, fair values have been calculated as detailed below.

2017	Positive book value £000	Positive fair value £000	Negative book value £000	Negative fair value £000	Notional value £000
Cash and cash equivalents	**5,099**	**5,099**	-	-	**5,099**
Loans and advances to customers	**288,267**	**274,971**	-	-	**288,784**
Amounts owed to credit institutions	-	-	**(279,440)**	**(279,440)**	**(279,440)**
2016					
Cash and cash equivalents	1,296	1,296	-	-	1,296
Loans and advances to customers	416,204	400,365	-	-	419,453
Amounts owed to credit institutions	-	-	(398,577)	(398,577)	(398,577)

Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 - The most reliable fair values, financial instruments are quoted market prices in an actively traded market.

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 either when no active market exists or when there are quoted prices available for similar instruments in active markets.

Level 3 - These are valuation techniques for which any one or more significant input is not based on observable market data.

The fair values of loans and advances to customers have been estimated using a discounted cash flow, which applies applicable current market product rates as discount rates which incorporate an element of future expected credit losses. Incurred losses have also been included. The valuation also includes information and expectations regarding redemption rates, which are regularly reviewed and updated in light of experience. These represent unobservable inputs and as a result the fair value of loans and advances to customers are considered to be derived by using level 3 valuation techniques.

Notes to the financial statements (continued)

13. Loans and advances to customers	**2017 £000**	2016 £000
Loans fully secured on residential property	**288,267**	416,204
Repayable:		
In not more than three months	**4,493**	3,118
In more than three months but not more than one year	**1,795**	11,808
In more than one year but not more than five years	**28,345**	17,945
In more than five years	**254,151**	386,582
	288,784	419,453
Less: Impairment		
Individual impairment	**409**	1,828
Collective impairment	**108**	1,421
	517	3,249
	288,267	416,204

Repayable is when the cash flows are expected to end.

14. Impairment losses on loans and advances	**2017 £000**	2016 £000
At 1 January		
Individual impairment	**1,828**	3,300
Collective impairment	**1,421**	1,689
	3,249	4,989
Amounts written off during the year		
Individual impairment	**(76)**	(629)
	(76)	(629)
Amounts disposed of during the year		
Individual impairment	**(1,461)**	-
Collective impairment	**(957)**	-
	(2,418)	-
Statement of Comprehensive Income:		
Impairment losses on loans and advances		
Individual impairment	**373**	(775)
Collective impairment	**(356)**	(268)
	17	(1,043)
Adjustments to impairment losses on loans and advances resulting from recoveries during the year		
Individual impairment	**(255)**	(68)
Charge/(credit) for the year	**(238)**	(1,111)
At 31 December		
Individual impairment	**409**	1,828
Collective impairment	**108**	1,421
	517	3,249

Further analysis of the impairment provision as at 31 December 2017 is provided in note 12(a).

Notes to the financial statements (continued)

15. Amounts owed to credit institutions

Amounts owed to credit institutions are due to the immediate parent undertaking and have remaining maturities as follows:

	2017 £000	2016 £000
Repayable on demand	**279,440**	398,577

16. Deferred tax

The movement on the deferred tax account is as shown below:

	2017 £000	2016 £000
At 1 January	**(312)**	(477)
Income Statement (note 9)	**(155)**	(43)
Other components within Statement of Comprehensive Income	**207**	208
At 31 December	**(260)**	(312)
Analysis of deferred tax assets		
Other short term timing differences	**16**	170
At 31 December	**16**	170
Analysis of deferred tax liabilities		
Other short term timing differences	**276**	482
At 31 December	**276**	482
Net deferred tax liability	**(260)**	(312)

17. Share capital	2017 £000	2016 £000
At 1 January and 31 December 4,400,000 ordinary shares of £1 each	**4,400**	4,400

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

18. Provision for liabilities

	2017 £000	2016 £000
At 1 January		
Customer compensation provision	**113**	-
Other provision	**1**	1
	114	1
Statement of Comprehensive Income:		
Customer compensation provision	**1,184**	113
Other provision	-	-
Charge for the year	-	113
At 31 December		
Customer compensation provision	**1,297**	113
Other provision	**1**	1
	1,298	114

Notes to the financial statements (continued)

18. Provision for liabilities (continued)

Provisions for customer compensations resulted in a £1.2m charge in the year (2016: £0.1m) predominantly due to potential future redress payable in respect of charges identified and added incorrectly to accounts following an evaluation during 2017 of historical terms and conditions.

19. Management of capital

The Company's capital is represented by share capital and retained earnings.

	2017 **£000**	2016 £000
Ordinary shares	**4,400**	4,400
Retained earnings	**7,420**	12,494
	11,820	16,894

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act, with which it complies.

The period end capital position is reported to the Legal Board on a monthly basis. The capital position is also given due consideration when corporate plans are prepared, calculating the future requirements based upon the five year financial forecast.

During the year, the Company saw its capital position decrease from £16.9m to £11.8m. The Company has received a letter of support from its parent undertaking, Skipton Building Society.

20. Related party transactions

The Company has a related party relationship with its parent undertaking as detailed below. All such transactions are priced on an arm's-length basis.

During the year the following related party transactions were entered into with related parties:

	2017 **Parent undertaking** **£000**	2016 Parent Undertaking £000
Net interest		
Interest payable in respect of borrowings	**7,964**	10,993
	7,964	10,993
Purchase of goods and services		
Office rental and other support services	**280**	269
	280	269
Outstanding balances		
Repayments in respect of borrowings	**279,440**	398,577
	279,440	398,577

Notes to the financial statements (continued)

20. Related party transactions (continued)

There are no provisions in respect of goods and services to related parties either at 31 December 2016 or at 31 December 2017. The Company is party to Group banking arrangements involving the pooling of funds with other Group companies.

Compensation to key management personnel is included in the payroll costs of the Company, recharged by Skipton Building Society, detailed in note 8.

21. Financing activities

The table below shows the movement during the year of the Company's financing activity liabilities, namely amounts due to parent undertakings.

	2017 £000
Balance at 1 January	**398,577**
Changes from financing cash flow:	
Additions	-
Repayments	(119,137)
Dividends paid	-
Total changes from financing cash flow	**(119,137)**
Liability-related changes:	
Interest expense	(7,964)
Interest paid	7,964
Total liability-related changes	-
Balance at 31 December	**279,440**

22. Adoption of new and revised International Financial Reporting Standards

New Accounting Standards

During the year the Company has adopted the following amendments to accounting standards which are effective for accounting periods starting on or after 1 January 2017:

- IAS 7 Statement of Cash Flows, which has resulted in increased disclosure in these Financial Statements to show the movements during the year of the liabilities classed as financing activities in the Statement of Cash Flows, as shown in note 21. The adoption of this amendment has had no impact on the amounts reported within primary statements.
- IAS 12 Income Taxes, which has had no impact on these Financial Statements.

There have been no new standards effective and adopted during the year.

Amendments to accounting standards effective but not yet EU endorsed

The Company notes 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 IFRS 12 *Disclosures of Interests in Other Entities* and IAS 28 *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 any impact on the Company's financial statements.

Notes to the financial statements (continued)

22. Adoption of new and revised International Financial Reporting Standards (continued)

Standards issued but not yet effective

The Company is required to adopt IFRS 9 *Financial Instruments* for accounting periods commencing on or after 1 January 2018. The Group has assessed the estimated impact that the initial application of IFRS 9 will have on its consolidated financial statements. The estimated impact of the adoption of these standards on the Company's reserves as at 1 January 2018 is based on assessments undertaken to date and is summarised below. These assessments are preliminary because not all transition work has been finalised and therefore may be subject to adjustment. The actual impacts of adopting the standards at 1 January 2018 may change because:

- The Group has not finalised the testing and assessment of impairment and measurement of assets.
- The new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

Estimated impact of adoption of IFRS 9

	As reported at 31 Dec 2017	Estimated adjustments due to adoption of IFRS 9	Estimated adjusted opening balance at 1 Jan 2018
	£m	£m (approx.)	£m (approx.)
General reserve	7.4	(0.4)	7.0

The total estimated adjustment to the opening balance of the equity at 1 January 2018 is £7.4m (net of tax). The principal component of the estimated adjustment is as follows:

- A decrease of £0.4m in the general reserve due to impairment losses on financial assets (see IFRS 9 below).

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods commencing on or after 1 January 2018 with early adoption permitted. The Company will adopt IFRS 9 in its financial statements for the year ending 31 December 2018, with an initial application date of 1 January 2018.

The Company has assessed the expected impact of IFRS 9 application on its consolidated financial statements, the results of which are summarised below.

i) Financial assets – classification

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for–sale, whilst FVTPL is retained. Financial assets are classified into the appropriate category on initial recognition.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

22. Adoption of new and revised International Financial Reporting Standards (continued)

IFRS 9 Financial Instruments (continued)

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash-flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Under IFRS 9, the Company's financial assets will broadly be reclassified as follows:

Existing classification under IAS 39	Expected classification under IFRS 9
Loans and receivables	Amortised cost
Loans and receivables – not passing SPPI Test	FVTPL
Available-for-sale	FVOCI
FVTPL	FVTPL

ii) Financial Assets – Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This new impairment model will apply to the Company's financial assets measured at amortised cost or FVOCI. Whilst IFRS 9's ECL model for accounting purposes is not equivalent to the IRB 'expected loss' model which the Group applies for regulatory capital purposes, the Group has been able to leverage its existing understanding of forward-looking credit loss models to aid its preparations for IFRS 9.

IFRS 9's new ECL model involves a number of factors that will require significant judgement. These factors include, for example, assessing probability of default, determining when the risk of default has significantly increased and forming a view as to the future direction of relevant economic variables. To implement its IFRS 9 methodologies, the Group has designed and built an appropriate suite of models. The modelling techniques vary according to the characteristics of each impacted portfolio of financial assets.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases for which the amount recognised will be 12-month ECLs:

- Debt investment securities that are determined to have low credit risk at the reporting date. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
- Other financial instruments for which credit risk has not increased significantly since initial recognition.

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Company's historical experience, expert credit assessment and forward-looking information.

Notes to the financial statements (continued)

22. Adoption of new and revised International Financial Reporting Standards (continued)

IFRS 9 Financial Instruments (continued)

The Company's impairment losses will increase on application of IFRS 9, and are also expected to become more volatile. The Company estimates that application of IFRS 9's impairment requirements at 1 January 2018 results in an increase in impairment losses (before tax) as follows:

	Estimated increase / (decrease) in impairment at 1 Jan 2018 £m (approx.)
Gross increase in impairment losses	**0.5**

	Estimated increase / (decrease) in reserves at 1 Jan 2018 £m (approx.)
General reserve	**(0.4)**

iii) Financial Liabilities – Classification

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- The remaining amount of change in the fair value is presented in profit or loss.

The Company's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

iv) Disclosures

IFRS 9 will require extensive new disclosures, in particular for hedge accounting, credit risk and expected credit losses. The Company is implementing appropriate systems and controls changes to capture the required data.

v) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, with certain exceptions (as noted above, the hedge accounting requirements of IFRS 9 will be applied prospectively). The Company plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in reserves as at 1 January 2018.

22. Adoption of new and revised International Financial Reporting Standards (continued)

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition requirements, including IAS 18 *Revenue*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company will adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, with an initial application date of 1 January 2018.

IFRS 16 *Leases*

IFRS 16 which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers has been applied, or is applied at the same date as IFRS 16.

Both IFRS 15 and IFRS 16 are expected to have little to no impact on the company.

23. Ultimate parent undertaking

The Company is a wholly owned subsidiary of Skipton Building Society, which is registered in the United Kingdom. A copy of the annual report and accounts into which the results of this company are consolidated are available from its principal place of business:

The Secretary
Skipton Building Society
The Bailey
Skipton
North Yorkshire
BD23 1DN