

# Climate-related Financial Disclosures

2023

## Introduction

Climate change is happening right now, and the stakes couldn't be higher at this defining moment for society. At Skipton Group, we understand the important role we must play and why we need to take action to help address the profound environmental challenges our planet faces. We are committed to playing a vital part in encouraging and enabling at-scale decarbonisation of UK homes, whilst continuing to reduce the impact of our operations.

We support the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). Over the coming pages we present information against the four pillars of the reporting framework: governance, strategy, risk management, metrics and targets, and the 11 recommended disclosures.

Climate risk is defined as a principal risk, presenting both risks and opportunities for our Group and our customers. This report details our impact on the climate through our operations and activities, and our view of the impact that climate change has on the Skipton Group and its strategy.

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## Introducing the Skipton Group

The Skipton Group is headed by the UK's fourth largest building society. It also includes Connells, the UK's largest estate agency. In total, the Skipton Group has consolidated total assets of over £37bn, over 1.2 million members and a 10% share of the estate agency market (based on available properties).

The Skipton Group primarily comprises of:

- our Home Financing and Money businesses within the Society;
- mortgage lending and deposit taking by Skipton International; and
- buying and selling homes through our estate agency business, Connells group.

Sitting alongside our primary businesses and supporting a thriving business model, the Group also comprises of Skipton Business Finance and Jade Software Corporation.

Our Home Financing business provides loans to borrowers to purchase and own their home. It also supports the private rental sector through the provision of buy-to-let mortgages to landlords. This is further strengthened through our mortgage lending by Skipton International.

Our Money business brings together a secure place for our members' savings with the provision of high-quality free reviews, offering guidance to our customers to support their long-term financial wellbeing. This sets us apart from many of our peers.

Our estate agency business is focused on delivering for customers and clients throughout the process of buying, selling, and renting homes. Through its network of brands and branches nationwide, Connells group combines residential sales expertise with a range of consumer and corporate services – including mortgage services and conveyancing. The Connells group also supports customers to have a home through its lettings business and is one of the largest providers of residential survey and valuation services in the UK.

To supplement our core activities, we source some of our funding from the wholesale markets, which diversifies our funding base and supports our financial stability. We use the additional capital generated by the Group to think innovatively about how we can make the biggest difference to support our members and customers now, and in the future.

Our mutual status means we do not pay dividends, since we do not have external shareholders. Our profits are reinvested for both the short- and long-term benefit of our members and customers, to support growth, help us maintain a sustainable business model, modernise and remain relevant with new capabilities and propositions, and preserve a strong capital position.

### *Skipton Building Society (the Society)*

The Society offers mortgages, savings, and Restricted financial advice, with a national presence represented by our network of 82 branches. The Society is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

### *Skipton International (SIL)*

SIL carries out mortgage lending in the Channel Islands and the UK and accepts deposits in Guernsey from an international customer base.

### *Connells group*

Connells is the UK's largest high street estate agency and property services provider, with a 10% market share. Across its 81 brands and network of over 1,200 branches nationwide, Connells group combines residential sales and lettings with a range of consumer and corporate services including land, mortgage services, conveyancing, auctions, surveying and valuations, commercial property services through Lambert Smith Hampton, Energy Performance Certificate (EPC) provision, and asset management.

### *Other*

The 'other' category includes a small number of Skipton Group business lines, plus the impact of Group consolidation adjustments. These include:

- Skipton Business Finance (SBF) – our invoice financing provider of working capital facilities to small- and medium-sized enterprises (SMEs);
- Jade Software Corporation – a software solutions provider based in New Zealand that specialises in digital and large IT enterprise solutions;
- Northwest Investments;
- the intermediate holding company Skipton Group Holdings; and
- the Group's special purpose vehicles, formed to acquire funds from the wholesale markets.



# Governance

Governance across the Skipton Group around climate-related risks and opportunities.



## Governance

Effective and transparent governance remains critical to us. We achieve this through oversight of climate-related financial risks and opportunities across the Society and the wider Group.

### 1. Board oversight of climate-related risks and opportunities

The Society's board has delegated the oversight of climate-related risk for the Society and its subsidiaries to the Board Risk Committee, although ultimate oversight continues to reside with the Society's board of directors.

#### *Board Risk Committee (BRC)*

In 2023, the BRC was informed about climate-related issues on four separate occasions. Recent areas of focus include assessment of:

- climate risk scenario design;
- Group scenario analysis results;
- mortgage credit risk climate risk management information; and
- credit risk appetite limits.

#### *Board Remuneration Committee (RemCo)*

Environmental, Social and Governance (ESG) performance is linked to remuneration through the Single Variable Pay Arrangement (SVPA), the incentive scheme in which the executive team participates. Further information on the responsibilities and oversight of the RemCo can be found in the Group's 2023 Annual Report and Accounts.

### 2. Management's role in assessing and managing climate-related risks and opportunities

The Group Executive Committee and the boards of subsidiaries are responsible for the proactive management of the financial and operational risks arising from climate change – and the strategy to mitigate these risks. Climate-related risks are overseen by the Society's Executive Risk Committee which has a reporting line into the Group Executive Committee.

The Society has embedded capabilities to meet the requirements of the Prudential Regulation Authority's (PRA) Supervisory Statement 3/19 (SS3/19) 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change'. Senior Management Function responsibility for the identification and management of the financial risks from climate change is allocated to the Group Chief Risk Officer.

#### *Climate Change Risk Forum*

The Climate Change Risk Forum (CCRF) is an ad-hoc forum that includes senior representation from around the Group. The forum is to coordinate activity associated with the identification, assessment, and monitoring of climate risk.

During 2023, the CCRF has reviewed:

- the key physical and transition risks to which the Society and the Group are exposed;
- the climate risk scenario analysis;
- upcoming climate-related reporting requirements; and
- the PRA's 'Dear CEO' and 'Dear CFO' letters relating to climate change risk, with monitoring of actions arising from these letters.

The Stress Testing Steering Group is responsible for review and challenge of the design of the climate risk scenarios, the assumptions applied and the outputs. The Board Risk Committee provides final approval.

The Group Chief Risk Officer maintains regular oversight of subsidiaries in relation to risk management. Connells group operates an Audit and Risk Committee which reports directly to the Connells board and management responsibility for financial risks from climate change is allocated to the Connells Interim Chief Finance Officer. For the other main subsidiaries, management responsibility sits with the CEO and the respective boards.

#### *Our Regulators*

As a large financial services firm, the Society is regulated by:

Financial Conduct Authority (FCA) – The FCA principally focuses on achieving the right outcomes for customers via our conduct and provision of services. It has supervisory and enforcement powers, so could issue fines if we are actively in breach of any of the conduct rules. As a business, we have dedicated teams to review our alignment with regulatory expectations and to protect us from risk of delivering poor customer outcomes and regulatory non-compliance.

Prudential Regulation Authority (PRA) – The Bank of England prudentially regulates and supervises financial services firms through the Prudential Regulation Authority (PRA). The PRA create policy for regulated firms to follow, with focus on controls to mitigate financial risks and the maintenance of adequate levels of capital resources.

In addition, SIL is regulated by the Guernsey Financial Services Commission.

# Strategy

Actual and potential impacts of climate-related risks and opportunities on Skipton Group's businesses, strategy, and financial planning.



## Strategy

Climate change presents both risks and opportunities to the Group and our members. We recognise the importance of limiting our impact on the environment and managing the associated risks effectively.

### 3. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term

The impact of climate change on our members and customers, their homes and the financial stability of the Group has the potential to be significant.

Climate risk can be split into two broad themes: physical and transition risk.

- Physical risk arises from the impact of extreme weather events (e.g. flooding) or longer-term shifts in the climate. It's widely accepted that climate change will accelerate these risks.
- Transition risk arises from the process of adjusting to a low carbon economy. This could have a wide-ranging impact. For example, financial asset values, policy or regulation.

During 2023, the Climate Change Risk Forum (CCRF) completed a review of our key climate-related risks that are likely to impact the Group over the short, medium and long term. This included assessing any new or evolving risks. The table opposite and overleaf summarises the key climate-related risks identified – split into transitional and physical risk – and a time horizon has been assigned to each:

- Short term: < 5 years, aligned with the Group's financial planning horizon.
- Medium term: 5-10 years, covering the main horizon for key transition risks.
- Long term: 10+ years, covering the future position, including key physical risks.

The assessment considered both the likelihood of risk crystallisation – and the potential risk impact to the Group and our customers.

The most significant risks are primarily focused on the impact of climate change on our residential mortgage portfolio. Scenario analysis identified that forecast credit losses arise primarily from second order macroeconomic impacts from climate change – such as price inflation and global instability – rather than physical or transition risks. The Society's residential mortgage portfolio is relatively insulated from physical climate risk impacts. This is because it is not concentrated in areas specifically prone to flooding or coastal erosion. While the transition costs from energy efficiency impact most properties, lower portfolio LTVs provide protection to exposure to loss events, due to reductions in property valuations.

Risk area	Time horizon	Potential risks identified
<b>Credit Risk</b>		
<b>Transition</b>	Short/ Medium term	Increased mortgage defaults, capital, and impairment due to:  <b>Cost of home energy efficiency improvements:</b> impacting customer affordability, compounded by the cost-of-living crisis.  <b>Regulation and policy:</b> uncertainty over future government policy or regulation changes for lenders and homeowners, or impact on the profitability of more carbon intensive industries.
	Medium term	<b>Higher unemployment:</b> driven by transition away from carbon intensive industries, exacerbated by potential lack of investment/training in alternative, greener industries.  <b>Changing customer preferences:</b> impact on house prices as energy efficient housing becomes more desirable, impacting both owner-occupiers and buy-to-let landlords.
<b>Physical</b>	Medium/ Long term	<b>Mortgage asset damage:</b> increased severity and frequency of physical risk perils such as flooding, subsidence, wildfires, heatwaves or coastal erosion, leading to a decrease in property values.
<b>Operational Risk</b>		
<b>Transition</b>	Short/ Medium term	<b>Skills and talent capacity:</b> risk of lack of skills within the business to manage and monitor climate risks.
<b>Physical</b>	Medium/ Long term	<b>Business continuity:</b> increased operating costs due to damage to premises and infrastructure also leading to disruption for customers and colleagues.
<b>Transition and Physical</b>	Medium/ Long term	<b>Supply chain disruption:</b> increased costs due to higher likelihood of interruption to goods and services, or cost of switching to a supplier with a lower carbon footprint.

Principal Risk Area	Time Horizon	Potential risks identified
<b>Legal and Conduct Risk</b>		
<b>Transition</b>	Medium/ Long term	<b>Climate-related litigation:</b> due to perceived mis-selling of green products or an increase in professional indemnity insurance claims against the Group's survey, valuation and conveyancing businesses, also negatively impacting reputation.
<b>Model Risk</b>		
<b>Transition</b>	Short/ Medium term	<b>Increased model complexity and weakness:</b> poor data quality and modelling climate risks over longer time horizons can cause weaknesses or failure in model design or use, leading to financial losses or poor business decisions.
<b>Reputational Risk</b>		
<b>Transition</b>	Short/ Medium term	<b>Changing expectations:</b> lack of green product offerings, poor comparison to peers or association with businesses with low or poor sustainability standards. This may lead to a customer boycott of the Society as well as franchise risk, as customers may opt to leave the Group.
<b>Market, Liquidity and Wholesale Funding Risk</b>		
<b>Transition</b>	Short/ Medium term	<b>Increased ratings agency scrutiny:</b> regarding commitment to ESG and potential for emphasis to be placed on this for overall ratings.
	Short/ Medium term	<b>Wholesale funding sources:</b> inability to access funding as issuance becomes more linked to green and social initiatives.
	Medium/ Long term	<b>Asset valuations:</b> climate-related risks could cause a reduction in financial asset values, a breakdown in correlation between assets and/or a change in market liquidity for certain assets.
<b>Physical</b>	Medium/ Long term	<b>Lower global economic output:</b> adverse movements in market interest rates and risks to economic growth could negatively impact our proposition and financial stability. It may also impact the UK housing market, which is closely correlated with the general strength of the UK economy.

Principal Risk Area	Time Horizon	Potential risks identified
<b>Business Risk</b>		
<b>Transition</b>	Short/ Medium term	<b>Competition and demand:</b> increased competition or disruption due to new entrants in the market, or green product innovations from existing organisations. Failure to keep up with market innovations could impact overall demand for Group products and services.
<b>Transition and Physical</b>	Medium/ Long term	<b>Increased costs:</b> taxes/levies introduced to fund transition to a low carbon economy and to protect against physical risks. More frequent physical risk events may increase insurance premiums and repair costs.
	Long term	<b>Pension asset valuations:</b> increased likelihood of physical or transition risks affecting pension asset valuations – leading to risk of increased deficit or reduced surplus.

#### 4. Impact of climate-related risks and opportunities on organisational business, strategy and financial planning

We have considered the impact of transitioning to a low carbon economy and the physical risks from climate change. Consideration was given to the impact of climate risks on our Group going concern assessment. An assessment of climate change on the Society's financial statements has been conducted. Separately, Connells has considered the financial impact of the risks on its income and costs, business strategy and financial planning.

While climate-related risk may impact our business model in a range of ways, the most material potential impact relates to credit risk in our residential mortgage portfolio. Changes in climate have the potential to increase the frequency and severity of physical risks. This could lead to an increasing number of properties subject to physical flooding or subsidence. This could potentially result in a decrease in the valuation of the property used as collateral to mitigate mortgage credit risk. In addition, transitional risks associated with progress towards a net zero economy could lead to reduced property valuations or affect a borrower's ability to service their mortgage loan.

The Society has set quantitative Credit Risk Appetite limits to manage the financial risks from climate change. Limits have been set for the physical and transition risks identified as high-risk from the annual scenario analysis activity. We manage our climate risk exposures where possible, including enhancing our lending controls for flooding and coastal erosion to provide further physical risk mitigation. We continue to monitor EPC transition risk to track mortgage portfolio property retrofitting.

We are also taking action to help our customers to transition towards a net zero carbon economy, including:

- playing a bigger role to support the improvement of energy efficiency of UK homes and supporting our customers to improve their residential energy efficiency; and
- continued exploration of ways for customers to access funds for home improvements.

#### *Supporting the transition to lower emission homes*

We are continuing to understand and work towards net zero. We are reviewing our Group emissions, to establish an updated baseline from which to set our Group net zero targets and strategy.

We believe we can play our part in helping UK customers in decarbonising by:

- helping customers to understand the opportunities to retrofit their homes;
- broadening the financial support available to help customers retrofit their properties or to buy new energy efficient homes; and
- influencing policy decision making and change across the housing sector.

With our end-to-end view of the housing market, we are in an advantageous position of being able to identify new opportunities, partnerships and innovations that could support customers wanting to decarbonise and improve the energy efficiency of their homes. We want to equip customers to make appropriate choices when it comes to making their homes more energy efficient and in lowering their heating emissions. We recognise, however, that our progress in these areas is heavily reliant on the UK government and clear, early policy intervention to help change home building, landlord and homeowner behaviours.

We acknowledge that we may not possess all the necessary knowledge, expertise and ability to address the range of difficulties in the retrofitting market. Therefore, our primary focus will be on those areas where we can make the most significant contributions. In 2023, we launched a retrofit project to a house owned by the Group in Skipton. We are partnering with Leeds Beckett University to understand the retrofit journey and to identify opportunities for the Group to support customers and colleagues who want to retrofit their own homes. We recognise that the costs of retrofit remain high for many. Especially during a cost-of-living crisis. So, we are keen to continue identifying ways to make knowledge and access to finance for retrofit more accessible to a cross-section of customers.

#### *Enhancing our financial products and proposition to drive uptake of more energy efficient, lower carbon homes*

We will continue to explore ways the home financing and estate agency businesses can reward customers who take steps to retrofit their home. Or for those who seek to purchase less carbon intensive homes.

We are looking at ways, both internally and through strategic partnerships, to provide innovative finance across all incomes and home types to actively reduce the carbon footprints from heating homes. An element of this will involve growing our insights into the impact of home retrofit activity on property valuations.

#### *Grow customer and colleague understanding of home retrofit and energy efficiency opportunities*

We will continue to offer all Society members free home EPC Plus reports through our Group company, Vibrant Energy Matters. The Vibrant report also highlights if there are any government grant schemes available to fund home energy efficiency improvements.

There remains a lot of uncertainty around the impact improvements to home energy efficiency ratings might have on property prices. In the current cost of living crisis, there's strong rationale for why more energy efficient properties may appeal to owners and tenants.

Existing homes can be retrofitted to improve energy efficiency. For example, by installing insulation, double or triple glazed windows. Or introducing an alternative source of heating, such as a heat pump. There are recent case studies where retrofitting homes have improved sale prices relative to those which have not, although it is unclear whether this trend will be sustained. The cost of transition remains a barrier to many. It could risk creating a two-tier housing market without appropriate support if the energy efficiency of a property influences the valuation.

#### *Supporting buy to let (BTL) landlords decarbonise their rental portfolios*

All our BTL landlords continue to have access to up to 10 free Vibrant EPC Plus reports to help them understand how to make energy efficiency improvements to their portfolios. We will continue to work closely with landlords to help them finance the cost of improvements so that rental properties remain accessible and affordable.

### **5. Resilience of the strategy, taking into consideration different climate-related scenarios, including a below 2°C scenario**

To help inform our strategic planning and determine the impact of the financial risks from climate change on our overall risk profile, we perform dedicated climate risk stress and scenario testing. Dedicated quantitative climate risk stress testing on the Group's credit risk management was conducted across five climate risk scenarios, including a below 2°C scenario. This work was informed by the Bank of England Climate Biennial Exploratory Scenarios (CBES).

We designed and ran different scenarios over the past 12 months. The Skipton Early Action, Late Action and No Additional Action scenarios are broadly aligned to the Bank of England CBES scenarios, with the Counterfactual scenario added for context. The No Additional Action Severe is an internally developed scenario, to capture more significant second order economic impacts. Please see the table below for more information.

The review included assessing the residential lending portfolio at a property level to determine the potential impact of key climate-related physical and transitional risks. A quantitative assessment of IFRS9 Expected Credit Losses (ECL) for the credit risk in the residential mortgage portfolio (excluding equity release) was also performed.

In addition, our estate agency business considered the relevant scenarios and performed quantitative modelling of a below 2°C scenario. They used additional assumptions for the volume of properties sold.

When assessing the impact of climate change, the risks fall into three broad categories:

- **Physical risks** arise from the impact of extreme weather events or longer-term shifts in the climate. Our analysis focuses on the risk of climate perils (flooding, coastal erosion and subsidence) impacting property valuation or a borrower’s ability to service debt.
- **Transition risk** arises from the process of adjustment towards a low carbon economy. Skipton’s analysis focuses on the potential impact of borrowers being required to improve the energy efficiency of their properties to meet government targets. The cost of improving home energy efficiency is quantified in terms of a potential reduction in property valuations.
- **Macroeconomic risks** represent the second order impact of physical or transition risks on unemployment, property prices, interest rates and inflation.

The severity of the physical risks used in our scenarios are set out by the Intergovernmental Panel on Climate Change (IPCC) greenhouse gas concentration trajectories, and the Representative Concentration Pathways (RCPs)<sup>1</sup>.

### Skipton Group's Climate Scenarios

Counterfactual	Early Action	Late Action	No Additional Action (NAA)	No Additional Action Severe
No impact of climate change and no transition – in effect this is a baseline position used for comparison purposes.	Early and decisive policy intervention by the UK government to transition to a net zero carbon economy. As the action is early, transition is orderly and effective.	No governmental intervention in the near future, followed by more punitive intervention in 2030, leading to a disorderly transition. There is some physical risk in this scenario, due to emissions rising ahead of government intervention.	No government intervention and global temperature increases above 3°C.	Same physical risks as NAA but considers more severe second order macroeconomic impacts. For example, escalating energy costs and scarce global resources affecting inflation, the cost of living for individuals, and business failure
Emissions scenario Not applicable	Emissions scenario Low RCP 2.6	Emissions scenario Medium RCP 6.0	Emissions scenario High RCP 8.5	Emissions scenario High RCP 8.5
	Global emissions start declining from 2020 and go to zero by 2100 (estimated global average temperature rise of 1.6°C by 2100)	Global emissions peak around 2080 then decline (estimated global average temperature rise of 2.8°C by 2100)	Global emissions peak around 2080 then decline (estimated global average temperature rise of 2.8°C by 2100)	Global emissions peak around 2080 then decline (estimated global average temperature rise of 2.8°C by 2100)
No change on physical, transition and economic risks.	<div style="background-color: #4CAF50; color: white; padding: 2px;">Low physical and economic risk</div> <div style="background-color: #FF9800; color: white; padding: 2px;">Medium transition risk</div>	<div style="background-color: #FF9800; color: white; padding: 2px;">Medium physical risk</div> <div style="background-color: #F44336; color: white; padding: 2px;">High transition and economic risk</div>	<div style="background-color: #F44336; color: white; padding: 2px;">High physical risk</div> <div style="background-color: #4CAF50; color: white; padding: 2px;">Low transition risk</div> <div style="background-color: #FF9800; color: white; padding: 2px;">Medium economic risk</div>	<div style="background-color: #F44336; color: white; padding: 2px;">High physical and economic risk</div> <div style="background-color: #4CAF50; color: white; padding: 2px;">Low transition risk</div>

Low risk
  Medium risk
  High risk

<sup>1</sup>IPCC Fifth Assessment Report (AR5), 2013.

The Society and SIL performed quantitative climate change scenario analysis on the credit risk impacting their residential mortgage portfolios. Connells group have conducted quantitative scenario analysis by considering the forecasted macroeconomics in the Late Action scenario, as well as the impact of house price reductions and a reduction in housing transactions on profitability. High-level qualitative analysis has been conducted for other less material exposures. Skipton Group's climate risk scenario analysis methodology continues to evolve as our knowledge, experience and access to data increases.

The damage to mortgage assets is the key physical risk from climate change considered in the scenario analysis. The physical risk perils included are flood risk, subsidence risk and coastal erosion. Physical risk peril data at specific property level is provided by Twinn, part of Royal HaskoningDHV (formerly Ambiental).

Climate change, and the policies to mitigate it, will occur over many decades. To ensure both medium- and long-term impacts are considered, credit risk scenario analysis impacts have been assessed at 2030 and 2050.

In the No Additional Action scenario, global warming relative to pre-industrial times reaches 3.3°C by 2050. Climate scientists' projections on no further policy action suggest that temperature increases as significant as these, would only be likely to occur later in the century. As such, the No Additional Action and No Additional Action Severe scenarios have been calibrated so the physical risks forecast to materialise in the period from 2050 to 2080 are considered in the period from 2020 to 2050. This remains consistent with regulatory guidance provided in the CBES.

Flood risk is assessed by forecasting the impact of each climate change scenario on the combination of fluvial (river), pluvial (surface water) and tidal (coastal) flooding using the Met Office's UK Climate Projections (UK CP18). The assessment applies advanced hydrological modelling techniques and flood defence information. This is to project the flood depths and damage, based on different return periods. All of the results are combined into a flood risk rating for each property, based on each climate scenario and forecast time period. These outputs, provided by Twinn, are applied as an impact on property values using stressed assumptions. They are also informed by historical impacts on house prices from flood events.

SIL have collaborated with Twinn to commission an aerial survey of the Channel Islands using Light Detection and Ranging (LiDAR) technology. This is to develop enhanced flood risk model data to use for future scenario analysis.

Subsidence risk focuses on the hazard of shrink-swell. This can impact building foundations, causing the most common form of subsidence. Climate change in the UK is expected to create wetter winters and drier summers – which increases the likelihood of shrink-swell. Twinn create a subsidence risk score based on GeoClimate data from the British Geological Survey. It identifies the potential for clay shrink-swell to occur at a given location, during a given future time period, based on a combination of geological, hydrological and climate projection data. Subsidence risk has been applied as an impact to the property valuation. It assumes the highest risk properties require material remediation works (underpinning), which impacts the valuation due to buyer perception of the future risks.

The risk from coastal erosion is modelled by Twinn, based on identifying the current distance to the coast and calculating the annual erosion rate. A conservative view has been taken. If any coastal erosion risk exists in the forecast outcome year, the valuation depreciates to zero and default occurs, incurring a loss at a minimum equal to the current balance. It is assumed that home insurance will lapse due to increasing premiums or no cover being offered. And, as the event becomes inevitable over time, the property price will be impacted well in advance of the event.

Climate risk forecasting for physical risk perils is complex, due to many uncertainties. The data provides a best view of the impact on individual properties from different climate change emissions scenarios, based on the information available today. Forecasting the impact of each climate emission scenario over multiple decades is multifaceted. The forecasts are based on the current information available, current topography, infrastructure and government policies, such as flood and coastal defences. These considerations, among many others, will inevitably change over time – impacting the climate forecasts.

The key transition risk considered at this point is from retrofitting UK properties to improve energy efficiency. EPCs are currently the best source of information to assess the energy efficiency of UK properties. However, they have several limitations, including properties without an EPC, and information not being updated unless another survey is carried out. To support the take-up, the Society is offering all members a free EPC. In line with regulatory guidance, the Society and SIL have modelled this transition risk as an impact on property value. Transition costs are applied to target an EPC rating which varies depending on the scenario. For example, EPC C in the Early Action scenario in 2030 and EPC B in Early Action and Late Action scenarios in 2050. The cost of transition, heat pump installation and government subsidies have been reviewed and updated, where new information has become available to challenge original CBES assumptions.



### Scenario analysis outcomes

The Society has combined detailed quantitative analysis with qualitative assessments where appropriate for exposures regarded as less material. This is aligned to PRA expectations, which note that a firm's approach to managing the financial risks from climate change should mature over time. They should also be proportionate to the nature, scale and complexity of the business. The credit risk outputs are detailed and provide indicative quantitative results to help us understand our climate risk over the short and long term.

The Society's scenario analysis outputs for the residential mortgage portfolio show that – by including more severe macroeconomics – the physical risks have a greater financial impact than the transitional risks over the longer term. The impact of more severe macroeconomics inflating account level default risk, combined with climate discounted property valuations, has a larger effect on modelled expected credit losses (ECL) than the transition risk scenarios.

By 2030, under each scenario, ECLs are predicted to rise. The increase is most noticeable in the Late Action scenario, as a result of macroeconomic effects due to the disorderly transition, rather than the discounts applied to house prices due to physical or transition risks. The date and magnitude of this macroeconomic impact is uncertain. But it increasingly appears likely to be later rather than sooner, due to competing government priorities and limited government resources.

Based on our scenario analysis results, the more material effects from climate change occur towards 2050. Particularly in the No Additional Action Severe scenario. This is mainly because of the macroeconomic stress from climate displacement causing mass migration, cost of living pressures from escalating fossil fuel prices, and scarcity of resources. These outputs are uncertain when considering the complexity of modelling the financial impacts from climate change. Plus, the sizeable unknowns involved, such as the numerous potential carbon emission pathways, the climate modelling assumptions, and change in mortgage portfolio over several decades. We recognised that scenario analysis outcomes must be viewed in light of any data limitations when carrying out such analysis.

### Informing our strategy

We used the results from our quantitative and qualitative scenario analysis assessment to help inform our strategy and management of climate-related risks. Credit risk climate scenario analysis results have been considered as part of capital and impairment assessments. The Society's ICAAP document includes detail on the scenario analysis methodology and outputs. As well as an assessment on whether to hold additional capital for the credit risks from climate change.

Based on current government policies, crystallisation of a climate scenario similar to the Late Action appears the most probable. Therefore, the most significant transition risks which may impact the Society are increasingly likely to occur beyond the five year corporate planning period.

The short-term climate risk scenario outputs do not present a material risk to the Society, with transition risk effects yet to be fully embedded. The worst effects of physical risks are more likely to occur in the second half of this century. The assessment of the residential lending portfolio at property level, to determine the potential impact of key climate-related physical and transition risks, did not lead to a change in carrying amounts as at 31 December 2023.

The Group continues to learn ways to improve our approach to climate scenario analysis. It also continues to improve methodology, assumptions and data each year, aligned to emerging regulatory expectations and industry practice. Climate scenario analysis remains in a developmental phase. We've made material progress in the data we source, the assumptions we make, the interpretation of outputs and how we embed this in our decision making. The climate scenarios, while assumptive, can helpfully inform the Group's strategic and risk management decision making.

However, we also recognise that climate scenario modelling remains a rapidly developing practice, with significant challenges and limitations remaining. There's a need to be cautious in the use of the data involved. Skipton continue to explore data sources and ESG ratings, embedding this into monitoring and assessing the impact of ESG risks on wholesale counterparty creditworthiness. Our ability to understand the operational risks from climate change will continue to improve as we capture more data relevant to this area.

Insights from scenario analysis and climate risk management information will continue to shape the Society's risk appetite and risk management approach. Quantitative Credit Risk Appetite limits have been set for high risk physical and transition risk segments identified by scenario analysis. Proportionate controls to manage the climate risks from mortgage origination were implemented after 2022 and are regularly reviewed. We continue to enhance our data, to better understand and manage our risks.

Climate risk is a known and important concern for the business over the medium to long term, but it is not expected to create material financial risks for the Society in the short term.

# Risk Management

How Skipton Group identifies, assesses, and manages climate-related risks.



## Risk Management

Managing climate risk across the Group is integrated within our wider governance processes and the 'three lines of defence' risk management model.

### 6. Processes for identifying and assessing climate-related risk

In 2021, we developed a Climate Risk Management Framework to support the effective identification, management and monitoring of climate risk. This framework sets out the roles and responsibilities for managing climate risk across the Group. It is integrated within our wider governance processes and the 'three lines of defence' approach to risk management.

#### *First Line of Defence*

Each business area has a first line of defence responsibility for their own identification, assessment, management and monitoring of climate change risks. Consideration of climate risk is incorporated into relevant first line processes, risk appetites and control frameworks. With respect to mortgage credit risk, identified as our key climate-related risk, our current controls for managing new lending centre on three key areas. Firstly, a physical inspection of the property for higher loan to values. Secondly, checking any known flood risk. Finally, the risk of coastal erosion.

All of these considerations make up the overall valuation. Any postcode identified as potentially at risk of future coastal erosion requires a desktop or physical survey to capture local knowledge of the risks to each property. The Society's loan conditions require buildings insurance at the point of completion. This provides assurance that the property is insurable at that point in time.

Climate risk is managed in other risk areas through various mechanisms. This includes consideration as part of the Internal Capital and Liquidity Adequacy Assessment Processes, and the inclusion of climate-related risks within our Group Operational Risk Framework.

#### *Second Line of Defence*

The Prudential Risk Oversight team is the second line of defence with respect to the management of climate risk. This team provides oversight, coordination, and challenge to the first line. This is to ensure regulatory expectations continue to be met, and that we remain alive to emerging risks and the rapidly evolving external environment.

#### *Third Line of Defence*

Group Internal Audit, as the third line of defence, provides independent assurance on the effectiveness of climate risk management in accordance with risk-based assurance plans.

### 7. Processes for managing climate-related risks

The annual climate risk impact assessment seeks to identify potential risks that could result in financial or reputational damage. This assessment is reviewed by the Climate Change Risk Forum (CCRF). Through the CCRF, we review climate-related risks that might impact the Group. We continue to refine and enhance our approach, as new data and best practice emerges.

The assessment to identify risks involves relevant subject matter experts from across the Group. It considers the likelihood of risk crystallisation and potential risk impact to the Group and our customers. We continue to make progress to develop a more consistent and collaborative Group approach, as subsidiaries continue to evolve their understanding of climate risk across their individual businesses.

Our ongoing approach to credit risk management is carefully considered, based on experience from our stress scenario analysis. Regular monitoring provides oversight of any emerging concentration risks on the mortgage portfolio. This includes recording any instances where Skipton becomes aware that a property is impacted by climate risk, such as flooding, subsidence, or coastal erosion. Climate risk is a known and foreseeable risk where best practice and new information is emerging. The Society continues to be careful and proportionate in our approach. Balancing the risks with any adverse impacts on our members and the wider UK housing market.

The Society's mortgage conditions require insurance at the point of completion which provides assurance that the property is insurable at that point in time. We have also enhanced our concentration risk rules to consider flood risk.

As the Society's distribution strategy via intermediaries is UK-wide, this significantly mitigates geographical loan concentration risk. Our concentration risk rules, which are regularly reviewed, include flood risk. For our SIL buy-to-let UK portfolio, the policy is that we only lend on EPC values A to C. A property with a D rating will be allowed, if it can be improved to be within the A to C banding.

### 8. How processes for climate-related risks are integrated into overall risk management

We align and integrate our climate-related risk management processes into the Skipton Group's risk management processes. The Group has a formal structure for identifying and managing risks throughout the business. This framework is based on the three lines of defence risk management model – with risks rated on magnitude and likelihood.

# Metrics and Targets

Metrics and targets used to assess and manage relevant climate-related risks.



## Metrics and Targets

In addition to tracking our GHG emissions, we monitor key physical risk metrics associated with climate change.

### 9. Metrics and targets Skipton Group uses to assess and manage relevant climate-related risks and opportunities

The metrics used to monitor climate-related risks are:

- Society mortgage portfolio properties classed in the highest flood risk category.
- Society mortgage portfolio properties classed in the highest subsidence risk category.
- Society mortgage portfolio properties at risk of being impacted by coastal erosion.
- Society mortgage portfolio properties by EPC category assessment level.
- Connells group professional indemnity claims caused by physical climate change.
- GHG footprint across scope 1 and 2.
- Estimations of scope 3 emissions, including financed emissions for the mortgage portfolio.

The Society has quantitative portfolio credit risk appetite limits to directly manage physical and transition risks.

#### Society Physical and Transition Risk Metrics

For the purposes of this report, we have included the Society's climate risk metrics only. In addition to tracking our carbon emissions, we continue to monitor key physical risk metrics associated with climate change.

All climate risk exposures are monitored quarterly. They are used to help shape the Society's assumptions in future scenario analysis and its approach to risk management. The relative amount of exposure to physical risk on the Society's residential mortgage portfolio remains low, at less than 2% of the total properties. See the table opposite.

### Current Society Physical Risk Exposures

Residential Mortgages	As at 31 Dec 2023			As at 31 Dec 2022		
	Physical Risk	Number	Exposure £bn	% Book	Number	Exposure £bn
Properties classed in the highest flood risk category <sup>1</sup>	2,657	0.32	1.23%	2,468	0.28	1.21%
Properties classed in the highest subsidence risk category <sup>2</sup>	1,205	0.20	0.76%	1,109	0.17	0.75%
Properties at risk of being impacted by coastal erosion <sup>3</sup>	0	-	-	0	-	-

1. Twinn Current Flood Risk Rating 81-100.

2. Twinn Current Subsidence Score 81-100.

3. Twinn Current Coastal Erosion risk.

Note: For December 2023, 7,642 properties with a balance of £1.57bn have not been address matched because the physical risk data is from September 2023.

For December 2022, 7,723 properties with a balance of £1.71bn have not been address matched because the physical risk data is from September 2022.

The worst-case climate forecast for the Representative Concentration Pathway (RCP) 8.5 is presented in the table below.

Current Society Physical Risk Exposures under RCP 8.5 in 2080						
Residential Mortgages	As at 31 Dec 2023			As at 31 Dec 2022		
	Physical Risk	Number	Exposure £bn	% Book	Number	Exposure £bn
Properties classed in the highest flood risk category <sup>4</sup>	6,551	0.76	2.91%	6,306	0.71	3.05%
Properties classed in the highest subsidence risk category <sup>5</sup>	25,229	5.60	21.48%	22,760	4.79	20.68%
Properties at risk of being impacted by coastal erosion <sup>6</sup>	10	-	0.01%	11	-	0.01%

4. Twinn Flood Risk Rating 81-100 at the end of the 30 year calibrated No Additional Action scenario.  
5. Twinn Subsidence Score 81-100 at the end of the 30 year calibrated No Additional Action scenario.  
6. Twinn Probability of Coastal Erosion > 0% at the end of the 30 year calibrated No Additional Action scenario.  
Note: For December 2023, 7,642 properties with a balance of £1.57bn have not been address matched because the physical risk data is from September 2023.  
For December 2022, 7,723 properties with a balance of £1.71bn have not been address matched because the physical risk data is from September 2022.

This is to demonstrate the most severe view of the physical climate risk of the Society's mortgage portfolio in 2080, which we are monitoring and using in our scenario analysis. This scenario is where there is 'no additional action' taken to mitigate against rising global temperatures, reaching an average temperature rise of 4.3°C by 2100. For this climate emissions scenario and time period, the physical risk perils which impact UK properties will be much more frequent and more severe.

The flood and coastal erosion exposures increase in the RCP 8.5 severe scenario. Although they remain relatively low overall. The greatest movement between the current and the severe scenario is observed for subsidence risk. Future climate change forecasts identify large areas of London, the South East and the Midlands as having a greater risk of shrink-swell because they are predominantly clay soils. Shrink-swell can cause ground movement which can impact building foundations. This is the most common form of subsidence.

An increased portfolio exposure to London and the South East has slightly increased the Society's subsidence risk during 2023. As detailed in the climate change scenario analysis section, the subsidence risk score is calculated from British Geological Survey data. This data identifies the potential for clay shrink-swell to occur at a given location, during a given future time period, based on a combination of geological, hydrological and climate projections. However, this score does not include the mitigating factor that a property might have foundations built to withstand movement due to shrink-swell.

The Society manages the physical risks from climate change by setting quantitative Credit Risk Appetite limits and applying new lending controls at postcode level for flood risk and coastal erosion. This is discussed earlier in the Risk Management section on page 13.

#### Energy Performance Certificates

All UK house sales legally require the production of an Energy Performance Certificate (EPC). This measures the energy efficiency of a property based on physical measures, such as double glazing and heating systems. A SAP score (Standards Assessment Procedure) is the methodology used by the government to assess and compare performance in more detail, with a value typically from 1 to 100. The methodology for calculating a SAP rating is regularly updated by the Government. SAP 11 is expected to be ready for use as part of the Future Homes Standard to be introduced for new homes built from 2025.

A higher score means a better energy efficiency performance for a property, as below:

**A 92+   B 81-91   C 69-80   D 55-68   E 39-54   F 21-38   G 1-20**

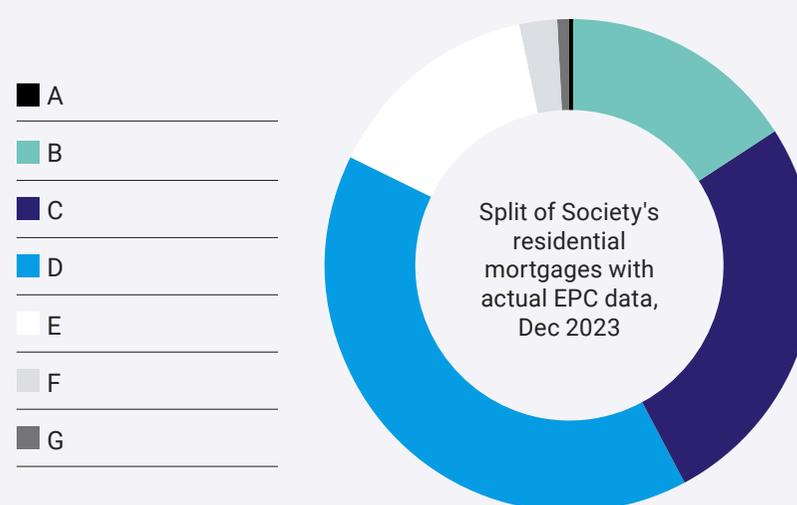
In 2023, we reperformed analysis of the Society's EPC ratings on our UK residential portfolio. This was to understand what the exposures of our current book are regarding the energy efficiency of these properties.

As the pie chart shows, the most common current EPC rating on Skipton's residential mortgage portfolio is a D, which is consistent with the rest of UK. Improvements in the address matching process, and an increase in newer properties on the portfolio which are often more energy efficient, are the reasons for the minor increase in the SAP score and improved EPC distribution.

Whilst residential mortgages produce the highest total emissions, our closed commercial lending back book has the highest physical and economic intensity metrics. The Society no longer actively lends on commercial properties. However, we continue to monitor our back book and look for any potential opportunities to support these businesses in their own decarbonisation efforts.

Two tables are reported for transparency. The first includes a blend of actual and modelled current EPCs, where the actual EPC is used where it's available, with the remainder modelled by Rightmove. The second is based on actual EPCs only.

The average EPC SAP score for the Society's residential mortgage portfolio has increased slightly between 2023 and 2022 – from a SAP of 65 to 66. Overall, it remains an average of a high D.



#### Actual and Modelled EPC data

Risk Exposures for Actual and Modelled EPC Ratings	As at 31 Dec 2023			As at 31 Dec 2022		
	Number	Exposure £bn	% Book	Number	Exposure £bn	% Book
A	456	0.09	0.4%	244	0.05	0.2%
B	22,276	4.03	15.5%	17,962	3.06	13.2%
C	45,974	6.73	25.8%	40,844	5.78	24.9%
D	77,169	9.96	38.2%	74,355	9.07	39.1%
E	20,909	3.06	11.7%	21,199	2.92	12.6%
F	3,242	0.53	2.0%	3,173	0.49	2.1%
G	707	0.11	0.4%	699	0.11	0.5%
Unmatched	7,642	1.57	6.0%	7,723	1.71	7.4%

This table includes properties where we have both actual EPC data and modelled EPC data. The number and exposure of unmatched addresses (mortgages from October to December is provided in the table). This is due to EPC data being captured as at 30 September 2022 and 2023 respectively.

#### Actual EPC data

Risk Exposures for Actual EPC Ratings	As at 31 Dec 2023			As at 31 Dec 2022		
	Number	Exposure £bn	% Book	Number	Exposure £bn	% Book
A	456	0.09	0.4%	244	0.05	0.3%
B	21,974	3.97	18.7%	16,558	2.80	15.7%
C	39,348	5.67	26.7%	33,974	4.68	26.3%
D	56,584	8.18	38.5%	51,962	7.12	40.1%
E	18,362	2.73	12.8%	17,864	2.53	14.2%
F	3,169	0.51	2.4%	3,115	0.48	2.7%
G	707	0.11	0.5%	699	0.11	0.6%

This table excludes properties where we do not have EPC data, or the data is unknown (mortgages from October to December) due to EPC data being captured as at 30 September in 2022 and 2023 respectively. For December 2023: 37,775 properties with a balance of £4.81bn do not have an actual EPC or have been address matched. For December 2022: 41,783 properties with a balance of £5.43bn do not have an actual EPC or have been address matched.

## 10. Skipton Group's Scope 1, Scope 2 and Scope 3 GHG emissions

Across the Skipton Group, we continue to collect data to provide information on energy used and emissions we generate across our operations. This year, we have reported our emissions on a Group wide basis. The data covers the period from 1 January to 31 December 2023.

Our scope 1 and 2 greenhouse gas (GHG) emissions relate to the energy we use to operate our branches and offices, and transport for our employees. Most of our operations are based in the UK, with smaller facilities in Jersey, Guernsey and New Zealand.

Our scope 1 and 2 location-based emissions slightly reduced in 2023. Operational energy reduction actions over this last year have included switching to more energy-efficient lighting across the branch network. We have also been investigating improved building insulation options.

We aim to purchase 100% renewable electricity tariffs with a renewable energy of guarantee of origin (REGO) for our own operations and the Society purchases gas, with renewable gas certification (RGGO).

GHG emissions and energy data			
Scope 1 and 2		2023	2022
Scope 1	Emissions from operating offices, branches and company vehicles (tCO <sub>2e</sub> )	4,395	4,848
Scope 2 (location based)	Emissions from the purchase of electricity (tCO <sub>2e</sub> )	5,737	5,462
Total scope 1 and 2 energy usage inc. company vehicles (kWh)		46,114,596	50,350,561
Total scope 1 and 2 emissions (location-based)		10,132	10,310
% from UK operations		99.5%	99.3%
Scope 1 and 2 location based emissions intensity ratio (tCO <sub>2e</sub> / £m turnover)		6.52	6.84

Scope 3 is the dominant scope of emissions for the Group (97%). This year, we expanded the calculation of our indirect scope 3 GHG emissions to help establish a Group baseline. This is to support effective net zero target setting and emissions reductions. The reporting includes emissions covering our mortgage portfolio for financed emissions generated from lending activity, and from those generated through our operational activity.

Collecting data on scope 3 emissions can be particularly challenging as we are required to obtain information from third parties, which may not have such well-established data collection or reporting processes and rely on information which is outside of our direct control.

### Estimates of Scope 3 operational emissions

The estimation of scope 3 operational emissions includes the following categories: Purchased goods and services, Fuel and energy related activities, Waste generated in operations, Business travel and Employee commuting. Categories 2, 4 and 8-14 are not relevant or significant to the overall scope 3 emissions. Please note, that scope 3 operational emissions have in part been calculated using financial spend data.

Scope 3		2023
Operational scope 3	Emissions from categories 1, 3, 5, 6 and 7 (tCO <sub>2e</sub> )	47,646

### Scope 3 financed emissions

A key area of focus for us as a Group is understanding the financed emissions we generate through our lending practices. The mortgage investments are prioritised as they are likely to contribute most significantly to total scope 3 emissions. The Society and SIL mortgage portfolios are the most significant on our balance sheet. We have focused our initial activities on understanding these emissions first and developing an approach to influence the decarbonisation of residential housing.

To assess financed emissions, we use the Partnership for Carbon Accounting Financials (PCAF) methodology which estimates CO<sub>2e</sub> emissions using EPC data. The PCAF method is widely considered to be the financial services industry standard for calculating scope 3 financed emissions. To understand what proportion of the property's emissions are financed, an attribution of emissions for each mortgaged property is calculated based on the property's remaining loan to value (LTV). This is considered alongside EPC data or modelled (where EPC data is not available).

We report scope 3 data covering financed emissions arising from our lending activity for our residential, buy-to-let (BTL), and commercial mortgage portfolios.

Scope 3		2023	2022
Financed emissions - mortgage lending	Category 15 emissions from residential, buy-to-let and commercial mortgage portfolio (tCO <sub>2e</sub> )	288,033	267,903

In 2023, financed emissions from mortgage lending were 85% of total scope 3 emissions. Financed emissions have risen slightly since 2022, due to a overall growth in the mortgage book value. Residential mortgages account for most of scope 3 financed mortgage emissions, commercial mortgages accounting for just 3% in 2023. The Society no longer offers new commercial mortgages. As a result, existing mortgages reaching maturity is a factor for the fall in this category in 2023, with this likely to stay the case in future years.

A data score has been calculated for the emissions, using PCAF's Global Greenhouse Gas (GHG) Accounting and Reporting Standard. This is to provide insight into the quality of the data.

### SME lending

Our SME lending division, Skipton Business Finance (SBF), supports UK small businesses operating across a range of sectors, by offering finance.

SBF explored methodologies for calculating their financed emissions under both the PCAF and GHG Protocol Corporate Value Chain (Scope 3) Standard methodologies. However, due to neither methodology being specific or appropriate for the Invoice Finance sector, significant discrepancies in outputs arose. This highlights the need for an Invoice Finance specific methodology to be developed that can drive comparability across this sector. As set out by PCAF, additional calculation methodologies will be developed over time for different asset classes. We've raised this as a current gap.

SBF are taking the opportunity to convene a UK Finance-backed committee to devise a more appropriate methodology that reflects the more specialist financial instruments used in the invoice factoring sector. This will drive more appropriate scope 3 calculations for future disclosures.

## 11. The targets used to manage climate-related risks and opportunities and performance against targets

We are committed to reducing the impact of our operations on the environment – and playing our part in achieving the UK economy's net zero target by 2050. The Society has a target to halve scope 1, 2 and operational scope 3 carbon emissions by 2030. And to achieve net zero scope 1, 2 and 3 (operational and financed) carbon emissions by 2045.

We recognise, to reach our net zero target, there are many factors and uncertainties beyond our control. They require the involvement of others, including policy makers, governments, suppliers, and customers. This may impact our ability to meet our climate-related targets or at least make them more challenging – so there's a risk that all or some of them will not be achieved. We acknowledge that a large element of scope 3 reductions lie outside of our direct control. As such, it may not be possible to fully achieve financed emission reduction targets without direct policy direction or government mandated reforms.

Financed emissions - mortgages	The Society			SIL
	Residential	Commercial BTL	Commercial	
<b>2023 Financed emissions - mortgages</b>				
Number of properties with EPC	132,005	755	0	3,178
Number of properties with modelled data	42,183	325	589	4,336
Total financed emissions based on LTV (tCO <sub>2e</sub> )	250,422	1,976	7,977	27,658
Financed emissions from properties with EPCs (tCO <sub>2e</sub> )	138,228	783	0	15,664
Financed emissions from properties with modelled EPCs (tCO <sub>2e</sub> )	112,194	1,193	7,977	11,994
Emissions intensity (kgCO <sub>2e</sub> /m <sup>2</sup> )	15.08	24.57	-	41.19
Emissions intensity (tCO <sub>2e</sub> /£m)	9.92	17.89	55.65	13.06
PCAF score	3.45	3.74	5.00	4.36
<b>2022 Financed emissions - mortgages</b>				
Number of properties with EPC	130,637	852	0	2,827
Number of properties with modelled data	34,364	353	650	4,158
Total financed emissions based on LTV (tCO <sub>2e</sub> )	229,108	2,317	9,710	26,767
Financed emissions from properties with EPCs (tCO <sub>2e</sub> )	140,422	910	0	14,534
Financed emissions from properties with modelled EPCs (tCO <sub>2e</sub> )	88,686	1,407	9,710	12,233
Emissions intensity (kgCO <sub>2e</sub> /m <sup>2</sup> )	14.49	25.72	-	45.92
Emissions intensity (tCO <sub>2e</sub> /£m)	9.94	18.82	60.96	13.65
PCAF score	3.45	3.74	5.00	4.16

## Overview of data limitations

The following notes on data assumptions apply:

- The following third parties independently calculate our scope 1 and 2 emissions across the Group: Envantage, Catalyst Digital Energy and Planet Mark using the Greenhouse Gas (GHG) Protocol methodology for the period from 1 January to 31 December 2023.
- Envantage, the Energy Savings Trust and Planet Mark independently calculated our scope 3 operational emissions.
- Envantage independently calculated the Society's and SIL's financed emissions from their mortgage portfolios, using the PCAF standard.
- Each consultancy has applied the GHG Protocol Corporate Accounting and Reporting Standard and UK BEIS and DESNZ conversion factors.
- Emissions have been calculated using a location-based methodology approach. Some electricity was sourced from REGO backed sources, while some gas was purchased from RGGO backed sources.
- Where metered or invoiced data was unavailable, consumption of electricity or natural gas for missing periods was estimated or proxy data used.
- In cases where no staff from a single branch responded to the employee survey, we used an average emission for employees working at all our branches. It includes key considerations like typical commuting and working from home emissions.
- For colleague commuting and homeworking, 2022 emissions data was used as proxy from the travel and homeworking emissions survey for colleagues.
- The availability of accurate, verifiable, reliable, consistent and comparable climate data is crucial to our climate journey, including modelling our carbon emissions and risk exposures, setting our strategy, metrics and targets and monitoring progress. It is important to recognise the current limitations in the climate data available to inform these decisions and processes, and therefore our reliance on several assumptions, judgements and projections as a result.

Addressing the climate crisis is not something the Skipton Group or any individual organisation can do on its own. Being clear about the risks in achieving our ambitions is important to us. There are many factors and uncertainties beyond our control. These include the macroeconomic environment, the extent and pace of climate change, and the effectiveness of the actions of others, including policy makers. These uncertainties will make it challenging for the Group to meet its climate ambitions and targets, so there is a risk that all or some of them will not be achieved.

We plan to continue to review available data sources and enhance our methodology and processes to improve the robustness of our ESG reporting over time, aligned with emerging developments. Please refer to the [Basis of Reporting](#) for further details on how the report was prepared.



## Glossary

Key Terms	Definition
Climate-related risk	Climate-related risk refers to the potential negative impact that climate and environmental changes present to our business model.
EPC	Stands for Energy Performance Certificate. It is related to an energy rating scheme which identifies a household's energy efficiency level and potential energy efficiency level if improvements were to be made. EPC scores range from least efficient (G) to most efficient (A) on a scale.
EPC Plus Report	The Society's product for members and colleagues in partnership with Vibrant Energy. The service provides an EPC report with recommendations of energy-efficient improvements you could make to your home, the cost of carrying them out, and the potential savings that each one could generate.
Financed emissions	These are the GHG emissions associated with the investments and lending activities of an organisation.
Greenhouse Gases (GHG)	Gases which absorb and re-emit infrared radiation, thereby trapping it in Earth's atmosphere. It includes carbon dioxide (CO <sub>2</sub> ), methane (CH <sub>4</sub> ), nitrous oxide (N <sub>2</sub> O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF <sub>6</sub> ), and nitrogen trifluoride (NF <sub>3</sub> ). These emissions add to the greenhouse effect – a contributor to climate change.
Operational emissions	These are the GHG emissions generated through the running of an organisation's operations and premises.
Physical climate risks	Physical risk arises from the impact of extreme weather events (e.g. flooding) or longer-term shifts in the climate. It is widely accepted that climate change will accelerate these risks. The main physical transition risks facing Skipton's lending portfolio are flooding, subsidence and coastal erosion.

Key Terms	Definition
Retrofit	To add new energy efficiency technology or features to a property where these might not have been available at the time it was built. This can include solar panels, cavity wall insulation and improved glazing.
Risk appetite	This covers the level of risk the Group is willing to take in order to safeguard the interests of the Society's members, whilst achieving business objectives.
Scenario analysis	Scenario analysis is the process of identifying and assessing the potential impact of outcomes of future events.
Scope 1 emissions	Under the Greenhouse Gas Protocol methodology, scope 1 includes all emissions generated by the sources under the direct control of an organisation. For example, emissions from combustion of fuel or oil for heating offices.
Scope 2 emissions	Under the Greenhouse Gas Protocol methodology, scope 2 includes an organisation's indirect emissions. This includes areas like the purchase of electricity, or energy for heating and cooling buildings produced on its behalf.
Scope 3 emissions	Under the Greenhouse Gas Protocol methodology, scope 3 includes all value chain emissions which the organisation is not directly responsible for itself. This includes areas like leased assets, suppliers and colleague commuting.
Transition risks	Transition risk arises from the process of adjusting to a low carbon economy. Examples of its impact could include financial asset values, policy, regulation and technology.
tCO <sub>2</sub> e	This stands for metric tonnes of carbon dioxide equivalent. This is a useful measure as it also allows for inclusion of various greenhouse gases during emissions calculations, such as refrigerants from air conditioning.
Net zero	Net zero is where the amount of greenhouse gases (GHGs) released into the earth's atmosphere is balanced by the amount of GHGs removed.



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