# Amber Homeloans Limited

Annual Reports and Accounts
31 December 2013
(Registered number 2819645)

# Amber Homeloans Limited

***Strategic Report***

The Directors present their Strategic Report, Directors' Report and Financial Statements for the year ended 31 December 2013.

**a) Objectives**

With the Company having withdrawn from new lending and with the asset trading market effectively being closed, its principal objective is to manage the existing mortgage book hence to minimise the level of mortgage losses whilst always seeking to treat customers fairly and seek the best outcome for individual borrowers.

**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. This risk is managed through the use of appropriate financial instruments, including derivatives, with established risk limits, reporting lines, mandates and other control procedures.

**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 Operational Board.

**Credit risk** is the risk that the number of customers who are unable to honour their obligations may increase disproportionately to the increased returns achieved through the interest margin.

Credit risk within our mortgage portfolio is driven by general UK economic performance including in particular the rate of unemployment, pressure on household finances and the strength of the UK property market. Any reversal of the current economic recovery that also had a negative impact on these key drivers would affect the level of impairment losses.

As noted above, the Company has mitigated this risk by withdrawing from the new lending market.

The Company is represented on the Credit Risk Committee which meets monthly to agree the impairment methodology and impairment provisioning, which is based on models used across the Skipton Group.

We consider forbearance options on a case by case basis in line with industry guidance and best practice. Such options include capitalisation of arrears, interest only concessions, a reduction in the monthly payment, payment holidays and term extensions where these are in the interests of the borrower and the Company. The impact of any such forbearance is recognised within our provisioning policy.

**Strategic Report (continued)**

**c) Financial performance**

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Loss before tax, as reported on the Statement of Comprehensive Income | **(384)** | (7,174) |
| Net assets, as reported in the Statement of Financial Position | **3,568** | 3,843 |

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

The main factor affecting the positive movement in loss for the year is the reduced cost of funding which has had a positive impact on net interest margin.

The number of properties taken into possession in the year has decreased from 152 in 2012 to 149 in 2013.

The number of cases in arrears has decreased from 1,420 in 2012 to 1,147 in 2013, with a decrease in the balance of arrears from £6.9m (2012) to £5.3m (2013).

**d) Key performance indicators**

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

| Year | Pre-tax loss £000 | Mortgages in Arrears £000 | Mortgage losses £000 |
|---|---|---|---|
| 2011 | (13,837) | 232,935 | 9,843 |
| 2012 | (7,174) | 215,279 | 3,217 |
| **2013** | **(384)** | **172,480** | **2,983** |

By order of the Board

J Gibson
Secretary
24 February 2014

## Directors' report

### Dividends

No interim dividend has been paid during the year (2012: £Nil). The Directors do not recommend the payment of a final dividend (2012: £Nil).

### Financial instruments

Note 11 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

As described in the Strategic Report on page 1, current economic conditions have impacted on the Company's financial performance with an operating loss being reported for the year. However, the Directors, having assessed the responses of the Directors of its parent to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of its parent to continue as a going concern or its ability to continue to support the Company.

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 6 to 9.

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.

On the basis of this assessment the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. 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:

A Wiggans
R J Twigg
I M Cornelius

### 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 auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the Board

J A Gibson
Secretary
The Bailey
Skipton
North Yorkshire
24 February 2014

**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 and 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 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 and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 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 Amber Homeloans Limited

We have audited the financial statements of Amber Homeloans Limited for the year ended 31 December 2013 set out on pages 6 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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.

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities 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. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

**John Ellacott (Senior Statutory Auditor)**
**for and on behalf of KPMG Audit Plc, Statutory Auditor**
*Chartered Accountants*
1 The Embankment
Leeds LS1 4DW
24 February 2014

## Amber Homeloans Limited

**Statement of Comprehensive Income**
For the year ended 31 December 2013

| | Notes | 2013 £000 | 2012 £000 |
|---|---|---|---|
| Interest receivable and similar income | 3 | **33,841** | 35,440 |
| Interest payable and similar charges | 4 | **(27,529)** | (36,470) |
| **Net interest receivable** | | **6,312** | (1,030) |
| Fair value gains and losses | | **111** | 147 |
| Other operating income | 5 | **687** | 1,122 |
| Administrative expenses | 6 | **(4,511)** | (4,196) |
| Impairment losses on loans and advances | 13 | **(2,983)** | (3,217) |
| **Loss before tax** | 2 | **(384)** | (7,174) |
| Tax income | 8 | **86** | 1,756 |
| **Loss for the year** | | **(298)** | (5,418) |
| **Other comprehensive income:** | | | |
| Deferred tax on items taken directly to equity | 16 | **115** | 123 |
| Current tax on items taken directly to equity | | **(92)** | (97) |
| **Total comprehensive income for the year** | | **(275)** | (5,392) |
| Attributable to: | | | |
| **Equity holders of the parent** | | **(275)** | (5,392) |

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

The notes on pages 10 to 26 form part of these financial statements.

**Statement of Financial Position**
As at 31 December 2013

| | Notes | 2013 £000 | 2012 £000 |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to credit institutions | 10 | **1,967** | 2,166 |
| Loans and advances to customers | 12 | **980,036** | 1,061,324 |
| Investment in subsidiary undertakings | 14 | **26** | 26 |
| Current tax assets | | **-** | 294 |
| Deferred tax assets | 16 | **1** | 1 |
| Other assets | | **400** | 508 |
| **Total assets** | | **982,430** | 1,064,319 |
| **Equity and liabilities** | | | |
| **Equity attributable to the parent** | | | |
| Share capital | 17 | **33,674** | 33,674 |
| Retained earnings | | **(30,106)** | (29,831) |
| **Total equity** | | **3,568** | 3,843 |
| **Liabilities** | | | |
| Amounts owed to credit institutions | 15 | **974,815** | 1,054,975 |
| Amounts owed to fellow group undertakings | | **237** | 532 |
| Derivative financial instruments | 11 | **1,503** | 2,557 |
| Current tax liabilities | | **332** | - |
| Deferred tax liabilities | 16 | **158** | 273 |
| Other liabilities | | **1,817** | 2,139 |
| **Total liabilities** | | **978,862** | 1,060,476 |
| **Total equity and liabilities** | | **982,430** | 1,064,319 |

These financial statements were approved by the Board of Directors on 24 February 2014 and signed on its behalf by:

I M Cornelius (Director)

R J Twigg (Director)

Company registration number 2819645

The notes on pages 10 to 26 form part of these financial statements.

# Amber Homeloans Limited

**Statement of Changes in Equity**
For the year ended 31 December 2013

| | Share capital £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|
| Balance at 1 January 2013 | **33,674** | **(29,831)** | **3,843** |
| Total comprehensive income for the year | **-** | **(275)** | **(275)** |
| **Balance at 31 December 2013** | **33,674** | **(30,106)** | **3,568** |
| | | | |
| Balance at 1 January 2012 | 33,674 | (24,439) | 9,235 |
| Total comprehensive income for the year | - | (5,392) | (5,392) |
| **Balance at 31 December 2012** | 33,674 | (29,831) | 3,843 |

The notes on pages 10 to 26 form part of these financial statements.

## Statement of Cash Flows

For the year ended 31 December 2013

| | Notes | 2013 £000 | 2012 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss for the year before tax | | **(384)** | (7,174) |
| Adjustments for: | | | |
| Impairment losses | 13 | **2,983** | 3,217 |
| Loans and advances written off, net of expenses | 13 | **(8,454)** | (10,898) |
| Fair value of underlying mortgages | | **943** | 1,231 |
| | | **(4,912)** | (13,624) |
| Net decrease in loans and advances to customers | | **85,816** | 75,066 |
| Net decrease in amounts owed to credit institutions | | **(80,160)** | (64,420) |
| Net decrease in derivatives | | **(1,054)** | (1,377) |
| Net decrease in other assets | | **108** | 52 |
| Net decrease in other liabilities | | **(617)** | (30) |
| **Cash expended from operating activities** | | **(819)** | (4,333) |
| Income taxes received | | **620** | 3,193 |
| **Net cash flows from operating activities** | | **(199)** | (1,140) |
| Net decrease in cash and cash equivalents | | **(199)** | (1,140) |
| Cash and cash equivalents at 1 January | | **2,166** | 3,306 |
| **Cash and cash equivalents at 31 December** | | **1,967** | 2,166 |

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

The notes on pages 10 to 26 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 2013.

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 6 to 9.

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).

A number of new accounting policies have been adopted in the year. Note 20 to the accounts sets out details of these new accounting policies adopted in the year and the impact of these adoptions on the financial statements.

***Measurement convention***

The financial statements have been prepared under the historical cost convention as modified by derivatives and other 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.

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.

Key areas of estimation are:

*Loans and receivables* - in calculating effective interest rates, the Company estimates future cash flows based on its experience of customers' behaviour considering all contractual terms of the mortgage assets. The estimates of future cash flows are reviewed on a regular basis.

The impact of a one month increase in the expected lives of the mortgage assets would result in an increase of £40k in interest income.

**Notes to the financial statements (continued)**

**(b) Key areas of estimation (continued)**

*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 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.

A critical estimate in calculating the eventual loss incurred in the event of sale is the future level of UK house prices which the Company has assumed increased by 3.7% in 2013 and will increase by 3% in each of 2014 and 2015. Based upon the loss provisioning model used by the Company, a 10% fall in house prices compared to the assumptions used (for example, from a 3% increase to a 7% decrease in 2014) would increase the year end residential impairment provision by £2.4m (2012: £2.8m). Other sensitivities include the loss crystallisation period, where an increase of three months would increase the loan impairment provision by £0.8m (2012: £1.7m), and the loss given default, where a 10% increase equates to a £1.7m (2012: £2.2m) increase in the loan impairment provision.

**(c) Consolidation**

These financial statements are separate statements prepared for the Company alone. The Company meets all of the conditions for the exemption set out in IAS 27, *Consolidated and Separate Financial Statements* and so has not prepared consolidated financial statements incorporating the results of its subsidiary companies.

**(d) 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.

Any costs incurred or income received in respect of new loans advanced to customers or acquired from third parties (pre-completion costs or income) are included within Loans and advances to customers and amortised against Interest receivable over the expected lives of the loans concerned. These items include procuration fees, mortgage incentive payments, mortgage portfolio premia payable, higher lending charges and application fees receivable.

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

**(e) 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, recognised on an accruals basis.

**(f) 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.

## Notes to the financial statements (continued)

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

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. 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. Based upon these assessments an individual impairment reduction of these assets is made.

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 balance sheet 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 crystallisation period, the effect of regional movements in house prices based on a recognised index and adjustments to allow for ultimate forced sales values and realisation costs. In addition, the collective 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 as a deduction against the carrying value of the asset on the balance sheet. 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 losses recorded in the Statement of Comprehensive Income.

### (h) Investment in subsidiaries

Subsidiaries are entities controlled by the Company. Control exists where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries are held on the Statement of Financial Position at cost, less the value of any impairment recognised at the reporting date.

### (i) Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments in order to hedge its exposure to interest rate risk in respect of certain fixed rate loans to customers.

Derivative financial instruments are initially recognised at fair value at the date on which the derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising fair value gains or losses depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Company designates certain derivatives as either hedges of the fair value of recognised assets or firm commitments (fair value hedges), or hedges of probable future cash flows attributable to a recognised asset or a forecast transaction (cash flow hedges). Hedge accounting is used for derivatives designated in this way provided that certain criteria are met.

### (i) Derivative financial instruments and hedge accounting (continued)

The Company documents the relationship between hedging instruments and hedged items, together with its risk management objective and strategy for undertaking the hedge, at the inception of each transaction.

The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges - changes in the fair values of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income, together with any changes in the fair value of the hedged asset that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to profit or loss over the period to maturity.

Derivatives that do not qualify for hedge accounting - certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify are recognised immediately in the Statement of Comprehensive Income.

### (j) 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.

### (k) 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.

Deferred tax is provided using the Statement of Financial Position 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.

### (l) 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.

| 2. Loss before tax | 2013 | 2012 |
|---|---|---|
| | £000 | £000 |
| Loss before tax has been arrived at after charging: | | |
| Auditor's remuneration and expenses (excluding VAT): | | |
| Audit services | **20** | 19 |

| 3. Interest receivable and similar income | 2013 | 2012 |
|---|---|---|
| | £000 | £000 |
| On loans and advances to customers | **34,691** | 37,295 |
| Net interest expense on derivative financial instruments | **(850)** | (1,855) |
| | **33,841** | 35,440 |

Included within the interest receivable and similar income is interest accrued on impaired financial assets of £3.5m (2012: £4.4m).

| 4. Interest payable and similar charges | 2013 | 2012 |
|---|---|---|
| | £000 | £000 |
| Interest payable to group undertakings | **27,529** | 36,470 |

| 5. Other operating income | 2013 | 2012 |
|---|---|---|
| | £000 | £000 |
| Fees and commissions receivable | **160** | 469 |
| Sundry income | **527** | 653 |
| | **687** | 1,122 |

| 6. Administrative expenses | 2013 | 2012 |
|---|---|---|
| | £000 | £000 |
| Mortgage administration expenses | **3,440** | 3,414 |
| Office rental and support services | **560** | 473 |
| Legal expenses | **203** | 49 |
| Software | **87** | 77 |
| Other administrative expenses | **221** | 183 |
| | **4,511** | 4,196 |

**7. Staff numbers and costs**

The average monthly number of persons employed by the Company during the period was nil (2012: nil).

The Company was recharged £0.1m (2012: £0.1m) in respect of its 3 Directors whose services were provided by Skipton Building Society. The Company was recharged £0.2m (2012: £0.2m) in respect of staff services provided by Skipton Building Society.

**8. Tax income**

| (a) Analysis of credit in the year | 2013 | 2012 |
|---|---|---|
| | £000 | £000 |
| **Current tax credit** | | |
| Current tax at 23.25% (2012: 24.5%) | **86** | 1,756 |
| Tax income | **86** | 1,756 |

The UK corporation tax rate changed from 24% to 23% on 1 April 2013 resulting in an effective tax rate of 23.25% for the current year.

**Notes to the financial statements (continued)**

**(a) Analysis of credit in the year (continued)**

The UK corporation tax rate will reduce to 21%, effective from 1 April 2014, and to 20%, effective from 1 April 2015. Both rates have been substantively enacted by the period end.

**(b) Factors affecting current tax credit in the year**

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

| | 2013 £000 | 2012 £000 |
|---|---|---|
| (Loss) on ordinary activities before tax | **(384)** | (7,174) |
| Tax on loss on ordinary activities at UK standard rate of 23.25% (2012: 24.5%) | **89** | 1,761 |
| Effects of: | | |
| Adjustment to tax charge in respect of previous periods' | **(1)** | - |
| Expenses not deductible for tax purposes | **(2)** | (5) |
| Tax income | **86** | 1,756 |

**9. Dividends**

No interim dividend was paid in 2013 (2012: £Nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: £Nil).

**10. Loans and advances to credit institutions**

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

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Repayable on demand | **1,967** | 2,166 |

**11. 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. The Company uses wholesale financial instruments to help manage the risks arising from its operations.

Instruments used for risk management purposes include derivative financial instruments ('derivatives'). Derivatives are instruments whose value is derived from one or more underlying price, rate or index (such as interest rates, exchange rates or stock market indices) but tend to have a smaller or no initial net investment relative to financial assets and liabilities offering the same risk and return, as cash flows are generally settled at a future date.

Derivatives are used by the Company to reduce the risk of loss arising from changes in interest rates and are used by the Company for non-trading purposes only.

**(a) Types of derivative**

The principal derivatives used by the Company are interest rate swaps, used to hedge Statement of Financial Position exposures.

The key significant activity undertaken by the Company in this respect relates to fixed rate mortgage lending, where the Company has a risk in respect of its sensitivity to increases in interest rates. This risk is managed through the use of fixed to floating interest rate swaps, which are accounted for using fair value hedging methods.

**11. Financial instruments (continued)**

**(b) Control of derivatives**

The Skipton Building Society Group ('The Group') has a formal structure of managing risk, including established risk limits, reporting requirements, mandates and other control procedures. This structure is reviewed regularly by the Group's Asset and Liability Committee ('ALCO'), which is charged with the responsibility for managing and controlling the Statement of Financial Position exposures of the Group. The minutes of ALCO are presented to the Group Board.

The Board has authorised the use of certain derivatives in accordance with Section 9A (4) of the Building Societies Act 1986, in line with the policies of the parent company.

The accounting policies for derivatives are described in Note 1 (i) to the financial statements.

**(c) Financial risks**

All of the Company's derivative activity is conducted through the Parent's Treasury function. The Company has no direct dealings with third party financial institutions.

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 a mixture of fixed and 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 daily by determining the effect on the Group's current net fair value of assets and liabilities for a shift in interest rates equivalent to 2% for all maturities. The effect is compared to limits set by the Board and is formally reported to ALCO and the Board on a monthly basis.

The Company is exposed to movements in interest rates and manages this exposure on a continuous basis, within limits set by the Board, using financial instruments.

**Credit risk**

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Company's exposure to credit risk has been limited by the decision to stop new lending with effect from March 2008. 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. Exposure to credit risk was also managed in part by obtaining collateral and corporate and personal guarantees.

Impairment provisions are provided for losses that have been incurred at the date of the Statement of Financial Position. However, significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Company's portfolio, could result in losses that are different from those provided for at the period end. Management therefore carefully manages its exposure to credit risk.

**Notes to the financial statements (continued)**

**11. Financial instruments (continued)**

**Credit risk (continued)**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | 2013<br>£000 | 2012<br>£000 |
|---|---|---|
| Loans and advances to customers | **980,036** | 1,061,324 |
| Other receivables | **400** | 508 |
| Current tax | **-** | 294 |
| Deferred tax | **1** | 1 |
| Loans and advances to credit institutions | **1,967** | 2,166 |
| | **982,404** | 1,064,293 |

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 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, including derivative financial instruments, in the Statement of Financial Position.

*Loans and advances to customers*

The table below provides further information on geographical split

| Geographical analysis | 2013<br>£000 | 2012<br>£000 |
|---|---|---|
| North | **31,597** | 33,678 |
| Yorkshire | **66,001** | 74,112 |
| East Midlands | **70,729** | 76,311 |
| East Anglia | **68,637** | 74,387 |
| London | **153,715** | 168,236 |
| South East | **235,138** | 251,384 |
| South West | **77,241** | 84,913 |
| West Midlands | **67,998** | 74,573 |
| North West | **99,349** | 105,624 |
| Wales | **41,604** | 45,391 |
| Scotland | **58,917** | 65,243 |
| Northern Ireland | **26,917** | 29,807 |
| Channel Islands | **45** | 45 |
| | **997,888** | 1,083,704 |

**Notes to the financial statements (continued)**

**11. Financial instruments (continued)**

**Credit risk (continued)**

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

| | 2013 % | 2012 % |
|---|---|---|
| Less than 70% | **13.9** | 11.4 |
| 70% to 80% | **10.2** | 6.1 |
| 80% to 90% | **20.1** | 12.4 |
| 90% to 100% | **27.0** | 23.7 |
| Over 100% | **28.8** | 46.4 |
| Average indexed loan-to-value | **78.6** | 83.2 |

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Less than 70% | **138,643** | 123,158 |
| 70% to 80% | **101,809** | 66,157 |
| 80% to 90% | **200,585** | 134,424 |
| 90% to 100% | **269,163** | 257,289 |
| Over 100% | **287,688** | 502,676 |
| | **997,888** | 1,083,704 |

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

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

| | 2013 £000 | % | 2012 £000 | % |
|---|---|---|---|---|
| Neither past due nor individually impaired | **813,950** | **81.6** | 856,418 | 79.0 |
| Past due but not individually impaired: | **-** | **-** | - | - |
| | **813,950** | **81.6** | 856,418 | 79.0 |
| Individually impaired: | | | | |
| Risk analysis | | | | |
| Low risk | **54,433** | **5.5** | 62,187 | 5.7 |
| High risk | **119,139** | **11.9** | 154,333 | 14.3 |
| Possessions | **10,366** | **1.0** | 10,766 | 1.0 |
| | **997,888** | **100.0** | 1,083,704 | 100.0 |

The factors considered by the Group in determining the level of individual impairment to be made are outlined in note 1g) to the accounts.

The analysis of residential loans has been enhanced to provide further analysis of those assets which are individually impaired. Low risk accounts in the table above relate to loans with a loan-to-value of less than 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.

**Notes to the financial statements (continued)**

**11. Financial instruments (continued)**

**Credit risk (continued)**

Where appropriate for customers' needs, the Company applies a policy of forbearance and may grant a concession to borrowers. This may be applied where actual or apparent financial stress of the customer is deemed short term with a potential to be recovered. A concession may involve capitalisation of arrears, transfer to interest only, a reduction in monthly payment, payment holidays and term extensions. These strategies are undertaken in order to achieve reduced long term arrears and allow the best outcome for both the customer and the business by dealing with arrears at an early stage. The customer accounts are monitored to ensure that these strategies remain appropriate.

Capitalisation is only offered where all other forbearance options (interest only concessions, reduction in the monthly payment, payment holiday, term extension) have been exhausted and is the right option for the customer. The Company policy, after obtaining the customer's consent, is to capitalise arrears once the customer has made at least six consecutive contractual monthly mortgage repayments following the instance of non-payment.

The table below provides further information on the residential loans existing at the 2013 reporting date by types of account renegotiations applied to our customers over two years since January 2012. This includes renegotiations regardless of whether or not our customer has experienced financial difficultly in repaying their loan with the Company. For clarity, this table illustrates all balances which have had their terms renegotiated in the last two years, regardless of whether the renegotiation is still in place or whether the loan has reverted to its original terms.

| 2013 | 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 | **813,950** | - | 5,807 | 4,632 | 11,146 | **21,585** | **2.7** |
| Past due but not individually impaired: | - | - | - | - | - | - | - |
| | **813,950** | - | **5,807** | **4,632** | **11,146** | **21,585** | **2.7** |
| Individually Impaired | | | | | | | |
| Risk analysis | | | | | | | |
| Low risk | **54,433** | - | 900 | 818 | 1,067 | **2,785** | **5.1** |
| High risk | **119,139** | - | 3,660 | 4,060 | 1,868 | **9,588** | **8.0** |
| Possessions | **10,366** | - | 918 | 116 | - | **1,034** | **10.0** |
| | **997,888** | - | **11,285** | **9,626** | **14,081** | **34,992** | **3.5** |
| Collective Impairment | **(1,813)** | - | (21) | (31) | (16) | **(68)** | **3.7** |
| Individual Impairment | **(17,294)** | - | (619) | (520) | (254) | **(1,393)** | **8.1** |
| | **978,781** | - | **10,645** | **9,075** | **13,811** | **33,531** | **3.4** |

**Notes to the financial statements (continued)**

**11. Financial instruments (continued)**

**Credit risk (continued)**

| 2012 | 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 | 856,418 | 11,536 | 3,717 | 4,976 | 1,913 | 22,142 | 2.6 |
| Past due but not individually impaired: | - | - | - | - | - | - | - |
| | 856,418 | 11,536 | 3,717 | 4,976 | 1,913 | 22,142 | 2.6 |
| Individually Impaired | | | | | | | |
| Risk analysis | | | | | | | |
| Low risk | 62,187 | 411 | 637 | 1,569 | 53 | 2,670 | 4.3 |
| High risk | 154,333 | 10,392 | 7,698 | 6,426 | 203 | 24,719 | 16.0 |
| Possessions | 10,766 | 912 | - | - | - | 912 | 8.5 |
| | 1,083,704 | 23,251 | 12,052 | 12,971 | 2,169 | 50,443 | 4.7 |
| Collective Impairment | (2,198) | - | (582) | (178) | (15) | (775) | 35.3 |
| Individual Impairment | (22,380) | (775) | (1,294) | (1,004) | (11) | (3,084) | 13.8 |
| | 1,059,126 | 22,476 | 10,176 | 11,789 | 2,143 | 46,584 | 4.4 |

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. This impairment allowance is calculated by applying various economic factors to our mortgage portfolio exposures and incorporates the relative credit risk assessment of the account renegotiation categories shown above.

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.

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.

| | **2013 £000** | 2012 £000 |
|---|---|---|
| Not individually impaired | **793,914** | 818,694 |
| Individually impaired | **164,635** | 200,994 |
| Possessions | **9,012** | 9,126 |
| | **967,561** | 1,028,814 |

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.

**Notes to the financial statements (continued)**

**11. Financial instruments (continued)**

**Credit risk (continued)**

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 and Skipton Mortgages Limited, which are repayable on demand as disclosed in note 15. Consequently, no table of contractual gross cash flows has been disclosed.

**(d) Hedge accounting**

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability, or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For each main class of fair value hedge, documentation is produced in accordance with the requirements of IAS 39, *Financial Instruments: Recognition and Measurement*. Ineffectiveness on those fair value hedges for which hedge accounting has been achieved is an immaterial amount.

At the year end the Company had only fair value hedging in place.

**(e) 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.

Where market values are not available, fair values have been calculated as detailed on page 22.

| **2013** | **Positive book value £000** | **Positive fair value £000** | **Negative book value £000** | **Negative fair value £000** | **Notional value £000** |
|---|---|---|---|---|---|
| Cash and cash equivalents | **1,967** | **1,967** | - | - | **1,967** |
| Loans and advances to customers | **980,036** | **893,732** | - | - | **996,655** |
| Interest rate swaps | - | - | **(1,503)** | **(1,503)** | **15,500** |
| Amounts owed to credit institutions | - | - | **(974,815)** | **(974,815)** | **(974,815)** |
| 2012 | | | | | |
| Cash and cash equivalents | 2,166 | 2,166 | - | - | 2,166 |
| Loans and advances to customers | 1,061,324 | 861,600 | - | - | 1,079,807 |
| Interest rate swaps | - | - | (2,557) | (2,557) | 19,250 |
| Amounts owed to credit institutions | - | - | (1,054,975) | (1,054,975) | (1,054,975) |

## 11. Financial instruments (continued)

### (e) Fair values of financial instruments (continued)

During the year, the Company has reviewed and enhanced its approach to estimating certain of the fair values disclosed in the above tables, and accordingly the comparatives for loans and advances to customers have been updated to ensure consistency enabling meaningful year-on-year comparison. The methodology applied is explained below.

**Valuation techniques**

Interest rate swaps are classified as held at fair value through profit or loss and, as such, their fair value is equal to the book value.

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 of derivative 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.

Basis risk derivatives are valued using discounted cash flow models, using observable market data and will be sensitive to benchmark interest rate curves.

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

There is no significant difference between the carrying and fair values of cash and cash equivalents and amounts owed to credit institutions. 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. After consideration of the inputs used in arriving at these fair values, it has been determined that whilst originally stated as level 2, and reported accordingly in 2012, level 3 would have more appropriately reflected the basis of these fair values, due to the use of unobservable inputs such as estimated redemption rates.

**Transfers between different levels of the fair value hierarchy**

The Company makes transfers between the 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. This could occur, for example, where a listed company whose share price is used as a basis for fair value measurement becomes de-listed, and so the share prices are no longer shown in a recognised listing and therefore cannot be classified as level 1 inputs.

## Notes to the financial statements (continued)

### 12. Loans and advances to customers

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Loans fully secured on residential property | **978,781** | 1,059,126 |
| Fair value adjustment for hedged risk | **1,255** | 2,198 |
| | **980,036** | 1,061,324 |
| Repayable: | | |
| In not more than three months | **3,020** | 664 |
| In more than three months but not more than one year | **3,508** | 2,792 |
| In more than one year but not more than five years | **57,038** | 57,608 |
| In more than five years | **935,577** | 1,024,838 |
| | **999,143** | 1,085,902 |
| Less: Impairment | | |
| Individual impairment | **17,294** | 22,380 |
| Collective impairment | **1,813** | 2,198 |
| | **19,107** | 24,578 |
| | **980,036** | 1,061,324 |

Included within the charge to the Statement of Comprehensive Income is the impact of the change in impairment charge due to the time value of money, amounting to £0.1m (2012: £0.1m).

### 13. Impairment losses on loans and advances

| | 2013 £000 | 2012 £000 |
|---|---|---|
| At 1 January | | |
| Individual impairment | **22,380** | 27,300 |
| Collective impairment | **2,198** | 4,959 |
| | **24,578** | 32,259 |
| Amounts written off during the year | | |
| Individual impairment | **(8,454)** | (10,898) |
| | **(8,454)** | (10,898) |
| Statement of Comprehensive Income: | | |
| Impairment losses on loans and advances | | |
| Individual impairment | **3,368** | 5,978 |
| Collective impairment | **(385)** | (2,761) |
| Charge for the year | **2,983** | 3,217 |
| At 31 December | | |
| Individual impairment | **17,294** | 22,380 |
| Collective impairment | **1,813** | 2,198 |
| | **19,107** | 24,578 |

Further analysis of the impairment provision as at 31 December 2013 is provided in note 11(c).

## 14. Investment in subsidiaries

| | 2013 £000 | 2012 £000 |
|---|---|---|
| At 1 January | **26** | 26 |
| **At 31 December** | **26** | 26 |

| Name of subsidiary undertaking | Principal business activity | Types of shares held | Proportion of shares held |
|---|---|---|---|
| Skipton Mortgages Limited | Non Trading | Ordinary | 100% (direct) |
| Skipton Mortgage Corporation Limited | Non Trading | Ordinary | 100% (direct) |

All the above bodies are incorporated and registered in England and operate in the United Kingdom.

All subsidiary undertakings are limited by shares.

## 15. Amounts owed to credit institutions

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

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Repayable on demand | **974,815** | **1,054,975** |

## 16. Deferred tax

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

| | 2013 £000 | 2012 £000 |
|---|---|---|
| At 1 January | **272** | 395 |
| Other components within Statement of Comprehensive Income | **(115)** | (123) |
| At 31 December | **157** | 272 |
| **Analysis of deferred tax assets** | | |
| Fixed asset temporary differences | **1** | 1 |
| At 31 December | **1** | 1 |
| **Analysis of deferred tax liabilities** | | |
| Other short term timing differences | **158** | 273 |
| At 31 December | **158** | 273 |
| Net deferred tax liability | **157** | 272 |

## 17. Share capital

| | 2013 £000 | 2012 £000 |
|---|---|---|
| At 1 January and 31 December 33,674,132 ordinary shares of £1 each | **33,674** | 33,674 |

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. Management of capital

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 Operational 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 £3.8m to £3.6m. The Company has received a letter of support from its parent undertaking, Skipton Building Society.

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

| | **2013** | 2012 |
|---|---|---|
| | **£000** | £000 |
| Ordinary shares | **33,674** | 33,674 |
| Retained earnings | **(30,106)** | (29,831) |
| | **3,568** | 3,843 |

### 19. Related party transactions

The Company has a related party relationship with its parent and fellow group subsidiaries as detailed below. All such transactions are priced on an arms-length basis.

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

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Parent undertaking** | **Group subsidiary undertaking** | Parent undertaking | Group subsidiary undertaking |
| | **£000** | **£000** | £000 | £000 |
| **Net interest** | | | | |
| Interest payable in respect of borrowings | **27,529** | **-** | 36,470 | - |
| | **27,529** | **-** | 36,470 | - |
| **Purchase of goods and services** | | | | |
| Mortgage administration and related fees | **-** | **3,440** | - | 3,414 |
| Office rental and other support services | **560** | **-** | 473 | - |
| Software provision | **-** | **87** | - | 77 |
| | **560** | **3,527** | 473 | 3,491 |
| **Outstanding balances** | | | | |
| Repayments in respect of borrowings | **974,815** | **-** | 1,054,975 | - |
| Purchase of goods and services: | | | | |
| Mortgage administration and related fees | **-** | **237** | - | 532 |
| | **974,815** | **237** | 1,054,975 | 532 |

Compensation to key management personnel is included in the payroll costs of the Company, recharged by Skipton Building Society, detailed in note 7.

**19. Related party transactions (continued)**

There are no provisions in respect of goods and services to related parties either at 31 December 2012 or at 31 December 2013.

The Company is party to Group banking arrangements involving the pooling of funds with other Group companies.

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

Disclosed below are the new standards and amendments to IFRS which have been adopted during the year.

- Amendments to IAS 1, *Presentation of items of Other Comprehensive Income.* This amendment is effective from 1 January 2013 and requires entities to group items presented in the Statement of Other Comprehensive Income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods. There has been no impact of this amendment on the financial statements of the Company.

  IFRS 13, *Fair Value Measurement.* Effective from 1 January 2013, this new standard defines fair value and sets out in a single framework comprehensive guidance for measuring fair value. It also requires increased disclosure about fair value measurements but does not change the requirements with regards to which financial and non-financial assets and liabilities will be measured at fair value. With the exception of some additional disclosure requirements, this standard has had no impact on the financial statements of the Company.

  IFRS 7, *Financial Instruments – Disclosures.* Amendments to IFRS 7 *'Disclosures – Offsetting Financial Assets and Financial Liabilities'* is effective from 1 January 2013 and requires new disclosures for all recognised financial instruments that are offset in the Statement of Financial Position. There has been no impact of this amendment on the financial statements of the Company.

**21. 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