Annual Report & Accounts 2020

SKIPTON
BUILDING SOCIETY
Since 1853

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1 Performance and Strategy

2020 Group Highlights

Key performance highlights

1,061,138
Society Membership

Society membership increased by 14,844 (1.4%) to 1,061,138 (2019: by 35,868 (3.5%) to 1,046,294)

£18.7bn
Savings Balances

Savings balances grew by £1.3bn to £18.7bn, an annual growth rate of 7.7% (2019: 7.6%)

90%
Employee Engagement

Society employee engagement was 90% (2019: 89%)

85%
Customer Satisfaction

Society net customer satisfaction was 85% (2019: 86%)

£1.7bn
Mortgage Book Growth

The mortgage book grew by £1.7bn to £21.8bn, an annual growth rate of 8.6% (2019: 10.3%)

£118.8m
Total Group Profit

Total Group profit before tax (PBT) was £118.8m (2019: £153.2m)

£124.0m
Underlying Group PBT

Underlying Group PBT (as defined on page 29) was £124.0m (2019: £155.2m)

39.7%
Group Common Equity Tier 1 Ratio

The Group Common Equity Tier 1 ratio remained strong at 39.7% (2019: 39.1%)

Awards won

what MORTGAGE AWARDS 2020 WINNER
Best National Building Society

Winner of What Mortgage Awards 2020 for 'Best National Building Society'

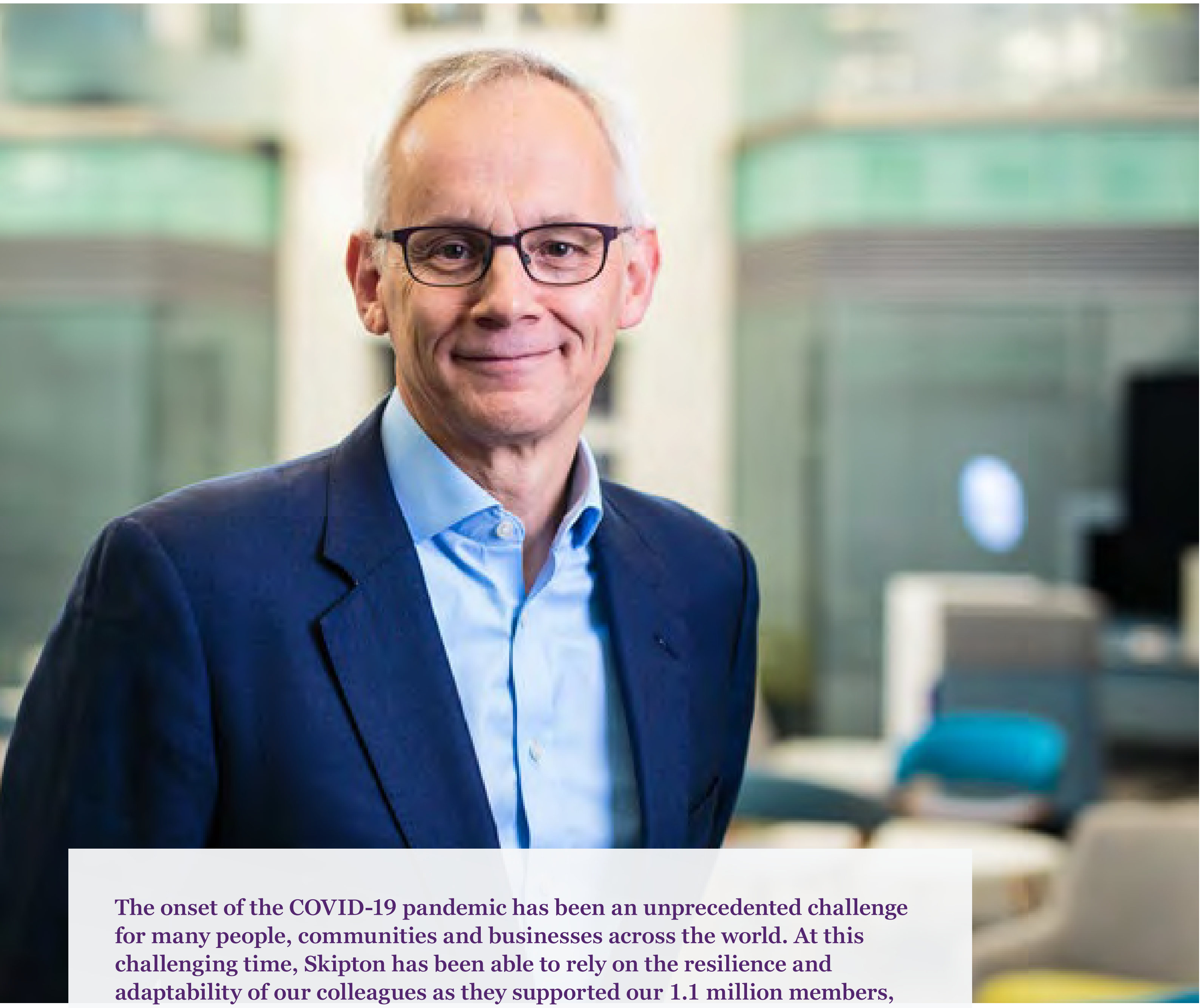
WINNER
Moneyfacts Consumer Awards 2020
First-Time Mortgage Buyers' Choice

Winner of Moneyfacts Consumer Awards 2020 for 'First-Time Mortgage Buyers' Choice'

WINNER
Moneyfacts Consumer Awards 2020
High Street Savings Provider of the Year

Winner of Moneyfacts Consumer Awards 2020 for 'High Street Savings Provider of the Year'

Chair's Statement



The onset of the COVID-19 pandemic has been an unprecedented challenge for many people, communities and businesses across the world. At this challenging time, Skipton has been able to rely on the resilience and adaptability of our colleagues as they supported our 1.1 million members, many of whom have experienced very difficult times during the pandemic. The progress made with vaccines is encouraging and provides hope for the future, but the future path and economic consequences of the pandemic will undoubtedly take time to work through.

The negotiation of the UK's departure from the EU was a further challenge and source of uncertainty in 2020. The outcome of the trade agreement reached in December, which will result in the UK charting a future as a country independent of the EU, will also be an important influence on future economic growth.

Our strong capital position and diversified business enabled us to continue to deliver to members and invest in the future.

Purpose and culture

Our purpose is to help more people have homes, save for their life ahead and support their long term financial well-being. In 2020, we remained focused on delivering our purpose and continuing to invest in opportunities which will most benefit members in the future.

We have invested in refurbishing branches, our financial advice business, and technology and capabilities which make it easier for members and make us more efficient. We have enabled 24,557 people to buy a new home or remortgage, 15,206 younger people to save in a LISA which will help them buy a house in the future or save for their retirement, provided financial advice to 3,300 customers and helped arrange 38,864 house sales (exchanges) through our estate agency business, Connells.

Delivery of our purpose is enabled by our culture and values of trust, one team and ownership and by having a team of talented and diverse people. Our team and culture have been created by investing in colleagues so that they can achieve their potential and deliver to members. We are pleased to have retained the Investors in People Platinum accreditation.

We know that this culture is what makes Skipton special and that building on it, when many colleagues have been working from home and juggling other priorities, such as home schooling or other caring responsibilities, is challenging and will require different styles of leadership in the future. I am very grateful to all of our colleagues for their hard work and commitment in difficult and challenging circumstances for them and our members.

Our stakeholders

We are acutely aware of the impact the pandemic has had on our stakeholders. Our priority at the onset of the pandemic was to ensure the safety, health and well-being of our colleagues whilst continuing to serve safely the needs of members. Every year, we conduct a survey to understand employee engagement, listen to perspectives and learn how we can improve their working experience. This was even more important in 2020 as everyone adapted to new ways of working often from home, except for those in branches and certain head office roles. We are pleased with the results and 94% of colleagues said they were proud to work for Skipton. As we aim to deliver an outstanding colleague experience, our overall colleague engagement increased to 90% and this has a direct beneficial impact on the service we provide to our customers.

Very quickly after the lockdown in March, we were able to operate all key services provided to members, despite only very limited use of our Head Office in Skipton. All branches were fitted with new screens and PPE provided to colleagues so that we could provide service and support safely to members. Many members initially reduced their use of branches and we saw significant increases in the use of telephone, web, digital and video, all services which we have invested in during recent years. We offered emergency payment deferrals to 25,000 mortgage members to help with the financial pressures created by the pandemic. We measure regularly how members feel about the service we provide and what we can do to make it better. We are pleased that net customer satisfaction remained high at 85%.

As well as judging us by the standard of our service, members rightly focus on the interest we pay on savings. In my report last year, I highlighted the challenge across the world for central banks to raise interest rates meaningfully given concerns about economic growth and low inflation. These challenges have been exacerbated by the pandemic with support being increased to businesses and individuals through increases in government spending and support. In the UK, this involved a reduction in Bank Base Rate from 0.75% to 0.1%. As a result of this, overall interest rates paid to members have reduced but we paid savers on average interest rates of 0.38% above the industry average for the 11 months to 30 November 2020, being the latest period for which comparable data is available.

Skipton relies on suppliers to support the service we offer to members. Recognising that some small and medium enterprise suppliers may have been facing cash flow challenges as a result of the pandemic, we decided to accelerate payments due to them so, on average, payments were made within 10 days of invoices being submitted. Through Skipton Business Finance, we also helped businesses by enabling the use of various government-backed financing schemes.

> "We have enabled 24,557 people to buy a new home or remortgage, 15,206 younger people to save in a LISA which will help them buy a house in the future or save for their retirement, provided financial advice to 3,300 customers and helped arrange 38,864 house sales (exchanges) through our estate agency business, Connells."

Chair's Statement *(continued)*

The communities where we operate, and the charities we work with through the Skipton Charitable Foundation and other schemes, are important stakeholders. Our partnership with Mental Health UK was created before the pandemic started to impact our lives. The lockdown and social distancing have created mental health challenges for many.

In recognition of the challenging times faced by many parts of society, Skipton, its Board and colleagues donated £200,000 to support the work of its charity partner Mental Health UK. The donation included the Non-Executive Directors and myself donating 20% of our net fees for three months, together with personal contributions from Skipton's Executive Committee and colleagues across the UK.

Our Executive Committee has also waived any bonuses it may have received in respect of 2020 and Non-Executive Directors agreed that they should not receive a pay rise.

Sustainability

Our approach to sustainability is shaped by the UN's Sustainable Development Goals (SDGs) which have been established with the ambition of achieving prosperity for everybody, while protecting our planet for future generations. We focus on four of the seventeen goals where we can make a real difference. During the year, we became the first UK financial services provider to gain a 5-star rating from Support the Goals for our efforts in working towards a more sustainable future and supporting the SDGs. You can read more in our Sustainability Report on pages 40 to 44.

Performance

We assess performance against measures judged to be important to members today and in the future. These measures include membership numbers, savings and mortgage balances, member satisfaction, employee engagement, management of risk and profitability, which enables us to invest for the future, help more members and ensures we have the financial strength to provide a safe place for savings. We aim to achieve an appropriate balance of these measures.

In early 2020, profit was impacted by competitive mortgage and savings markets which resulted in reduced margins. In the second half of the year margins improved as competition in savings markets reduced and demand for mortgages increased, reflecting the stronger housing market as people looked to move home and take advantage of reductions in stamp duty. Skipton International, based in Guernsey, continued to perform well and ensured that it could provide all of its services throughout the pandemic to its customers both in the Channel Islands and internationally.

The pandemic resulted in reduced income, as many parts of our estate agency division were closed for two months, and increased impairments on mortgages as the economic outlook deteriorated. At the onset of the pandemic, we took swift and decisive action across all businesses which included moving many colleagues to work from home and furloughing colleagues in our estate agency division but preparing it to re-open as soon as practical in a COVID secure way. This allowed us to take advantage of the post-lockdown housing market.

These actions, combined with the foundations created by investments made in recent years, enabled us to deliver a good performance particularly given the context of the pandemic. Our great service enabled us to increase mortgage balances and market share. Efficiency improved as costs were tightly managed. Member satisfaction, employee engagement and management of risk all remained strong.

Global environment

Whilst there is encouraging progress with the rollout of vaccines, the impact of the pandemic will be felt globally for many years to come. The impact is unprecedented and will drive changes in how we think about investment in public health, including social care, housing needs, government borrowing, which has reached record levels, and tax rates. It has accelerated existing trends around internet shopping, the re-shaping of the high street and the purpose of branches, and how offices will be used in the future.

The UK's departure from the EU, and the Brexit trade agreement reached in December, which will result in the UK charting a future as a country independent of the EU, will also be an important influence.

We will monitor carefully all of the trends that emerge from these and other issues and ensure that we adapt to them in a way that best serves our members.

Board changes

Denise Cockrem, who has served as a Non-Executive Director since 2015, has decided she will not stand for re-election at the Annual General Meeting and will leave the Board on 31 March 2021. I am grateful to her for the valuable contribution she has made during her time on the Board.

Philip Moore joined the Board on 1 February 2021. He also joins the Audit and Risk Committees.

Corporate activity

In December, Connells Limited, our estate agency subsidiary, and Countrywide plc announced that they had reached an agreement on the terms of a recommended cash offer by Connells for Countrywide with a view to combining it with Connells. Completion is expected to occur by the end of the first quarter of 2021 and this creates an exciting opportunity to extend our estate agency presence across the UK.

Looking ahead

Skipton's capital strength, diversified portfolio of businesses, and focus on colleague engagement and high levels of member satisfaction provide a solid foundation that will enable us to adapt to the pandemic and post Brexit 'new normals'. These factors do make it more difficult than most years to forecast the likely outcomes for unemployment and house prices, both of which are material factors for the performance of our businesses, but we are confident that Skipton is well placed to respond to trends as they emerge.

We will remain focused on supporting members and investing to deliver for them in the future alongside maintaining the financial strength of Skipton and keeping our colleagues and customers safe. We thank you for the trust you have placed in us during 2020 and look forward to continuing to earn this support in 2021 and beyond.

Robert East
Chair

23 February 2021

Group Chief Executive's Report

Without a doubt 2020 was one of the most challenging years we have ever faced. Our fundamental priority remains of looking after our members and people, ensuring their safety and well-being, and being there for them when they need us, wherever they need us.

I'm so incredibly proud that our people, all of whom were impacted by COVID-19 just like everyone else across the UK, adapted and responded positively by continuing to serve our customers throughout such unprecedented times.

As a 168-year-old mutual, Skipton's values are firmly rooted in helping people have a home and save for the future. We will always make decisions based on the long term best interests of the business and our members, not shareholders. Over the years this consistent approach has seen us successfully navigate through the good times, and the difficult times. And COVID-19 brought this purpose to the fore.

The COVID-19 pandemic has delivered one of the biggest shocks to the UK and global economy in several generations. The pandemic affected every part of the Group's operations, with lockdown measures applied in the UK, Guernsey and New Zealand. Connells, our estate agency division, was required to close its entire network of almost 600 estate agency branches for two months and all of its surveyors were prohibited from carrying out physical valuations during this time. However, by ensuring the continuation of all services to members throughout the year and the dedication and agility of its colleagues, Skipton continued to provide excellent customer service with net customer satisfaction of 85% (2019: 86%), as well as providing stability and a secure place for its members' savings due to its continued strong capital and liquidity position and the resilience of Skipton's business model. Skipton's mortgage and savings balances increased by 8.6% and 7.7% respectively.

Performance highlights in 2020 include:

- Continued growth in membership, with member numbers increasing by 14,844 to 1,061,138 (31 December 2019: 1,046,294);
- Group gross mortgage lending was £4.5bn (2019: £4.9bn), with mortgage balances growing by 8.6% since the end of 2019 (2019: 10.3%);
- Society savings balances grew by 7.7% (2019: 7.6%) to £18.7bn by the end of 2020;
- Group total assets increased by 10.9% during the year to £28.3bn (2019: £25.5bn);
- The Group net interest margin was 0.89% (2019: 0.98%). The decrease seen was driven by the two Bank Base Rate cuts announced in March 2020 and a competitive mortgage and savings market early in the year. Margins in the second half of the year were marginally higher than the first half as competition in the savings market reduced and demand for mortgages increased, reflecting a stronger housing market;
- Total profit before tax (PBT) was £118.8m (2019: £153.2m). The decrease in total Group profits was primarily due to the reduction in underlying profits (see below);
- In a challenging environment, the Group recorded underlying profits before tax (as defined on page 29) of £124.0m (2019: £155.2m). Profits have been impacted in the short term by the increase in the Group's loan impairment charges to £25.7m (2019: £0.5m) arising from an expected worsening of the economic outlook. In line with accounting standards, loan impairment charges are booked upfront before they are incurred. However, the nature of the pandemic, its impact on customers and businesses, and the actions taken by the Government to support the economy, make it extremely difficult to forecast loan impairments and therefore requires a significant level of estimates and judgement, based on limited observable data at the reporting date;
- Administrative expenses across the Group decreased by £47.7m (8.6%) to £506.3m (2019: £554.0m) largely due to a reduction in expenses in the Estate Agency division that saw closure of all branches for two months of the year;
- Although likely not at the peak of this severe economic cycle, the Group's arrears position continues to be well below the industry average. The Group's UK residential mortgages in arrears by three months or more represent only 0.29% of mortgage accounts (31 December 2019: 0.25%), which compares to an industry average of 0.83% (2019: 0.72%) of residential mortgages in arrears by more than three months. We are providing support to customers who have been financially affected by COVID-19 and mortgage payment deferrals granted in this respect may suppress the impact of the pandemic on arrears in the short term;
- The Liquidity Coverage Ratio was 194% (2019: 207%), well above both the regulatory limit of 100% and the internal limit set by the Board throughout the period;
- The Society's Common Equity Tier 1 (CET 1) ratio at 31 December 2020 remained strong at 39.7% (2019: 39.1%). An expected deterioration in the economy in 2021 means we expect the CET 1 ratio to reduce during 2021. However, we will remain well above our regulatory minimum capital requirements; and
- The leverage ratio was 5.7% (2019: 6.0%), well above the Regulator's expected minimum.

Absolute customer focus

The coronavirus pandemic has had a profound impact on our customers in unprecedented ways and our priority and response to these exceptional circumstances has been to ensure the safety of, and provision of support for, members, customers and colleagues. We have continued to maintain a UK-wide branch presence to allow members to carry out essential transactions. We continued to offer outstanding customer service to our members in 2020, as demonstrated through our net customer satisfaction score of 85% (2019: 86%).

We adapted to changing customer behaviours driven by the pandemic, utilising existing digital capabilities to continue to provide an empathetic, human touch when face-to-face interactions in branch were restricted. This included a fourfold increase in the use of Skipton Link (our video conferencing system) for account opening and Financial Advice appointments, a 72% increase in webchat usage, and a 66% increase in social media interactions, providing support for customers and brokers. This provided our customers with choice of how and when they wanted to interact with Skipton.

Group Chief Executive's Report *(continued)*

For savers, the Society paid an average savings rate of 0.97% in the 11 months to 30 November 2020 (2019 full year: 1.29%), which was on average 0.38% above the industry average for banks and building societies during the latest period for which comparable data is available (2019 full year: 0.54% higher) (source: CACI Current Account & Savings Database Stock). While this has been a difficult time for savers, Skipton has proven a safe and stable place for members' money.

Brilliant people

It is testament to the first-rate efforts of our people, all of whom have been impacted like everybody else across the country in so many different ways, that we have been able to quickly adapt and respond to continue to serve our customers well throughout these unprecedented times.

The Society aims to deliver an outstanding colleague experience and our overall colleague engagement increased to 90% (2019: 89%). We have supported colleagues throughout the pandemic with working from home provisions for those that are able to, flexible working to allow for childcare and other commitments, and ensuring the highest levels of safety in all working practices.

We have been an Investors in People accredited organisation for over 25 years and in 2020 the Society retained its Investors in People Platinum standard which it has now held for four years, the highest accolade that can be achieved against this standard.

I am proud that for the sixth year running we have been named as one of *The Sunday Times* Best Companies to Work For and were placed 8th in *The Sunday Times* 25 Best Big Companies list.

Powered by digital technology and data

We continued to improve the digital experience for members across mortgages, savings and financial advice in 2020. Investment in enhanced digital capability continues to be a particular area of focus to support and drive improvements to the customer experience. We strive to bring our Skipton 'human touch' to all our customer interactions.

At 31 December 2020 we had 47% of our online customers registered for the Skipton app, with over 188,000 registrations since the launch of the app in July 2019. We have achieved record customer satisfaction scores in digital channels at 81%.

Financial strength

Strong performance in the Mortgages and Savings division

The Mortgages and Savings division reported an underlying PBT of £67.3m (2019: £103.9m). The fall in profits is predominantly due to loan impairment charges in the division of £25.2m (2019: £0.3m) as a consequence of the worsening economic outlook arising from COVID-19 and the Government restrictions imposed on households and businesses to help mitigate health impacts of the pandemic. The division reported statutory PBT of £64.6m, compared to £100.8m in 2019.

Skipton International Limited continues to make a strong contribution to the division's profits, with PBT of £19.9m (2019: £21.2m). Financial advice income levels were impacted by more limited opportunities to generate new business during COVID-19 restrictions, especially due to a reduction in branch transactions and interactions. Nevertheless, through the use of remote technology, servicing and interaction with existing financial advice customers was maintained.

The division's management expense ratio was 0.60% (2019: 0.65%) and the cost income ratio was 63.3% (2019: 60.2%). Carefully managing costs has been a priority but costs have increased overall as safety measures and home-working provisions were introduced.

Further information on the performance of the Mortgages and Savings division can be found in the Strategic Report on pages 33 and 34.

Robust performance from estate agency in a difficult market

The Estate Agency division recorded underlying profits of £55.1m (2019: £50.1m). Following a buoyant start to the year, Connells navigated unprecedented terrain as it closed its branches to the public on 23 March for two months, in line with Government guidelines, to help efforts in preventing the spread of coronavirus.

With virtually no transactional business during lockdown, the number of properties that Connells exchanged contracts on during the year was 16% lower than in 2019 and total income fell by 11% to £378.6m (2019 re-presented: £427.7m). Connells moved effectively to home working and took swift and decisive action to manage its cost base and liquidity position; it utilised the Government's Coronavirus Job Retention Scheme ('CJRS') and placed 78% (at the peak) of its colleagues on furlough. The total benefit received by Connells from elements of government support, including the CJRS, rates relief and retail premises grants, totalled £25.7m. No other parts of the Skipton Group received direct government support in relation to the pandemic.

The Connells group saw a positive recovery on the initial reopening of the housing market in May. Activity levels improved considerably, helped by the stamp duty holiday announced by the Government. Despite various local and national restrictions being imposed by the Government during the second half of the year, top line results remained ahead of the prior year during this period. Connells have worked with their customers to help them, particularly with re-mortgaging, and the total value of lending generated for UK mortgage providers during 2020 increased to £10.9bn (2019: £10.7bn). The Connells group remains focused on helping more customers to buy homes or reduce their mortgage outgoings by providing them with a good experience and outcome.

In December, Connells reached an agreement with the Countrywide plc board and its major shareholders to acquire Countrywide. The combination of the two businesses is an excellent opportunity to extend Connells' presence across the UK and the enlarged scale of the Society's estate agency operations should deliver enhanced returns for the Society, and hence its members, over the medium and longer term. However, financial results in 2021 will be impacted by one-off costs associated with the combination of the two businesses.

Further information on the performance of the Estate Agency division can be found in the Strategic Report on pages 34 and 35.

Other subsidiaries

Skipton Business Finance (SBF), a provider of debt factoring and invoice discounting to small and medium-sized enterprises, recorded a PBT of £3.6m (2019: £4.0m). Its loan impairment charges in the period were £0.5m reflecting the challenges being faced by clients as a result of COVID-19 (2019: £0.2m). Through SBF, business clients were helped by enabling the use of various Government-backed financing schemes.

Jade Software Corporation (a software solutions provider based in New Zealand that specialises in digital solutions and large IT enterprise solutions, as well as being the provider of the Society's core database and software development language) broke even in the year (2019: broke even).

Further information on the performance of these subsidiaries can be found in the Strategic Report on page 35.

Conclusion and outlook

The COVID-19 pandemic continues to cause significant social and economic disruption, and although the UK Government has taken extraordinary steps to support people, public services and businesses, the impact on the general population is colossal and will be felt for many more years to come. While it is too early to predict how the UK will recover from such disruption, the encouraging rollout of vaccines should result in an improvement in consumer and business confidence.

We welcome the fact that the UK Government agreed a Brexit deal with the EU at the end of 2020. Unlike some industries, the Society is not directly impacted by the trading relationship between the UK and EU, however we are interested in any potential secondary or tertiary impacts on the housing, mortgage and savings markets.

The outlook for the Society is positive but will be dependent upon the performance of the UK economy as the pandemic evolves, vaccines are rolled out and the Government takes measures to protect public health and support the economy. The Society's strong financial position, diversified business model, and compelling customer propositions means it is well placed to continue to deliver for its members during these uncertain times.

David Cutter

David Cutter
Group Chief Executive

23 February 2021

Strategic Report

Skipton Building Society is the UK's fourth largest building society, with over £28bn of assets and over one million members. We are here to help more people have a home, help people save for life ahead and support long term financial well-being.

Skipton was founded on a social purpose, to create a secure place for people's savings and help people have a home thereby giving them greater control of their own future. We believe this remains as important today as it was when we were founded in 1853. We've seen lots of good times and some turbulent times too, but we've always stood strong for our members. As we move forward, we'll continue to adapt like we always have. From our people, to the environment and the communities we serve, we're bringing people together and together we are **"Building a better Society".**

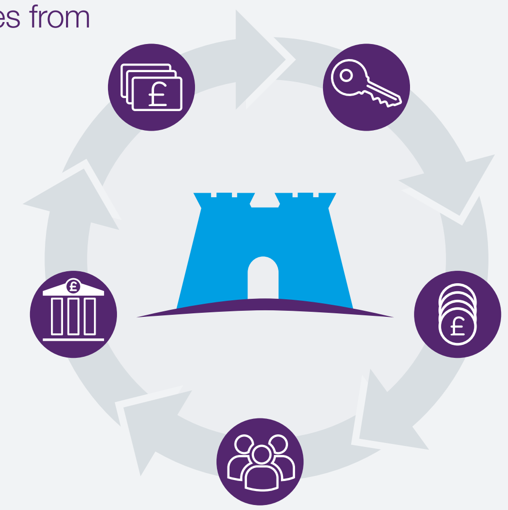
The business model

As a mutual organisation, the Society is owned and shaped by its members and our mutual roots keep us grounded. They're what make us different to banks. We don't answer to shareholders and instead we're shaped by our members who vote for directors and hold the Board to account. The Society's business model centres on providing a secure place for our members' savings and the provision of loans to our borrowers to enable people to have their own homes. We also source funding from the wholesale markets, which diversifies our funding base and improves our financial stability. In addition, we support the rented housing sector by providing buy-to-let mortgages to landlords. Our business model is strengthened by the provision of high quality financial advice, enabling us to offer guidance to our customers to support their long term financial well-being.

The difference between the interest received from our borrowers and on liquid assets and the interest payable to our savers and on wholesale funding generates our net interest income. This income, together with other income mainly from the provision of financial advice and dividends from subsidiaries, covers any impairment losses, provisions, tax expenses and operating costs including paying our people. Our mutual status means we do not pay dividends, since we do not have any external shareholders. Therefore, our remaining profits are reinvested into the Society for the long term benefit of our members; to support growth, help us to maintain a sustainable business model and preserve a strong capital position to support and protect members through an economic downturn, such as the current global pandemic. The Society's business model can be illustrated as follows:

Where the money comes from

- Members' deposits (79%)
- Wholesale markets (21%)
- Retained earnings from previous profits in the Society and dividends from our subsidiaries



What we do with it

Provide mortgages to help people into homes:
- Residential mortgages (80%)
- Buy-to-let mortgages (20%)

How we generate income

- Net interest income
  - the difference between the interest received from our borrowers and on our liquid assets, and the interest payable to our savers and on wholesale funding
- Other income
  - provision of financial advice and other financial products and services

What we incur costs on

- Paying our people
- Property and operating costs
- Mortgage and other impairment losses
- Paying taxes

What we use our profits for

- Enhancing the customer experience
- Investing in the future of the Society
- Maintaining capital strength

The Society is at the head of the Skipton Group, which comprises the following divisions:

Mortgages and Savings division

The Mortgages and Savings division is the core of the Group's business model, predominantly comprising the Society. The division also includes Skipton International Limited (SIL), which carries out mortgage lending in the Channel Islands and the UK and accepts deposits in Guernsey. Our specialist lending businesses, Amber Homeloans Limited (Amber) and North Yorkshire Mortgages Limited (NYM), which both ceased lending in 2008, are included in the division along with the Group's special purpose vehicles, formed to acquire funds from the wholesale markets, and the intermediate holding company Skipton Group Holdings Limited (SGHL).

Estate Agency division

The Society holds a significant presence in the estate agency sector through the Connells group (99.8% holding), which includes property sales, surveys and valuations, conveyancing, lettings, asset management and mortgage and insurance broking. The Society's capital position is reinforced by dividends from the Connells group, which are invested back into the Society for the benefit of our members.

In December, Connells reached an agreement with the Countrywide plc board and its major shareholders to acquire Countrywide. The transaction is expected to complete by the end of the first quarter of 2021 and the combination of the two businesses will extend Connells' presence across the UK.

Investment Portfolio

The Group holds interests in a small number of companies comprising the Investment Portfolio, including Skipton Business Finance (a provider of debt factoring and invoice discounting to small and medium-sized enterprises) and Jade Software Corporation (a software solutions provider based in New Zealand that specialises in delivering digital business solutions and assists in the development of the Society's core technology).

Promoting long term success

The Board's approach

Policies and practices

The business model set out on page 16 details how the Society generates long term value and preserves a strong capital position to protect our members. In order to achieve our purpose, the Board sets defined medium term objectives built around four strategic priorities that help it focus on the right areas. The Board monitors progress against these strategic priorities using a number of key performance indicators that are reported to the Board and senior management on an ongoing basis and are key to the Board's oversight of the business and to its decision making process. For further details on our four strategic priorities and how we delivered against these in 2020 see pages 20 to 23.

The Board and senior management work hard to maintain a strong inclusive culture where we continue to invest in our people's skills, personal and career development and well-being. Our people are critical to our long term success; by maintaining a strong culture and empowering decision making at all levels of the business, we can deliver on our purpose. Respect for our environment and the communities in which we operate is also a key part of delivering on our purpose.

Employee matters

The Society believes it is important to help safeguard the well-being of its people and has a number of policies in place to ensure that their working environment is one of respect and where they are valued. These policies include, but are not limited to, a flexible working policy, a career break policy, a carer's leave policy, a diversity policy, a family friendly policy and a health and safety policy. In 2020, our primary focus has been on ensuring the ongoing safety of our colleagues both in branch and head office. The Society enabled 90% of its head office colleagues to work from home, whilst ensuring its customer contact centre maintained high customer satisfaction levels and low call wait times. As part of these changes we have further enhanced our support for the well-being of our colleagues so they in turn can maintain services to our members and customers. For further details on our people strategy, see page 21 of this report.

Encouraging a diverse and inclusive culture is a very important part of our core values and we appreciate the value the unique differences in our people can bring. We seek to attract, develop and keep hold of talented people who, together, will help us build a stronger Society that's able to better meet our customers' needs. We want our people to feel supported when they come to work and we have a well-being strategy that is designed to empower and inspire our people to positively influence their own well-being. In this way we are leading the way as an organisation with an innovative and holistic well-being offering focused on educating and supporting our people in their financial, mental and physical well-being.

The Society also has a modern slavery policy which fully supports the objectives of the Modern Slavery Act 2015, further details of which can be found at skipton.co.uk/about-us/governance. These policies are drafted by appropriately qualified experts and monitored on an ongoing basis to ensure they remain fit for purpose. For further details on our diversity and inclusion framework and our diversity policy, see page 26 of this report.

The Society is committed to ensuring that there are no instances of bribery or corruption across any area of our business. We have an anti-corruption and anti-bribery policy in place, drafted in line with government guidelines, which prohibits the offering, giving, solicitation or the acceptance of any bribe to or from any person or company by any individual employee, agent or other person or body acting on behalf of the Society. The policy is readily available for all employees to view on our internal intranet and we require our employees to receive annual refresher training on it.

Strategic Report *(continued)*

Community matters

We are committed to encouraging and enabling our people to participate in activities, and to help them learn vital skills, to help the Society deliver benefits to the communities in which we operate and contribute to Building a better Society.

Last year, our people voted for Mental Health UK to be our new charity partnership for 2020-2022. In 2020, we increased our financial support for Mental Health UK with a donation of £200,000 from colleagues, Directors and the Society, enabling the charity to respond to unprecedented service demands as the coronavirus outbreak significantly impacted the nation's mental health.

The Society also has a volunteering policy in place to encourage our people to participate in volunteering activities to benefit the community. To support this, all our people receive up to three days additional leave to volunteer in their local communities. These volunteering days have been impacted heavily by COVID-19, but we are confident we can bounce back through leveraging digital technology.

The Society is committed to delivering fair experiences and outcomes to all our customers and taking account of individual circumstances is a key element of this. We have a vulnerable customer policy in place to ensure that we treat all our customers fairly throughout the whole customer lifecycle, regardless of their personal circumstances or characteristics. We recognise that customer vulnerability can happen at any time and in some cases cannot be predicted. It is therefore essential that we have the appropriate policies, procedures and trained people to help identify and support our customers in a sensitive and empathetic manner through any periods of vulnerability.

For more information, including activities we have undertaken during the year to demonstrate our commitment to making a positive change to our society, see our Sustainability Report on pages 40 to 44.

Environmental matters

We realise that as a responsible business we have an obligation to operate in a manner that minimises our impact on the environment. We're passionate about protecting our planet for future generations and aim to always have a positive impact on our environment to build a sustainable Society. Our key aim is that our contribution to the environment is always greater than the impact we have on it; taking more carbon out of the atmosphere than we put in and mitigating our carbon footprint is something that we have been improving on for a number of years. Our sustainability strategy is aligned to the United Nations Sustainable Development Goals; as part of this we have set ourselves challenging targets to address four goals where we feel we can have the greatest impact. One of these goals centres around responsible consumption and production to strengthen the global response to the threat of climate change, further details of which can be found in the Sustainability Report on page 43. We follow all relevant environmental legislation in carrying out our business and further information on how we are performing against our commitment to environmental matters can be found on page 43 in the Sustainability Report.

Our business relationships

Our business relationships with our key suppliers are closely monitored and we work in partnership with them to safeguard our customer service. We assess, on an ongoing basis, any risk of an adverse impact on our customers, our people and the environment in which we operate as a result of these relationships, or as a result of our policies. As part of our commitment to building strong and collaborative relationships with our suppliers we assess our performance as a customer by monitoring our ethos of providing better than industry average payment terms and through supplier feedback requests. In the current climate, we have been paying our small and medium enterprise suppliers earlier, aiming to pay any invoice within 10 days instead of our standard 30 day payment terms, to help them stay in business. We also closely monitor our suppliers' service delivery against key performance indicators to ensure the service provided is of an acceptable standard.

The Society also has regard to the above matters as part of our risk assessment processes; a full description of our principal risks and how we manage these is found in the Risk Management Report on pages 69 to 79.

Corporate governance

The Board is responsible for determining the Society's strategy for managing risk and overseeing its systems of internal control. The ongoing effectiveness of these internal controls is reviewed by the Board on a regular basis as described on pages 60 and 61 of the Directors' Report on Corporate Governance.

The Society maintains a high standard of corporate governance for the benefit of its current and future members and in order to conduct its business in a prudent and well organised manner. The Board's terms of reference clearly set out its responsibility for the overall stewardship of the Group within the contract of the Society's 'Principles of Governance' as set out on pages 56 and 57 of the Directors' Report on Corporate Governance.

Decision making

Achieving the right balance of risk and reward is essential to ensuring the long term sustainability of the Society and enables us to deliver on our strategic priorities. Through the Board Risk Committee approved risk management framework and governance structure, the Group has a formal mechanism for identifying and managing risks throughout the business, further details of which can be found on page 71 of the Risk Management Report.

The corporate plan is delivered in line with the risk management framework and was approved by the Board following a comprehensive review of our strategic priorities. In setting our strategic priorities we engaged with our customers to find out what is important to them and how we can best meet their needs. By listening to and understanding what is important to our customers we are able to use this knowledge and insight to inform and shape everything we do. During the year we have reviewed our strategic priorities which, together with a number of key performance indicators, are key to the Board's management of the business and to its decision making process. The strategic priorities have been updated to reflect the Society's desire to provide outstanding customer service and an outstanding colleague experience; for further details of these priorities see pages 20 to 23. The external environment is rapidly changing and the Society continues to monitor material risks to business plans as detailed on pages 69 and 70 of the Risk Management Report.

Strategy and objectives

Our strategy is "to differentiate on service and advice, prioritising the human touch to create mutually valuable relationships in a digitally enabled, sustainable society". It is delivered through four strategic priorities: Absolute Customer Focus, Brilliant People, Powered by Digital Technology and Data, and Financial Strength.

We want to be known for delivering outstanding customer experience to our members whilst developing deep mutually beneficial relationships, delivered in an efficient manner by our people and our processes.

Our brilliant people are critical to delivering our strategy and we ensure that the Society has skilled, engaged and high performing people who deliver the human touch. We work as a team, taking ownership, trusting one another and living up to the trust our customers place in us. Delivering an outstanding colleague experience has been outlined as a key goal for the Society, and our colleague engagement and experience has a direct beneficial impact on our customers.

As we enter an increasingly digital era, we need to balance the transition to increased online and digital service with provision of our face-to-face servicing advantage – connecting with people in an increasingly non-physical but digital world. To do this we need to have the right long term technology and digital capabilities to deliver our customer propositions and the right data and insight about our customers so that we invest in the right things for their future needs.

We remain committed to mutuality because we believe it is in the best interests of our current and future members. This means we are not required to pay dividends to shareholders. Instead we have developed objectives to support the above strategy and to ensure we are generating sufficient profits to maintain a strong capital position. We also optimise the balance between risk and reward in order to build a sustainable future. This allows us to take long-term decisions to invest in the development of the business for the benefit of our current and future members, whilst keeping our purpose at the heart of everything we do.

We want to be known for always delivering...

Outstanding Customer & Colleague Experience

...so we're focusing on four key priorities...

Absolute Customer Focus

Brilliant People

Powered by Digital Technology & Data

Financial Strength

...to deliver our aspirational ambitions.

1 million Savings and Financial Advice Customers

Top 10 lender

£6bn Funds Under Management

Together, we're building a **better** Society

Absolute Customer Focus

Our absolute customer focus priority aims to put the customer at the heart of everything we do, providing a compelling and differentiated proposition.

The coronavirus pandemic has had a profound impact on our members and customers in unprecedented ways, through its direct impact on the health of our communities and the measures taken by the Government to help prevent its spread. Our priority and response to these exceptional circumstances has been to ensure the safety of, and provision of support for, members, customers and colleagues.

During 2020, our focus remained on providing a high standard of service to our members in the safest way possible, as demonstrated through the Society's net customer satisfaction score of 85% (2019: 86%). We have continued to maintain a UK-wide branch presence to allow members to carry out essential transactions, implementing branch counter protection for the benefit of both members and colleagues. Our branches and contact centre opening hours were above the industry standard and to further help our increasing number of customers who choose to interact with us through digital channels, we extended our social media customer service hours.

Our absolute customer focus strategy is based upon a deep understanding of the needs of our customers gained through research, customer feedback and analysis. We use the insight this provides us to continuously refine, develop and improve the products and services we offer.

Our core savings and investment customers are those saving and planning for their life ahead. We are focused on ensuring we have a compelling proposition to meet the needs of these customers which includes offering a broad and attractive range of savings products, together with access to financial advice to support investment and pension planning.

In these challenging times where savings rates in the market are at an all-time low, we remain committed to providing savers with competitive returns along with offering excellent customer service. We are alert to how the ongoing low interest rate environment impacts our savers and we continue to offer rates above the market average.

We continue to provide good value mortgages together with excellent personal service, to both our direct mortgage customers and intermediary partners, as well as providing buy-to-let mortgages to landlords to support the rented housing sector. We recognise the potential impacts of COVID-19 on our mortgage members, and we are offering them help and support in these challenging times.

Skipton was one of the first organisations to set up a dedicated mortgage payment deferrals mailbox enabling customers to quickly log requests for help. In 2020 we have arranged over 25,000 mortgage payment deferrals and other concessions (of which only 5% were still in place at 31 December 2020), and which gave around 15% of borrowers a period of flexibility. The Society also proactively called customers who had arranged a mortgage payment deferral to check they had all the information and support they needed.

Skipton adapted to changing customer behaviours driven by the pandemic, utilising existing digital capabilities to continue to provide an empathetic, human touch when face-to-face interactions in branch were restricted. This included use of Skipton Link (our video conferencing system) for account opening and financial advice appointments, increased webchat capability, and increased social media presence and support for customers and brokers. This provided our customers with choice of how and when they wanted to interact with Skipton and an ongoing focus on customer excellence has resulted in us achieving a 4.5* rating on Trustpilot.

A review of performance in the year against our Absolute Customer Focus priority is set out on pages 24 and 25.

Brilliant People

Our brilliant people priority aims to create an environment where our colleagues can be themselves, deliver their best contribution and achieve their full potential.

Skipton is one of the UK's largest building societies with over 2,200 people working together to provide service to our customers from our head office in Skipton, from home and throughout our UK branch network. We continue to invest in our people and our culture, ensuring alignment to the delivery of our purpose and our vision of 'Building a better Society'. Our culture is defined as one that is customer-focused and based on our mutual values of One Team, Trust and Ownership. We embed these values into all aspects of people management including recruitment, induction, development, performance management and remuneration. 94% of our people said they are proud to work for Skipton in this year's annual employee opinion survey, we were on *The Sunday Times* 25 Best Big Companies to Work For list and we're one of only a handful of accredited organisations in the UK to achieve Investors in People Platinum status.

Our primary focus this year has been on ensuring the ongoing safety and well-being of our colleagues, so they are able to continue to deliver outstanding service to our members. We have supported colleagues throughout the pandemic with working from home provisions for those that are able to, flexible working to allow for childcare and other commitments, and ensuring the highest levels of safety in all working practices. In 2020, we have further enhanced our support for the well-being of our colleagues so they in turn can maintain services to our members and customers.

One of the aspects setting our service apart for our members is our human touch and we ensure that a focus on members, people and relationships is at the heart of our culture. We create a learning culture and develop our people to deliver our customer propositions, building deep and lasting relationships with our customers. We support our people to develop the knowledge and expertise needed to provide support and advice for our customers now and in the future. We seek to attract, develop and retain a diverse range of talented people, reflecting the communities in which we operate.

A key priority for Skipton is giving colleagues a voice and in April we launched a regular 'pulse survey', so we could respond to our colleagues' needs in a timely manner in these changing times. In September we carried out our annual employee opinion survey, with an overall engagement score of 90% (2019: 89%), well above financial services industry norms.

We develop leadership capability, to allow current and future leaders to grow and adapt their leadership skills and create the right culture for now and the future. We offer a number of leadership programmes to give our people the tools they need to deliver our strategy and lead change effectively across the business. We invest in developing the skills needed in the future in a variety of ways such as apprenticeships, career development programmes and succession planning.

We continue to focus on diversity and inclusion. In 2020, we ran a number of dedicated sessions through the year, including a focus on non-inclusive behaviours during Learning at Work Week, an introduction to Race at Work through the summer, culminating in National Inclusion Week, where we ran sessions each day on a variety of diverse topics including menopause, disability and LGBTQ+.

Our reward strategy is an important part of retaining the right skills and experience and reinforcing our culture. Ensuring we always deliver a fair outcome for our customers will remain at the forefront of our minds and so we ensure that any remuneration package relating to performance encourages the right behaviours and customer outcomes. We are committed to ensuring our rewards are future focused and relevant to all demographics and life stages of our people.

We seek to design an organisation that is fit for the future. This includes developing the roles, skills and organisational flexibility for a changing world, ensuring that our work is rewarding for our people and creating a great experience for our customers. We have a keen eye on the capabilities we require to continue to deliver for our customers.

During 2020 we have reviewed our behaviours framework, piloted a new performance management process and introduced OKRs (objectives and key results); these initiatives were designed to help colleagues have a greater connection to our strategic priorities and demonstrate how they can directly contribute towards them and our future ambitions. The full framework will be rolled out in 2021.

We have successfully launched a new benefits platform, providing all colleagues with a breakdown of their benefits and total benefit contribution, allowing them to pick and choose additional benefits that may suit their personal circumstances.

In addition, we are actively reviewing what our workforce of the future should look like, including flexibility and talent development, leadership and culture, premises and facilities, and technology. We aim to become an employer of choice and offer the best experience to our colleagues and customers.

A review of performance in the year against our Brilliant People priority is set out on pages 25 to 27.

Powered by Digital Technology and Data

Our powered by digital technology and data priority seeks to make the best use of technology and data to enhance our customer journeys, efficiency and decision making.

Digital Technology and Data is a key priority for the Society as we look to combine the best aspects of digital technology with our exceptional human touch to deliver outstanding customer service.

The Society operates an in-house IT platform which provides us with unique control over our core system technology and enables us to control the pace and nature of future technological advancements to improve internal efficiencies and customer journeys.

We underpin all key strategic decisions with data driven insight and analysis. During 2020 virtual analytics teams and change hubs have been established using agile methodologies. Colleague self-service capabilities have been rolled out to enable greater access to data and insight.

As part of our mortgage strategy, we are reviewing various customer journeys to ensure we deliver the best possible experience and our internal processes are as efficient and simple as possible. For a number of mortgage applications we are now able to deliver same day 'application to offer' by using new technology in mortgage processing including automated income verification, robotics and open banking.

The digital world is constantly changing and evolving meaning that we need to be smarter and more innovative in the way we use technology and it is even more important that our digital capabilities continue to be one of our key areas of investment and focus. We continue to develop the Skipton App making it even easier to use with biometrics or a short PIN, providing a very simple login experience, and as a result even more customers are engaging with us through this channel.

Investment in enhanced digital capability continues to be a particular area of focus to support and drive improvements to the customer experience.

Building on firm foundations – we are in control of our own IT destiny, with a strong level of digital maturity and investment in data strategy – we are well set to unlock further benefits and opportunities over the coming years.

A review of performance in the year against our Digital Technology and Data priority is set out on page 27.

Financial Strength

Our financial strength priority ensures we are able to deliver on our purpose for our current members and for generations to come. We achieve this by maintaining our strong capital position, as a result of sustainably growing our mortgage and savings balances, supplemented by dividends principally from our estate agency business, whilst applying strong cost control and a prudent approach to risk management.

Our financial strength priority is to maintain our strong capital and liquidity position, in order to be here for our members over the long term and to be able to weather challenging economic times, such as the current pandemic.

We have again grown our mortgage and savings balances in a sustainable way, and our mortgage balances remain mostly funded by retail deposits in line with our mutual ethos. We have responded proactively to meet our members' needs during these uncertain times, whilst also making use of longer term funding from the wholesale markets. This helps us to align the duration of our funding with the longer term mortgages our members have been seeking, but also allows us to broaden our wholesale funding base whilst continuing to offer competitive savings rates to our members. It is however also important to ensure that our funding costs are sustainable, allowing us to generate sufficient profits to maintain our capital strength for our current and future members.

The Group maintains sufficient levels of high quality liquid assets in order to support growth plans and recognise market uncertainty. Stress testing scenarios are regularly run to help ensure we remain within our liquidity risk appetite and meet all regulatory requirements. Extreme economic scenarios are also run to ensure our contingency plans remain robust.

Financial Strength *(continued)*

Close management of our cost base is a key component of our financial strategy, and we focus on driving efficiencies across all areas of our business in order to create capacity to invest in our people, processes and systems. In 2020, we have seen increased costs as safety measures and home-working provisions were introduced. In order to mitigate these increased costs, along with the fall in income and increased impairment charges, precautionary steps in carefully managing down costs where it has been sensible to do so has been a priority.

Proactively managing losses in our mortgage portfolios is also an important part of our objectives. We closely monitor and manage mortgages that have fallen into arrears and, where necessary, always aim to seek solutions that are appropriate for our borrowers and minimise the risk of the Society incurring financial loss. Over 25,000 borrowers took a payment deferral in the year, of which only 5% were still in place at the year end.

The Group's investment in its subsidiaries, primarily Connells, remains a key part of our financial strategy, creating additional financial strength for the Society through the regular receipt of dividend payments.

A review of our Financial Strength is set out on pages 28 to 39.

Economic and market background

The UK economic environment remains highly uncertain and COVID-19 still poses significant risks. It is uncertain how long coronavirus restrictions will remain in place and what the long term impact will be on the economy and the markets in which we operate.

Following the first lockdown, the stamp duty exemption, together with some pent-up demand, created increased demand in the housing market leading to market-wide increases in house sales and house prices. As a consequence, the housing market has recovered strongly. However, it remains unclear how long the economic impact of COVID-19 will last and whether there will be permanent scarring of the economy.

The unemployment rate, less than it would have been without colossal government support, has increased to its highest level in over three years as the pandemic continues to see a number of businesses close and jobs lost. Redundancies rose to their highest level since 2009 with a large number of them being focused in certain job sectors. If COVID-19 related restrictions persist it may have a further detrimental effect on unemployment, potentially pushing out the peak and subsequent recovery.

Weaker consumer spending, on which the UK economy is heavily dependent, has meant household savings have grown significantly over 2020. The longer term strength of the economic recovery will depend to an extent on whether households decide to run down their increased savings. Once government support for employees starts to unwind this year, we will likely see a rise in unemployment and potentially an increase in arrears and possessions.

Whilst the Group's UK focus means it is not necessarily directly impacted by Brexit, the medium to long term impacts of Brexit will unfold in due course. The associated uncertainty and the expected short term subdued economic growth could impact the Society and its subsidiaries.

The Society does however remain in a strong position, with strong capital and liquidity ratios, healthy and sustainable growth seen in mortgages and savings balances and good underlying profitability achieved despite the various challenges, and is therefore well placed to serve both current and future members. Performance during 2020 is discussed in more detail on the following pages.

Performance in the year

We monitor our progress against our vision and strategic goals using a number of key performance indicators (KPIs), aligned to each of our strategic priorities. These indicators are reported to the Board and senior management on an ongoing basis and are key to the Board's management of the business and to its decision making process.

Absolute Customer Focus

Key Performance Indicator	Strategic Goal		
Absolute Customer Focus			
Total member numbers (Society only)	To ensure we are attracting and retaining members	2020	1,061,138
		2019	1,046,294
		2018	1,010,426
Growth in membership numbers (Society only)*	To ensure we are attracting and retaining members	2020	14,844
		2019	35,868
		2018	91,366
Increase in member savings balances (Society only)	To help more members save for their future	2020	£1,343m
		2019	£1,234m
		2018	£1,154m
Group gross mortgage advances	To help us to meet our goal of helping more people into homes through prudent and controlled lending	2020	£4,472m
		2019	£4,894m
		2018	£4,329m
Group net mortgage growth	To help us to meet our goal of helping more people into homes through prudent and controlled lending	2020	£1,730m
		2019	£1,870m
		2018	£1,648m
Society net customer satisfaction score* (note 1)	To ensure we are putting the customer at the heart of our business	2020	85%
		2019	86%
		2018	94%
Society Financial Ombudsman Service (FOS) complaints - change in outcome rate (note 2)	To ensure we are treating customers fairly	2020	19%
		2019	23%
		2018	21%

*Included as a key measure in the Executive Directors' remuneration policy calculations. For further details see the Directors' Remuneration Report on pages 80 to 100.

Notes

1. As measured from an in-house survey of Society customers with 6,587 responses. The net customer satisfaction score is calculated by subtracting the percentage of customers who are dissatisfied (those scoring satisfaction with the Society as 1-3 on a scale of 1-7) from the percentage of customers who are satisfied (those scoring satisfaction as 5-7 on the same scale). This replaced, in 2019, the previous third party survey with 2,400 customer responses per year on which the 2018 comparative results are based and therefore 2018 results are not directly comparable.
2. For the six months ended 30 June 2020, being the latest available comparable market data.

Membership numbers

Over one million members place trust in us to help them manage their money, save for the future and secure homes of their own.

A key part of our strategy is to grow the Society's membership in a sustainable manner, bringing the benefits of membership to an increasing number of people going forward. In 2020, Society membership numbers grew by 14,844 to take our total membership base to 1,061,138. In previous years the cash Lifetime ISA (LISA), launched in 2017, has been a key driver in the growth in new members for the Society. Competition has now increased in this area along with heightened competition in the savings market from NS&I for most of the year. These factors contributed to subdued membership growth in 2020.

Customer experience

Central to our strategy is to ensure a truly customer centric proposition, focusing on providing an outstanding customer experience across all the ways our customers interact with us. One of the ways in which we monitor the success of this is by measuring net customer satisfaction. In 2020 net customer satisfaction was 85% (2019: 86%).

We know that COVID-19 has resulted in significant challenges for our members. We have responded quickly to these challenges and the changing environment, seeking to maintain high levels of customer service through these uncertain times.

Whilst we strive to get things right for our customers first time, every time, we recognise that on occasion things can go wrong and our customers may have cause for complaint. We aim to deal with these complaints efficiently and with empathy, putting right what has gone wrong. A measure of our success in doing this is the proportion of the Society's complaints going to the FOS that have their outcomes changed. The Society's change in outcome rate for the first six months of 2020 was 19% (full year 2019: 23%). This compared favourably with the financial services industry average of 31% for the first six months of 2020, being the latest available comparable market data (source: FOS complaints data (resolved cases)).

Products and services recognition

Independent third party recognition of our products and services is a key demonstration of the value we are delivering to our members. We received a number of awards for the quality of both our products and service offered, including the winner of The Personal Finance Awards 2020/21 for 'Best Overall Mortgage Lender' and winner of Money Age Awards 2021 for 'Building Society of the Year', 'First-time Buyer Mortgage Lender of the Year' and 'Diversity Initiative of the Year'. We also won 'Best National Building Society' in the What Mortgage Awards 2020.

Mortgage and savings balances

We remain committed to our purpose to help more people have a home and to help them save for their life ahead by offering competitive rates and attractive products, whilst maintaining high levels of customer service.

We grew Group mortgage balances by 8.6% (2019: 10.3%) whilst maintaining our prudent credit risk appetite. Despite the highly competitive mortgage market, our mortgage growth in the year was significantly ahead of the UK residential mortgage market where net mortgage growth was 3.0% (source: Bank of England statistics, December 2020), which demonstrates our success in delivering mortgage products and services that are valued by both new and existing Skipton members.

Gross mortgage advances totalled £4,472m (2019: £4,894m) across the Group during 2020. This year has been a challenging operating environment, but Skipton remains committed to supporting borrowers by providing access to a broad range of competitive mortgage deals. During the height of the pandemic Skipton temporarily scaled back high LTV lending, from 95% to 75% during the first lockdown before increasing it to 85%, to allow us to assess and manage emerging risks. In January of this year, we returned to lending at 90% to support home buyers. We have worked hard to make our proposition as widely accessible as possible given the uncertain economic environment, including accepting applications up to a maximum 60% LTV from those who have been furloughed, whilst also maintaining the high levels of service our brokers and customers have come to expect.

In 2020 Society savings balances grew by 7.7% (2019: 7.6%) compared to the UK savings market where net savings growth was 11.1% (source: Bank of England statistics, December 2020) due to the aforementioned heightened competition. We paid on average 0.38% higher interest than the rest of market average for banks and building societies in the 11 months to 30 November 2020, being the latest period for which comparable data is available (2019 full year: 0.54%) (Source: CACI Current Account & Savings Database Stock).

Brilliant People

Key Performance Indicator	Strategic Goal		
Brilliant People			
Employee engagement (Society only)* (note 1)	To ensure our people are passionate, loyal and committed	2020	90%
		2019	89%
		2018	89%

* Included as a key measure in the Executive Directors' remuneration policy calculations. For further details see the Directors' Remuneration Report on pages 80 to 100.

Note

1. As measured by Willis Towers Watson, an independent company who provide benchmarking on employee surveys in both the UK and globally.

Strategic Report *(continued)*

Employee engagement

Our people are fundamental to our success, and we are committed to providing a great environment for our people to work in, where their development and well-being is a key priority.

The delivery of the Society's people strategy is primarily measured by employee engagement which increased to 90% when measured in September 2020, well above financial services industry norms and an outstanding result in challenging times. Sustaining high engagement is achieved through a range of activities reflecting all aspects of our people strategy including learning and development, recruitment and reward. We were also proud that for the sixth year running we have been named as one of *The Sunday Times* Best Companies to Work For, achieving 8th place in the '25 Best Big Companies to Work For 2020' list.

We have been an Investors in People accredited organisation for over 25 years and it is an important part of helping us understand how our people practices measure up to other organisations. The review gives us an impartial view from outside the business and inspires us to continually develop as an organisation to attract the best talent and deliver the best services for our customers. We have maintained our Platinum accreditation, the highest accolade that can be achieved against this standard, which we have held now for four years.

Training and recruitment

To support the delivery of our strategy we have invested in attracting and developing the right people with the right skills in the Society. We're proud of the people who work at Skipton; with their enthusiasm and dedication to customers they strive to provide excellent customer service and in 2020 have gone above and beyond to maintain these standards. The resourcefulness of our colleagues has really shone through as they adapted to the changing needs of customers during lockdown.

We believe that, in addition to the obvious benefits for our people themselves, a happier and healthier workforce is better for our members. We continue to focus on maintaining good mental health and have 64 colleagues trained as mental health first aiders. They're able to support colleagues by noticing signs of poor mental health and talking through any issues.

Through our work with the Building Societies Association, to date five of our senior leaders have studied for a master's degree in strategic leadership at Loughborough University. We're also helping the next generation of leaders, and to further invest in the early careers of our young people, we have recruited another three apprentices onto our 'Connecting Our Futures' programme, and eleven onto our 'Aspiring Leaders' programme. We launched our graduate leadership programme with the first cohort starting in September 2021. This offers a great opportunity for recent graduates to join Skipton Building Society and get hands-on experience in a variety of roles to enable them to become future senior leaders at the Society.

Diversity and inclusion

We believe that encouraging a diverse and inclusive culture, representative of the world we live in, is an integral part of our core values at Skipton. This inclusive culture creates an environment where everyone is encouraged and able to fulfil their full potential, irrespective of their age, gender, ethnicity, any disability or sexual orientation.

We're committed to raising awareness of diversity and inclusion in our communities in an effort to make sure everyone is seen and heard. We take part in events throughout the year which help improve the understanding of different cultures. In September we participated in National Inclusion Week, where our theme was 'everyday inclusion'. We continued to provide unconscious bias training for our colleagues and encouraged them to talk about their own experiences.

We're working to improve awareness and understanding of both the mental and physical disabilities faced by our colleagues. We've joined the government's 'Disability Confident' scheme with the aim of becoming a more accessible Building Society. We are also working with AccessAble, an organisation that provides accessibility guides on thousands of venues across the UK.

We aim to make further progress to ensure our people feel valued, respected and able to perform to their potential. We seek to provide a work environment that is safe and accessible, free from unfair treatment, discrimination and harassment and gives fair access to learning, development, reward and promotion opportunities. We have a range of policies and practices which support these aims and monitor their application. In relation to gender specifically, the Society would like to see a higher representation of women amongst its senior leaders, which is 36% at present (2019: 32%). When we signed the Women in Finance Charter in 2019, we agreed to a number of pledges that we can measure over time. It also demonstrates our commitment to gender equality and supports our belief that diversity of thought results in a better Society for our customers. Progress reports against these pledges are included in our Gender Pay Report, published annually.

The number of employees of each gender employed in the Society and the Group as at 31 December 2020 is outlined below:

Society	Male	Female	Total	Percentage female
Executive Directors	4	-	4	**-**
Other Society senior leaders	43	26	69	**37.7%**
Senior leaders	**47**	**26**	**73**	**35.6%**
Non-Executive Directors	4	4	8	**50.0%**
Other employees	879	1,327	2,206	**60.2%**
	930	**1,357**	**2,287**	**59.3%**

Group	Male	Female	Total	Percentage female
Executive Directors (note 1)	4	-	4	**-**
Senior managers (note 2)	53	26	79	**32.9%**
	57	**26**	**83**	**31.3%**
Non-Executive Directors (note 1)	4	4	8	**50.0%**
Other employees (note 3)	4,094	5,261	9,355	**56.2%**
	4,155	**5,291**	**9,446**	**56.0%**

Notes
1. Society Board Directors only.
2. Consists of the Society's senior leaders (other than Executive Directors) and the Executive Directors of the subsidiaries.
3. Including senior managers of the subsidiaries.

More detailed reporting on diversity and pay by gender within the Society is available on our website, skipton.co.uk.

Powered by Digital Technology and Data

Key Performance Indicator	Strategic Goal	
Powered by Digital Technology and Data		
Percentage of online customers registered for the Skipton app (note 1)	To ensure our customers have access to the best aspects of digital technology	

Note
1. This is a new metric monitored throughout 2020 for which our target for the year was 44%. No comparisons are given for 2019 and 2018 when the data was not monitored under our strategic priorities.

Digital offering

Powered by Digital Technology and Data is a priority for us in the digital age, as we look to combine the best aspects of digital technology with our human touch to ensure we have a compelling digital offering and deliver outstanding customer service.

Our Digital Customer Service team are working in very different ways to represent Skipton in the digital space and deliver an excellent experience as a growing number of customers choose to interact with us through digital and social media platforms. This is reflected in our digital customer satisfaction score of 81% (2019: 69%).

The way our members choose to interact with us is changing and options such as webchat now make up around 30% of customer interactions with Skipton Direct. We are also increasingly using Skipton Link, our video conferencing system, in ever expanding ways. In 2020, we implemented new technology to allow members to open accounts via Skipton Link which includes being able to capture a digital signature without the need to visit a branch.

Forming part of our digital strategy, we have focused on development of digital accessibility, making ongoing accessibility improvements to skipton.co.uk.

Skipton app

We have registered over 188,000 members for the app since its launch in July 2019. We currently have 47% of our online customers registered for the app, which is providing them with instant access to a number of services and reducing the volumes of calls we have seen within Skipton Direct for these services.

We have plans to further increase the offerings on the app over the next year to continue to provide our members with access to the best aspects of digital technology.

Strategic Report *(continued)*

Financial Strength

Despite the challenging environment the Group recorded profits of £118.8m in 2020. Profits have however been impacted in the short term by a worsening of the economic outlook arising from the effects of the COVID-19 outbreak, significantly impacting the Group's loan impairment charges. Measures to prevent COVID-19 transmission, including the closure of the housing market and restrictions on physical valuations for a period of time, suppressed the income of both the Society and Connells. However, we saw good growth in both mortgage and savings balances within our risk appetite and invested further in the future of the Society, all while reducing our management expense ratio and upholding strong capital ratios and healthy levels of liquidity.

Key Performance Indicator	Strategic Goal	Year	Value	Discussed further
Financial Strength				
Total Group profit before tax	To ensure we generate the necessary capital to grow the business	2020	£118.8m	Page 33
		2019	£153.2m	
		2018	£188.7m	
Underlying Group profit before tax*	To ensure we generate the necessary capital to grow the business regardless of any costs or benefits not arising from the Group's ongoing trading operations	2020	£124.0m	Page 33
		2019	£155.2m	
		2018	£186.6m	
Group net interest margin (% of mean assets)	To manage the earnings of our core Mortgages and Savings division	2020	0.89%	Page 30
		2019	0.98%	
		2018	1.09%	
Mortgages and Savings division cost income ratio* (note 1)	To maintain a manageable cost base to ensure the business remains efficient	2020	63.3%	Page 33
		2019	60.2%	
		2018	56.2%	
Mortgages and Savings division management expense ratio	To maintain a manageable cost base to ensure the business remains efficient	2020	0.60%	Page 33
		2019	0.65%	
		2018	0.68%	
Group residential mortgages in arrears by three months or more (note 2)	To manage and monitor our arrears and credit risk management	2020	0.28%	Pages 36 and 37
		2019	0.25%	
		2018	0.29%	
Liquidity Coverage Ratio	To ensure we hold sufficient levels and quality of liquidity	2020	194%	Page 35
		2019	207%	
		2018	203%	
Group retail funding as a % of total funding	To ensure we fund the majority of our mortgages through retail savings, in line with our customer proposition	2020	79.0%	Page 37
		2019	79.8%	
		2018	81.6%	
Group Common Equity Tier 1 ratio (note 3)	To ensure the Group remains financially strong by having a strong (risk weighted) capital base	2020	39.7%	Page 38
		2019	39.1%	
		2018	32.8%	
Group Leverage ratio (note 4)	To ensure the Group remains financially strong by having a strong (non-risk weighted) capital base	2020	5.7%	Page 38
		2019	6.0%	
		2018	6.1%	

* Included as a key measure in the Executive Directors' remuneration policy calculations. For further details see the Directors' Remuneration Report on pages 80 to 100.

Notes

1. For the purposes of this ratio, costs and income exclude items that are not included in arriving at underlying Group profit before tax, as defined on page 29.
2. In line with regulatory guidance, customers granted mortgage payment deferrals are not being treated as in arrears (unless already in arrears) and therefore any impact of COVID-19 on arrears may be suppressed in the short term.
3. This ratio is calculated under the Internal Ratings Based (IRB) approach on a transitional basis; see page 38 for further details.
4. This ratio is calculated on an end-point basis; see page 38 for further details.

Alternative performance measures

The Board monitors and reports profits at both a statutory level, governed by accounting standards and practices, and at an 'underlying' level. The Board uses underlying profit to measure the progress of the Group against its strategic objectives and uses this measure to aid in strategic decision making in relation to the operation of the Group's business activities. As per the Group's policy on alternative performance measures as agreed by the Board Audit Committee, the following items are excluded from statutory profit to arrive at underlying profit: gains or losses on disposal of Group undertakings, impairment of Group undertakings, fair value movements in relation to the equity release portfolio, fair value movements in equity share investments / share warrants and the Financial Services Compensation Scheme (FSCS) levy.

This reflects the Group's current strategy and business model and the majority of these items are generated from the Group's investments in other entities not considered to be part of the Group's core strategy, and are excluded from underlying profit on that basis. The other items listed above are excluded from underlying profit on the following basis:

- Fair value movements in relation to the equity release portfolio and associated derivatives. Under IFRS 9, the Group's equity release portfolio is held entirely at fair value, as are the associated derivatives, with resulting gains / losses taken to the Income Statement and as a result, the Group is exposed to significant income statement volatility. Such gains / losses are therefore excluded from underlying PBT on the grounds that they are not reflective of the underlying trading performance of the business.
- Fair value gains or losses on equity share investments and share warrants are recognised through the Income Statement. As detailed above, we exclude any gains or losses from the disposal of Group undertakings and therefore on the same basis fair value gains / losses on equity share investments and share warrants are also excluded from underlying PBT.
- The FSCS levy in relation to the 2008/2009 banking failures (most notably Bradford and Bingley and the Icelandic banks) was added back or deducted in previous years to arrive at underlying profit as it was a significant cost borne by the Group as a result of the failure of a number of financial institutions and was not viewed as a long term ongoing cost to the Group. The credit received in 2019, which was deducted to arrive at underlying profit, represents a rebate in relation to the payment made in 2018 which represented the final payment made under the scheme in relation to these particular failures and thus this levy is not expected to represent a cost to the Group in future years.

Underlying profit provides greater transparency of the performance of the Group's ongoing trading activities and improves the comparability of information between reporting periods.

The Group reports a cost income ratio at a Mortgages and Savings division level, as shown in the table on page 28. Any items excluded from underlying profit are also excluded from the calculation of this ratio in order that this measure too provides greater transparency of the performance of the division's ongoing trading activities and improves the comparability of information between reporting periods.

Financial performance

Underlying Group profit before tax for the year was £124.0m (2019: £155.2m) as shown below. Underlying PBT by division is shown on page 33.

	2020 £m	2019 £m
Total Group profit before tax	**118.8**	153.2
Less profit on disposal of subsidiary undertakings	**(0.8)**	(1.1)
Add back fair value losses in relation to the equity release portfolio (note 1)	**2.7**	3.4
Add back impairment of goodwill	**2.0**	-
Add back impairment of joint ventures	**1.5**	-
Less fair value gains on share warrants and equity share investments	**(0.2)**	-
Less FSCS levy	**-**	(0.3)
Underlying Group profit before tax	**124.0**	155.2

Note

1. The £2.7m loss (2019: £3.4m) is comprised of fair value gains of £19.7m (2019: £6.0m losses) as shown in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement, and fair value losses of £22.4m (2019: £2.6m gains) on the associated derivatives held to economically hedge these fair value movements, as shown in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Other derivatives' line in the Income Statement.

For further details of the profit on disposal of subsidiary undertakings see page 31.

Strategic Report *(continued)*

A summary Group Income Statement is set out below:

	2020 £m	2019* £m
Net interest income	237.9	238.1
Net non-interest income	414.5	469.8
Fair value (losses) / gains on financial instruments mandatorily held at FVTPL	(0.2)	1.2
Fair value movements in relation to the equity release portfolio	(2.7)	(3.4)
Profits on disposal of treasury assets	0.6	2.4
Profit on disposal of subsidiary undertakings	0.8	1.1
Share of profits from joint ventures	3.4	1.7
Total income	654.3	710.9
Administrative expenses	(506.3)	(554.0)
Operating profit before impairment losses and provisions	148.0	156.9
Impairment losses on loans and advances to customers	(25.7)	(0.5)
Impairment (losses) / credit on liquid assets	(0.1)	0.2
Impairment of goodwill	(2.0)	-
Impairment of joint ventures	(1.5)	-
Realised losses on equity release portfolio	(0.1)	(0.5)
Provisions for liabilities	0.2	(2.9)
Total Group profit before tax	118.8	153.2
Tax expense	(21.8)	(30.8)
Profit after tax	97.0	122.4

* The comparative period has been re-presented as outlined in note 1b) to the Accounts.

The movements in the Income Statement during the year are attributable to the following key Income Statement items.

Net interest income

Our net interest income, the main source of income for the Mortgages and Savings division, was £237.9m (2019: £238.1m). The Group net interest margin, a key profitability and performance indicator that measures net interest income as a percentage of mean total assets, reduced to 0.89% (2019: 0.98%).

The two Bank Base Rate cuts announced by the Bank of England in March 2020, reducing it to a record low of 0.1%, contributed to a reduction in net interest margin early in the year. However, in the second half of the year margins were marginally higher than the first half as competition in the savings market reduced and demand for mortgages increased, reflecting a stronger housing market.

The housing market has recovered well following the stagnation during COVID-19 restrictions in April and May; a combination of pent-up demand and the temporary stamp duty waiver fuelled the property market and we saw record numbers of mortgage applications in the second half of the year. However, strong competition for savings from National Savings & Investments (NS&I) resulted in increases in costs of funding until NS&I significantly reduced its rates prior to the year end.

Whilst retail savings remain the primary source of funding, we also make use of longer-term funding from the wholesale markets to minimise refinance risk, accessing funds from a number of diverse sources. In February 2020 we completed our fifth securitisation deal and in October 2020 we issued our first senior non-preferred bond, further details of which can be found on page 39.

Net non-interest income

The Group's net non-interest income (or 'other income') by division is set out below:

	2020 £m	2019* £m
Mortgages and Savings	24.5	29.7
Estate Agency	375.7	425.9
Investment Portfolio	24.8	26.9
Inter-divisional adjustments^	(10.5)	(12.7)
	414.5	469.8

^ Inter-divisional adjustments relate primarily to the elimination of inter-divisional trading.

* The comparative period has been re-presented as outlined in note 1b) to the Accounts.

The majority of the Group's other income is generated by the Estate Agency division, which saw significant disruption to its operating environment during the first national lockdown and a reduction in net non-interest income of £50.2m compared to 2019. Despite the closure of branches for two months, Connells' quick response to changing circumstances allowed it to take advantage of pent-up demand in the second half of the year. Details of Connells' performance can be found on pages 34 and 35.

The Mortgages and Savings division's net non-interest income, which is predominantly made up of financial advice activities, was £24.5m (2019: £29.7m). Financial advice income levels were impacted by more limited opportunities to generate new business during COVID-19 restrictions especially due to a reduction in branch transactions and interactions. Nevertheless, through the use of remote technology, servicing and interaction with existing financial advice customers was maintained.

The Investment Portfolio's net non-interest income was £24.8m (2019: £26.9m). Jade Software Corporation saw a reduction of £1.5m as the economic environment impacted its growth in new customers. Whilst Skipton Business Finance continued to generate good profits, it saw net non-interest income fall by £0.6m compared to 2019, with decreased client sales leading to reduced income.

The inter-divisional adjustments of £(10.5)m (2019: £(12.7)m) relate predominantly to income recognised in Connells in relation to fees paid by the Society to Connells for introducing mortgage customers and for surveys and valuations carried out by Connells for the Society and SIL. The corresponding cost to the Society and SIL is spread over the expected life of the mortgage product through net interest income.

Fair value movements in relation to the equity release portfolio

The Society's legacy equity release portfolio, which was acquired on merger with Scarborough Building Society in 2009, is held at fair value with any fair value gains or losses taken to the Income Statement. The Group holds derivatives to economically hedge these fair value movements, which are also held at fair value. As these derivatives are not designated as being in a hedge relationship for accounting purposes under IFRS 9, fair value movements in the derivatives do not exactly offset the fair value movements in the portfolio, thus income statement volatility arises. For the year there was a fair value gain of £19.7m on the portfolio and a £22.4m loss on the associated derivatives. The fair value movements are driven by changes in market expectations of long term interest rates, inflation and house price growth. The equity release portfolio is less sensitive to these movements than the associated derivatives as the mortgage cash flows are discounted more heavily than the associated derivatives, therefore creating volatility in the net fair value. The net fair value loss of £2.7m is excluded from underlying profit, as shown in the table on page 29.

Profit on disposal of subsidiary undertakings

The profit on disposal of subsidiary undertakings during the year was £0.8m (2019: £1.1m).

The sale of Homeloan Management Limited (HML) to Computershare in 2014 included contingent consideration dependent on HML's performance over a period following the disposal. This resulted in contingent consideration being receivable by the Group of £32.5m between 2018 and 2022. The third instalment of £6.4m, out of a total of five, was received by the Group in May 2020 (May 2019: £6.2m) and the discounted contingent consideration asset stands at £12.3m at 31 December 2020 (2019: £17.9m). The profit recognised in the year of £0.8m (2019: £1.1m) comprises the unwind of the discounted cash flows.

Administrative expenses

The Group's administrative expenses by division are set out below:

	2020 £m	2019 £m
Mortgages and Savings	160.5	156.6
Estate Agency	324.0	373.4
Investment Portfolio	22.8	24.9
Sundry incl. inter-divisional adjustments^	(1.0)	(0.9)
	506.3	554.0

^ Sundry including inter-divisional adjustments relates to the elimination of inter-divisional trading and also includes the cost of the long-term management incentive scheme for the senior managers at Connells Limited.

Administrative expenses across the Group decreased by £47.7m (8.6%) to £506.3m (2019: £554.0m) largely due to the reduction in expenses in the Estate Agency division that saw closure of all branches for two months of the year.

During 2020, in response to the current economic environment the Mortgages and Savings division reassessed its cost base to identify additional cost savings as the Society responded to help mitigate some of the fall in income and increased impairment charges seen. The Society has also taken necessary steps to restructure certain departments, with a small number of redundancies, based on the changing needs of the organisation and to better serve our customers in the future. Despite increased costs as we introduced safety measures and home-working provisions as a result of COVID-19, the cost base has remained relatively flat which has been achieved due to the Society taking precautionary steps in reducing and/or delaying non-essential spend because of the pandemic. This is reflected in an improved management expense ratio of 0.60% (2019: 0.65%).

Connells' administrative expenses of £324.0m decreased by 13.2% compared with 2019 (£373.4m). Along with reductions in variable costs resulting from lower income, Connells took swift and decisive actions to manage cash outflows. The closure of the housing market meant that Connells placed the majority of colleagues on furlough during the period and received a grant under the Coronavirus Job Retention Scheme of £21.2m (netted off against administrative expenses) to cover a portion, up to 80% or £2,500 per employee, of their usual monthly wage costs. Connells supported its people during the furlough period by paying them 100% of basic pay from March to July and any commissions due during this time to those not required to work, above the Government's support of 80% (up to £2,500 per month). Connells have also taken business rates relief in the period which was automatically applied by the Government for retail, hospitality and leisure businesses. Further details of government assistance taken in the year can be found in note 5 to the Accounts.

Strategic Report *(continued)*

The movement in sundry / inter-divisional adjustments predominantly relates to the intra-Group adjustment between the Mortgages and Savings and Estate Agency divisions, as described on page 35, and resulted in a credit to administrative expenses in the year of £1.2m (2019: £1.9m credit). The remaining movement in sundry / inter-divisional adjustments is mainly in respect of the long-term management incentive scheme in place for Connells' senior management; this was a charge of £1.2m (2019: £1.8m charge). The management incentive scheme cost is based on a number of assumptions relating to the future performance of the Estate Agency division and is in place to retain the high performing management team at Connells in order to safeguard the financial contribution this business makes to the Group.

Impairment on loans and advances to customers

Impairment on loans and advances to customers for the Group was a charge of £25.7m during the year (2019: £0.5m) and is broken down as follows:

	2020 £m	2019 £m
Residential mortgages	13.7	0.5
Commercial mortgages*	11.5	(0.2)
Other loans	0.5	0.2
	25.7	0.5

* Also known as loans fully secured on land.

Ongoing management of our credit risk exposure is a key strategic focus for the Group in order to keep losses to the Group to a minimum and help our customers through financial difficulties wherever possible.

The impairment charge on residential loans and advances to customers for the Mortgages and Savings division was £13.7m (2019: £0.5m). In line with IFRS 9 accounting rules, expected loan impairment charges need to be booked upfront before a loss event arises. The key driver for the increase in loan impairment charges is the changes made to the Society's forward-looking economic assumptions which have been updated to reflect the expected adverse economic impact caused by the COVID-19 pandemic; full details can be found in note 1u) to the Accounts. The worsening economic outlook has resulted in an increase in the migration of residential loans to stage 2 for which lifetime losses are held and this in turn has increased our overall coverage to 0.11% (2019: 0.05%) (see note 40a)i) to the Accounts for further details). The charge also takes account of the credit risk associated with the support measures provided to borrowers through mortgage payment deferrals, recognising that in some cases borrowers may experience longer term financial difficulty. For further details of these support measures see note 40a)i) to the Accounts.

The commercial lending portfolio of £219.0m has been closed to new business since 2008. Arrears levels within the portfolio remain low, however there was a charge to the Income Statement in the year of £11.5m for the impairment allowance on this portfolio (2019: £0.2m credit), again driven by the change in forward-looking economic assumptions. We are also providing support through concessionary arrangements with commercial customers who have been financially affected by COVID-19 which has also led to an increase in overall impairment and this in turn has increased our overall coverage to 8.13% (2019: 2.75%). More than 60% of customers offered concessionary arrangements in the year were within the retail, leisure and hospitality sectors which makes up 11.4% or £24.9m of the commercial lending portfolio, and around a further 20% were from the office sector.

Taxation

The Group's effective tax rate is 18.9% (2019: 20.3%) compared with the standard rate of UK Corporation tax of 19.0% (2019: 19.0%). The rate for the year is increased by expenditure disallowable for tax purposes and reduced by the lower tax rate in Guernsey which applies to the taxable profits of Skipton International Limited.

The effective tax rate for the Society is 13.4% (2019: 15.5%). The major impact on the effective rate of tax is the non-taxable dividend income received of £12.4m (2019: £38.5m). This is partially offset by the £1.1m (2019: £3.6m) impact of the 8% surcharge on taxable profits above £25m, resulting in a tax charge of £7.1m (2019: £17.3m).

The table below shows the total UK tax contribution borne by the Group in the year:

UK taxes borne in the year	2020 £m	2019 £m
Corporation tax	27.1	33.3
Taxes on property	4.4	8.1
Employment taxes	30.4	31.0
Irrecoverable VAT	10.0	9.9
	71.9	82.3

More detailed tax disclosures are provided in notes 9 and 30 to the Accounts and in the Country by Country Reporting section on pages 234 and 235. Further details of the Group's taxation strategy can be found at www.skipton.co.uk/about-us/governance.

Other comprehensive income

During the year the Group recorded a net expense of £23.5m through other comprehensive income (net of tax) (2019: net expense of £6.8m). The 2020 figure includes a £22.7m loss (before tax) (2019: £0.5m profit) from the re-measurement of retirement benefit obligations, with further details provided in note 31 to the Accounts. Various other movements in the Group's fair value, cost of hedging, translation and cash flow hedging reserves account for the remainder of the overall movement.

Performance by division

The Group's total profit before tax by division was as follows:

	2020 £m	2019 £m
Mortgages and Savings	64.6	100.8
Estate Agency	51.8	50.1
Investment Portfolio	3.6	4.0
Sundry incl. inter-divisional adjustments^	(1.2)	(1.7)
Profit before tax	118.8	153.2

^ Sundry including inter-divisional adjustments relate primarily to the elimination of inter-divisional trading, the impact of the Connells long-term management incentive scheme (£1.2m charge; 2019: £1.8m charge), and additional profit on disposal recognised in relation to the sale of HML in 2014 (£0.8m; 2019: £1.1m).

Statutory profit before tax in the year was £118.8m, compared to £153.2m in 2019, driven principally by the reduction in underlying profits outlined below.

The Group's underlying profit before tax by division, determined in the same way as underlying Group PBT (as defined on page 29), was as follows:

	2020 £m	2019 £m
Mortgages and Savings	67.3	103.9
Estate Agency	55.1	50.1
Investment Portfolio	3.6	4.0
Sundry incl. inter-divisional adjustments^	(2.0)	(2.8)
Underlying Group profit before tax	124.0	155.2

^ Sundry including inter-divisional adjustments relate primarily to the elimination of inter-divisional trading and the cost of the Connells long-term management incentive scheme.

The Group's underlying profit before tax in the year was £124.0m (2019: £155.2m). The decrease in the Mortgages and Savings division's underlying profits to £67.3m (2019: £103.9m) largely reflects the material increase in mortgage impairment arising from a more pessimistic view of the economic outlook. Group mortgage and savings balances have seen good growth, of 8.6% and 7.7% respectively (2019: 10.3% and 7.6% respectively).

The Estate Agency division delivered a robust performance with underlying profits of £55.1m (2019: £50.1m). Income was heavily impact by the closure of Connells branches to the public on 23 March in line with Government guidelines. However, management responded quickly by reducing capital and other discretionary spend, while also benefitting from £21.2m of grants during the year under the Coronavirus Job Retention Scheme. Adhering to strict new protocols surrounding personal protective equipment (PPE) and social distancing, Connells reopened to the public on 25 May following a change in government guidelines. Connells' quick response to changing circumstances allowed it to take advantage of pent-up demand in the second half of the year and deliver strong profits.

The Investment Portfolio, whilst impacted by reduced income, delivered underlying profits of £3.6m (2019: £4.0m) with Skipton Business Finance generating a profit of £3.6m (2019: £4.0m) whilst Jade Software Corporation broke even during the year (2019: broke even).

The charge for sundry / inter-divisional adjustments during the year is predominantly as a result of a charge with respect to the Connells long-term management incentive scheme of £1.2m (2019: £1.8m charge). For further details, refer to the administrative expenses section on pages 31 and 32 of this report, and for details of the calculation and the assumptions used see note 28 to the Accounts.

Mortgages and Savings

Despite a material increase in mortgage impairment arising from a more pessimistic view of the economic outlook and continuing margin pressures due to the low interest rate environment, the Mortgages and Savings division reported underlying pre-tax profits for the year of £67.3m (2019: £103.9m).

Suspension of in-person house valuations at the end of March impacted on the range of mortgage products, particularly in the high loan-to-value (LTV) range, that we could offer in the short term. However, our agile response to expand the use of different valuation techniques has meant we were able to continue to offer mortgages up to 75% LTV throughout the restrictions, and we increased this to 85% LTV from June following the restoration of physical valuations. As of January this year, we have also re-introduced lending at 90% LTV to support homebuyers.

Despite extenuating circumstances, our broad range of competitive mortgage products and strong intermediary partnerships have contributed to continued growth in our mortgage book during 2020 of 8.6% (2019: 10.3%), without compromising the quality of our mortgage assets.

It has been a challenging year where we have seen the Bank Base Rate set by the Bank of England fall from 0.75% to 0.1% in the period and this has reduced the average savings rates we can offer our customers. We remain alert to how the ongoing low interest rate environment impacts our savers and we continue to offer rates above the market average, helping us to grow our retail savings balances by £1.3bn (or 7.7%) up to £18.7bn.

The financial advice part of the business generated £25.2m of income (2019: £29.3m), with funds under management totalling £3.5bn (2019: £3.4bn). Significant market volatility has impacted funds under management and we have seen reduced customer appetite for investments combined with restrictions on accessing advice through the branch network. However, as we adapted our approach to continue to provide service to our customers, we have seen a sevenfold increase in the use of Skipton Link video services for financial advice appointments compared to last year.

The division saw a small increase in costs during the year of £3.9m to £160.5m as outlined on page 31. Increased activity, inflationary increases and the aforementioned pressures on margins contributed to an increase in the cost income ratio to 63.3% (2019: 60.2%). Despite this, the management expense ratio improved to 0.60% (2019: 0.65%) as we continue to focus on efficiencies.

Strategic Report *(continued)*

The charge for mortgage impairment losses was £25.2m (2019: £0.3m) as discussed on page 32, and the provisions for liabilities charge for the division was a £0.5m charge (2019: £1.2m credit). Further details of provisions movements in the year can be found in note 29 to the Accounts.

We closely monitor and manage mortgages that have fallen into arrears. The quality of the Group's lending remains high, and during the year the proportion of residential mortgage accounts in arrears by three months or more remained low at 0.28% (2019: 0.25%).

The division's Channel Islands operation, SIL, had another strong year, achieving profits of £19.9m (2019: £21.2m) as it grew its mortgage and savings balances to £1.6bn and £1.9bn respectively (2019: £1.4bn and £1.6bn respectively). The quality of the SIL mortgage book remains good, with only one case in arrears by three months or more (2019: no cases). SIL is based in Guernsey where COVID-19 lockdown restrictions were lifted in full from 20 June, although border controls still remained in place for the rest of the year. SIL has been managing COVID-19 related forbearance requests on a case-by-case basis and as at 31 December 2020, less than 0.1% of total mortgage accounts required a full payment break and 0.2% of total mortgage accounts transferred to interest only arrangements on a short term basis.

Our specialist lending businesses, Amber and NYM, reported an aggregate profit before tax of £3.8m (2019: £8.3m). Due to the specialist nature of these mortgage portfolios, loan impairment provisions and arrears are generally higher than those reported in the Society, and the aim of these businesses is to manage the mortgage portfolios carefully with a view to running down these closed books over time. During the year the number of mortgages in arrears by three months or more increased but still remained relatively low at 3.4% (2019: 2.1%), and the aggregate mortgage balances in these businesses decreased to £598m (2019: £659m).

Estate Agency

The Group's estate agency operations are carried out through the Connells group. Performance highlights are outlined below:

	2020	2019*
Total income (note1)	£378.6m	£427.7m
Profit before tax	£51.8m	£50.1m
Movement in:		
Estate agency property exchanges	-16%	-7%
Residential lettings properties under management	+0%	+2%
Number of mortgages arranged	-2%	-2%
Surveys and valuations completed	-15%	+0%
Number of conveyancing transactions arranged	-20%	+1%

* The comparative period has been re-presented as outlined in note 1b) to the Accounts.

Note
1. Total income is as defined in note 42 to the Accounts 'Group segmental reporting'.

The Estate Agency division reported a profit before tax for the year of £51.8m (2019: £50.1m). The onset of the COVID-19 pandemic and the first UK lockdown, announced on 23 March 2020, had significant implications on Connells' operations, as it closed its branch network, in line with government instructions. It was unable to carry out surveys and valuations and perform other services during that time. Consequently, management made use of the Government's Coronavirus Job Retention Scheme (CJRS) and placed 78% (at the peak) of its people on furlough during this period. Nevertheless, as Connells fulfils an important role in the housing market and the UK economy, it continued to work during the shutdown to ensure that sales which could complete went ahead.

Impacted by the effects of COVID-19, total income reduced to £378.6m in 2020, a fall of 11% on the prior year (2019: £427.7m). Management reacted to this fall in income by reducing capital expenditure and minimising all other areas of discretionary spend in order to protect Connells' cash position. As noted above, Connells benefitted from elements of government support, including the CJRS, business rates relief and retail premises grants totalling £25.7m; further details are included in note 5 to the Accounts. Consequently, administrative expenses fell by £49.4m (13%) in the year to £324.0m.

Management's priority throughout the COVID-19 pandemic has been the health, safety and well-being of its people and customers. Management communicated with those employees on furlough, and is proud to have protected their incomes by continuing to pay 100% of basic pay from March to July and any commissions due during this time to those not required to work, above the minimum of 80% (up to £2,500 per month) set by the Government. Connells' executive team also voluntarily withdrew from their 2020 bonus scheme. Connells invested heavily in personal protective equipment (PPE), devised comprehensive working practices and rolled out training to allow for a safe and secure environment for its people and customers.

Following the re-opening of the UK housing market in May, activity levels improved considerably, helped by the stamp duty holiday announced by the Government from 15 July 2020 to 31 March 2021. Despite various local and national restrictions being imposed by the Government during the second half of the year, top line results remained ahead of the prior year during this period.

The number of properties that Connells exchanged contracts on during the year was 16% lower than in 2019, a creditable performance given the shutdown. Connells' financial services proposition continues to perform strongly and the number of mortgages arranged fell by only 2% despite the challenging environment. The number of properties under management remained flat during the year and total lettings income was 4% lower than 2019, largely due to 2020 being the first full year following the tenant fee ban. Connells Survey & Valuation was impacted significantly by the lockdown, as surveyors were unable to carry out physical visits. This caused the total number of survey and valuations completed in 2020 to fall by 15% compared to 2019.

The total value of lending generated for UK mortgage providers during 2020 increased to £10.9bn (2019: £10.7bn) and the Connells group remains focused on helping more customers to buy homes or reduce their mortgage outgoings by providing them with a good experience and outcome.

In December 2020, Connells announced an agreement with Countrywide plc's board and its major shareholders to acquire Countrywide for cash consideration of £134.3m. Countrywide is a property services group with over 600 branches across the UK. The Connells board believes that the expertise within the group's management team will be able to drive improved profitability for Countrywide and the enlarged group.

Investment Portfolio

The Investment Portfolio reported a profit of £3.6m during the year (2019: £4.0m). Skipton Business Finance Limited (SBF) (a provider of debt factoring and invoice discounting to small and medium-sized enterprises) produced a pre-tax profit for the year of £3.6m (2019: £4.0m). Profit for the year was strong despite being adversely impacted by COVID-19, with decreased client sales leading to reduced income, whilst impairment provisions have also increased to reflect the challenges being faced by clients as a result of the pandemic.

SBF successfully gained accreditation to partake in the Government's Coronavirus Business Interruption Loan Scheme (CBILS) and the Government's Bounce Back Loans Scheme (BBLS). This enables SBF to offer BBLS loans with the Government guaranteeing 100% of all future losses, and CBILS loans with the Government guaranteeing 80% of any future losses, in order to help its SME clients through these challenging economic times.

Jade Software Corporation (a software solutions provider specialising in delivering digital business solutions and the provider of the Society's core database and software development language), broke even (2019: broke even) as the economic environment impacted its growth in new customers.

Sundry, including inter-divisional adjustments

Sundry, including inter-divisional adjustments, of a £1.2m charge (2019: £1.7m charge) mainly comprises a £1.2m charge (2019: £1.8m charge) in respect of the Connells long-term management incentive scheme and profit in relation to contingent consideration on the 2014 disposal of HML of £0.8m (2019: £1.1m), as described on page 31 of this report. For further details on the charge for the management incentive scheme refer to the administrative expenses section on pages 31 and 32 of this report, and for details of the calculation of the scheme and the assumptions used see note 28 to the Accounts.

Other inter-divisional adjustments during the period of £0.8m expense (2019: £1.0m expense) relate to the elimination of inter-divisional trading, which is primarily in respect of introducer and valuation fees paid by the Society and SIL to Connells, as well as certain costs incurred by Connells in relation to this. The income and costs are recognised up-front by Connells but on consolidation are spread over the expected life of the mortgage product through net interest income.

Financial position

A summary Statement of Financial Position is set out below:

	2020 £m	2019 £m
Assets		
Liquid assets	5,467.5	4,522.6
Loans and advances to customers held at amortised cost	21,865.0	20,065.6
Loans and advances to customers held at FVTPL	1.3	1.5
Equity release portfolio held at FVTPL	433.8	410.0
Derivatives	64.1	38.5
Fixed and other assets	431.7	451.2
Total assets	28,263.4	25,489.4
Liabilities		
Shares	18,709.4	17,364.1
Borrowings	6,732.0	5,797.8
Derivatives	445.9	361.1
Other liabilities	279.1	292.6
Subordinated liabilities	349.7	-
Subscribed capital	41.6	41.6
Reserves	1,705.7	1,632.2
Total liabilities and equity	28,263.4	25,489.4

Our financial position is analysed below by our key balance sheet areas – liquidity, loans and advances to customers, retail funding and wholesale funding.

Liquidity

The Group continues to hold strong levels of liquid assets to ensure it can meet its liabilities as they fall due and to help mitigate the current economic uncertainty arising from the COVID-19 pandemic. The Liquidity Coverage Ratio (LCR), a measure designed to ensure that financial institutions have sufficient high quality assets available to meet their liquidity needs for a 30 day liquidity stress scenario, was 194% at 31 December 2020 (2019: 207%).

The Group's liquidity levels are closely managed by senior management and have remained above internal and regulatory limits throughout the period. Liquid assets at 31 December 2020 were £5.5bn (31 December 2019: £4.5bn), providing the Group flexibility in what may be an unpredictable market. Whilst the LCR is lower than December 2019, the Society also has access to the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME), where additional liquidity can be accessed through to 31 October 2021.

Strategic Report *(continued)*

At 31 December 2020, the Society held £4.2bn (2019: £3.6bn) of High Quality Liquid Assets (HQLA) as analysed below:

	2020 £m	2019 £m
Balances with the Bank of England	3,163.6	1,732.2
Gilts	105.2	291.9
Treasury Bills	-	510.1
Fixed rate bonds	429.3	445.8
Floating rate notes	204.6	204.2
Residential mortgage backed securities	101.0	143.5
Covered bonds	202.8	252.4
	4,206.5	3,580.1

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

	2020 £m	2019 £m
Cash with other institutions	40.4	29.1
Certificates of deposit	-	31.0
Residential mortgage backed securities	7.4	-
	47.8	60.1

The above tables showing HQLA and non-HQLA are different to the total amount of liquid assets held within the Society's Statement of Financial Position (£5.6bn) due to certain items that are excluded from the above tables, such as liquid assets used as collateral and those used in repurchase, or 'repo', transactions.

The Group's treasury investments are held to provide liquidity and 99.9% (2019: 98.1%) of the Group's treasury investments, excluding exposures to a central clearing house used to clear derivatives to manage interest rate risk in line with regulation, are rated A3 or better. The Group's policy is that initial investments in treasury assets are typically A3 or better (with the exception of some unrated building societies where separate credit analysis is undertaken).

The Net Stable Funding Ratio (NSFR) is a longer term stable funding metric, which measures the stability of our funding sources relative to the assets (e.g. mortgage balances) we are required to fund. The Group's NSFR (147.4% at 31 December 2020; 147.5% at 31 December 2019) is well in excess of the regulatory requirement of 100%, confirming that the Group holds sufficient stable funding to meet the new requirement.

When measured as a percentage of shares, deposits and borrowings, the liquidity ratio remained strong at 21.5% compared with 19.5% at 31 December 2019. The Group regularly conducts an Internal Liquidity Adequacy Assessment Process (ILAAP) in accordance with the Prudential Regulation Authority's (PRA) liquidity guidelines and the Board remains satisfied that the Group has sufficient liquid assets at its disposal in order to meet its obligations as they fall due.

Loans and advances to customers

Lending to our members is at the core of the Society's purpose. The majority of the Society's mortgage lending is secured on residential property, including owner-occupied and buy-to-let mortgages. The Group also holds the Amber and NYM specialist lending portfolios and a legacy commercial mortgage portfolio, all of which ceased lending in 2008.

During the year, as a consequence of the pandemic and the shutting down of the economy, the Group temporarily scaled back high LTV lending, which it is still to return to in full. However, the Group continues to grow its mortgage assets in a controlled manner, lending within clearly defined risk appetites through both the Society and SIL. During the year, the Group achieved strong net mortgage growth of 8.6%, with net mortgage lending totalling £1.7bn (excluding impairment and fair value adjustments for hedged risk) (2019: £1.9bn). The Group's new lending, delivered through both mortgage intermediaries and our own distribution channels, amounted to £4.5bn (2019: £4.9bn). The Society was able to achieve strong net growth in the mortgage book through improved retention and taking advantage of high demand in the market, which was made possible within our risk appetites due to the strong capital position of the Group.

For a period of time Government restrictions prevented physical valuations of properties. The extended use of different valuation techniques, quickly implemented for lending up to 75% LTV, enabled the Society to continue to lend to a broad spectrum of borrowers, within our risk appetite, throughout the year. We consider our new lending to remain prudent and the mortgage book is well diversified by geographical location.

The Society's average residential loan-to-value (LTV) ratio (calculated on a valuation-weighted basis) on new lending has fallen slightly to 54.2% (2019: 56.2%). The average valuation-weighted LTV on the Group residential mortgage book remained low at 44.8% (2019: 46.8%).

Our well-managed spread of risk ensures that the quality of the Group's lending remains high, making us well placed to deal with any uncertainty ahead. This is evidenced by our low proportion of residential mortgage accounts in arrears by three months or more which remained low at 0.28% (2019: 0.25%), or 0.29% (2019: 0.25%) excluding non-UK lending, which compares with the industry average of 0.83% (2019: 0.72%) of UK mortgages in arrears by more than three months (source: UK Finance).

Despite the challenges caused by COVID-19 the performance of residential mortgages has remained stable throughout 2020. Arrears have remained low, in part due to the government support schemes. In 2020, the Group has supported over 25,000 customers with a COVID-19 payment deferral. The Government's furlough support scheme means that many of our customers whose jobs may have otherwise been at risk have received significant support from the Government.

The mortgage balances of Amber and NYM continued to run off during the period, with the average LTV reducing to 50.9% from 54.0%. Close monitoring of the Group's exposure to potential losses on these outstanding loans remains a key part of our credit risk strategy.

The Group's commercial mortgage portfolio reduced in the year by 7.5% to £219.0m. The average LTV of this portfolio reduced to 48.7% from 49.1% and the proportion of accounts in arrears by three months or more in this portfolio increased to 2.58% (2019: 0.62%). The COVID-19 pandemic has caused challenges for many businesses and the Society's portfolio of commercial mortgages has been impacted. Many of our commercial customers have seen business operations negatively impacted, particularly in the leisure and retail sectors. This led to increased levels of arrears as we saw a range of customers enter into concessionary payment arrangements.

We support our customers who find themselves in financial difficulty and where appropriate we will apply a policy of forbearance which could include arrears capitalisation, a reduction in the monthly payment, a payment deferral, a conversion to interest only or a mortgage term extension, based on the customer's individual circumstances and needs. Ensuring a fair outcome for our customers is central to our strategy of forbearance, and further details on this can be found in note 40 to the Accounts.

Funding

The Society continues to manage the mix of retail and wholesale funding in the best interests of our members but remains primarily funded by retail savings. Optimising our mix of retail and wholesale funding is essential to the Group achieving both its retail savings and lending growth objectives. We maintain a diverse funding portfolio to prevent over-reliance on one source and, taking into consideration the term profile of our lending, closely manage the term of our funding in order to manage the risks of duration mis-match.

During the year, we took the opportunity to raise wholesale funding both to diversify our portfolio and take advantage of favourable funding rates. This reduced slightly the proportion of funding from retail savings to 79.0% (2019: 79.8%), which is in line with our balance sheet strategy.

Retail funding

As a mutual building society we remain committed to providing savers with competitive returns along with offering excellent customer service, which is reflected in the increase in retail savings balances of 7.7% during the year, as detailed on page 25.

In addition to our UK retail funding, the Group also accepts deposits through our Channel Islands based subsidiary, SIL. SIL has increased its funding base in the year, to £1.9bn (2019: £1.6bn). These balances are included in 'Amounts owed to other customers' within the Group Statement of Financial Position.

Wholesale funding

At 31 December 2020, £4.8bn (2019: £4.2bn) of our funding came from the wholesale markets, analysed as follows:

	2020 £m	2019 £m
Repo and other secured agreements	2,100.9	1,653.4
Deposits	240.7	197.1
Certificates of deposit	14.1	-
Senior unsecured funding	66.5	349.1
Covered bonds	1,889.7	1,889.1
Securitisation	465.0	100.4
Fair value adjustments	17.2	(36.0)
	4,794.1	4,153.1

The Group's wholesale funding balances in the above table exclude offshore funding in our Channel Islands based subsidiary, SIL, as shown below:

	2020 £m	2019 £m
Amounts owed to credit institutions	2,149.2	1,678.3
Amounts owed to other customers	2,130.3	1,816.9
Debt securities in issue	2,452.5	2,302.6
Less: SIL funding	(1,937.9)	(1,644.7)
	4,794.1	4,153.1

In February 2020, the Society successfully completed its fifth securitisation transaction through Darrowby No. 5 plc, allowing the Society to raise £500m of funding. In the same month, the Society repaid £400m of funding under the Government's Term Funding Scheme (TFS).

At 31 December 2020 the Society had £1,250m of TFS outstanding (2019: £1,650m). The Society has been accepted as a participant in the new TFSME and during the year the Society has drawn down £850m under the scheme.

The credit ratings of the Society are assigned by two major credit rating agencies, Fitch and Moody's. In November 2020, Fitch affirmed the Society's long-term rating of A- and short-term rating of F1. The outlook was revised from Stable to Negative in the year, reflecting the wider economic and financial market fallout from the COVID-19 outbreak. Our Moody's rating has also remained unchanged with a long-term rating of Baa1 and a short-term rating of P-2. The ratings reflect the continued financial strength of the Society, which compares favourably to other larger building societies, but recognise the downgrading of the UK's sovereign ratings. Our credit ratings are summarised in the table below:

	Long-term	Short-term	Outlook	Date of last change of rating
Fitch	A-	F1	Negative	26 May 2016
Moody's	Baa1	P-2	Stable	10 April 2017

The Class A Notes of our rated securitisation transactions (Darrowby No. 4 plc and Darrowby No. 5 plc) remain Aaa rated by both agencies.

Strategic Report *(continued)*

Capital *(unaudited)*

Capital comprises principally the general reserve and subscribed capital provided through Permanent Interest Bearing Shares (PIBS). Capital is ultimately held for the protection of depositors and other creditors by providing a buffer against unexpected losses.

We monitor our capital at a prudential consolidation group level by applying the Capital Requirements Directive V (CRD V) as effective at 31 December 2020, and the Capital Requirements Regulation (CRR), as amended by the onshored provisions within the CRR II regulation (EU) 2019/876 and the CRR 'Quick Fix' package.

The prudential consolidation group comprises the entire Group except Connells and a small number of other entities whose activities are not closely aligned with the core business.

Total regulatory capital has increased by £97.3m during 2020 to £1,630.5m (2019: £1,533.2m). This is mainly due to the retained profits accumulated during the year, including dividend income from Connells. The CRR 'Quick Fix' package includes additional IFRS 9 transitional relief measures in response to the COVID-19 pandemic. The impact of IFRS 9 transitional relief increases the Society's capital resources by £7.3m as at 31 December 2020. Of this, £6.6m is attributable to additional commercial loan impairment in the period, which is allowed 100% relief under the revised transitional relief measures.

Risk weighted assets (RWAs) have increased by £177.3m during 2020 to £3,996.7m (31 December 2019: £3,819.4m). This is mainly due to the capital requirement for the fair value of hedge adjustments on fixed rate assets which has increased as the markets have lowered their long term expectations for interest rates. The capital requirement for mortgage balances has also increased due to growth in the year.

As a result of these movements the CET 1 ratio has increased to 39.7% from 39.1% at 31 December 2019.

An expected deterioration in the economy in 2021 means we expect the CET 1 ratio to reduce during 2021. However, we expect to remain well above our regulatory minimum capital requirements.

The leverage ratio, a non-risk based capital measure, has reduced but remains healthy at 5.7% at 31 December 2020 (31 December 2019: 6.0%) showing that the impact of the growth in mortgage lending and liquid assets has outweighed the profits and dividend income accumulated during the year.

The following table shows the composition of the prudential group's regulatory capital as at 31 December 2020. More detailed disclosures can be found in the Pillar 3 Disclosures available on our website. The capital ratios are reported on a CRD V transitional basis. On a transitional basis £40m of PIBS are being phased out of Additional Tier 1 capital over the period to 2022 and under CRD V end-point rules the PIBS are fully transitioned into Tier 2 capital. On an end-point basis our CET 1 ratio would remain the same at 39.7%, the Tier 1 ratio would be 39.7% and the total capital ratio would remain the same at 40.8%. The leverage ratio is reported on an end-point basis. IFRS 9 transitional arrangements are applied to all transitional and end-point ratios.

Unaudited	2020 £m	2019 £m
Capital resources:		
Common Equity Tier 1 capital	**1,585.6**	1,493.2
Total Tier 1 capital	**1,603.6**	1,520.2
Total Tier 2 capital	**26.9**	13.0
Total regulatory capital	**1,630.5**	1,533.2
Risk weighted assets	**3,996.7**	3,819.4
Capital and leverage ratios (note 1)		
Common Equity Tier 1 ratio (CET 1)	**39.7%**	39.1%
Tier 1 ratio	**40.1%**	39.8%
Total capital ratio	**40.8%**	40.1%
Leverage ratio	**5.7%**	6.0%
UK leverage ratio (note 2)	**6.5%**	6.5%

Notes

1. The capital ratios are calculated as relevant capital divided by risk weighted assets and the leverage ratio is calculated as Tier 1 capital divided by total exposure, i.e. total assets per the prudential group consolidated position (subject to some regulatory adjustments). The leverage ratio is reported on a CRD V end-point basis with IFRS 9 transitional arrangements applied; under CRD V end-point rules all existing Additional Tier 1 instruments that become ineligible as capital under CRD V are excluded in full.
2. The UK leverage ratio represents the UK regulatory regime which excludes deposits with central banks from the leverage exposure measure.

Capital management

The Group is regulated by the PRA and is required to manage its capital in accordance with the rules and guidance issued by the PRA under CRD V and the CRR as amended by the onshored provisions within the CRR II regulation (EU) 2019/876 and the CRR 'Quick Fix' package. The capital requirements of the Group are monitored on an ongoing basis to ensure the minimum regulatory requirement is always met and that the Group has sufficient levels of capital for current and projected future activities.

Pillar 1

The Group holds capital to meet Pillar 1 requirements for credit risk, operational risk and market risk. The IRB approach is applied to calculate the capital requirement for residential mortgages in the Society, Amber and NYM and for equity and non-credit obligation exposures. The standardised approach is applied to all other exposures, operational risk, market risk and credit valuation adjustments.

Pillar 2A

In addition, the PRA requires the Group to hold additional Pillar 2A capital for risks not covered under Pillar 1 such as pension and interest rate risk. At 31 December 2020 this was £115.6m (31 December 2019: £135.1m).

The combination of Pillar 1 and Pillar 2A requirements form the Group's Total Capital Requirement (TCR).

Capital buffers

CRD V requires the holding of capital buffers that can be used to absorb the impact of a stress scenario. For the Society the buffer framework comprises a sector-wide Capital Conservation Buffer set at 2.5% of RWAs in CRD V and a Countercyclical Capital Buffer. During the period the regulator reduced the Countercyclical Capital Buffer rate from 1% to 0% of RWAs for exposures in the UK due to the economic impact of COVID-19. The Countercyclical Capital Buffer rate varies depending on the country within which the exposure resides and is set by the designated authority in each member state. In addition, the Internal Capital Adequacy Assessment Process (ICAAP) considers whether additional capital is required over and above the regulatory buffers, to satisfy our risk appetite over the planning horizon, and to absorb the impact of a severe stress scenario. The ICAAP is reviewed by the PRA when setting the Group's TCR.

The Group has performed regular stress tests on its capital base and these tests have consistently demonstrated a capital surplus above minimum requirements after applying management actions.

Further information is provided in the Risk Management Report on pages 69 to 79.

The Group publishes further information about its exposures and risk management processes and policies within the Pillar 3 Disclosures on the Society's website www.skipton.co.uk.

Minimum Requirement for Own Funds and Eligible Liabilities

Minimum Requirement for Own Funds and Eligible Liabilities (MREL) is a regulatory requirement set by the Bank of England to ensure institutions can cover losses that would need to be absorbed in the event of a resolution scenario. This is being phased in over a transitional period to 1 January 2023.

The Bank of England has issued the Society with a binding requirement of 18% of risk weighted assets for the period 1 January 2020 to 31 December 2021; the indicative requirement is 18% of risk weighted assets from 1 January 2022 to 31 December 2022, and from 1 January 2023 indicative MREL will be the greater of 2x (pillar 1 plus pillar 2A capital requirements) or 2x the leverage ratio. The end-state MREL requirement is subject to review by the Bank of England in 2021. Compliance with MREL is reflected in the Society's corporate plans.

During 2020, the Society issued £350m of MREL eligible senior non-preferred debt that contributes to its MREL requirements.

Pension funds

The Group manages two funded defined benefit schemes and a hybrid scheme as described in note 31 to the Accounts. The two Bank Base Rate cuts in the year led to a reduction in the discount rate used to discount the future liabilities within these schemes. As a consequence, the aggregate valuation of the two defined benefit schemes and the hybrid scheme at 31 December 2020 increased to a combined deficit of £96.4m (2019: £87.0m) using the methodology set out in IAS 19. The hybrid scheme is a legacy scheme acquired on the merger with Holmesdale Building Society and is not material to the Group.

Full actuarial valuations were carried out in the year in accordance with the scheme funding requirements, further details of which can be found in note 31 to the Accounts. The funding of each scheme is agreed between the Group and the Trustees in line with those requirements. Following the revaluations, the Group has agreed it will aim to eliminate the deficit over a specified period and expected contributions in 2021 are £45.1m.

We continue to take steps to manage the deficit and all three schemes are closed to new members and to future accrual of benefit. The actuarial valuation deficits, as described in note 31 to the Accounts, are used to judge the level of contributions that should be made and contributions totalling £50.2m have been paid into the schemes in the last five years. In conjunction with the pension Trustees we have also undertaken a number of other initiatives aimed at managing the funding deficit of the above-mentioned defined benefit schemes and associated long-tail risk including early retirement exercises and pension transfer exercises.

The pension Trustees will continue to monitor and manage the pension schemes in a responsible manner, working with the employer to share the aim of ultimately eliminating the actuarial funding deficit.

We also operate defined contribution schemes into which eligible employees are automatically enrolled.

Non-financial information statement

The Society, although not required to follow the Companies Act 2006, has sought to comply with the non-financial reporting requirements of s414CB of the Act by including certain non-financial information within our Annual Report and Accounts to provide our stakeholders with a fuller picture of our performance.

Information regarding the following matters can be found on the following pages:

Non-financial information	Discussed further
Business model	Page 16
Key performance indicators	Pages 24, 25, 27 and 28
Key risks	Pages 69 and 70
Environmental matters	Page 18
Employees	Page 17
Social matters	Page 18
Respect for human rights	Page 52
Anti-corruption and anti-bribery matters	Page 17

Principal risks and uncertainties

As a result of its normal business activities, the Group is exposed to a variety of risks. The Group has a number of committees and policies to successfully manage these risks. These principal risks and uncertainties are set out in the Risk Management Report on pages 69 to 79 and in notes 38 to 40 to the Accounts.

This Strategic Report was approved by the Board of Directors on 23 February 2021 and signed on behalf of the Board by:

Bobby Ndawula
Group Finance Director

Sustainability Report

Supporting the United Nations Sustainability Development Goals (SDGs)

In 2018 we launched a sustainability strategy aligned to the United Nations Sustainable Development Goals (SDGs) which are a blueprint to achieve a better and more sustainable future for us all. The SDGs are a globally recognised plan to end poverty, fight inequality and stop climate change by 2030. In pledging this we joined a growing number of global organisations and became the first building society to be recognised by Support the Goals, a not-for-profit initiative that celebrates organisations supporting the SDGs. We've been awarded a maximum five-star rating, reflecting our belief that we all have a responsibility to support the SDGs by building a better Society.

The SDGs give us the opportunity to join a global movement where governments, businesses and individuals contribute to the ambition of achieving prosperity for everybody, while protecting our planet for future generations. For us, this means doing the right thing for our colleagues and our customers in the communities we serve together and contributing more to the planet than we take.

We have identified four goals where we feel we can have the greatest impact and support our strategy and vision to build a more sustainable society.

Our Priority Goals

8 DECENT WORK AND ECONOMIC GROWTH

Goal 8: Decent Work and Economic Growth

OUR COMMITMENT:
We will be one of the best places to work.

At the time of setting our goals we were the only building society with the highest Investors in People (IIP) accreditation level – their Platinum accreditation, which is only awarded to the top 0.5% of organisations assessed. And in 2020 we retained this certification, which we have now held for four years, demonstrating our commitment to being one of the best places to work. We strongly believe ensuring all our people flourish and investing in our people contributes to an inclusive and diverse workplace.

11 SUSTAINABLE CITIES AND COMMUNITIES

Goal 11: Sustainable Cities and Communities

OUR COMMITMENT:
We will help more people into homes and support our local communities.

Our founding purpose of helping people own their homes contributes to sustainable communities. We'll help make our communities inclusive, safe, resilient and sustainable through our fundraising, volunteering and community activities.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Goal 12: Responsible Consumption and Production

OUR COMMITMENT:
We will give more back to the planet than we take.

We're passionate about protecting our planet for future generations. We'll make sure our contribution to the environment is always greater than the impact of our operations.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Goal 16: Peace, Justice and Strong Institutions

OUR COMMITMENT:
We will always be owned by, and responsible to, our members, not shareholders.

We'll maintain our position as a strong institution and put the needs of our customers first. Our purpose to help customers have a home, save for the future and support their long term financial well-being depends on us being accountable, inclusive and effective.

8 DECENT WORK AND ECONOMIC GROWTH

Goal 8: Decent Work and Economic Growth

We will be one of the best places to work.

Our Targets

- We will continue to increase the number of young people who gain employment following our apprenticeship programmes.
- We will offer at least 50% of places on our talent development programmes to women, to foster a healthy pipeline of female talent.
- We will maintain our industry leading Investors in People Platinum accreditation.

Our Progress

- New apprenticeship programmes were hampered by COVID-19, but three new external apprentices joined the Society in January 2021.
- 83% of places on our talent development programmes were awarded to women. On our Connecting Our Future programme, 75% of places were awarded to females; 100% of participants in the Loughborough University Master's degree programme were female; and on our Aspiring Leaders development programme, 82% of participants were female.
- The Society has achieved Investors in People Platinum status for four consecutive years, the highest accreditation available.

How we're bringing this to life

Early Careers

Skipton's vision for early careers is 'to build a talented, diverse workforce which is fit for the future' and we have a number of programmes that have supported this vision.

2020 saw us launch our first graduate leadership programme. This offers a great opportunity for recent graduates to join Skipton Building Society and get hands-on experience in a variety of roles to enable them to become future senior leaders at the Society.

Colleague Engagement

In September 2020, our independent colleague engagement survey revealed colleague engagement remained very high at 90%, with 94% of our people saying they felt proud to work for the Society.

We've found ourselves living and working in new ways and recognise it's been challenging to balance homelife and work at times. We received recognition as the UK's 8th best big company to work for in 2020, as part of *The Sunday Times* 25 Best Big Companies to Work For. And in addition, Skipton has received a 2-star accreditation from Best Companies. This accolade represents the second-highest standard of workplace engagement and represents organisations striving for the best.

Looking after our colleagues' mental well-being remains high on our agenda. As well as our colleagues having access to dedicated sessions on mental health and workplace resiliency, we also have 64 mental health first aiders across the Society – on hand to support colleagues in confidence, whenever it's needed.

Diversity & Inclusion

We continue to focus on diversity and inclusion. In 2020, we carried out a thorough assessment of current practice, enabling us to prioritise three key areas:

1. Improving diversity of colleagues across the Society at all levels and in all functions;
2. Creating an inclusive colleague environment and customer journey; and
3. Continuously improving diversity and inclusion practices and outcomes.

We ran a number of dedicated sessions through the year, including a focus on non-inclusive behaviours during Learning at Work Week, an introduction to Race at Work through the summer, culminating in National Inclusion Week, where we ran sessions each day on a variety of diverse topics including menopause, disability and LGBTQ+.

Sustainability Report *(continued)*

11 SUSTAINABLE CITIES AND COMMUNITIES

Goal 11: Sustainable Cities and Communities

Helping more people into homes and supporting our local communities.

Our Targets

- Helping 30,000 first-time buyers (FTBs) into homes from 2018 to 2022.
- Supporting 1,000 homeless people from 2018 to 2022.
- Increasing the time our people spend volunteering in the community by 100% from 2018 to 2022.

Our Progress

- In 2020, we provided 5,424 first-time buyers (FTBs) with a mortgage and 15,206 Lifetime ISAs were opened. This is in addition to supporting 5,923 FTBs and opening over 40,000 FTB Lifetime ISAs in 2019. Our LISA customers received a share of over £80m in government bonus payments in 2020.
- Our Community Giving scheme enabled 80 charities to collectively continue providing over 4,600 hot meals each day, over 3,300 beds each night for the homeless, and continued support for the 2,500 people they've helped into permanent accommodation in 2020.
- Volunteering has been impacted heavily by COVID-19, but we're confident we can bounce back through leveraging digital technology.

How we're bringing this to life

Our Corporate Charity Partner - Mental Health UK

Mental Health UK work across the UK to provide advice, support, training and information for people affected by poor mental health. We entered a three-year partnership with the charity in January 2020, and we are working together with them to raise awareness, learn more about mental health and look at how we can better support our people, our customers and our communities.

In recognition of the challenging times faced by many parts of society during 2020, Skipton Building Society, its Board and colleagues donated £200,000 to support the work of Mental Health UK. The charity had seen an unprecedented increase in requests from the public for help for its services during 2020 and we are proud to support them the best we can.

Community Giving

Skipton's Community Giving scheme gives our mortgage intermediaries we work with the chance to help charities and community groups that support housing and homelessness in their local areas.

As part of Skipton's Community Giving scheme in 2019, 40 community groups and charities across the UK received a share of £40,000. In 2020, we needed to think differently about how we best supported those in need and donated a further £40,000 to the 2019 causes. Towards the end of 2020, we gave another £40,000 to 40 new Community Giving nominees.

Charitable Foundation

The Skipton Building Society Charitable Foundation donated £156,833 to 83 charities in 2020. The Foundation supports charities that benefit children, youth schemes and the elderly. The Charitable Foundation is run by seven trustees, including five who are independent of the Society. Charities from across the UK can apply for a donation of up to £3,000.

Matched Funding

We are committed to supporting community groups and charities and matched funding was introduced to do just that. We will match the amount colleagues raise for their favourite charities within certain guidelines. In 2020 we donated £15,881 in matched funding to 34 charities.

Payroll Giving

Skipton has been awarded a Silver Payroll Giving Quality Mark because of the generosity of our colleagues who have donated more than £214,000 to good causes over the last two decades through our Payroll Giving scheme. Charities chosen include Cancer Research UK, the NSPCC, Macmillan Cancer Support, Shelter, Alzheimer's Society and the British Heart Foundation.

Sponsorships

The Skipton Building Society Camerata works to make classical music accessible to much wider audiences from Yorkshire-based sell-out performances, through to quirky events in coffee shops, train stations, and special workshops for children in schools. We continued to financially support this high-quality orchestra with a donation of £30,000, and work is underway to identify how we can support them as part of the arts sector's recovery from COVID-19.

Skipton also donates £5,000 per year to the Craven and Harrogate Citizens' Advice Bureau, which celebrated its 80th birthday in 2020. The local service helped 4,289 clients during the year and dealt with almost 12,000 separate issues, the main ones being around benefits, debt, family and relationships.

Supporting our Small and Medium Sized Suppliers

The 2020 national lockdowns, together with a host of localised restrictions, meant that many small and medium sized enterprises (SMEs) really struggled. Skipton has many SMEs registered as suppliers. From technology to catering suppliers, cleaning through to photography, our SME suppliers were all impacted by COVID-19.

During the height of the pandemic, we changed how we paid our SME suppliers, meaning they received their payments much quicker. This means that they now receive full payment from Skipton within 10 days on average, instead of our standard 30 day payment terms.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Goal 12: Responsible Consumption and Production

Giving more back to the planet than we take.

Our Targets

- Sending zero waste to landfill by the end of 2022.
- Halving our carbon footprint by the end of 2022.
- Eliminating single use plastics by the end of 2020.

Our Progress

- During 2020 we diverted 99.5% of our waste from landfill, of which 83.9% was recycled and 15.6% has been recovered.
- In 2020, five branches have either been relocated or fully refurbished with the installation of LED lighting, highly efficient air conditioning and low energy heaters to provide both heating and cooling.
- Reduction of single-use plastic continues to be a firm priority for us. Ahead of COVID-19, we'd reduced single-use plastics by 25%. However, COVID-19 has encouraged a trend for more single-use items which has temporarily impacted our progress. We now equip our people with reusable face masks, and work continues to find and use alternative materials across the whole business.

How we're bringing this to life

Reducing Waste and Saving Water

From the beginning of the COVID-19 pandemic we advised all customer-facing colleagues to wear PPE where possible. To reduce waste, we issued all branch colleagues with reusable PPE rather than disposable alternatives.

At the head office all urinals are now fitted with auto flush, and we've installed auto taps in all our restrooms, helping us to further reduce our water usage.

Working to become Carbon Neutral

We are committed to reducing our environmental impact and contribution to climate change through increased energy management, awareness and changes to operational procedures. We frequently examine our energy efficiency and as such, refurbish our branches for both operational and environmental reasons.

Our greenhouse gas emissions have been independently calculated by Envantage Ltd for the period 1 January to 31 December 2020. The below table includes a performance summary of Skipton Building Society including Skipton Business Finance (one of our subsidiaries who share our premises).

Emissions Scope	Source	Tonnes of carbon dioxide equivalent (tCO2e)
Scope 1 - direct emissions from owned or controlled sources	Natural gas & company cars	657.4
Scope 2 - indirect emissions from purchased energy	Electricity	928.5
Scope 3 - other indirect emissions that occur in an entity's value chain	Business travel in grey-fleet cars	24.9
Total emissions		1,610.8

Going forward we will be working with the Carbon Trust who will carry out an independent audit on our greenhouse gas footprint and provide us with the information to actively reduce carbon emissions.

While work continues in reducing these emissions, we acknowledge that our head office building is at lower capacity due to COVID-19 which means more colleagues are spending more time at home. And so, our focus now also includes working to help our colleagues with hints and tips to make their homes more environmentally friendly.

We want to help and encourage our colleagues to move away from traditional engines as hybrid and electric vehicles become more popular, economical and affordable. We have installed four electric 21kWh fast vehicle charging stations at our head office. And we have two electric cars which are available for colleagues to use for business use.

We will plant over 15,000 trees to offset our carbon emissions for 2020. Planting trees is an effective way to reduce flood risk, offset carbon emissions and improve the natural environment for the benefit of the climate, wildlife and people.

Sustainable Supply Chain

We are continuing our work with our suppliers to drive up sustainability together throughout our supply chain. We have a dedicated code of conduct for our suppliers, which outlines the sustainability standards we expect them to follow, share with their suppliers, and commit to working together to make continual improvement in business practices. In doing so, they too will contribute to the United Nations Sustainable Development Goals.

In addition, through working with Support the Goals, we'll also soon review our suppliers and their sustainability practices, offering support on where improvements can be made.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Goal 16: Peace, Justice and Strong Institutions

We will always be owned by and responsible to our members, not stakeholders.

Our Targets

- Becoming a Disability Smart Accredited organisation by the end of 2020.
- Showing that we care about our customers by delivering a customer empathy score above 60%.
- Ensuring that our net customer satisfaction levels are always above 85%.

Our Progress

- The Disability Smart Accreditation will demonstrate the progress we have made on making our products and services more accessible for customers who may have a disability, impairment or long term condition. The accreditation checks across all areas of our business, looking at policies and procedures covering communications, premises, recruitment and many more. We need to achieve 70% for the accreditation - we started at 17% in 2018 and are now up to 69%.
- Our customer empathy score for 2020 was 65%.
- Our net customer satisfaction score for 2020 was 85%.

How we're bringing this to life

Delivering for our Customers

As an essential service, all Skipton branches operated throughout 2020, albeit sometimes at reduced hours. We saw a 72% increase in digital webchat interactions and a 66% increase in social media interactions as COVID-19 encouraged customers to access our services and support online. To help our customers, we extended our social media customer service hours, and our branches and contact centre opening hours were above the industry standard.

Skipton Link is a video service, which allows customers to speak to Skipton's review advisors, mortgage advisors and financial advisors from the comfort of their own home. In 2020, over 20,000 Skipton Link appointments took place, enabling us to provide a service with a personal touch, even when we're unable to meet customers face-to-face.

A Society where Nobody is Left Out

In 2020, we introduced the SignVideo service, which enables customers who use British Sign Language to get in touch safely and securely through a three-way video call link between a Skipton colleague, the customer and a British Sign Language translator. This has opened up a whole new method of communication to ensure Skipton customers are able to access the services they need.

One of our most recent initiatives has been the introduction of the Communication Access symbol, with underlining training and aims of becoming a widely recognised symbol to help improve communication for all. Our Keighley and Leeds branch colleagues have taken part in specialist online training focusing on accessible face-to-face and telephone customer service. They now proudly sport the Communication Access Symbol in the branches and have been accredited Communication Accessible. The Communication Access Symbol and its training is set to be rolled out to all of Skipton's customer-facing colleagues within the next 12 months.

Customer Satisfaction and Customer Empathy

In 2020, we increased our focus on customers with vulnerabilities and accessibility. We introduced a new accessibility sub-panel as part of the customer panel, which has given us valuable insight into the challenges customers may face. This helps us understand if we're delivering what customers need and how we can improve further.

During our broad customer research on the impact of COVID-19, we spoke with a number of vulnerable customers too. This has informed our ongoing efforts to respond empathetically to customers with specific needs, especially those who may need our support the most.

What's next?

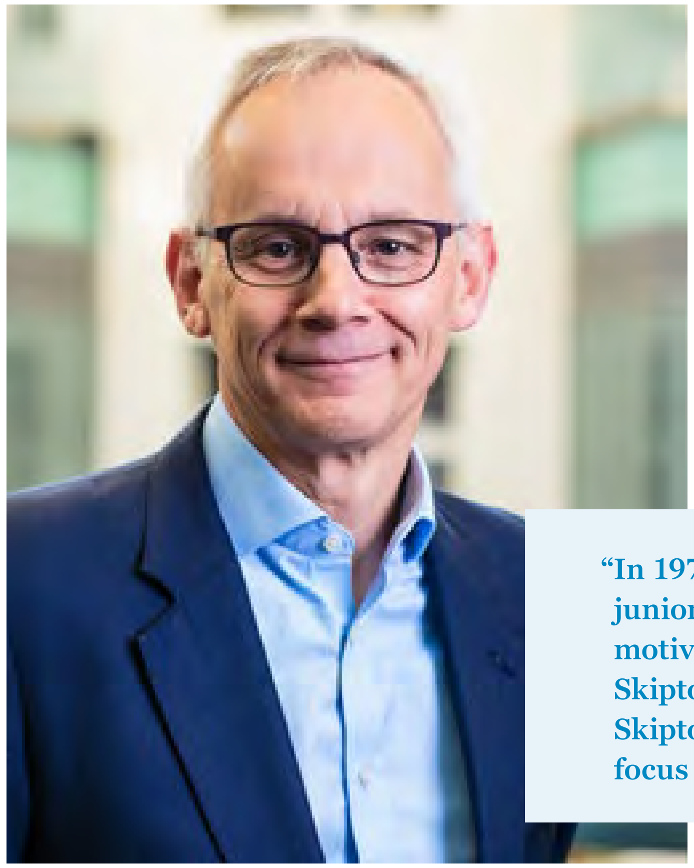
A better Society is one that is more sustainable – socially, financially, and environmentally. At Skipton, by sustainability, we mean "meeting the needs of the present without compromising the needs of future generations".

At the end of 2020 we reviewed our sustainability strategy and targets to ensure we are taking action where we have the most impact. In 2021, we will continue to embrace sustainability in all its forms and stay true to our mutual ethos; we will be:

- **Socially sustainable** - recognising the social issues of both today and the future.
- **Financially sustainable** - operating in a financially sustainable and fair way for our members.
- **Environmentally sustainable** – understanding that we must do no environmental harm that impacts our members and wider society - now and for future generations.

2 Governance

The Board of Directors



Robert East

Chair of the Board, Nominations and Non-Executive Remuneration Committees.

Robert joined the Board in 2011, bringing more than 40 years' experience in banking in the UK and internationally. He brings in-depth knowledge of building and leading financial services businesses. During his 32 years at Barclays Bank he was Chief Risk Officer of Absa South Africa amongst other roles. He also led the restructuring of the Cattles Group, becoming its Chief Executive in 2010 until completion of its wind down in 2019. He is Chair of Vanquis Bank Limited and a Non-Executive Director of Provident Financial plc and Hampshire Trust Bank Plc.

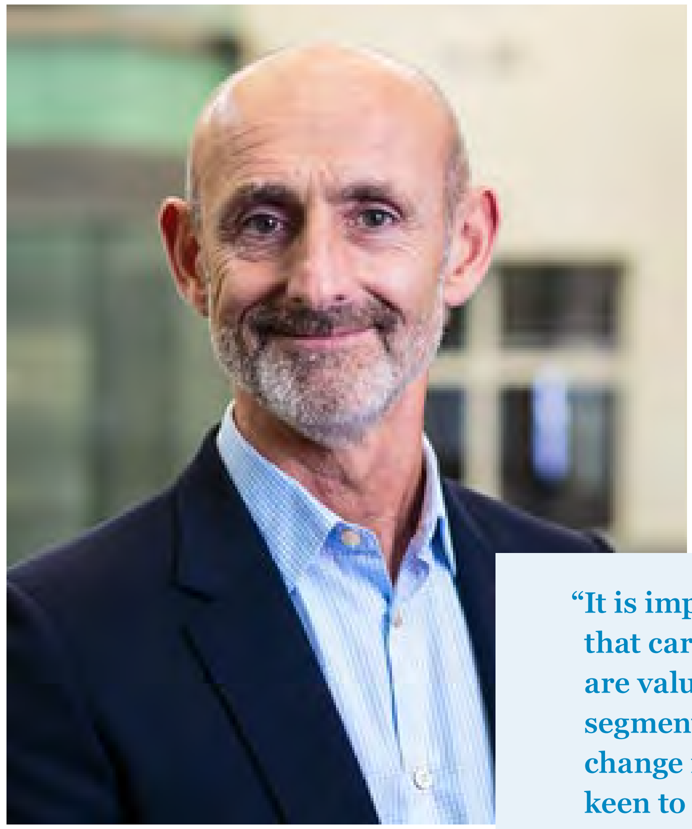
"In 1976, I joined a branch of Barclays as the office junior. Since then, I have learned that well-led and motivated people will do the right thing for customers. Skipton has the same ambition. I am proud to chair Skipton Building Society because of its history, values, focus on its members and the dedication of its people."

David Cutter

Group Chief Executive, Chair of the Executive and Retail Credit Committees and member of the Asset & Liability and Non-Executive Remuneration Committees.

David has a wealth of experience of the Society having been its Chief Executive for the last 12 years. The Board believes he is the right person to continue to lead the Society and its team in delivering value to members, whilst continuing to develop its financial strength. He has had roles in many areas of our business, including periods as Operations Director, Group Corporate Development Director and Head of Internal Audit. He joined the Board in 2000. He is a qualified chartered accountant, Trustee of the Moorlands Learning Trust and a former Chair of the Building Societies Association.

"I have been with Skipton for over 25 years and remain passionate about its purpose and focus on customers. It is important to me to build a trusted, values-driven Society that inspires its people. My ambition for the business is for Skipton to thrive and be a beacon for customers in a confusing financial world."



Andrew Bottomley

Customer Director and a member of the Executive Committee and the Non-Executive Remuneration Committee.

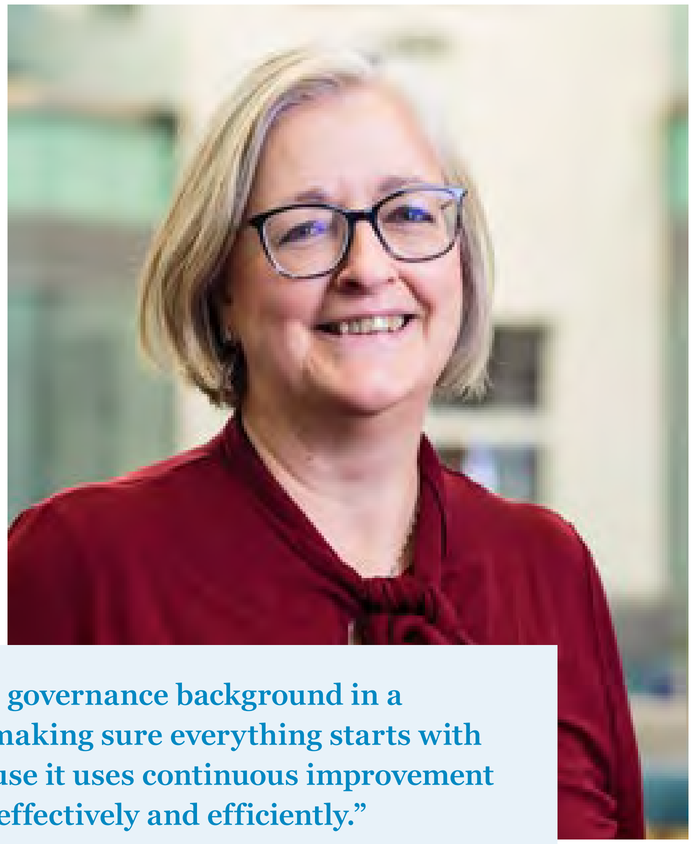
Andrew has more than 30 years' experience in leading customer service and sales teams in financial services. He leads the development and delivery of our financial advice proposition, as well as the Society's branch network and contact centre. He has previously served as Mortgage and Bancassurance Director at Lloyds Bank, held various senior roles at the Halifax, encompassing branches, mortgages and head office positions, and was Chair of Halifax Sharedealing. He joined the Board in 2016.

"It is important to me to work for an organisation that cares for its customers and colleagues, which are values I work by too. I have experience in many segments of financial services, including risk and change management. I thrive on challenge and I am keen to help people develop and grow."

Amanda Burton

A member of the Audit, Nominations and Remuneration Committees and a Non-Executive Director of Connells Limited.

As a qualified solicitor coupled with her experience as Global Chief Operating Officer of Clifford Chance LLP (until 2014), Amanda is able to support Board discussions on legal matters whilst also offering invaluable insight on operational performance and customer issues. She was previously an Executive Director of Meyer International and joined the Board in 2016, bringing more than 20 years' Non-Executive Director experience. Her other directorships are Senior Independent Director and Chair of Remuneration Committee of HSS Hire Group plc and Non-Executive Director and Chair of Remuneration Committee (Countryside Properties plc). Amanda was also Chair of Battersea Dogs' and Cats' Home for four years and a trustee for 11 years until her retirement in 2020.



"I have a diverse operational, legal and corporate governance background in a number of industries. I am a strong believer in making sure everything starts with the customer and was attracted to Skipton because it uses continuous improvement to ensure the customer proposition is delivered effectively and efficiently."

The Board of Directors *(continued)*

Richard Coates

Chair of the Audit Committee and a member of the Nominations and Risk Committees.

Richard is a very experienced financial services auditor and chair of audit and risk committees. He brings vital finance and corporate governance insight to the Board which the Board views as essential to its long term success. A chartered accountant, Richard was a senior partner at KPMG before joining the Skipton Group in 2003 as Managing Director of Baseline Capital Limited, which he retired from in 2008. He is a non-executive director of TPT Retirement Solutions and the Veterinary Defence Society and is also the chair of the audit committee of both of these organisations.

"I joined the Board as the Society stays true to its mutual ethos and has its members at the centre of its thinking. I bring my experience of strong corporate governance to support the Society's ongoing financial strength and growth strategy."

"I am proud to work for an organisation that genuinely puts customers first. Skipton has successfully focused on helping people to save and have a home of their own since 1853. My role is to support and enable colleagues to build on that legacy by constantly improving the products and service we offer to ensure we meet the needs of current and future members."

Ian Cornelius

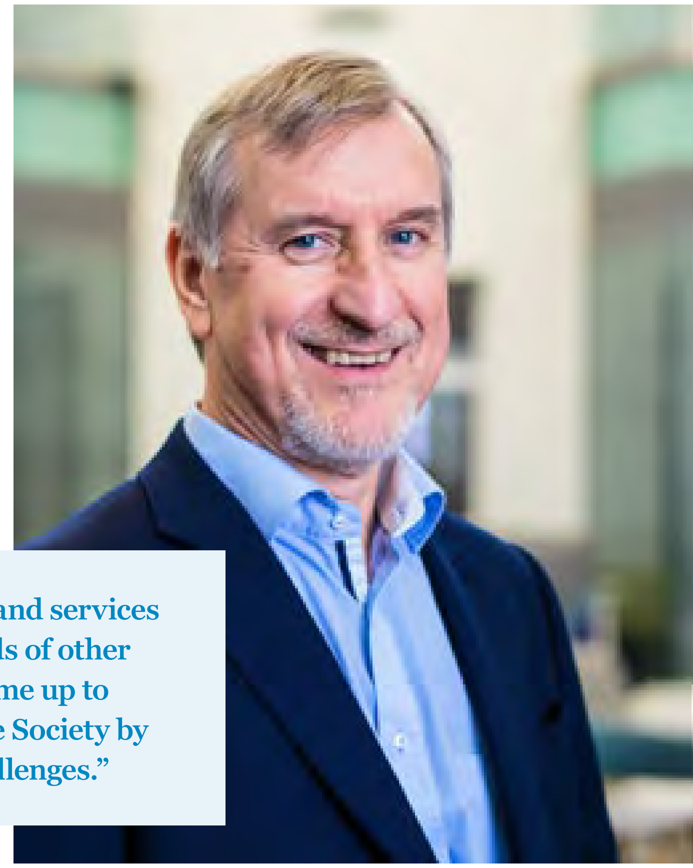
Commercial & Strategy Director, member of the Executive, Retail Credit, Asset & Liability and Non-Executive Remuneration Committees.

Ian has extensive experience in financial services customer management and marketing and has developed the Society's customer proposition. He successfully oversees its implementation with the development of products and services designed to support our customers. Ian has been a Board member since 2012. He previously held senior positions at Homeloan Management Limited, Virgin Money, Bradford & Bingley, Capital One and Boots. He is also a non-executive director of Incommunities Group Limited and Governor and Trustee of Giggleswick School.

Denis Hall

Chair of the Risk Committee and a member of the Audit and Nominations Committees.

Denis has worked in senior risk roles with Citibank, Deutsche Bank and GE Capital. He brings a wide knowledge of risk management, regulation and financial services enabling him to chair the Board Risk Committee and provide support, advice and challenge to the Executive on risk management issues. Denis is also a director and sits on the Audit and Risk Committee of Switzerland's Cembra Bank, is a director and member of the Risk Committee and the Audit Committee of Moneta Bank in the Czech Republic and is Director and Chair of the Risk and Audit Committee for Auxmoney Holding in Ireland.



"I love Skipton's principle that puts members first and services their needs without pressure. I serve on the boards of other financial institutions in Europe too, which keeps me up to date with current issues, so I can contribute to the Society by weighing up different approaches to common challenges."

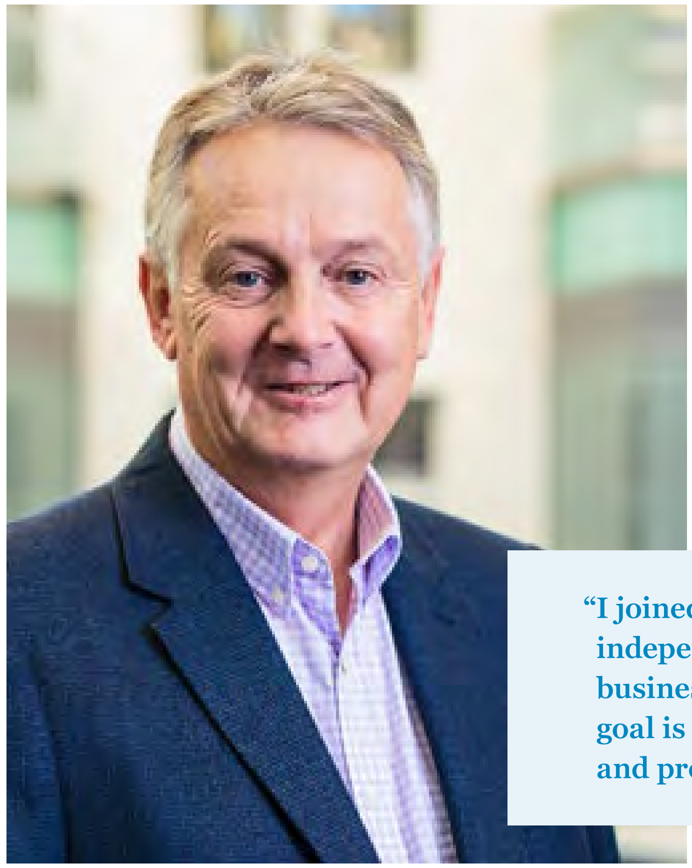
Heather Jackson

A member of the Nominations, Remuneration and Risk Committees.

Heather brings her strong business operations, strategy and change background which is vital as the Society invests further in improving customer journeys through its branches, telephony, web and app. She also has 25 years' experience in senior roles at Lloyds plc, Capital One, Boots the Chemist, Asda and Burton Group plc. She is a non-executive director for Ikano Bank (and chairs their Change and Renumeration Committees), for JD Sports Fashion Plc and for Lookers Motor Group (also Senior INED and Chair of Remuneration Committee). Heather also serves on the Yorkshire Cancer Research Advisory Panel.

"I enjoy and value Skipton's focus on doing the right thing to create value for our customers and members now and in the future. I serve on other Boards in retail and financial services and am from a change and technology background so want to help Skipton ensure we look after our colleague and customer needs and expectations as the way people interact with financial services changes. But at the same time we ensure we maintain that unique Skipton 'there for you' approach."

The Board of Directors *(continued)*



Mark Lund

Deputy Chair of the Board, Senior Independent Director and a member of the Audit, Nominations and Remuneration Committees.

Mark's experience at senior leadership level in financial advice and investment management enables him to provide relevant insight which is particularly important as the Society develops its financial advice business. He has more than 35 years' experience in commercial and financial services. His previous roles include CEO of St James's Place plc, CEO of Virgin Direct and Director of Henderson Investors plc. He is Chair of the mutual company MyCSP Limited and Chair of their employee benefit trust, a non-executive director of Coutts & Co and Chair of Equiniti Financial Services Limited.

> **"I joined the Society's Board in 2016 after being an independent director with Skipton's financial advice business. I understand the broader Society well, and my goal is to ensure we understand our customers' needs and provide them with the most appropriate solutions."**

Bobby Ndawula

Group Finance Director, Chair of the Asset & Liability Committee, member of the Executive, Retail Credit and Non-Executive Remuneration Committees.

Bobby is an experienced finance professional and leads the Society's finance and treasury functions, amongst other areas, which are essential to the success of the Society. A chartered accountant, he previously held a number of senior positions in Group Finance and Financial Risk. With over 20 years' experience in IT, finance and risk, he is responsible for ensuring that the Society's treasury, accounting and finance practices remain at a high standard. Bobby has been a member of the Board since 2015. He is also a Trustee of Yorkshire Cancer Research.

> **"Being part of a values-led organisation keeps me highly motivated. I enjoy leading teams that embrace change and continuously improve the financial strength of the Society for the long term benefit of our members. My ambition is for Skipton to grow sustainably, so we can help more people achieve their financial goals."**

Helen Stevenson

Chair of the Remuneration Committee and a member of the Risk and Nominations Committees.

Helen brings extensive marketing and digital experience together with strong customer focus which the Board regards as essential. She is also experienced in remuneration issues and leads Board discussions on these matters. Helen joined the Board in 2013. She spent 19 years with Mars Inc, was Group Marketing Director of Lloyds TSB and Chief Marketing Officer of Yell Group. She is now Senior Independent Director on the Boards of Reach plc and Kin and Carta PLC, non-executive director and remuneration committee chair at IG Group PLC and is a member of Henley Business School Advisory Board and a Governor at Wellington College.

> **"Skipton is well placed to strengthen both its excellent customer service and financial stability. I am interested in encouraging the Board to maintain a powerful connection between members and the business, and to evolve our strategy so it continues to thrive in a changing marketplace."**

Denise Cockrem

A member of the Audit and Nominations Committees. Denise will be leaving the Board after the 2021 AGM.

Denise is a practising Finance Director and brings current practical experience of finance and control matters to the Board and Board Audit Committee. She joined the Board in 2015, with more than 20 years' experience in financial services. She's currently the Group Chief Financial Officer at Ecclesiastical Insurance Group, which is wholly owned by a charitable trust. Denise is also an independent Trustee of MacIntyre Academies Trust, which supports children with learning disabilities.

Directors' Report

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31 December 2020.

The financial information included in this Directors' Report is taken from the statutory Accounts on pages 112 to 232 prepared in accordance with International Accounting Standards in conformity with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 that are applicable and, as regards to the Group financial statements, International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU). Further unaudited information which allows comparison between 2020 and 2019 is set out on pages 24 to 28 of the Strategic Report.

Business objectives

The business objectives of the Group are set out on pages 20 to 23 of the Strategic Report.

Business review and future developments

The Chair's Statement set out on pages 8 to 11, the Group Chief Executive's Report set out on pages 12 to 15 and the Strategic Report set out on pages 16 to 39 report on the performance of the business and its future objectives.

Profits and capital

Group profit before tax was £118.8m (2019: £153.2m). Total profit after tax transferred to the general reserve was £97.0m (2019: £122.4m).

Total Group reserves at 31 December 2020 were £1,705.7m (2019: £1,632.2m) including the fair value reserve of £4.1m (2019: £1.4m), the cash flow hedging reserve of £(15.1)m (2019: £(3.3)m), the cost of hedging reserve of £(3.5)m (2019: £(4.3)m), and the translation reserve of £4.9m (2019: £4.5m).

Gross capital at 31 December 2020 was £2,097.0m (2019: £1,673.8m) including £349.7m (2019: £nil) of subordinated liabilities and £41.6m (2019: £41.6m) of subscribed capital. The ratio of gross capital as a percentage of shares, deposits and borrowings at 31 December 2020 was 8.24% (2019: 7.23%) and the free capital ratio was 7.07% (2019: 5.87%). The Annual Business Statement on pages 236 to 238 gives an explanation of these ratios.

Mortgage arrears

Group mortgage balances at 31 December 2020 included 74 cases (2019: 46) either in possession or where payments were 12 months or more in arrears. The capital balances of these loans were £10.5m (2019: £6.0m). The total amount of arrears on these loans was £0.8m (2019: £0.4m).

Charitable donations

During the year the Group made charitable donations of £0.4m (2019: £0.3m), primarily to the Skipton Building Society Charitable Foundation and Mental Health UK. No contributions were made for political purposes (2019: £nil).

Creditor payment policy

The Group's policy concerning the payment of suppliers is to negotiate and agree terms and conditions with all suppliers and upon complete provision of goods and services, unless there is an express provision for stage payments, undertake to pay suppliers within the agreed payment period. The number of trade payable days as at 31 December 2020 for the Group was 12 days (2019: 16 days).

Principal risks and uncertainties

The principal risks and uncertainties are set out on pages 72 to 79 of the Risk Management Report and in notes 38 to 40 to the Accounts.

Financial risk management objectives and policies

Details of the key risks to which the Group is exposed in relation to its financial instruments, and how these risks are managed, are set out on pages 72 to 79 of the Risk Management Report and in notes 38 to 40 of the Accounts.

Employees

The Group remains committed to its policy of treating all employees and job applicants equally at all times. Our policy is that no employee, or potential employee, is treated less favourably on the grounds of age, race, colour, religion, nationality, ethnic origin, gender, marital status or sexual orientation. We also give all applications from disabled people full consideration in relation to the vacancy concerned and their own aptitudes and abilities. In the event of an existing employee becoming disabled, we make every effort to maintain their present position or to employ them in alternative suitable work. We also aim to provide high quality relevant training and development opportunities to all employees, which enables them to achieve their full potential and helps the Group meet its corporate objectives.

The Board met 10 times during 2020 and is briefed regularly on key employee matters as they arise. There is a comprehensive internal communications structure to cascade relevant business information to employees throughout the organisation in an appropriate and timely way. The Society's subsidiary companies have similar arrangements in place to ensure effective communication of relevant matters.

The Society recognises an independent employee trade union (Aegis) with which management meets regularly to consult and negotiate on a wide variety of matters and to which employees may make their views known on issues affecting their interests.

Property, plant and equipment

The Directors consider that the overall market value of the freehold and leasehold properties occupied by the Group, excluding the principal office of the Society, is in excess of the corresponding book value that is included within property, plant and equipment (per note 18 to the Accounts). In arriving at this view, the Directors have taken account of internal and external valuations of the Group's property portfolio. It is difficult to ascertain a reliable market value for the principal office of the Society, which is a special purpose facility, however the Board considers that its value in use to the Group is greater than its book value.

Investment property

The Directors have considered the overall market value of investment properties. In arriving at a view, the Directors review internal valuations, and obtain external market valuations for investment properties, at least, every three years. In 2020, it was confirmed that one investment property would be vacated at the end of the current lease. An independent valuation was also obtained for this property and subsequently £1.0m of impairment was booked against the investment property. The remaining valuations carried out in the year supported the carrying value of these investments. The Directors consider that the overall market value of the remaining investment properties held is in excess of the corresponding book value that is included within investment properties (per note 20 to the Accounts).

Directors' responsibilities in respect of the preparation of the Annual Report, Annual Business Statement, Directors' Report and Annual Accounts

This statement, which should be read in conjunction with the Independent Auditor's Report on pages 102 to 111, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts.

The Directors are responsible for preparing the Annual Report, Annual Business Statement, Directors' Report and the Annual Accounts in accordance with applicable laws and regulations.

The Building Societies Act 1986 (the Act) requires the Directors to prepare Group and Society Annual Accounts for each financial year. Under that law they are required to prepare the Group Annual Accounts in accordance with IFRSs in conformity with the requirements of the Building Societies Act 1986 and have elected to prepare the Society Annual Accounts on the same basis.

The Group and Society Annual Accounts are required by law and International Accounting Standards in conformity with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 that are applicable, and, for the Group Accounts, IFRSs adopted pursuant to Regulation (EC) 1606/2002 as it applies in the EU, to present fairly the financial position and the performance of the Group and the Society. The Building Societies Act 1986 provides in relation to such annual accounts that references in the relevant part of that Act to annual accounts giving a true and fair view are references to their achieving a fair presentation.

Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, group financial statements are required to be prepared in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In preparing each of the Group and Society Annual Accounts, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 *Accounting Polices, Changes in Accounting Estimates and Errors* and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 that are applicable and whether, as regards to the Group financial statements, IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

In addition to the Annual Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Group. The Annual Business Statement can be found on pages 236 to 238.

The Directors are also required by the Disclosure and Transparency Rules of the Financial Conduct Authority to include a management report containing a fair review of the business, which is set out on pages 23 to 39 of the Strategic Report, and a description of the principal risks and uncertainties facing the Group which is set out on pages 72 to 79 of the Risk Management Report.

The Directors have decided to prepare voluntarily a report on corporate governance as if the Society were required to comply with the Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority in relation to those matters. The Directors' Report on Corporate Governance can be found on pages 56 to 63.

A copy of these Annual Report and Accounts is placed on the Society's website. Information in respect of the Capital Requirements (Country-by-Country Reporting) Regulations 2014 is included as an annex to these Annual Accounts on pages 234 and 235.

Directors' Report *(continued)*

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society, in accordance with the Act; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Directors' responsibilities in respect of going concern

The Group's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance are set out on pages 23 to 39 of the Strategic Report and on pages 69 to 79 of the Risk Management Report. In addition, notes 38 to 40 of the Annual Accounts include the Group's objectives, policies and processes for managing its liquidity risk, details of financial instruments and hedging activities, and its exposure to credit risk, liquidity risk and market risk.

In common with many financial institutions, the Group meets its day-to-day liquidity requirements through managing both its retail and wholesale funding sources, and is required to maintain a sufficient buffer over regulatory capital requirements in order to continue to be authorised to carry on its business. The Group's forecasts and objectives, which take into account potential changes in trading performance and funding retention, indicate that the Group expects to be able to operate at adequate levels of both liquidity and capital for at least the next 12 month period and the foreseeable future.

Consequently, after reviewing the Group's forecasts and the risks it faces, the Directors are satisfied that there are no material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern and have, therefore, continued to adopt the going concern basis in preparing these Annual Accounts, as explained in note 1a) to the Accounts.

Directors' statement of longer term viability

In accordance with the UK Corporate Governance Code, the Directors have assessed the prospects and the ongoing viability of the Group over a longer period than the 12 month period required by the going concern basis of accounting.

The Directors' assessment of the medium term prospects of the Group is based on the Group's corporate plans, which project the Group's performance, profitability, capital, liquidity and funding position over a five year period. The assessment included a review of the Group's current position relative to the market and a review of the Group's strategic priorities over the medium term including management actions to achieve these strategic goals.

The assessment also included a robust review of the Group's principal risks and uncertainties (outlined on pages 72 to 79), which were taken into account to ensure that the possible likelihood or impact of these risks materialising would not materially impact the prospects of the Group and to ensure that the necessary control framework was in place to mitigate the impact of these risks on the future prospects of the business. Specifically, the Directors took account of those risks that could result in events or circumstances that might threaten the Group's business model, future performance, solvency or liquidity and reputation, including the social, economic, regulatory and political environments.

The Directors concluded that the medium term prospects of the Group are satisfactory and that the financial strength of the business remains healthy throughout the period of assessment.

The Directors have assessed the viability of the Group with the period of assessment being a five year period, to the end of 2025. Having considered various options, the Directors determined that a five year period is an appropriate period for the purposes of the Group's viability assessment. This period reflects the Group's five year corporate planning horizon over which the prospects of the Group and the principal risks threatening these prospects are assessed as outlined above, and also the period over which associated stress testing is performed.

In arriving at their conclusion on the longer term viability of the Group, the Directors considered the following:

- The Group's prospects over the five year period as outlined above.
- Stress testing carried out on the 2021 – 2025 business plans through the Group's Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process. The key economic stress test modelled reflected a market-wide fall in residential house prices of 33%, unemployment reaching 11.5% and the Bank Base Rate decreasing to 0% during the five year period, each of which would adversely impact on the level of losses experienced within the Group's loan portfolio. The Directors concluded that the impact of this severe economic environment would not threaten the longer term viability of the Group.
- Reverse stress testing carried out by the Group, which considers scenarios specific to the Group that could cause the Group to fail. The Directors have concluded that any such scenarios are unlikely to materialise.
- We have considered the impact of the Countrywide acquisition under a number of stress scenarios.
- The potential impact of emerging regulation, where there is sufficient information regarding the future regulation.
- The principal risks facing the Group and the control framework in place to manage and mitigate these risks (as outlined in the Risk Management Report), including an assessment of the likelihood and impact of these risks on the Group. This includes specific consideration of the potential and economic impacts that may result from the outbreak of COVID-19 and its long term impacts, along with continued political uncertainty surrounding the UK's departure from the EU, as agreements with the EU are ratified with the EU parliament, developed and put into practice.
- A number of severe but plausible scenarios, arising from the principal risks, which are remote, but if they arose could threaten the longer term viability of the Group.

There are inherent limitations in preparing long-term financial plans with regard to a number of factors including, but not limited to, economic, political and regulatory factors. The Directors consider that the outer years of the financial planning period are more difficult to predict and therefore these years have a greater degree of uncertainty. In particular, the longer term economic impacts of the COVID-19 pandemic and the subsequent impacts on the Group remain uncertain, as do, albeit more indirectly than businesses with international trade relationships, the political and economic implications that may arise from the UK leaving the EU which may also affect the Group. These impacts may have an effect on the performance of the Group within the Group's financial planning period; the extent of the impact is currently unknown.

However, based on the results of this assessment, the Directors concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next five years.

Directors

The Directors of the Society during the year were as follows:

Mr R D East	(Chair)
Mr M J Lund	(Deputy Chair)
Mr A P Bottomley*	
Miss A J Burton	
Mr J R Coates	
Mrs D P Cockrem	
Mr I M Cornelius*	
Mr D J Cutter*	(Group Chief Executive)
Mr D A Hall	
Ms H L Jackson	
Mr R S D M Ndawula*	
Ms H C Stevenson	

* Executive Directors

Mr P W Moore was appointed as a Non-Executive Director on 1 February 2021 and will stand for election to the Board at the Annual General Meeting (AGM) in April 2021.

Details of Directors' service contracts are disclosed in the Directors' Report on Corporate Governance on page 60. No Director of the Society had any interest in the shares of any Group undertaking as at 31 December 2020.

Auditor

In accordance with Section 77 of the Building Societies Act 1986, a resolution for the re-appointment of Ernst & Young LLP (EY) will be put to the forthcoming AGM of the Society.

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 Society's auditor is 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 Society's auditor is aware of that information.

Responsibility statement of the Directors in respect of the Annual Report and Accounts

The Directors who held office at the date of approval of this Directors' Report confirm that, to the best of their knowledge:

- the Annual Accounts, prepared in accordance with International Accounting Standards in conformity with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 that are applicable, and, for the Group Accounts, IFRSs adopted pursuant to Regulation (EC) 1606/2002 as it applies in the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Society; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the Group's and Society's position and performance, business model and strategy.

Signed on behalf of the Board

Robert East
Chair

23 February 2021

Directors' Report on Corporate Governance

Dear Member,

As Chair of the Society and, in line with the Society's ethos, I view good governance as being at the heart of a well-run business and am committed to complying with prevailing best practice. This report sets out the framework of how the Society oversees its business in a prudent and well organised manner, thereby maintaining high standards of governance for the benefit of our current and future members. The impact of COVID-19 and the need for remote working, including operation of our governance arrangements, represented a true stress test of its effectiveness. I am pleased to be able to report that our framework continued to be implemented effectively and the Board is satisfied that oversight of the Society's service delivery and financial stability has been as robust as ever and will continue to be so as the pandemic evolves and is resolved.

Our approach is based on the principles and provisions of the UK Corporate Governance Code ('the Code') published by the Financial Reporting Council (FRC) which applies to listed companies. This report benchmarks the Society against the latest version of the Code, which is applicable to listed entities with accounting periods commencing on or after 1 January 2019. A copy of the Code is available at frc.org.uk.

The Code's expectation is one of 'Comply or Explain'. The Board's philosophy is to comply with the Code and the guidance on it issued by the FRC and the Building Societies Association. As the Code was not designed for mutual organisations per se, it inevitably contains sections which the Society cannot comply; the areas of non-compliance during the year were:

- Provision 3 of the Code requires the Chair to discuss governance matters with major shareholders and relay their views to the Board as a whole. As a mutual organisation, owned by its members, with each voting member having one vote, there are no major shareholders and hence this specific requirement is not relevant to the Society.
- For the same reasons, Provision 36 requiring remuneration schemes to promote long term shareholdings by executive directors is not applicable to the Society.
- Provision 38 of the Code expects the pension contribution rates for Directors to be aligned to those of the workforce; whilst all new appointments to executive roles will align to this requirement there are a small number of historical arrangements in place for our current executive team which do not.

During 2020, other than the points listed above, the Board believes that the Society complied with all other aspects of the Code.

Governance Framework

The Skipton Group comprises Skipton Building Society (the Society), which is regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), and its direct and indirect holdings in a number of legal entities, some of which are also regulated by the FCA. Skipton International Limited, based in the Channel Islands, is regulated by the Guernsey Financial Services Commission.

The Society's governance arrangements are designed to ensure that it meets the requirements and expectations of its members, employees and regulators through a framework which organises the Group into three divisions:

- Mortgages and Savings (including financial advice)
- Estate Agency
- Investment Portfolio

The Society sits within the Mortgages and Savings division which also includes related subsidiaries Amber Homeloans Limited, North Yorkshire Mortgages Limited and Skipton International Limited.

On a day-to-day basis the Group Chief Executive, Mr Cutter, is responsible for ensuring that the Group meets its strategic and operational objectives as defined in the corporate plan. Mr Cutter is assisted by the Executive Committee, comprising the Executive Directors and other senior Society executives, which he chairs.

Each subsidiary of the Group is governed by a board, which normally contains at least two Society executives as shareholder Non-Executive Directors (appointed by the Society) and the business' own executive management. In addition, Miss Burton, a Society Non-Executive Director, is also a Non-Executive Director of Connells Limited. These boards are responsible for the prudent management of their businesses, operating within delegated authorities, to deliver agreed corporate plan objectives.

The Board's 'Principles of Governance', which are summarised below, provide the framework through which the Society establishes its systems and processes concerned with the overall direction, effectiveness and control of the Group.

Directors

The Role of the Board

The Board's terms of reference clearly set out its responsibility for the overall stewardship of the Group within the context of the Society's 'Principles of Governance' which are:

- **Governing body** - *The Society is headed by an effective Board which is responsible for the long term success of the Group.*

  The Board formulates strategy and establishes the Society's risk appetite and balance sheet strategy. It is organised so as to have a proper understanding of, and competence to deal with, the current and emerging issues facing the business of the Group, exercising independent judgement and effectively reviewing and challenging the performance of management.

- **Management and oversight** - *The Society's management and oversight framework enables the Board to provide strategic guidance to, and effective oversight of, management throughout the Group.*

  The governance framework clarifies the respective roles and responsibilities of Directors and senior executives in order to facilitate Board and management accountability to both the Society and its members. This ensures a balance of authority such that no single individual has unfettered powers. It has clear lines of sight into activities to enable challenge and oversight, allowing the Board to obtain assurance over performance, the integrity of reporting and effectiveness of control implementation.

- **Recognise and manage risk** - *The Board has a sound system of risk oversight, risk management and internal control supported by timely and transparent reporting.*

  This framework identifies, assesses, manages and monitors risk on an ongoing basis. It informs management and the Board of material changes to the risk profile of the Society or any of its subsidiaries and facilitates challenge of the effectiveness of actions taken to mitigate risk. It is designed to be forward-looking in approach so as to reduce both the likelihood and the impact of known risks crystallising.

  To support delivery of this, it has established a framework of authorities that maps out the structure of high level delegation below Board level and specifies those issues which remain the responsibility of the Board. The Board also has a general duty to ensure that the Group operates within the Society's Rules, relevant laws, regulations and guidance issued by relevant regulatory authorities and that proper accounting records and effective systems of internal control are established, maintained and audited.

Culture

The Board has agreed purpose, values and culture statements for the Society to ensure there is clear direction for the business and clear expectations of how we wish our people to behave. Our purpose remains constant: we are here to help more people have a home, help people save for life ahead and support long term financial well-being. Our cultural goal is to maintain a working environment where the customer is at the centre of our thinking and the benefits of diversity amongst our workforce and the communities we serve is recognised.

The Board monitors culture in a number of ways such as through customer feedback and employee surveys (internally and externally facilitated) but aggregates this through a 'culture dashboard' reporting mechanism which reports on performance metrics under the following headings: ethical behaviour, people MI (management information), colleague feedback, customer, risk & control and strategy understanding.

Board Meetings

The Board met 10 times during 2020. In line with good governance the Non-Executive Directors also meet, without the Executive Directors present, at least once a year. The attendance record of each Director at these Board meetings and of each committee member at relevant Board committee meetings is set out on page 61.

The Board also holds two strategy meetings each year, in June and December, where the Group's strategic objectives are agreed, as are the financial and operational resources to deliver these.

Through the Secretary, the Chair ensures that Directors receive accurate, timely and clear information to facilitate effective contribution to Board discussions and decision making. Each month, the Board receives a Board pack containing matters for review and approval, as well as a comprehensive management information pack covering financial and non-financial information (including operational and customer service metrics), with risk management being an integral part of the reporting. This is issued the week prior to the meeting to ensure that it reflects the most up to date position of the Group whilst allowing Directors sufficient time to review the content.

The Board agenda also includes:

- Minutes of Board committee meetings held before the previous Board meeting and verbal updates from the chairs of Board committees on the main issues discussed and matters agreed at recent meetings (usually held the day before the Board meeting) for which minutes are not yet available. This ensures that all Board members are kept up to date on the key discussions and decisions made by the committees;
- Reports from the Chair, Group Chief Executive and Group Finance Director;
- Items for decision and key matters that need to be debated, including any new business initiatives;
- Matters for review which include updates on specific areas of strategy allowing the Board to keep up to date with developments, identify opportunities and challenge progress; and
- Matters for information aimed at drawing to the Board's attention matters it should be aware of, such as proposed regulatory change.

For the Board to be effective, the relationship between the Executive and Non-Executive Directors must be constructive and one of openness and respect. The Boardroom environment at Skipton is collegiate with all encouraged to contribute. Maintaining this environment has been a focus for myself this year since the Board and its committees have operated by video conferencing since March.

The role of the Non-Executive Directors is not only to challenge but to support the Executive team and bring their experience to bear. To this end, the Non-Executive Directors are welcomed to meetings outside of the Board committee structure which develops their understanding of the business, whilst allowing the management teams to benefit from their experience and fully understand the non-executive perspective on particular issues.

Board Composition

The Rules of the Society detail the appointment process for Directors and require that the Board comprises not less than six and not more than 15 Directors. At 31 December 2020, the Board comprised 12 Directors, being four Executive Directors and eight Non-Executive Directors. Details of the Directors are set out on pages 46 to 51. This composition is designed to be able to meet the needs of the business and allow for efficient operation of the Board's committees.

The Board considers all the Non-Executive Directors to have been independent at the time of their appointment and to have continued to be so in accordance with the criteria set out in the Code. One Director, Mr Coates, appointed in 2017 was previously Managing Director of a

Governance

former Society subsidiary, Baseline Capital Limited, but retired from the Group's employment in 2008.

No Board members have any direct business relations with the Society or any of its subsidiaries or have any personal or family ties with any of the businesses' advisers, other Directors or senior employees.

As Chair, I regularly review the size and composition of the Board and its committees which are reviewed formally by the Nominations Committee at least annually. This ensures that there exists the required mix of skills and experience on the Board and that succession planning is adequately addressed; our Board Composition Policy is available on the Society's website at skipton.co.uk/about-us/governance/board-composition-policy. The Nominations Committee aims to ensure that the Board's committees are optimally resourced and are refreshed at appropriate intervals to avoid reliance on any one individual.

Non-Executive Directors

As part of their Board responsibilities, the Non-Executive Directors are responsible for bringing independent judgement to the Board and for constructively challenging the Executive team. The Non-Executive Directors meet, without the Executive Directors present, at least annually to discuss relevant matters, including the performance of the Executive team.

Mr Lund (Deputy Chair) is the Senior Independent Director on the Board. Whilst the Senior Independent Director role is more pertinent within a quoted company, the role does provide a point of contact for members and other stakeholders with concerns which have failed to be resolved or would not be appropriate to pursue through the normal channels of the Chair, Group Chief Executive or Group Finance Director. The Senior Independent Director also provides a sounding board for the Chair and serves as a trusted intermediary for other members of the Board, if necessary. As part of our governance regime, he meets annually with the other Directors, without the Chair present, in order to appraise the performance of the Chair.

One of the criteria which the Board takes into consideration when recruiting a Non-Executive Director is their ability to have sufficient time to take on the position. In addition, throughout their term of office with the Society, Directors are required to inform the Board in advance of any other positions that they wish to take up so that the time commitment and any potential conflict of interest can be considered. The Society's letter of appointment to Non-Executive Directors gives an indication of the time commitment required, although this will depend on Board committee memberships; typically it involves at least three days per month on Society business. For the Chair this will usually be, on average, two days per week.

The letters of appointment also identify the key responsibilities of the Non-Executive Directors in relation to:

- Strategy – constructive challenge and contribution to the development of strategy.
- Performance – scrutiny of the performance of management in meeting agreed business goals and objectives.
- Risk – obtaining assurance that financial controls and systems of risk management are robust and allow for production of accurate financial reporting.
- People – determination of appropriate levels of remuneration for Executive Directors and oversight of succession planning.

Copies of the letter of appointment for each of the Non-Executive Directors are available for inspection on request from the Society's Secretary.

Chair and Group Chief Executive

The offices of the Chair and the Group Chief Executive are distinct and held by different individuals. The role of each is set out in their role profiles and terms of appointment.

As Chair, I am responsible for leading the Board, ensuring it performs effectively, and for promoting high standards of corporate governance. The Chair is also responsible for communicating with the Society's members on behalf of the Board. I can confirm that I am independent and have no conflicting relationships or circumstances that might affect my judgement on Group matters.

The Group Chief Executive has overall responsibility for managing the Society and its subsidiaries. He leads the Executive team and is responsible for implementing the strategies and policies agreed by the Board.

The Board elects its Chair and Deputy Chair annually at the Board meeting immediately following the Annual General Meeting (AGM).

Appointments to the Board

The Nominations Committee, which comprises all the Society's Non-Executive Directors, is chaired by myself, as the Society Chair, and leads the process for Board appointments and succession planning. The Committee has succession planning as a key area of focus and at least annually reviews the structure, size and composition of the Board to ensure it contains the required balance of skills, knowledge and experience relevant to the activities of the Group and that it will continue to do so. This review assesses what is required both in the short term and the longer term to deliver the Society's strategy in light of its strategic priorities and changing customer behaviours.

All appointments to the Board are made on merit. In so doing, the Board considers all aspects of diversity, including age, experience and gender when reviewing its composition. It has a composition policy which, in line with the recommendations of the Davies Report, seeks to ensure that at least 33% of its composition will be female.

A 'Women on Boards' (Davies review) progress report issued in October 2015 recommended that FTSE 350 boards should endeavour to achieve this target by 2020. At 31 December 2020, four members (33%) of the Society's Board were female. The Society is also a signatory to the Women in Finance Charter which underlines the Board's commitment to gender equality.

Appointments to the committees of the Board (see page 61 for details) are made by the Board on the recommendation of the Nominations Committee, in consultation with the relevant committee's Chair. Both the Nominations Committee and the Board have regard to ensuring a range of skills, experience, knowledge and professional qualifications exist on each Board committee to enable it to fulfil its duties effectively.

Succession requirements must cater for both planned and unplanned events. To this end, the Nominations Committee carries out an annual review of succession planning for Directors and senior executives. The succession plan ensures ongoing recruitment of Directors so that the Board continues to have the relevant skills and experience throughout any period of change in its composition. Senior executive succession planning is reviewed at least annually by the Committee to ensure that those identified with having potential at this level and in the talent pool below are provided with relevant development opportunities and, where appropriate, that effective contingency arrangements are in place.

Succession plans at executive level allow for both permanent and temporary cover should a key post-holder become unexpectedly unavailable.

Induction and Professional Development

On appointment, new Directors receive a comprehensive and tailored induction programme covering the Group's business and regulatory environment. Ongoing training and development needs are identified and addressed through regular review and usually take the form of attendance at external seminars and Board training sessions led by relevant internal and external specialists. Those Directors from a non-banking background are provided with specific training on the capital and liquidity regimes governing the Society's operations. Non-Executive Directors are encouraged to contact individual members of the Executive team to demonstrate support and to undertake subsidiary, branch and department visits on an ongoing basis.

Directors have access to the advice and services of the Secretary who is responsible for advising the Board on all governance matters and who is responsible for ensuring that Board procedures are followed. The appointment of the Secretary is a matter reserved to the Board.

All Directors also have access to independent professional advice, if required, at the Society's expense and have the benefit of appropriate liability insurance cover.

Board Evaluation

The Board undertakes an annual performance and effectiveness evaluation of itself and its committees. At least every three years, this review is conducted by an external facilitator. In 2019, after a competitive tendering process, the Board engaged Praesta Partners LLP to undertake the annual performance evaluation of the Board and its committees. In line with this framework the 2020 review was led by myself with support from the Secretary. This involved completion of a digital questionnaire by Directors, members of the Executive Committee and the Chief Internal Auditor seeking their views on the effectiveness of the Board's and its committees' operation and general performance. This was then discussed by myself with the individuals in one-to-one meetings and I prepared a summary report of views which was formally considered by the Board at its February 2021 meeting.

My review found that Board members and the senior executives who attend Board meetings believed the Board to have the right mix of skills and experience to oversee the Society's activities, that the Board achieved the appropriate balance between support and challenge in its oversight role and was effective in holding management to account. The Board's strategy discussions were seen to be well debated with good management information provided to enable the Board to monitor the progress of strategy and corporate plan delivery.

The Board's response to, and oversight of, the Society's response to the COVID-19 pandemic's challenges were viewed very positively and the Boardroom virtual environment was not seen as adversely impacting discussion or restricting individual contribution.

In terms of continuous improvement, the review confirmed that Directors believed more focus should be devoted to development of our climate change strategy and Environment, Social & Governance (ESG) framework. To move this forward management has refreshed its Sustainably Working Group, separating this from our Climate Change Working Group, and created a new Special Interest Group including Non-Executive Directors to support expansive discussion and strategy development with regular reporting to the Board. Our Strategy team, with support from the Secretary, will focus on maturing our ESG approach underlining the Board's commitment to good governance.

Individual Review

Individual Non-Executive Directors are evaluated on a one-to-one basis by the Chair. Executive Directors are evaluated by the Group Chief Executive against agreed performance targets for their areas of responsibility and their own personal performance. The Chair evaluates the Group Chief Executive's performance whilst the Deputy Chair / Senior Independent Director leads the Board evaluation of the Chair's performance. All such reviews are conducted at least annually and documented accordingly.

Re-election Policy

The Code recommends that all Directors of FTSE 350 companies should stand for annual re-election. Adopting this best practice, the Society's Rules require that Directors stand for re-election every year. Generally, Non-Executive Directors are initially appointed for a period of three years and, whilst expected to serve for six years, this may be extended to nine years in total.

The Board and Nominations Committee, in 2018, agreed with my recommendation that, as a very effective member of the Board, Ms Stevenson's tenure as a Non-Executive Director be extended to nine years. The Society was reviewing its Group remuneration governance arrangements and it was considered efficient and appropriate to extend the term of office of Ms Stevenson as Chair of the Remuneration Committee to oversee developments.

In line with the Code's requirements I confirmed to the Board in 2019 my intention to retire from the Board at the 2021 AGM which would see me having completed a total of nine years as a Non-Executive Director and then as Chair. The Nominations Committee subsequently asked the Deputy Chair / Senior Independent Director to lead the search to find a successor which commenced in early 2020.

A search firm was appointed and commenced its work but the general uncertainty resulting from the COVID-19 pandemic saw potential candidates unwilling to commit. This, combined with the economic uncertainty arising from the pandemic and, at that point, uncertainty surrounding Brexit negotiations saw the Board agree with the Nomination Committee's recommendation that I be asked to remain in post for a further 12 months, a request to which I have agreed.

The process to find my successor will recommence during the first quarter of 2021.

Remuneration

Details relating to Directors' remuneration are contained in the Directors' Remuneration Report on pages 80 to 100.

Directors' Service Contracts and Notice Periods

The Executive Directors are employed on rolling service contracts which can be terminated by either the Society or the Director giving one year's notice. Unless notice to terminate is given by either party, the contracts continue automatically.

Non-Executive Directors do not have service contracts.

Accountability and Audit

Financial Reporting

The Directors, after making appropriate enquiries and on review of internal management reports and completion of the external audit, consider that these Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for members to assess the Group's performance, business model and strategy. Further details on how this conclusion has been arrived at can be found on page 66 of the Audit Committee Report.

The responsibilities of the Directors in relation to the preparation of the Group's Annual Accounts and a statement that the Group is a going concern are contained in the statements of Directors' responsibilities on pages 53 to 55 in the Directors' Report.

Risk Management and Internal Control

The Board is responsible for determining the Society's strategy for managing risk and overseeing its systems of internal control which includes reviewing and approving its risk appetite on at least an annual basis.

The Executive Directors and senior management are responsible for the continuous operation of an effective risk management framework based on a robust system of internal control. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Society's business objectives. The principal categories of risk confronting the Group are described in greater detail in the Risk Management Report on pages 69 to 79, together with an explanation of the framework adopted by the Group for managing risk.

The Board reviews the ongoing effectiveness of its internal control systems through a combination of processes including:

- Regular reports to the Board by the Chairs of its various committees;
- Presentations to the Board by divisional leaders relating to the strategy and performance of businesses within each of the divisions, summarising business performance, key business risks, issues and strategies;
- Regular reports to the Board, through the Audit Committee, from the Internal Audit function in respect of its independent audits of risk management processes and effectiveness of internal controls across the Society and its subsidiaries. The Chief Internal Auditor reports to the Chair of the Audit Committee and attends Audit Committee meetings; and
- Regular reports to the Board, through the Board Risk Committee, from the Risk functions on the principal conduct, operational, credit, market and liquidity risks facing the Group and the strength of the controls in place to mitigate these.

The Society has a comprehensive system for reporting financial results to the Board. Each division prepares monthly results with comparisons against budget which the Board reviews and challenges, as appropriate, where performance is not in line with expectations.

The Society has a number of central oversight and control functions, including Finance, Risk and Compliance, which establish and monitor the implementation of compliance and operational standards across the Group. Each of these functions is subject to review by the Internal Audit function.

The Internal Audit function is responsible for independently reviewing and reporting on the adequacy and effectiveness of internal controls operated by management throughout the Group, thereby helping to evaluate and improve the effectiveness of risk management. Through its programme of work, approved by the Audit Committee, the Internal Audit function is able to provide assurance on control effectiveness.

To ensure sufficient focus is devoted to all areas of risk, the Society operates two discrete risk functions headed by the Chief Financial Risk and Data Officer and the Chief Conduct Risk Officer. These are senior executive positions with both post holders being members of the Executive Committee. The Board Risk Committee and Board receive regular reports from the two Risk Officers throughout the year. The Board is satisfied that it understands the risks confronting the business and that senior management take appropriate action to mitigate these. More detail is provided on these in the Risk Management Report on pages 69 to 79.

The Board is satisfied that, during 2020, the Group maintained an adequate system of internal control and managed the risks confronting the business effectively. This was carried out in a manner that met the requirements of the Code and good business practice generally.

Board Committees

The Board has delegated certain matters to its committees (comprised only of Non-Executive Directors) in order that these can be considered in more detail.

The Board committee structure includes:

- The Audit Committee – further detail is contained in the Audit Committee Report on pages 64 to 68;
- The Board Risk Committee – further detail is contained in the Risk Management Report on pages 69 to 79;
- The Remuneration Committee and Non-Executive Directors' Remuneration Committee – further detail is contained in the Directors' Remuneration Report on pages 80 to 100; and
- The Nominations Committee – further detail is contained in the section on 'Appointments to the Board' on pages 58 and 59 of this report.

The terms of reference of Board Committees are available on the Society's website (www.skipton.co.uk) or from the Secretary, on request.

Board and Committee Membership Attendance Record

The attendance of Directors at scheduled Board and committee meetings during the year is set out below:

	Board	Audit Committee	Nominations Committee	Remuneration Committee	Board Risk Committee
Mr R D East	10/10	-	2/2	-	-
Mr A P Bottomley	10/10	-	-	-	-
Miss A J Burton (note 1)	10/10	4/5	0/2	4/7	-
Mr J R Coates	10/10	5/5	2/2	-	7/7
Mrs D P Cockrem (note 2)	10/10	4/5	2/2	-	-
Mr I M Cornelius	10/10	-	-	-	-
Mr D J Cutter	10/10	-	-	-	-
Mr D A Hall	10/10	5/5	2/2	-	7/7
Ms H L Jackson	10/10	-	2/2	7/7	7/7
Mr M J Lund	10/10	5/5	2/2	7/7	-
Mr R S D M Ndawula	10/10	-	-	-	-
Ms H C Stevenson (note 2)	10/10	-	1/2	7/7	5/7

Notes
1. Miss Burton's absence from meetings was unavoidable due to urgent medical treatment.
2. Absence from meetings was due to unavoidable commitments.
3. Where Directors are not available to attend meetings, they, nonetheless, receive all papers and provide feedback as appropriate.

Relations with Stakeholders

The Board understands the importance of engaging with its stakeholders and ensuring that it is aware of their views and alert to their concerns. It has identified its key stakeholders as:

- Our members and customers;
- Our people;
- Our suppliers;
- Our banking counterparties; and
- Our regulators.

Members and Customers

The Society's membership comprises its savers, borrowers, holders of its Permanent Interest Bearing Shares (PIBS) and non-corporate borrowers which is different to the shareholders of a listed company, whose owners may include institutional shareholders. The vast majority of the Society's customers are, therefore, its members and the Society encourages feedback from them on any aspect of its activities and seeks to respond quickly to all enquiries received.

We conduct regular large-scale market research with members to evaluate their experience of dealing with the Society and how satisfied they are with their relationship with us. This consists of both instant feedback following their interaction with the Society and more detailed feedback on how well the Society is engaging with them and meeting their needs, expectations and continually increasing demands. This has been increasingly important in 2020 as a result of the COVID-19 pandemic as we have utilised this feedback on a regular basis to make adjustments to services and communications based on our member feedback. Examples of changes introduced as a result of this feedback and the rapidly changing environment include:

- Providing access to funds for branch customers who could not get to a branch.
- Increasing faster payment levels for branch transactions.
- Changing the bereavement process to include being able to submit documents electronically rather than requiring originals.

- Being one of the first lenders to set up an automated online solution to request mortgage payment deferrals.
- Updating our lending policy to include furloughed applicants to allow continued access to mortgage finance.
- Creating a coronavirus information centre on our website to keep our customers updated on developments.

In addition to more in-depth research into changing customer needs as a result of COVID-19, we have also completed other larger scale research projects in 2020 to validate both our direct mortgage and intermediary propositions. Whilst COVID-19 has impacted the way in which we conduct research and removed the ability for in-person face-to-face meetings, these have been replaced with online forums, online face-to-face interviews, telephone and online group discussions. The insights from these research studies continue to inform our strategic plans, future product design, customer journey changes and communication plans. All research is conducted by Market Research Society registered practitioners both in-house and with carefully selected partners.

Due to our continued focus on gathering and acting on feedback from our members the Society has consistently achieved extremely high levels of net customer satisfaction, achieving 85% for 2020. In particular, our response and empathy in terms of the service we provided for mortgage payment deferrals has resulted in exceptional net satisfaction of 90% across all our mortgage members. In addition to this we regularly appear in the KPMG Nunwood Customer Experience Excellence survey; in 2020 we successfully maintained 29th position across all brands in all sectors across the UK, and 6th across all banks and building societies which demonstrates externally our focus on understanding and meeting our members' needs.

Whilst feedback from members has been very positive, we operate in an environment where borrowing members continue to benefit from low interest rates but saving members have fared less well. Whilst the Society continues to pay above average market rates, saving members continue to express disappointment that savings rates are not higher.

Our People

To help understand the views of our people, we use an independent adviser, Willis Towers Watson, to run an annual employee opinion survey (EOS). This is an anonymous questionnaire issued to all Society colleagues and gathers views on a very wide range of topics, from confidence in senior management to views on the Society's treatment of customers and general concerns. This provides a rich insight into colleague thinking which is shared at Board level and sees the head of each function agree action plans with their teams to address issues and concerns raised; the Executive Committee also prepares a higher level action plan to address any perceived systemic issues.

The general feedback this year confirmed that colleagues believed the Society was becoming more innovative, that previous survey feedback was acted on and a desire to see continuation of flexible working post-pandemic. Our latest 'My Voice' survey showed an increase in employee engagement, or how loyal, passionate and committed employees feel, during the COVID-19 pandemic - 94% of employees said they were proud to work for Skipton Building Society.

In terms of improvement areas it was felt that focus on developing people's abilities during the year had slipped and there was a request to see consideration of creating broader roles leading to better development of people as well as request for greater clarity of reward structures and understanding of their various components.

Further to the introduction of lockdown and the move to remote working at short notice the Society issued two focused 'Pulse' surveys to Society colleagues to help us monitor morale and assess the general mood and well-being of our people. This produced important feedback and generally confirmed that the steps being taken to protect the health and well-being of colleagues was recognised, seen to be of a high standard and was appreciated. We have also been considering how our workforce will work in the future so we also issued a Society-wide questionnaire and held focus groups across the Society to understand how Skipton should evolve in light of the experiences of 2020; The People team continue to develop our strategy in this area.

In line with the Code's requirements, the Board appointed in 2019 a Non-Executive Director, Heather Jackson, to be the Board member responsible for providing a further avenue for the voice of our people to be heard at the Board table. She has conducted a series of 'listening sessions' (nine in 2020) where up to 30 of our people at a time are invited to a meeting to share their views on the Society, how they feel in the workplace, how they feel customers are treated and ideas on what we could do better and any other topic they wish to raise. Ms Jackson then provides a written summary of the feedback to the Board. Examples of issues raised included frustrations arising from inefficient processes and remuneration levels and views that the Society might be less risk averse. Three such reports were produced in 2020 which the senior management team then assessed further and agreed action plans, as appropriate.

To supplement this process, those employees with more serious concerns have ready access to an established and internally well publicised whistleblowing process which protects their identity. As whistleblowing champion, I am advised of any whistleblowing reports received by the appointed whistleblow recipients. The Board receives an annual report on any whistleblowing concerns raised and is satisfied that these are appropriately and effectively addressed.

Suppliers

The Society closely monitors all its business relationships with suppliers on an ongoing basis, assessing any risk of an adverse impact on our customers, our people and the environment in which we operate as a result of these relationships, or as a result of our policies. The Society has been developing its supplier management framework in recent years to strengthen the oversight and relationships we have with our suppliers. To develop this further, we issued an online, anonymous questionnaire for completion by suppliers to assess our performance as a customer. The topics covered included how timely and accurate the Society is when paying invoices, if our corporate responsibility values are clear and views on whether the Society lives these, strength of relationships and comparison of our approach to other clients. The feedback has been very positive. A report was provided to the Board with assurance that the Society treats its suppliers appropriately. When asked the question 'Taking the whole relationship into consideration, how do we compare to other companies you deal with?', of the 34% who responded, 88% assessed the Society as 'good or exceeding'. Recognising that some of our small and medium sized enterprises (SME) suppliers may have been facing cash flow challenges as a result of the pandemic, we decided to accelerate payments due to them so, on average, payments were made within 10 days of invoices being submitted; immediate payment of SME invoices is now Society practice.

Regulators

As might be expected, we have current and continuous dialogue with our regulators. This involves not only provision of prescribed reports but updates from the senior management team on matters we believe should be drawn to our regulators' attention. The Board sees it as important that the regulatory bodies are kept up to date with strategic and operational developments within the Group and maintain ongoing confidence in the Board and management team.

Banking Counterparties

The Society's senior executive and Treasury teams hold meetings with banks and debt investors, where appropriate, to update them on the Society's performance and respond to any questions. This is a long-established arrangement which is seen to work well.

The Annual General Meeting (AGM)

Each year the Society gives all eligible members at least 21 days' notice of its AGM. At the meeting, the Chair and Group Chief Executive address members on the previous year's performance and the main developments in the business. Members have the opportunity to raise questions and put forward their views. All Directors normally attend the AGM, unless their absence cannot be avoided, and are available for questions both during a 'question and answer' session in the meeting and on an individual basis before and after the meeting.

All eligible members are encouraged to vote at the AGM, although the voting form includes a 'vote withheld' option. Members can vote either by post or online at skipton.co.uk/agm. All votes are returned to independent scrutineers. A poll is called in relation to each resolution at the AGM and the results of the vote are published on the Society's website and in branches. As a minimum, the Society's members at the AGM are asked to vote on the Society's Annual Report and Accounts, election or re-election of the Directors, appointment or re-appointment of the external auditor and the Report on Directors' Remuneration.

In April 2020, in line with other organisations, the Society's AGM was somewhat different, taking place during lockdown. The only Directors present were myself and the Group Chief Executive supported by the Secretary and the only members present, to allow quorum but on a socially distanced basis in line with government regulations, were colleague members who had been working at Head Office that day. Members had been given the opportunity to raise questions via their voting papers which enabled me to address key question themes on the evening; minutes of the meeting were then made available via the Society's website or direct from the Secretary.

I am pleased to report that no resolution received less than 80% support from members at the 2020 AGM.

Conclusion

In summary, I believe that, except for the three matters explained earlier in this report, the governance arrangements operated by the Society align with the Code's requirements and, despite the challenges of remote working this year, have enabled the Board to exercise effective oversight of business performance, regulatory requirements and delivery of our customer proposition.

On behalf of the Board

Robert East
Chair

23 February 2021

Audit Committee Report

Dear Member,

On behalf of the Committee, I am pleased to present this year's Audit Committee Report, which provides an overview of how we, as a Committee, have discharged our responsibilities, setting out the significant issues we have reviewed and concluded on during the year.

The report focuses mainly on the following three areas:

- The role and responsibilities of the Committee;
- The main activities of the Committee during the year; and
- A review of the effectiveness of the Committee.

Membership and attendees

The members of the Audit Committee during the year were:

Mr J R Coates	Non-Executive Director (Committee Chair)
Miss A J Burton	Non-Executive Director
Mrs D P Cockrem	Non-Executive Director
Mr D A Hall	Non-Executive Director
Mr M J Lund	Non-Executive Director

The Committee held five scheduled meetings during 2020 and the attendance of its members at these meetings is set out on page 61 in the Directors' Report on Corporate Governance. We also held private discussions during the year with the external auditor Ernst & Young LLP (EY), the Chief Conduct Risk Officer and Secretary, the Group Finance Director, the Chief Internal Auditor, the Connells Group Finance and Commercial Director, the Finance Director of Jade, the Finance Director of Skipton Business Finance and the Finance Director of SIL, to provide an opportunity for any relevant issues to be raised directly with Committee members.

In addition to its members, the Group Chief Executive, the Group Finance Director, the Chief Conduct Risk Officer and Secretary, the Head of Compliance Monitoring, external audit representatives and the Chief Internal Auditor regularly attend meetings, by invitation.

The Committee is currently comprised of five members, all of whom are independent Non-Executive Directors. Consideration is given towards ensuring that the Audit Committee as a whole has competence relevant to the financial services sector.

The Board is satisfied that the composition of the Audit Committee includes Non-Executive Directors with recent, relevant financial experience to provide appropriate challenge to management. As Chair of the Committee, I am a Chartered Accountant with significant financial services audit experience, having spent 30 years in senior roles at KPMG. I have held Non-Executive Director roles at Northern Rock (until December 2010) and The Co-operative Bank (until October 2016), and at each of these banks I both chaired the Audit Committee and sat on the Risk Committee.

Miss Burton has held senior legal and operational roles in a number of industries, including as Global Chief Operating Officer of Clifford Chance. Mrs Cockrem is a practicing Finance Director with more than 20 years' experience in financial services from roles at Barclays, RBS, Direct Line and RSA Insurance; she is currently Group Chief Financial Officer at the Ecclesiastical Insurance Group. Mr Hall has held senior leadership risk roles with a number of major banks, including Citibank, Deutsche Bank and GE Capital Bank; he currently holds Board and Audit Committee roles with several European banks. Mr Lund brings more than 30 years' experience in commercial and financial services, including senior leadership roles in financial advice and investment management.

In terms of good governance and to ensure holistic oversight, I am also a member of the Board Risk Committee (as is Mr Hall).

Role and responsibilities of the Committee

The responsibilities of the Committee are delegated by the Board and are set out in its written terms of reference which are available on our website at skipton.co.uk/about-us/governance/board-committees. These are in line with the provisions of the Financial Reporting Council's (FRC) 'Guidance on Audit Committees' which was last updated in April 2016. Our primary responsibilities are:

- To keep under review the effectiveness of the Group's internal controls, including financial controls and risk management systems;
- To monitor the integrity of the Group's financial reporting process, specifically by reviewing, challenging and recommending the Group's annual and interim financial statements to the Board for approval, reviewing and approving any formal announcements relating to the Group's financial performance and reviewing and challenging, as necessary, the significant estimates and judgements in relation to the financial statements and reporting how these were addressed;
- To provide advice to the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the Group's strategy, business model and performance;
- To provide oversight of the external audit process by monitoring the relationship with the external auditor, agreeing their remuneration and terms of engagement, monitoring their performance, objectivity and independence, ensuring that the policy to provide non-audit services is appropriately applied and making recommendations to the Board on their appointment, re-appointment or removal;
- To review the effectiveness and independence of the Internal Audit and Compliance Monitoring functions, approve their annual plans, review performance against these plans on a quarterly basis, review their material findings and oversee plans to remedy any shortcomings; and
- To report to the Board on how we have discharged our responsibilities.

The minutes of the Audit Committee are distributed to the Board following each meeting and I, as Chair of the Committee, provide a verbal report to the next Board meeting after each meeting of the Committee.

Activities of the Committee during the year

During 2020 our work fell under three main areas, in line with our responsibilities, as follows:

a) Internal controls and risk

The Group recognises the importance of good systems of internal control in the achievement of its objectives and the safeguarding of its assets. Good internal controls also facilitate the effectiveness and efficiency of operations, help to ensure the reliability of internal and external reporting and assist in compliance with applicable laws and regulations.

The Group operates in a dynamic business environment and, as a result, the risks it faces change continually. Management is responsible for designing the internal control framework to ensure thorough and regular evaluation of the nature and extent of risk and the Group's ability to react accordingly. Management is also responsible for implementing the Board's policies on risk and control, noting that all employees are responsible for internal control as part of their individual objectives.

Further details of the Group's risk management practices are provided in the Risk Management Report on pages 69 to 79.

Through the Committee, the Group's Internal Audit function provides independent assurance to the Board on the effectiveness of the internal control framework. The information received and considered by the Committee during 2020 provided assurance that there were no significant control failings that would lead to a material impact on the Group's financial statements. Previously highlighted challenges in the Estate Agency business with Anti-Money Laundering (AML) procedures have been addressed in 2020 and the business is operating within the Board-approved AML risk appetite.

Internal Audit is supported, as required, by external advisers who are able to provide specialist technical support in connection with matters such as Treasury, Information Technology, Credit Risk and Operational Resilience. The Chief Internal Auditor reports to myself and as a Committee we are responsible for ensuring that Internal Audit has adequate skills and resource levels that are sufficient to provide the level of assurance required. The Committee is satisfied that, throughout 2020, Internal Audit had an appropriate level of resources in order to carry out its responsibilities effectively and that it continues to do so.

The Audit Committee is also responsible for approving the annual budget of Internal Audit and for approving its annual plan of work. This is prepared on a risk-based approach by Internal Audit, reflecting input from management and the Committee.

We review reports produced by Internal Audit and, through Internal Audit, track management actions to completion; Internal Audit then verifies these periodically after management has reported them as complete. Internal Audit provides the Committee with reports on material findings and recommendations and updates on the progress made by management in addressing their findings.

We monitor and assess the role and effectiveness of the Internal Audit function in the overall context of the Group's risk management systems. The Committee assesses the effectiveness and independence of Internal Audit annually, immediately following the year end, and this is reported to and discussed at a meeting of the Committee shortly thereafter.

During the year, the main areas reviewed were as follows:

- the governance framework surrounding key prudential risk areas;
- the effectiveness of the Society's response to the COVID-19 pandemic and new COVID-secure processes and procedures;
- Information Technology, cyber security, operational resilience and data protection risks to ensure that the Group has robust controls, in line with good practice, in this rapidly evolving area;
- the effectiveness of the implementation of UK Government support schemes in the Group which were introduced as a result of COVID-19;
- the fair treatment of customers who requested a mortgage payment deferral; and
- a number of specific areas of internal control, in particular new and emerging regulatory changes to ensure that the Group meets regulatory expectations at all times.

The Committee also has oversight responsibility for the Group's Compliance Monitoring function which provides second line assurance over conduct risk on activities regulated by the FCA across the Group. The Compliance Monitoring annual plan includes both thematic reviews and customer outcomes testing which includes, but is not limited to, investment, pension, mortgage and protection advice, complaint handling and post-sale client outcomes. The outputs of the Compliance Monitoring function's monitoring activities are reported to the Committee, together with progress updates on management's implementation of the findings. The Compliance Monitoring function's annual plan of work is also approved by the Committee.

The Committee periodically reviews the use of the confidential reporting channel in the Group. Awareness of 'whistleblowing' arrangements is maintained through internal communication and is covered as part of employees' induction and ongoing development. The Committee receives annual updates from the Head of Financial Crime on the systems and controls in place for the detection and prevention of fraud. The Committee also receives biannual updates from the Head of Group Tax on tax matters impacting the Group.

As part of the external audit process, the Society's auditor provides us with internal control reports. No material control weaknesses were identified in the reports received during the year.

In line with good practice, the Committee requires an external effectiveness review of the Internal Audit function at least every five years, which considers the quality, experience and expertise of the function. A review was carried out during 2019 by an external firm appointed by the Committee and that review concluded that Internal

Audit was operating effectively. The review also confirmed that the Internal Audit function conforms to the standards expected by the Institute of Internal Auditors. Some areas for enhancement were identified which have now been substantially addressed.

b) Financial reporting

The Committee considers the financial information published in the Group's annual and interim financial statements and considers the accounting policies adopted by the Group, presentation and disclosure of financial information and, in particular, the key estimates and judgements made by management in preparing the financial statements.

The Directors are responsible for preparing the Annual Report and Accounts. At the request of the Board, we considered whether the 2020 Annual Report and Accounts were fair, balanced and understandable and whether they provided the necessary information for members to assess the Group's position and performance, business model and strategy. This was assessed in the following ways:

- best practice guidance and recommendations, including those published by the Financial Reporting Council and leading audit firms, were reviewed and analysed against the Annual Report and Accounts, and enhancements implemented as a result of this analysis where necessary;
- the Executive Committee and the Board have been involved in reviewing and commenting on various drafts of the Annual Report and Accounts, to help ensure that the final draft is fair, balanced and understandable;
- the Committee reviewed and was satisfied that the alternative performance measure of underlying profit before tax (defined on page 29 in the Strategic Report), which is reported alongside the statutory profit measure, gives a clearer view of the underlying performance of the business for our members and is in line with the agreed policy; and
- a thorough review was undertaken by the Financial Reporting team to ensure there was appropriate supporting evidence for the content of the Annual Report and Accounts.

The Committee is satisfied that, taken as a whole, the 2020 Annual Report and Accounts are fair, balanced and understandable and include the necessary information as set out above. The Committee has confirmed this to the Board, whose statement in this regard is set out on page 55 of the Directors' Report.

We pay particular attention to matters we consider to be important by virtue of their impact on the Group's results, and particularly those which involve a high level of complexity, judgement or estimation by the Board. The key areas of estimate and judgement that we considered in reviewing the 2020 Annual Report and Accounts are set out below:

Significant matter	Committee action taken
Going concern and longer term viability review	The Committee reviewed the adoption of the going concern assumption for the Interim Accounts and the Annual Accounts, adopting the same comprehensive approach for both reporting periods. This involves rigorous consideration, based on reports produced by key risk functions around the business as requested by the Committee, of our current and projected liquidity, capital and funding positions, together with the risks from business activities (for example credit risk, liquidity risk, operational risk and conduct risk), market changes and economic and political factors, such as the impact of COVID-19 and the agreement reached on the UK's relationship with the EU at the end of the transition period, which could also impact the business, as well as consideration of potential stress scenarios. Based on this review, we concluded that the adoption of the going concern assumption to prepare the financial statements remains appropriate. The Committee has reviewed the statement on the longer term viability of the Group in the Directors' Report on pages 54 and 55, together with papers produced by management and key risk functions in support of this statement. This includes consideration of the Group's latest corporate plans, the impact of these plans on the Group's liquidity, capital and funding positions, and the impact of risks from business activities, market changes, economic and political factors and stress scenarios. The stress scenarios included consideration of scenarios that could cause the Group to fail, and the Committee agreed that any such scenarios are considered sufficiently unlikely to materialise and to thus threaten the Group's longer term viability. Based on this analysis, the longer term viability statement on pages 54 and 55 was recommended to, and approved by, the Board.
Impairment of financial assets	The Committee has monitored loan impairment provisions, taking account of the requirements of IFRS 9 *Financial Instruments*. We have reviewed the appropriateness of critical judgements made by management, including the definition of default and the determination of significant increase in credit risk. We have considered the impact of key assumptions within the Group's loan impairment models (such as house prices, unemployment and other forward-looking economic indicators within defined economic scenarios) on the level of provisions made and the relevant disclosure in the Accounts; this includes noting that, in response to greater political and economic uncertainty as a result of COVID-19 and the agreement reached on the UK's relationship with the EU at the end of the transition period, the Group has during the year updated its economic scenarios and reviewed the weightings attached to them. We have examined and challenged the assumptions adopted and, by requesting and scrutinising reports produced by management, are satisfied with the models used during the year to calculate loan impairment provisions for both the residential and commercial mortgage portfolios. The Committee has also monitored the level of impairment held against treasury assets under IFRS 9, including scrutinising reports produced by the Market & Liquidity Risk function. We consider the level of impairment held against these assets to be appropriate.
Fair valuation of the equity release portfolio	The Group holds an equity release portfolio which is closed to new business. Under the terms and conditions of the mortgages in this portfolio, a no negative equity guarantee (NNEG) was given to customers. Under IFRS 9, the entire equity release asset (including the NNEG) is held at fair value with resulting gains or losses taken to the Income Statement. As outlined in note 1e) to the Accounts, there is no single industry pricing methodology for valuing the Group's equity release portfolio. The Group has therefore internally devised a fair valuation model, using inputs including mortality rates, voluntary prepayment rates, estimates of future RPI and a house price index, and associated volatility, to predict future cash flows on the portfolio. The valuation is also impacted by selection of appropriate discount rates (which include illiquidity premia). As the valuation technique uses some inputs that are not based on observable market data, judgement is required in determining appropriate assumptions. An independent review of the equity release valuation model was also carried out by a third party in 2020 who rated the equity release model overall as fit for purpose. The Committee has reviewed the assumptions within the equity release fair valuation model and scrutinised supporting papers prepared by management. Taking into account the specific characteristics of this portfolio and also general macro-economic indicators, the Committee considers that the inputs and assumptions are appropriate, and therefore that the valuation of the equity release portfolio is appropriate in the 2020 Annual Report and Accounts. The Group hedges the interest rate and inflation risk arising from its equity release portfolio through the use of derivatives. These derivatives are valued using discounted cash flow models which include estimated redemption profiles and, due to the long-dated nature of these derivatives, any changes to estimates or assumptions can have a significant effect on the valuation of the derivatives. As the underlying mortgage portfolio is not held at amortised cost under IFRS 9, hedge accounting cannot be applied. Both the equity release portfolio and the swaps are held at fair value through profit and loss. There is some natural offsetting between the changes in value of the portfolio and the derivatives but this is not perfect, partly due to the different discounting requirements. The Committee has reviewed papers prepared by management that support the assumptions used and which outline the control framework management has in place; the Committee is satisfied that the amounts recognised in the Income Statement are fairly stated and that the valuations of these derivatives are appropriate. Given the sensitivity of the fair value to certain key assumptions, the Committee also reviewed those key sensitivities and these are disclosed in note 1u) to the Accounts.
Effective interest rate accounting	Interest income on the Group's mortgages is measured under the effective interest rate method, as explained in note 1e) to the Accounts. This method includes an estimation of mortgage product lives which is based on observed historical data and Directors' judgement; management reviewed these estimates during the year and consider that the assumptions regarding mortgage product lives are appropriate. The Committee reviewed the reports prepared by management and is satisfied with the conclusions reached in this respect.
Appropriateness of provisioning for legal or regulatory matters	The Committee received reports from management on the recognition and amounts of provisions and considered the existence of any contingent liabilities. The Committee examined these reports and concluded that all such provisions were appropriately accounted for and disclosed in these Accounts, and agreed with management's conclusion on the existence or otherwise of any contingent liabilities.
Defined benefit pension liability	The Group manages two funded defined benefit pension schemes and one hybrid scheme (with a funded defined benefit element) which at 31 December 2020 had a combined deficit of £96.4m (31 December 2019: £87.0m). The Committee has examined and challenged the pension scheme assumptions and is satisfied that these are reasonable and appropriate.

Governance

Other matters

We considered matters raised during the statutory external audit and the half year independent review and, through discussion with senior management of the business and the external auditor, concluded that there were no adjustments required that were material to the financial statements as presented.

The Committee has considered the other risk identified by the external auditor within the external audit report on pages 102 to 111 relating to the recognition of revenue within the Estate Agency division and we are comfortable that this has been appropriately considered and disclosed within the Accounts.

c) External auditor

The Committee assesses the effectiveness and independence of the external auditor annually, following completion of their year-end audit, and this is reported to and discussed at a meeting of the Committee shortly thereafter. This assessment is facilitated by the Group's Financial Reporting function and is made by reference to the Financial Reporting Council's 'Guidance on Audit Committees', which details what is expected of the Audit Committee to ensure that the annual external audit cycle is effective. The assessment covers the external audit of the previous Annual Report and Accounts, whilst the proposed approach to the next audit is also discussed at this meeting, and includes consideration of matters such as:

- any risks to audit quality that the external auditor identified;
- the key controls that the external auditor relied on to address any identified risks to audit quality, such as appropriate audit methodologies, training and quality control policies and procedures;
- the findings from internal and external inspections of the external audit and the audit firm;
- whether the original audit plan was met;
- openness of communication between the external auditor and senior management;
- the skills and experience of the audit team including whether, in the opinion of the Committee, the external auditor demonstrated a sound understanding of the business by, inter alia, identifying the key risks of material misstatement to the financial statements;
- whether an appropriate degree of challenge and professional scepticism was applied by the external auditor; and
- the proposed strategy to be used in the next audit, including the proposed level of materiality to be used.

Based on the above, senior management in the Financial Reporting function prepared a report for the Committee which outlined the principles contained within the Financial Reporting Council's guidance and set out management's view on each principle. The Committee scrutinised this report and, together with its own experience, formed an opinion as to the effectiveness of the first year audit performed by EY in respect of the 2019 Annual Report and Accounts. We concluded that the relationship with the external auditor had worked well and we were satisfied with their effectiveness and independence. Separately, the Committee also considered the proposed approach to the 2020 audit and we are satisfied in this respect. Following the audit of the 2020 Annual Report and Accounts an updated report, as detailed above, will be presented to the Committee in 2021 for scrutiny and to conclude on the effectiveness of the 2020 audit performed by EY.

The Committee regularly monitors the Group's relationship with the external auditor and has adopted a policy for ensuring auditor independence and objectivity. This policy defines prohibited non-audit assignments (which include all tax-related assignments) and procedures for approval of other non-audit assignments across the Group. All non-audit assignments are required to be pre-approved by designated mandate holders and a limit is in place above which approval can only be given by the Committee; a report detailing any approved expenditure is also sent to the Committee every six months.

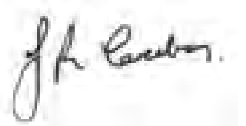
EY undertook a limited number of non-audit related assignments for the Group during 2020. These were conducted in accordance with the Group's aforementioned policy and are consistent with the professional and ethical standards expected of the external auditor. Details of the fees paid to EY during that period for audit and non-audit services are set out in note 5 to the Annual Accounts and for the relevant period non-audit fees represented 9.5% of total EY audit fees for the Group (2019: 15.0%). The Group continues to monitor the non-audit services ratio; following the introduction of the Financial Reporting Council's (FRC) Revised Ethical Standards 2019 this percentage is limited to 70%.

To further maintain auditor independence, the Group has a policy, approved by the Committee, regarding the employment of former employees of the auditor.

Effectiveness of the Audit Committee

The effectiveness of the Committee is assessed annually and as part of the annual Board and Committee effectiveness review, further details of which are set out in the Directors' Report on Corporate Governance on page 59. The internal 2020 review, recently completed, concluded that we operated effectively during the year.

Committee members are expected to undertake relevant training as part of their ongoing development and, periodically, the Committee as a whole receives training on current topics such as current sector challenges, regulatory developments, conduct risk issues and financial reporting 'hot topics' to ensure we remain effective in our role.



Richard Coates
Chair of the Audit Committee

23 February 2021

Risk Management Report

Dear Member,

As the Chair of the Board Risk Committee, I am pleased to present the 2020 Risk Management Report. This report explains the risk oversight arrangements we operate at Skipton, and what we believe to be the principal risks facing the Society and its subsidiaries (the Group).

As noted elsewhere in the report, 2020 has brought some unique challenges for the Group, where our focus has been on ensuring the safety and well-being of our colleagues and customers whilst continuing to deliver a reliable service in a remote-working, COVID-19 environment.

When the pandemic struck at the start of 2020, leading to the initial lockdown across the UK, the Group was presented with a series of operational resilience challenges as the Society and its subsidiaries, in line with many businesses, were required, at short notice, to move to a remote working model. The speed with which Group firms were able to respond, whilst continuing to provide exceptional levels of customer service, has provided evidence of the procedures, processes, and most importantly culture, being well positioned to respond to such a unique risk scenario.

From the Committee's perspective, the response of the Society and its subsidiaries have demonstrated that the risk management frameworks have operated effectively in ensuring that the Group remains within its risk appetite whilst continuing to provide high levels of customer service during a period of significant change to its operating model and exceptional levels of economic uncertainty.

The impact of the pandemic has created a high degree of economic uncertainty requiring the Society to tightly manage its liquidity and capital position, whilst taking appropriate action to support government supported schemes such as mortgage payment deferrals and furlough income, and prudently manage credit risk appetite and affordability controls to respond to the increased economic uncertainty and rapidly changing mortgage market.

During the year the Society has prudently held high levels of liquidity and has continued to maintain one of the strongest capital positions across the financial sector. Additional credit risk affordability controls were implemented during the year, and the Society reduced its appetite for higher loan-to-value mortgage lending in light of the increased economic uncertainty.

The ability to respond quickly to a rapidly changing environment has demonstrated the effectiveness of the governance framework for managing emerging operational and financial risks.

Across the Group each of the subsidiaries has similarly responded to the unique challenges emerging from the pandemic. Only Connells, our Estate Agency business, was forced to suspend all operations due to lockdown regulations requiring closure of all its branches for a two month period; all other parts of the Group continued to provide a full service to their customers and business clients.

Whilst the response to the pandemic has presented some unique challenges and risks to the Group, the Society and its subsidiaries have maintained focus on the full range of other risks.

During the year the Group continued to monitor closely developments surrounding negotiations to leave the EU and the potential impact of this on the Group's principal risks. The Directors acknowledge that, whilst uncertainties remain regarding how the business environment may change over the coming years as the UK concludes the exit process, the changing economic environment could directly impact some of the principal risks discussed in this report. The ongoing economic uncertainty emphasises the need to maintain a forward-looking focus and run appropriate stress scenarios to test the Group's resilience to unforeseen risk events and, where appropriate, build mitigating strategies. The Board is monitoring economic and social developments closely and is confident that the Group is well placed to react to any developments accordingly.

Committee focus

Throughout the year the Board Risk Committee has challenged management to ensure there are appropriate strategies in place to mitigate the risks identified, whilst enabling business plans to be progressed and maintaining the prudential strength of the Group.

In line with the risk management framework, the Committee has, during the year, ensured focus on:

- **Liquidity risk,** ensuring that the Group maintains a prudent liquidity position and is well placed to respond to the uncertain environment, whilst implementing our longer term funding strategy to diversify our funding base. During the year the Society successfully undertook a £350m Minimum Required Eligible Liabilities (MREL) transaction, to acquire capital and funding which materially strengthens the Society's capital position in response to anticipated changes in capital regulation which will require the Society to have sufficient capital or MREL which could be utilised to recapitalise the Society should it fail, avoiding the need for the taxpayer to support the financial sector in the event of failure;
- **Interest rate risk**, to ensure that the Group has an effective balance sheet strategy and hedging arrangements in place to manage interest rate risk;
- **Credit risk**, to ensure that the Group appropriately evaluates and balances risk and reward in a highly competitive mortgage market, which is particularly important during a period of significant economic uncertainty;
- **Capital management,** to ensure that the Group maintains and projects sufficient capital resources to support our corporate plan, and potentially respond to a severe economic stress, in a period where capital requirements are increasing significantly as a result of anticipated changes to capital rules;
- **Operational resilience,** to ensure that the Society and subsidiary firms remain able to provide a reliable service in all areas to their customers despite the need for remote working due to COVID-19 restrictions and are able to recover in a swift and organised manner in the event of an operational failure;

- **Cyber risk**, to ensure that the Group has an appropriate risk framework in place to reduce the likelihood of a successful attack. We have been alert to the increased risk arising from remote working and continued to develop our monitoring regime;
- **Financial planning and mortgage advice**, to ensure training and competence standards are appropriate, customers receive good advice and documentation standards substantiate this; and
- **Risk appetite**, to ensure that we understand and appropriately respond to the impact of the uncertain and rapidly changing environment on the risk profile of our balance sheet.

To assist the Committee's deliberations, it receives regular reports from the Chief Financial Risk and Data Officer and Chief Conduct Risk Officer. These reports provide clarity on the key and emerging risks faced by the Group and direct the Committee's attention to those matters which the Risk Officers believe warrant further consideration, enabling challenge of first line management on the actions being taken to mitigate the risks.

Risk overview

Day-to-day operation of the business naturally exposes the Group to a range of potential risks. To limit the level of risk accepted by Group entities in the normal course of business, the Board has established a risk appetite which it reviews, at least annually, in the context of prevailing economic conditions. This covers a number of areas such as capital, liquidity and operational risk. In terms of core credit risk appetite, that for the Society and Skipton International Limited (SIL) is restricted to prime residential lending, either to owner occupiers or buy-to-let investors.

The Board does not have any appetite for the Society or SIL to carry out new business in commercial or sub-prime lending.

Central to operating within this appetite is a management culture which promotes awareness of actual and potential risks and an understanding of their impact on the portfolio should they crystallise.

Governance structure

To enable appropriate focus on risk matters, the Board has delegated oversight of risk management to the Board Risk Committee although ultimate responsibility for risk management continues to reside with the Board.

The Board Risk Committee is responsible for considering and recommending the Group's risk appetite and capital adequacy and liquidity management policies to the Board. It is also responsible for ensuring that the Group maintains an effective risk governance structure to ensure that internal and external risks across the Group are identified, reviewed, managed and reported on.

Membership and attendees

The members of the Board Risk Committee during the period were:

Mr D A Hall (Chair)
Mr J R Coates, Non-Executive Director
Ms H L Jackson, Non-Executive Director
Ms H C Stevenson, Non-Executive Director

The Board Risk Committee is supported by a number of executive committees, which have day-to-day responsibility for risk management oversight, as outlined in the diagram below:

Whilst the committees operate under delegated Board authority, the success of the framework relies on effective reporting, rigorous challenge and appropriate escalation of issues to the Board Risk Committee where an enterprise-wide view of risk is held. The committees perform self-effectiveness reviews each year to identify continuous improvement opportunities and ensure they continue to operate effectively.

In addition, whilst not a direct Board Committee, Connells Limited operates an Audit & Risk Committee which reports directly to the Connells board.

Risk management framework

The Group has a formal structure for identifying and managing risks throughout the business. This framework is designed to deliver the corporate plan in line with the Board's overall risk appetite and is based upon the best practice 'three lines of defence' model which operates as follows:

First line of defence, being line management within the business who, through the implementation of the organisation's risk framework, identifies, assesses and manages risk.

Second line of defence, comprising independent risk functions (Operational, Credit, and Market & Liquidity) and related independent compliance functions. These functions challenge, monitor, guide and support the business in managing its risk exposure. The risk framework includes the three sub-committees of the Board Risk Committee described above which are responsible for recommending and monitoring the Group's adherence to policy. The Board Risk Committee Chair is responsible for maintaining the independence of the second line of defence to ensure there are no obstacles to its independent challenge of first line operations.

Third line of defence, provided by Internal Audit, is designed to provide independent assurance to the Board (through the Board Audit Committee) of the adequacy and effectiveness of control systems operating within the first and second lines in identifying and managing risk.

The principal risks and uncertainties faced by the Group, which are managed within the framework described above, are set out later in this report.

Risk environment

The Group is predominantly active in the UK and, to a large extent, exposed to the UK property market. Therefore, the general UK macro-economic environment is a key factor in determining the success of the Group. The main economic drivers that impact the risk profile of Group include:

- interest rates;
- inflation;
- unemployment; and
- the housing market (volume of transactions and house prices).

Alongside these prudential risks, as a business with a retail franchise in financial services offering our customers mortgages, savings, financial advice and estate agency services, the management of conduct and operational risk is key to the ongoing success of the Group. Central to managing these risks is maintenance of a robust product governance framework, to ensure that we develop and market compliant and fair products and services designed to meet the needs of our target market. At point of delivery, the competency and oversight of our advisers to ensure we provide good outcomes for our customers is then essential to maintain the confidence and trust upon which our brand is based.

Despite the dramatic changes resulting from the pandemic, and the resultant unprecedented levels of government support to economies across the globe, there has been less volatility in the key economic drivers noted above than would typically be expected from such an uncertain economic environment.

Interest rates were reduced to 0.1% in early 2020, and our internal economic projection, in line with external commentators, is that they are likely to remain at that level over the horizon of our five-year corporate plan. Inflation has reduced during 2020, with relatively modest growth anticipated over the plan horizon.

Whilst we have seen some increases in unemployment in recent months, the rate of increase has been significantly less than we had forecast, reflective of the continued high levels of government support within the economy, as a result of furlough income and mortgage payment deferral support being extended. We anticipate we will see unemployment continue to increase during 2021, and this change has been reflected in our forward-looking loan impairment provisions held in our balance sheet.

The housing market in 2020 has been extremely volatile and unusual, given the economic uncertainty, starting strongly and then abruptly shutting down in March following introduction of COVID-19 restrictions. The performance of the housing market post-lockdown has since then exceeded expectations. Whilst some of the strength may be short-term as a result of pent-up demand and the temporary reduction in stamp duty, there is evidence to suggest that there may be other drivers of the uplift reflecting societal change such as flexible working practices which could mean that the uplift is more permanent. Equally, the prospect of further lockdown measures could dramatically change this view, highlighting the continued uncertainty.

Whilst levels of mortgage arrears have remained low throughout 2020 we anticipate arrears levels to rise, in line with projected increases in unemployment as government support to the economy is removed, consistent with official forecasts and commentators generally predicting a significant increase in unemployment in 2021.

The results of the Estate Agency division are principally driven by the volume of UK property transactions, in particular second-hand property sales. This market is heavily influenced by consumer confidence, driven by the general state of the economy, level of unemployment and interest rates, together with the availability of mortgages, particularly for first time buyers. A slowdown in the housing market puts pressure on Connells' income levels but the Estate Agency division is partially protected against the performance of its core business through its own diversification into complementary businesses such

Risk Management Report *(continued)*

as property asset management and lettings. Although this business mix and diversification of revenue streams is designed to be counter-cyclical, the COVID-19 lockdown restrictions which meant offices had to close saw income flows dramatically reduce. The continued aspiration of home ownership within the UK, however, saw this position reversed post-lockdown. The dramatic events of 2020 have provided a test of the Society and Group risk framework, requiring the Society and each of its subsidiaries to assess the rapidly changing environment and appropriately respond to ensure that the Group remained within its risk appetite and continued to provide the expected high quality service to our customers. That it has done so effectively demonstrates that the Group is well placed to appropriately respond to what remains an extremely uncertain environment.

Principal risks and uncertainties

The principal risks and uncertainties presented below are those that are inherent to the Group's business model and strategy, as well as the economic environment within which the Group operates. These risks are identified by the Chief Risk Officers, discussed at the Board Risk Committee and then presented to the Board for further consideration and agreement, as appropriate.

The Risk Committee is also alive to the need to be alert to new, emerging risks. These are considered by the Chief Risk Officers in their quarterly reports to the Risk Committee and support horizon scanning discussions at every meeting. A watching brief is then maintained, as appropriate, by both first and second line teams to determine whether the key risk profiles of any Group business need to be updated to incorporate the potential new risks. Our reporting process is designed to provide the Board Risk Committee with continuous assessment of the risk environment and allow it to challenge management on its mitigation plans in a timely manner.

Over the following pages, the prudential risks facing the Group are presented, followed by strategic and business risks and finally operational and conduct risks. There is reference elsewhere in this Annual Report to the Society's subsidiary, Connells Limited, making an offer to acquire 100% of the shares of Countrywide plc. The Chief Risk Officers have carried out an assessment of the risks associated with the acquisition and subsequent integration. Detailed risk information will be set out in future risk management reports post the acquisition.

Risk	Risk mitigation and management
Credit risk	
Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group. The Group faces this risk from its lending to: • individual customers (retail mortgages); • businesses through historical commercial lending and ongoing debt factoring and invoice discounting; and • wholesale counterparties for the purposes of liquidity management.	The Society's retail and commercial credit exposure is managed by a team of experienced professionals, with oversight provided by the Retail Credit Committee. Similarly, the Group Wholesale Credit Committee manages treasury credit exposures, with oversight provided by ALCO. The Group has established comprehensive risk management processes in accordance with the Board's credit risk appetite which defines a number of limits regarding concentration risk as well as customer and collateral credit quality to which all lending activity must adhere. The Group maintains what the Board considers to be a low risk approach to new lending and will continue to do so. The credit decision process utilises automated credit scoring and policy rules within lending policy criteria supported by manual underwriting. All aspects of the credit decision process are subject to regular development, as well as independent review by the Credit Risk function, ensuring they support decisions in line with the Board's risk appetite. The Group's collections and recoveries functions provide a responsive and effective arrears management process. We seek to engage in early communication with borrowers experiencing difficulty in meeting their repayments, to obtain their commitment to maintaining or re-establishing a regular payment plan. We consider forbearance options on a case-by-case basis in line with industry guidance and best practice. The impact of any such forbearance is recognised within our provisioning policy. The Society has a commercial mortgage portfolio which is UK-based and, following a reduction in the Group's risk appetite, was closed to new lending in November 2008. The gross carrying value of this portfolio as at 31 December 2020 was £219.0m, representing 1.0% of total Group loans and advances.

Risk	Risk mitigation and management
Credit risk (continued)	
	In addition, the Group includes specialist lending businesses Amber and NYM which were also closed to new lending in 2008. The combined gross carrying value of these portfolios as at 31 December 2020 was £597.6m, representing 2.7% of total Group loans and advances. We have retained an appropriately skilled team of people to manage these loans. As with residential lending in the Society, we consider forbearance options on a case-by-case basis in line with industry guidance and best practice. The impact of any such forbearance is recognised within our provisioning policy. During 2020 arrears levels have remained at modest levels, despite the impact of the pandemic, reflective of the high levels of government support within the economy. It is anticipated that arrears levels will increase, as some of this support is removed, and unemployment increases in line with the projections of external commentators. This change has been reflected in our forward-looking balance sheet provisions held for potential loan impairment.
Liquidity risk	
Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due.	The Society's Treasury function is responsible for the day-to-day management of the Group's liquidity and wholesale funding. The Board sets the Group's liquidity risk appetite and limits over the level, composition and maturity of liquidity and deposit funding balances, reviewing these at least annually. Compliance with these limits is monitored daily by Finance and Risk personnel and, additionally, a series of liquidity stress tests are performed weekly by the Risk function. Liquidity stress testing is carried out against a number of scenarios including those prescribed by the PRA, considering a wide range of liquidity and economic factors. Early warning indicators are regularly assessed by a variety of functions across the Society to ensure liquidity is maintained at appropriate levels and reported to ALCO and the Board on a monthly basis. On an annual basis, a detailed and forward-looking assessment of our liquidity is undertaken as part of our corporate planning process. This formal review is known as our Internal Liquidity Adequacy Assessment Process (ILAAP) and is reviewed and approved by the Board and shared with the PRA. In addition, the PRA conduct a review every two years of our processes for managing liquidity. The most recent review in 2019 identified no material concerns. Our longer term funding strategy is to continue to diversify our funding sources, through increasing the volume and diversity of our longer term wholesale funding. During 2020, we issued a successful compliant securitisation transaction raising £500m, and also undertook our first MREL compliant wholesale transaction raising a further £350m of funding and MREL compliant debt. Retail funding growth has been good during the year and despite the challenges of the reduction in the Bank of England Base Rate, the Society has increased retail savings balances by £1.3bn (or 7.7%). We have also maintained the quality of the Group's liquidity portfolio, with 59% of total liquidity held within the Statement of Financial Position comprising balances held at the Bank of England, with a further 6% held in UK gilts and Treasury Bills.
Interest rate risk	
Interest rate risk is the risk of loss arising from adverse movements in market interest rates.	Interest rate risk arises from the mortgages, savings and other financial products we offer. This risk is managed through the use of appropriate financial instruments, including derivatives used to hedge exposures, with established risk limits, reporting lines, mandates and other control procedures. Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between market rates), are also monitored closely and regularly reported to ALCO, the Board Risk Committee and the Board. This risk is also managed, where appropriate, through the use of derivatives, with established risk limits and other control procedures.

Risk	Risk mitigation and management
Interest rate risk (continued)	
	Derivatives are only used to limit the extent to which the Group will be affected by changes in interest rates, foreign exchange rates or other indices which affect fair values or cash flows. Derivatives are therefore used exclusively to hedge risk exposures. The principal derivatives used by the Group are interest rate contracts such as interest rate swaps. The Group holds capital to absorb potential losses for any risks that are unable to be mitigated through the use of derivatives. The Group's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly, in line with PRA guidance.
Capital risk	
Capital risk is the risk that the business does not maintain sufficient capital levels to protect it against the principal risks it faces such as severe recession or business shocks.	The Society's Financial Risk team conducts an Internal Capital Adequacy Assessment Process (ICAAP) at least annually to assess the Group's current and projected capital requirements to support the current risks in the business and future risks arising from the corporate plan. The ICAAP addresses all the Group's material risks and includes Board-approved stress scenarios which are intended, as a minimum, to meet regulatory requirements. The ICAAP is approved annually by the Board and reviewed by the PRA when setting the total capital requirements. The Group currently adopts the following approaches to calculating its Pillar 1 minimum capital requirements: • IRB approach for mortgage exposures of the Society, Amber and NYM; • IRB approach for exposures relating to investments in subsidiaries outside the regulatory group and non-credit obligation assets (property, plant and equipment, fair value adjustments for hedged risk and cash); • Standardised approach for other lending exposures; • Standardised approach for treasury portfolios; and • Standardised approach for operational risk. Within the ICAAP we consider the impact of emerging capital regulation. There are a number of material changes to future capital regulation which will impact the Society's capital position over the corporate plan horizon. CRD V and the CRR, as amended by the onshored provisions within the CRR II regulation (EU) 2019/876 and the CRR 'Quick Fix' package, define the regulatory framework the Society is required to operate within and is the basis upon which the ICAAP has been prepared. In addition, the Basel Committee have finalised reforms of the Basel III regulation. These reforms impact the basis of calculation of the capital requirement within our ICAAP. These reforms are commonly referred to as Basel IV and are due to become effective from 1 January 2023. The regulatory changes outlined below represent a material recalibration in the amount of regulatory capital required to be held by the Society, despite no material change to the risk profile of the Society, and include: - Minimum Requirement for Own Funds and Eligible Liabilities (MREL) is the minimum amount of eligible liabilities we are required to hold to ensure the Society has sufficient capital to resolve itself in the event of a resolution scenario. As part of the Bank Recovery and Resolution Directive, the Bank of England published its policy for setting MREL and provided guidance on indicative MREL. Based on current guidance, binding MREL for the Society will be 18% of risk weighted assets from 1 January 2021 to 31 December 2021. An indicative MREL from 1 January 2022 is also expected to be 18% of risk weighted assets. From 1 January 2023 the indicative end-state MREL is expected to be the greater of 2x (Pillar 1 plus Pillar 2A capital requirements) or 2x the leverage ratio, as set out in the Bank of England's statement of policy.

Risk	Risk mitigation and management
Capital risk (continued)	
	- The Basel III reforms are due to be implemented from 1 January 2023 and materially change the approach to calculating our risk weighted assets as a result of the introduction of an IRB output floor, which sets a minimum threshold for the Pillar 1 requirement which will be phased in from 50% of the equivalent Pillar 1 requirement calculated under the standardised approach to 72.5% over the period January 2023 to January 2028. - The Society expects to submit new IRB models to the PRA in 2021 and following approval the new models would be implemented and incorporated within our regulatory assessment of capital requirements by January 2022. The changes are material and ensure the models remain in line with regulation. Key changes are reflected in an updated version of the PRA's *Supervisory Statement SS11/13* and in 2020 the implementation deadline was extended by one year to 2022. The anticipated cumulative impact of these changes will be a material increase in regulatory capital requirements. Our ICAAP demonstrates that we anticipate having sufficient capital resources to deliver our corporate plan over the plan horizon, incorporating the impact of the IRB model changes, and projected increases in capital requirements associated with the anticipated regulatory changes. These reforms represent a significant recalibration of regulatory capital requirements across the industry although there remains uncertainty on the final outcome of the existing proposals. The Society satisfies all of the current capital requirements.
Pension obligation risk	
Pension obligation risk is the risk that the value of the schemes' assets, together with ongoing contributions, will be insufficient to cover their obligations over time. The schemes are also exposed to possible changes in pension legislation.	The Group has funding obligations for three defined benefit schemes, the two primary schemes of which carry funding deficits. The two primary schemes were closed to new entrants on 5 April 1995 and closed to future accrual of benefit by 31 December 2009. Whilst the pensions Trustees oversee the investment strategy for the pension funds, it is for the boards of the Society and Connells to ensure that the schemes are adequately funded to meet all liabilities. To manage the Group's exposure to pension obligation risk: • The Board regularly reviews the Group's pension risk strategy; • The pension scheme Trustees meet at least quarterly to monitor the investment performance of scheme assets and make investment decisions, liaising with the principal employer in accordance with the scheme rules and taking advice from professional investment consultants; • The pension scheme Trustees also monitor the pension obligation position (on the Trustee's funding basis); and The pension obligation position (on an IAS 19 basis) is updated every six months and reported, along with key pension risk metrics, to the Board Risk Committee and Board.
Model risk	
Model risk is the risk that, as a result of weaknesses or failures in the design or use of a model, a financial loss occurs or a poor business or strategic decision is made.	To mitigate this risk the Model Governance Committee (MGC) provides a formal forum for monitoring and managing model risk in the Society, ensuring that all material models: • go through a formal review and approval process; • have a robust change control process; • undergo a consistent model, development and validation process; and • are monitored routinely and reviewed periodically in line with a risk based timetable. MGC manages model risk with reference to a defined model risk appetite and governance policy which have both been approved by the Board Risk Committee, and also provide regular updates on model governance compliance to the Board Risk Committee.

Risk Management Report *(continued)*

Risk | **Risk mitigation and management**

Business risk

Business risk is the risk of changes in the environment in which the Group operates or the occurrence of events which damage the franchise or operating economics of the Group's businesses.

The Executive Committee of the Society and the boards of Group subsidiary firms are responsible for ensuring that business risk is effectively managed.

Potential sources of business risk include revenue volatility due to factors such as macro-economic conditions, inflexible cost bases, structural inefficiencies or new market entrants with lower cost structures or innovative service propositions.

Delay or inability to respond to changing customer behaviours presents itself as a clear risk as customers' preferred means of accessing financial services evolves in a rapidly changing digital environment.

The Society addresses these risks within its corporate plan which is approved by the Board along with the Group's key strategies. The Board Risk Committee is also provided with the results of stress and scenario tests to assess the potential impact on the Society and its subsidiary businesses of a stressed business environment such as a severe economic downturn. This enables the Committee to monitor the risk impact of business strategies and to determine whether changes to these may be required to protect the sustainability of the Society. In line with regulatory requirements the Society maintains a recovery plan detailing the steps it would take to sustain itself through such severe business stresses.

Climate change risk

Climate change risk refers to the commercial impact that climate and environmental changes present to our business model.

The Society recognises that there are a number of potential risks associated with climate change, and has formed a steering forum to progress implementation of the plan compiled in response to the supervisory statement SS3/19 issued by the PRA, and the subsequent Dear CEO letter on climate change risk published by the PRA in July 2020. The Society's approach and strategy continues to develop as our understanding of this key area grows.

The current plan encompasses the following four key components:

- **Governance** captures the oversight approach and key responsibilities in relation to our evaluation and response to climate change risks;
- **Risk management** captures the identification of potential risks, a vulnerability assessment of these risks that assesses the likelihood and potential impact of potential risks, and the identification of opportunities to enhance the Society's response to climate change, including the establishment of key metrics to monitor risks and progress thereof;
- **Scenario analysis** encompasses the consideration of data sources to enable modelling of potential outcomes and their impact upon the Society, and also includes the development of modelled scenarios for evaluating the impact of potential risks; and
- **Disclosures** considers how the Society ensures that key stakeholders are fully aware of the activity and outcomes associated with our response to climate change.

In addition to ensuring that the Society has considered and is addressing the potential financial risks associated with climate change, it has also identified a series of sustainable development goals, and a sustainability strategy, which outline the steps the Society is taking to ensure that it is acting responsibly in its individual response to climate change. At the end of 2020 it became the first UK financial services provider to gain a 5 star rating for its support of the United Nations' Sustainable Development Goals programme.

Risk | **Risk mitigation and management**

Conduct risk

The Executive Committee of the Society and the boards of Group subsidiary firms are responsible for ensuring that conduct risk is effectively managed.

The framework to control this area is maintained and overseen by the Board Risk Committee. The key risk areas are:

Mortgage advice - Likely to be the largest financial commitment undertaken by customers, the need for reliable mortgage advice is paramount. The Society provides advice directly and through its estate agency division, Connells. Rigorous quality checking and compliance monitoring are operated by the Society and Connells to ensure that the quality of advice and service provided to customers is as expected. A shortcoming in our processes could see poor outcomes for our customers, possible regulatory censure and damage to our brand.

The Society and SIL (which advances non-advised residential loans in the Channel Islands and 'expat' buy-to-let loans in the UK via the intermediary market) operate rigorous affordability assessments as part of the mortgage underwriting process. This is subject to regular review to ensure that arrears experience does not exceed expectations, thus enabling early preventative action.

Pensions and investment advice - Whilst the Society prides itself on the quality of advice offered to customers, the provision of pensions and investment advice is inherently complex and, on occasion, can subsequently be found not to be suitable for the customer. The liberalisation of pensions by the Government has increased the complexity of this area significantly and with it the risk of providing unsuitable advice. Alert to this risk, the Group maintains a robust compliance capability which supports development of appropriate customer offerings and closely monitors the suitability of advice provided to customers.

The Board agreed significant investment to develop the Society's financial advice proposition to deliver a more advanced and efficient service for our customers which was rolled out in the third quarter of 2019. This inevitably creates increased conduct risk which the Board Risk Committee is alive to and monitors how the risk profile changes and is managed.

Operational risk

Operational risk is the risk of financial loss or reputational damage arising from inadequate or failed internal processes, systems or human error.

The Executive Committee of the Society and the boards of Group subsidiary firms are responsible for ensuring that operational risk is effectively managed.

The framework to control this area is maintained and overseen by the Board Risk Committee. The principal risks here are:

Change management - The scale and pace of regulatory change has been significant in recent years and shows little sign of abating. The scale of this change may impact our ability to progress defined business growth strategies as IT and project resource is directed to ensuring delivery of new regulatory requirements. The regulatory horizon is scanned continuously to enable us to respond in a timely manner to mitigation of this risk which has been helped this year by publication of a combined PRA/FCA Regulatory Initiatives Grid timeline.

Alongside this, the Society, in particular, has an ambitious change portfolio designed to ensure that our customer proposition and service delivery are aligned to customer expectations. The Board and senior management are cognisant that a large and demanding change portfolio could, if inadequately managed, lead to the crystallisation of unforeseen risks resulting in poor service to customers. Focus and resource has been devoted to developing a robust governance regime to deliver effective oversight of projects from business case approval through to implementation using our agile change management methodology introduced in 2020.

Risk Management Report *(continued)*

Risk	Risk mitigation and management
Operational risk (continued)	

Information Technology - The pace of technological development has created a period of significant change in financial services. Group businesses will continue to invest in its technology to provide an excellent level of customer service and manage risks in this area which include:

Cyber crime – Cyber risk incorporates a wide array of potential threats to Group businesses. These can include network or perimeter threats, a breach of online controls leading to increased risk of online fraud as well as data leakage.

These threats are of increasing significance given the expected growth in online customer transaction levels, magnified this year by remote working. In response to this, Group businesses continue to focus efforts on proactively managing the evolving nature of cyber threat to ensure that the Group is best placed to protect itself and its customers. This includes reviews of our plans to ensure disruption to our customers is minimised were an attack ever to succeed.

Business resilience – Market experience has shown that executing IT change has significant risk attached to it and can lead to the loss of core systems and the ability to provide expected levels of customer service. Group businesses are aware of these inherent risks and continue to review their approach to business resilience and continuity to ensure that this is reflective of business changes over time and remains fit for purpose. Specialist teams oversee this area and assist first line teams to assess and challenge their operational resilience and ability to deliver a reliable service to our customers.

Financial crime – As authorised deposit-takers, the Society and SIL carry the inherent risk of being used for money laundering and fraud. They have a clear duty of care to savers to protect their monies and ensure that customers can continue to save with trust and confidence. The market has seen a rise in scams such as authorised push payment fraud and financial abuse of vulnerable customers; where this occurs, it can have a devastating impact upon the customer whilst creating risk of regulatory censure and the commercial ramifications of loss of confidence in our brand.

The buying and selling of properties is also a known target for money launderers. Operating a large estate agency network increases the risk profile of the Group and was an area of Committee focus when internal monitoring found delays in ID verification. Procedures and processes were strengthened and ongoing monitoring has confirmed that this has returned to operating within risk appetite.

To manage this risk, customer facing Group businesses maintain financial crime teams which oversee their frameworks to reduce the likelihood of their services being used for the furtherance of crime. The teams are closely involved in the development of new products and services whilst the Society and SIL teams closely monitor the use of savings accounts for unusual activity. Colleague awareness of how to spot financial crime is a core element of our defence so training is a regular feature for all our teams.

GDPR - The extent of the GDPR regulations allied with the ongoing threat of cyber crime (referred to above) has increased the weighting attributed to this area within our risk profile, underlined by the scale of regulatory fines issued within the industry since the regulations passed into law effective from 2018.

Whilst protection of our customer data has always been a focus within the Group, the extent and detailed requirements of the new legislation has seen significant resource and investment dedicated to this area across the Group to build appropriate control frameworks and oversight arrangements.

Our focus has been to embed our data culture as a business as usual activity rather than as a series of additional tasks to ensure compliance. As with our other conduct and operational risks the threat is not solely one of regulatory non-compliance but loss of customer confidence and lasting reputational damage.

Succession planning – Succession planning risk is the risk that holders of key posts unexpectedly leave employment without there being an obvious successor in place.

Mitigation of this risk has been a key focus of the Nominations Committee for both the Society and its principal subsidiaries. Whilst the Group has benefitted greatly from the vast experience of its senior teams and their relatively little turnover, this year more emphasis has been placed on succession planning, particularly at Connells. Agreed frameworks with talent development programmes are in place.

Risk	Risk mitigation and management
Reputational risk	
Reputational risk is the risk to earnings, liquidity or capital arising from negative market or public opinion.	The Executive Committee of the Society and the boards of Group subsidiary firms are responsible for ensuring that reputational risk is effectively managed. Such risk effectively arises through the poor management of risks generally. The consequences would adversely impact the future prospects of the Group and could expose it to litigation and financial loss. This risk is managed by: • maintaining and investing in control structures; • continuing to focus on customer outcomes; • promoting the Society through marketing and external communications; • working within the risk management framework which has reputational risk as a key consideration; and • Closely monitoring social media and press references to Skipton Group businesses.

To meet the CRD IV and subsequent CRD V Pillar 3 requirements, the Group publishes further information about its exposures and risk management processes and policies on the Society's website skipton.co.uk.

Conclusion

The extraordinary events of 2020 have brought some unique challenges for the Group. The response of the Society and its subsidiaries have demonstrated that the risk management frameworks have operated effectively in ensuring that the Group remains within its risk appetite whilst continuing to provide high levels of customer service during a period of significant change to its operating model and exceptional levels of economic uncertainty.

There remains significant uncertainty to both the future operating environment and the economic environment that we face, and whilst it may be difficult to predict the outcome of such uncertainty, I am confident that the risk management framework operated by the Skipton Group enables it to identify, assess and manage the risks confronting it and support business sustainability. To underpin this, the Board Risk Committee will continue to promote the embedding of a culture which views risk management not as an additional activity but the manner in which the business is run.

Denis Hall
Chair of Board Risk Committee

23 February 2021

Directors' Remuneration Report

Annual statement from the Chair of the Remuneration Committee

Dear Member,

I am pleased to share the Directors' Remuneration Report on behalf of the Remuneration Committee, which sets out the details of pay, incentives and benefits for the Skipton Building Society Directors for the year ended 31 December 2020 and the following year.

The Committee

The members of the Remuneration Committee are all independent Non-Executive Directors of the Society and include members of the Board Risk and Audit Committees:

Ms H C Stevenson	Non-Executive Director (Chair)
Miss A J Burton	Non-Executive Director
Ms H L Jackson	Non-Executive Director
Mr M J Lund	Non-Executive Director

The Remuneration Committee is also attended by invitation by the Group Chief Executive, the Chief Conduct Risk Officer and Secretary, the Chief People Officer, the Head of Reward and Governance and the Regulatory Reward Lead. PwC, our independent external consultants, also attend.

Remuneration Report

We constantly strive to maintain the highest standards of governance in relation to directors' remuneration and to provide meaningful information to our members. We have set out this Directors' Remuneration Report in the following four key sections:

- This annual statement explaining the priorities of the Committee in an unprecedented year. The onset of COVID-19 has presented many challenges and the work of the Committee has focused on managing remuneration decisions in light of the pandemic and its devastating effect. The Committee and the Society have remained focused on continuing to deliver for our customers and the well-being of our colleagues.
- An at a glance summary of the key performance measures which inform our remuneration awards and the outcomes for the Executive Directors for 2020.
- An Overview of the Directors' Remuneration Policy, which is unchanged for 2021 and was approved at the Annual General Meeting (AGM) in April 2019.
- The Annual Report on Remuneration in 2020 on pages 89 to 100 which explains how we put our existing policy into practice in 2020 and how we intend to apply the policy in 2021.

The Remuneration Committee 2020

2020 has been an unprecedented year with the onset of COVID-19, which has produced a unique set of challenges, including the consideration of executive reward. The Committee has had to adapt to changing priorities throughout 2020 and below are details of the key areas of focus during the year:

- When the pandemic resulted in a nationwide lockdown, the Society had to quickly adapt and implement the Government guidelines and show flexibility to the changing environment. At the forefront of our decision making was the well-being of our colleagues and a continuity of service to our customers. Despite the challenges, employee engagement remained strong.
- Our Executive team responded early in the pandemic, in April 2020, by making the decision to voluntarily withdraw from the 2020 bonus scheme. This felt the right thing to do in the face of uncertain times ahead for the Society, our members and colleagues. The Skipton Executive would not benefit from the scheme in 2020 due to these extraordinary times, irrespective of the Group's performance at the end of the year. Despite the difficult circumstances, a high level of performance has been displayed by our Executive Committee throughout 2020. The total amount forfeited by the Executive Directors' and the other members of the Executive Committee was approximately £750,000.
- The planned pay awards for the Executive Committee which were awarded prior to the pandemic were subsequently deferred from April 2020 and applied in October 2020 with no backdating. Pay awards were lower for the Executive Directors with total pay increases at 1.7% on average compared to the other members of the Executive Committee who were awarded 4.7% on average, the senior leaders who were awarded 2.3% on average and the all other colleagues pay rise of 2.5%. The average award for the other Executive Committee members included pay adjustments for two members of the team to address internal relativities and benchmarking.
- Bonuses have been awarded to the colleague population below the Executive team. This is in recognition of colleagues who have gone above and beyond in 2020 to deliver on our key objectives showing flexibility, strength and a common desire to do the best we can for our members.
- At the end of 2019, Skipton colleagues overwhelmingly voted Mental Health UK as our charity partner for the next three years. In recognition of the challenging times faced by many parts of the Society, Skipton Building Society, its Board and colleagues personally donated £200,000 to support the work of its charity partner. The donation included Skipton's Chair and Non-Executive Directors donating 20% of their net fees for three months, together with personal contributions from Skipton's Executive Committee and colleagues across the UK.
- The COVID-19 pandemic had delivered a major upset to the UK and global economy. However, Skipton continues to stand firm for its members and customers due to our strong capital and liquidity position and the dedication and agility of our colleagues.
- The Committee maintained close oversight of the gender pay gap reporting and progress against the Women in Finance targets. The Society has begun to mature its approach to building greater diversity at all levels, with stronger inclusive practices.
- The Committee reviewed the regulatory changes which came into effect on 31 December 2020. All necessary policy and procedural changes have been approved, ready for implementation in 2021.

Remuneration Policy

In line with the regulatory requirements for listed companies, we choose to put our policy to a member vote at least every three years. The Directors' Remuneration Policy was put to an advisory vote and approved at the AGM in April 2019.

We recognise that remuneration for our colleagues needs to be clearly aligned to our vision of 'Building a better Society'. Variable pay incentive schemes for senior executives in the Society are designed to reward performance across a balanced scorecard of measures including people engagement, customer satisfaction and achievement of strategic goals as well as financial outturns and risk management.

We intend to be competitive within the market on fixed pay (including pensions and other benefits) but acknowledge that we may be positioned some way below total compensation opportunity for businesses which have a greater emphasis on performance related pay within their remuneration arrangements.

The key elements of the Society's Executive Directors' Remuneration Policy are set out below:

- A Single Variable Pay Arrangement (SVPA) has been in place for Executive Directors and other members of the Executive team since 2016. Payments from the legacy 2015-2017 Medium Term Incentive scheme were phased and have concluded in 2020.
- The SVPA, which has a maximum opportunity of 50% of base salary, is made up of a balanced scorecard of measures which are targeted and assessed annually, align with the corporate plan and are within agreed Board risk appetites.
- There is a 30% weighting for personal and strategic team objectives which is designed to give a continued focus on the achievement of longer-term strategic objectives.
- The long term focus of the scheme is further maintained by a requirement that at least 50% (or more if required by regulation) of any variable pay awarded from the scheme is deferred and will vest over a period of either five years or four to seven years (as required by regulation).
- In addition to normal malus and clawback arrangements, these deferred payments are subject to a sustainability assessment one year after award and can be reduced if the Committee determines that the performance which generated the award has not been materially sustained in line with Board expectations.

As outlined above in the section on the Remuneration Committee 2020, no payments will be made against the SVPA scheme with respect to 2020 performance.

Remuneration in respect of 2020

The corporate plan is set to help towards our overall vision to 'Build a Better Society'. The Society is focusing on four key priorities in order to deliver our long term ambitions. Whilst all 2020 SVPA awards were waived by the Executive in 2020 given the COVID-19 context, the team nevertheless have been assessed on progress towards these important strategic areas.

Absolute Customer Focus

Our strategy is based upon an understanding of our customers. Continuous research and feedback gives us insight to always refine and improve the products and services we offer. In 2020 Society membership grew by 14,844 to take our total membership base to 1,061,138. Our net customer satisfaction was 85%.

Brilliant People

Our strategy is to create an environment where our colleagues can be themselves, deliver their best and achieve their full potential. Employee engagement saw an increase in 2020 to 90%.

Powered by Digital Technology and Data

Our strategy seeks to make the best use of technology and data to enhance the customer journey. The COVID-19 pandemic has emphasised the need to offer customers a choice as to how they engage with the Society from face-to-face, telephone, social media, web chat or online. A new metric measured in 2020 shows that 47% of our online customers registered for the Skipton app.

Financial Strength

Our strategy ensures that we are able to deliver on our purpose in the future and for generations to come.

Group profit before tax in 2020 was £118.8m (2019: £153.2m) and underlying profit before tax was £124.0m (2019: £155.2m). Profits have been impacted in the short term by a worsening of the economic outlook arising from the effects of the COVID-19 outbreak.

The core Mortgages and Savings division profit before tax for 2020 was £64.6m (2019: £100.8m), with underlying profit before tax for the division being £67.3m (2019: £103.9m). The fall in underlying profit can be attributed to increases in the Group's loan impairment charges arising from an expected worsening of the economic outlook.

The Committee made no awards under the Society's SVPA in respect of the 2020 performance year. The average variable pay awards made are set out in the table below:

	2020 award	2019 award	Maximum achievable
Executive Directors	-	39.2%	50.0%
Other Executive Committee members	-	31.5%	40.0%
Senior leaders	18.0%	22.7%	From 15% to 50%
Other colleagues	4.9%	7.9%	10% (2019: 15%)

Notes
1. The calculations for average bonus awards are based on full year participation.
2. The senior leaders bonus scheme provides the opportunity of a maximum bonus of either 15%, 25% or 50% as determined by the size of the role.

The Remuneration Committee continues to focus on managing risk in its remuneration schemes including risk adjustment arrangements.

Conclusion

On behalf of the Committee, I hope this report gives you a clear view of how we have implemented the policy in 2020. The Committee recommends that members vote in favour of the 2020 Annual Remuneration Report at the forthcoming AGM.

Helen Stevenson
Chair of the Remuneration Committee

23 February 2021

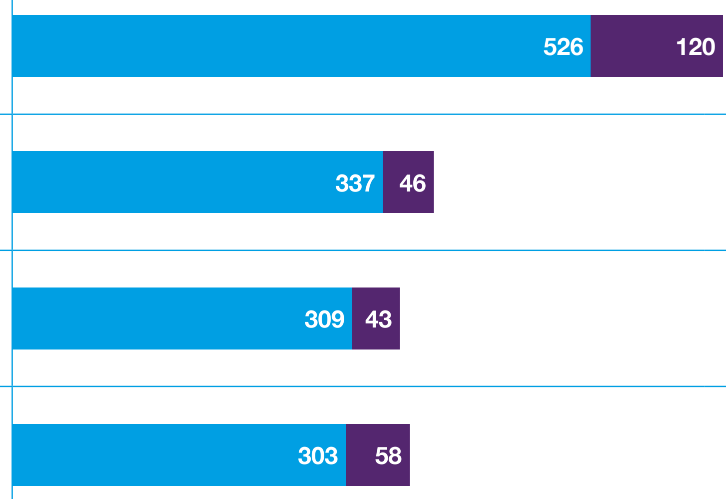
At a glance summary

Payments made to Executive Directors 2020

The table below summarises the total payments made to Executive Directors in respect of the 2020 financial year. The figures shown in the graph are included in the single figure table on page 89. Further details on the variable pay awards, the performance measures and the extent to which they are achieved are on pages 90 and 91.

Key highlights of 2020

- 1.7% average salary increase for Executive Directors.
- The Executive Directors coluntarily forfeited their SVPA award for 2020.



	Base salary	Benefits and Pension	2020 SVPA award[1] Total award £000	Amount deferred to future years
Mr D J Cutter	526	120	N/A	N/A
Mr R S D M Ndawula	337	46	N/A	N/A
Mr I M Cornelius	309	43	N/A	N/A
Mr A P Bottomley	303	58	N/A	N/A

Note
1. The Executive Directors voluntarily forfeited any 2020 SVPA award and therefore no award or deferred amounts are shown.

Remuneration in the Society

How does executive remuneration for 2020 align with the wider workforce?

	Salary	Bonus
Executive Directors	Pay increases awarded in April 2020 were postponed to October 2020. The average pay increase was 1.7%.	No bonus awarded for 2020 performance year.
Other Executive Committee members	Pay increases awarded in April 2020 were postponed to October 2020. The average pay increase was 4.7%.	No bonus awarded for 2020 performance year.
Senior leaders	Pay increases were awarded in April 2020. The average pay increase was 2.3%.	Bonuses were awarded for the 2020 performance year. The average award was 18.0%.
All other colleagues	Pay increases were awarded in April 2020. The average pay increase was 2.5%.	Bonuses were awarded for the 2020 performance year. The average award was 4.9%.

Note
1. The salary increase figure for other Executive Committee members includes an element to address market position for a number of individuals.

Directors' Remuneration Report *(continued)*

Key Metrics for Remuneration

The table below highlights the key metrics considered for remuneration which focus on personal and strategic objectives, as well as the Society's strategy.

	Weighting	Absolute Customer Focus	Brilliant People	Powered by Digital Technology and Data	Financial Strength
SVPA Measures					
Group profit (adjusted)*	8%				✓
Mortgage and Savings division profit (adjusted)*	24%				✓
Mortgage and Savings cost income ratio	8%				✓
Mortgage and retail savings balances at 31 December	8%				✓
Net growth in Society members	5%	✓			✓
Net customer satisfaction	5%	✓			✓
Risk and Governance	4%	✓		✓	
People	5%		✓		
Women in Finance Charter	3%		✓		
Personal objectives	15%	✓	✓	✓	✓
Strategic team objectives	15%	✓	✓	✓	✓
Features of the SVPA Scheme					
Risk adjustment		✓	✓	✓	
Sustainability review					✓
Deferral of at least 50% of incentive		✓	✓	✓	
Discretion to reduce/defer/recover payments		✓	✓	✓	

* For bonus purposes, the Group profit and Mortgages and Savings division profit are adjusted for those items that are not considered part of the Group's core strategy or those items that are outside of the Directors' control, as set out in the scheme rules. The adjusted profit is calculated prior to dividends receivable from subsidiary undertakings, fair value gains or losses on financial instruments, fair value gains or losses in relation to the equity release portfolio, Connells management incentive scheme costs, the FSCS levy, profits or losses on disposal of Group undertakings and impairment of Group undertakings or goodwill.

Directors' Remuneration Policy

Overview of Remuneration Policy for Executive Directors in the Society

The Board's policy is designed to ensure that Executive Directors' remuneration reflects performance and enables the Group to attract, retain and motivate high calibre individuals to lead and direct the organisation and deliver sustainable business performance for our members. In line with regulations, approval for the remuneration policy will be required every three years, unless amendments are required in the interim, in which case appropriate approval will be sought. The policy received a majority vote in favour from members at the AGM held in April 2019 and remains unchanged.

How Executive Director remuneration is determined

In establishing, implementing and maintaining the remuneration policy, the Committee applies a set of remuneration principles for the Group. The general principles set out the Committee's standards regarding remuneration, governance, risk management and the link to performance. There are specific requirements for those firms captured by the PRA, which includes the Society. The general principles for these firms have been reviewed for 2021 and are set out below. The full remuneration principles are available on request from the Secretary.

General principles of remuneration in 2021

a. We believe it is important to offer remuneration which is competitive and able to attract and retain talented people with the skills, knowledge and experience needed for our business while offering a positive work environment where people can develop and progress on a level playing field.

b. Our values underpin an inclusive culture where individuals are supported to achieve their personal and professional goals, while maintaining a good work/life balance.

c. We believe in strong corporate governance and expect leaders responsible for drafting remuneration schemes to adhere to these principles in our remuneration policies and scheme design. All schemes must comply with the relevant PRA, FCA and EBA (where applicable) remuneration regulations applicable to the business or type of employee. Remuneration must be paid in accordance with the principles and not by any other means intended to circumvent the regulatory requirements. Business leaders are also responsible for ensuring that remuneration practices meet national pay legislation requirements (e.g. minimum wage, salary sacrifice, equal pay requirements) and align to the living wage.

d. Remuneration structures should avoid complexity and the rationale and operation should be easy to understand.

e. It is important that remuneration policies, procedures and practices are consistent with and promote sound, effective risk management and do not encourage risk taking which falls outside the Board Risk Appetite, which is reviewed annually, or the scope of Board policies. Remuneration practices should be formally reviewed at least annually by the senior leaders in each business responsible for approving remuneration, in order to ensure they do not encourage inappropriate risk taking behaviour or present uncontrolled conflicts of interest which may result in poor outcomes for our customers.

f. It is important to us that our people are rewarded fairly regardless of race, colour, creed, ethnic or national origin, marital status, disability, age, gender, gender reassignment, sexual orientation, political opinion, religion, trade union or non-trade union membership.

g. We align our remuneration practices to our business strategy and the long term aims of the Society, taking account of the Board's risk appetite and the need to provide sustainable growth which will benefit our members/customers, colleagues and our communities.

h. Where remuneration is performance related, it is important that the assessment of the individual/team, the business unit and overall Group performance (if appropriate) is taken into account. In assessing individual performance, it is important to take into account a balance of financial and non-financial criteria, including appropriate risk and quality measures.

i. We believe in a consistent and fair approach to remuneration which reflects individuals' responsibilities and performance. Basic pay will reflect the core role and responsibilities of the individual whereas variable pay will reflect the achievement of annually agreed targets or objectives.

j. Remuneration policies, practices and procedures should be transparent, cost effective and, as far as possible, free from conflicts of interest. Where some potential conflicts of interest are unavoidable, systems and controls should be in place to mitigate the risk. Remuneration policies, practices and procedures should be clearly documented and straightforward to understand, administer and communicated in a timely fashion.

k. Employees in control functions (such as Risk, Compliance and Internal Audit) should be rewarded competitively to attract and retain adequately experienced employees. Their variable reward will be based predominantly on personal and non-financial measures and objectives for the business units they oversee, wherever possible.

Directors’ Remuneration Report *(continued)*

In addition to the general principles, the Committee sets out requirements for the operation of variable pay, setting appropriate rules and limits around incentive related payments, including approving executive salaries in excess of £200,000 and being informed of individuals earning in excess of £275,000 (including base salary, annual and any long-term bonus pay out) in any one calendar year. Additional rules apply to the calculation of termination payments to ensure they are fair to both the employee and the Skipton Group and do not reward failure or misconduct. Further requirements on deferral and performance adjustment apply specifically to Material Risk Takers (as defined on page 99). The principles are reviewed annually and are supported by key policies.

The Executive Directors’ SVPA scheme is designed to link the performance of the participants to sustainable business performance. Any payments reflect both individual and business performance outcomes against corporate plan targets, whilst ensuring effective risk management of financial, operational and conduct risks. Targets are set in the context of the corporate plan and are discussed at the Board and approved by the Remuneration Committee.

Participation in the SVPA scheme relating to any financial year is at the discretion of the Remuneration Committee. The total incentive opportunity is apportioned across financial measures, team key performance indicators, personal and strategic objectives. A threshold level of Group and Mortgages and Savings division profit is set based on the corporate plan. If the threshold level is not met then no incentive is payable. To ensure transparency this information is communicated to the participants of the SVPA scheme.

The Committee is responsible for setting remuneration of the Executive Directors and approves the policy for senior managers who have a material impact on the Society’s risk profile (Material Risk Takers). In addition, the Committee reviews recommendations from the Group Chief Executive on the remuneration for other key executives.

In line with good corporate governance, an update was provided to the Committee in the first quarter of 2020 detailing the Society’s current and future plans for the wider Society in relation to colleagues’ base pay, variable pay and benefit provision. This update helps the Committee consider executive remuneration in the context of the reward outcomes and opportunities available to the broader Society workforce, set against the backdrop of the external economic factors that could influence the Society’s annual investment in colleague total reward.

Policy on remuneration of Executive Directors

The table below shows the key elements of remuneration for Executive Directors and the reasons for their inclusion.

Element **How element supports our strategy**	**Operation**	**Maximum potential value**	**Performance conditions and assessment**
Base salary • Supports the recruitment and retention of Executive Directors, reflecting their individual roles, skills and contribution.	Base salary reflects the size of the role and responsibilities, individual performance (assessed annually) and the skills and experience of the individual. In setting appropriate salary levels, the Committee takes into account data for similar positions in comparable organisations. The data is independently commissioned and the Society aims to position Executive Directors competitively within this reference group.	Increases to base salary are determined annually by the Committee taking into account: • Individual performance; • The scope of the role; • Pay levels in comparable organisations; and • Pay increases elsewhere within the Group.	None applicable, although we do take account of individual performance when considering base pay increases.
Pension • Supports recruitment and retention of Executive Directors at a cost that can be controlled by the Society.	Generally, the Society contributes to a defined contribution pension scheme for the Executive Directors. The contribution can instead be paid in cash (which is excluded from incentive calculations) if the Executive Director is likely to be affected by the limits for tax-approved pension saving. All new appointments to executive roles will fully align to the pension arrangements available to all other colleagues. There are a small number of historical arrangements in place for our current executive team which are closed for future accrual.	The maximum is 20% of base salary. Mr Cutter receives 20% of base salary and the other Executive Directors between 10% and 15% of base salary.	None applicable.
Benefits • To attract, retain and provide security for Executive Directors; and • Provide a competitive level of benefits to assist Executive Directors to carry out their roles effectively.	A number of benefits are provided to Executive Directors, including a car or car allowance, private medical insurance, life insurance and disability benefits. The Committee reviews benefits from time to time and may make changes, for example, to reflect market practice or the needs of the business.	The Society bears the cost of providing benefits, which may vary from year to year.	None applicable.
Single Variable Pay Arrangement (SVPA) • Supports the attraction and retention of Executive Directors; • Supports the development of a high performance culture; • Rewards performance within the context of achieving corporate goals and objectives as set out in the corporate plan; and • Encourages the right behaviours in respect of sustainable performance that supports the achievement of strategic goals.	A combination of financial and non-financial measures and targets are set with a weighting which will not exceed 50% of the total incentive opportunity for financial measures and which will not exceed 60% for non-financial measures. The latter includes personal objectives (normally up to 15%). Targets are set and assessed against these criteria each year relative to the Society’s strategic aims. 50% of earned incentive is normally paid in cash shortly after performance has been assessed. The remaining 50% of earned incentive is deferred over a period of one to five years, or three to seven years if required by regulation, and is normally paid in cash subject to performance adjustment. Current regulations also require that for those whose total remuneration exceeds £500,000 or whose variable pay (for the relevant performance year) exceeds 33% of total remuneration (de minimis threshold), 60% of the SVPA will be deferred and 50% of the initial up-front award will be delivered in the form of an ‘instrument’ which will be subject to a further holding period (currently 12 months). The instrument will be subject to a write down if the CET 1 ratio falls below a prescribed level. An element of the performance assessment will be made over a period of more than one financial year to meet regulatory requirements and to maintain a longer term perspective in the scheme. This will be achieved by the Remuneration Committee making a sustainability assessment one year after the award of the incentive. Up to 25% of the incentive originally awarded can be reduced or cancelled as a result of this assessment. The percentage of deferred incentive, the deferral period (one to five years or three to seven years) and the payment instrument may be amended in response to changes in regulation. The Committee may reduce or withdraw the payment of a deferred amount in certain circumstances and has the power to reduce, cancel or recover payments under the SVPA if it believes there are circumstances where the payments are not appropriate, for example due to failure to maintain certain capital levels, evidence of systemic conduct risk, or evidence of significant control failures or weaknesses.	The maximum incentive which may be earned for any year by the SVPA is 50% of base salary. For each performance measure, the Committee determines a threshold, target and maximum level of performance. No incentive is payable for performance below the threshold level, with varying levels of pay-out for performance between threshold and maximum. On-target performance generally attracts an incentive of 60% of the maximum.	The performance measures attached to the SVPA will be determined by the Committee from year to year, but might typically include (but are not limited to) any of the following: • Group profit (adjusted); • Mortgages and Savings division profit (adjusted); • Efficiency measures; • Customers (growth and satisfaction); • Risk and governance; • People; • Personal objectives (includes an element for strategy development and implementation). Performance against the measures is reviewed and approved by the Remuneration Committee. The weightings attached to the types of measure and the individual weightings attached to each individual measure may vary from year to year as determined by the Committee.

Notes to the table

Performance measures

The performance conditions attached to the SVPA scheme have been selected as they support the sustainable success of the Society. The Committee believes that the use of a range of financial and non-financial measures provides a balanced assessment of the overall performance of the Society.

The Committee considers the targets attached to the SVPA to be commercially sensitive and will not therefore disclose these at the beginning of the financial years to which they relate. The Committee will, however, disclose the weightings that will be attached to each SVPA performance measure at the beginning of the relevant financial year.

A summary of performance against the targets will be disclosed following the end of the relevant financial year. In setting the target and maximum payments, the Committee considers both the market position and the risk appetite of the Society and sets these levels accordingly. The weightings for 2021 are outlined in the ‘Statement of implementation of Remuneration Policy in 2021’ section of this report.

MTI scheme

The Society has a legacy MTI scheme which was discontinued from 2016. The final three year performance cycle ended in December 2017 and payments were phased 50% in 2018 with the remaining 50% paid pro-rata in 2019 and 2020. No further payments will be made against this scheme after 2020.

Remuneration for other employees

All employees of the Society receive a base salary and benefits consistent with market practice and are eligible to participate in the Society’s pension plan and in the incentive arrangements relevant to their role.

Members of the Executive Committee and other selected senior managers may be eligible to participate in the SVPA on the same terms as the Executive Directors, subject to the discretion of the Group Chief Executive and the Committee. The award size for these individuals may be lower than for the Executive Directors.

A variable pay arrangement for all employees (excluding the Executive Committee and certain senior managers) is in place, so that everyone employed by the Society will have the opportunity to share in the Society’s success. The key measures for the scheme are aligned with those that apply for senior management.

Committee's discretion in relation to the SVPA and MTI schemes

As noted above, the Committee has the discretion to reduce, defer or recover payments under the SVPA in accordance with the Society's Policy on Malus and Clawback. Malus refers to the reduction or withdrawal of deferred awards and clawback is the repayment of amounts already paid. The Committee also has the discretion to cease or amend the operation of either arrangement where this is necessary to ensure the arrangements continue to meet the Committee's overriding remuneration principles and risk criteria. This might include, for example, amending the deferral arrangements to comply with changing regulation.

Directors' service contracts and notice periods

The Executive Directors are employed on rolling service contracts which can be terminated by either the Society or the Director giving one year's notice. Unless notice to terminate is given by either party, the contracts continue automatically. Non-Executive Directors do not have service contracts.

Policy on remuneration of Non-Executive Directors

The table below sets out the elements of Non-Executive Directors' remuneration and the policy on how each element is determined.

Element	Approach to determination
Base fees	Reviewed annually based on time commitment and responsibility required for Board and Board committee meetings. Review considers fees paid by comparable financial services organisations.
Additional fees	Additional fees are payable for additional responsibilities such as committee chairing or other duties.
Other items	Non-Executive Directors are not eligible to participate in any form of performance pay plans and do not receive pensions or other benefits. Travel and subsistence expenses, including between home and Skipton offices, are reimbursed.

The Remuneration Committee determines the Chair's fee while the fees of the other Non-Executive Directors are determined by the Non-Executive Remuneration Committee and approved by the Board.

Annual Report on Remuneration in 2020

Executive Directors' Remuneration

The total remuneration for Executive Directors in 2020 and 2019 is set out in the tables below:

2020 Audited	**Mr D J Cutter £000**	**Mr A P Bottomley £000**	**Mr I M Cornelius £000**	**Mr R S D M Ndawula £000**	**Total £000**
Salary	526	303	309	337	**1,475**
Benefits[1]	15	12	12	12	**51**
Pension[2]	105	46	31	34	**216**
Total fixed remuneration	**646**	**361**	**352**	**383**	**1,742**
2020 annual performance award (SVPA)[3]	-	-	-	-	**-**
Total remuneration in respect of performance periods ending in 2020	**646**	**361**	**352**	**383**	**1,742**

2019 Audited	Mr D J Cutter £000	Mr A P Bottomley £000	Mr I M Cornelius £000	Mr R S D M Ndawula £000	Total £000
Salary	521	301	306	332	1,460
Benefits	15	12	12	12	51
Pension	104	45	31	33	213
Total fixed remuneration	640	358	349	377	1,724
2019 annual performance award (SVPA)	205	119	120	132	576
Total remuneration in respect of performance periods ending in 2019	845	477	469	509	2,300

Notes

1. Benefits comprise the provision of a car or car allowance and private medical insurance contributions.
2. Mr Cutter's 2020 pension figure includes the additional value earned in the defined benefit scheme during 2020 and a non-consolidated allowance paid in lieu of contributions. For the other Executive Directors, the figure relates to contributions to the defined contribution pension scheme and/or a non-consolidated cash allowance.
3. Typically the SVPA award is subject to the deferral arrangements set out on page 91. However, no bonus payments were made in respect of 2020 in light of the COVID-19 pandemic. In 2019, £122,782 (60%) of the SVPA award for Mr Cutter and £79,024 (60%) for Mr Ndawula was deferred in equal amounts for between three to seven years. Half of the initial up-front award (i.e. 20% of the total) was paid in March 2020 and the remaining half was retained for a further 12 months. 50% of the 2019 awards for Mr Bottomley and Mr Cornelius were deferred for between one and five years in line with the SVPA scheme rules.

In 2020, no payments were made to past Directors or for loss of office.

Base Salary

Our annual salary review process takes place in April each year and the Executive were awarded an increase. However, the Executive team chose to defer their April 2020 salary increases due to the COVID-19 impact. The Remuneration Committee reviewed the deferral in October 2020 and approved the processing of the increases which were not backdated. The following adjustments were made to the Executive Directors' base salaries considering data from PwC as our remuneration advisers and the average pay review award in the wider Society, which was 2.5% for employees below Executive Committee level. The increases were effective from 1 October 2020.

Director	**% increase**	**October 2020**	April 2019
Mr D J Cutter	**1.50%**	**£531,560**	£523,700
Mr A P Bottomley	**1.50%**	**£306,850**	£302,310
Mr I M Cornelius	**1.50%**	**£312,820**	£308,190
Mr R S D M Ndawula	**2.50%**	**£343,510**	£335,130

Directors’ Remuneration Report *(continued)*

Variable Pay

Single Variable Pay Arrangement (SVPA)

The SVPA is designed as a discretionary variable incentive scheme and supports the attraction and retention of high-quality employees and the development of a high-performance culture. The scheme is designed to link the performance of participants to sustainable business performance. Participation in the scheme relating to any financial year shall be at the discretion of the Remuneration Committee.

Notwithstanding the strong performance delivered by the Executive in 2020 they chose to forfeit their bonus and no payments were made under the 2020 SVPA scheme.

The four key strategic team objectives, aligned to the Society’s corporate plan, are being focused on delivering our change strategy, building capability through organisational design, focusing on achieving a return on our investment in financial advice and optimising our cost base for 2020.

The table below summarises the weightings, targets and thresholds underlying the SVPA:

Measure	Performance target range Threshold - Maximum	Performance relative to targets	Outcome	Weight
Financials				
2020 Group PBT (adjusted) (£m) [1]	107.2 - 151.3	Above Target	126.6	8%
Mortgages and Savings division PBT (adjusted) (£m) [1]	57.9 - 81.8	Above Target	69.1	24%
Mortgages and Savings cost income ratio (%)	72.3% - 68.3%	Above Target	62.8%	8%
Mortgage year-end balances (£bn)	21.7 - 22.5	Below Target	21.7	4%
Savings year end balances (£bn)	18.2 - 18.9	Above Target	18.7	4%
Team KPIs				
Net customer growth (Society Only)	23,842 - 33,659	Below Target	14,844	5%
Net customer satisfaction (%)	81% - 88%	At Target	85%	5%
Employee engagement (%)	78% - 87%	Above Target	90%	5%
Risk and Governance:				
Number of medium overdue audit actions	12 - 5	At Target	7	2%
Number of medium overdue compliance actions	10 - 4	Below Target	12	2%
Women in Finance Charter [3]	A spot target - no threshold or maximum set. A rolling average of at least 37% male/female representation across Senior Management by the end of 2020		35.6%	3%
Strategic Team Objectives - a set of objectives aligned to the Society’s Corporate Plan focusing the Executive Team on the achievement of certain key strategic aims for the Society. Examples included Mortgage Strategy, Costs and the Society’s Financial Advice Proposition.				15%
Personal Objectives - performance has been assessed against both the delivery of the Society performance scorecard as well as individuals’ goals, conduct and behaviours.				15%

Note

1. For bonus purposes, the Group profit and Mortgages and Savings division profit are adjusted for those items that are not considered part of the Group’s core strategy or for those items that are outside of the Directors’ control, as set out in the scheme rules. The adjusted profit is calculated prior to dividends receivable from subsidiary undertakings, fair value gains or losses on financial instruments, fair value gains or losses in relation to the equity release portfolio, Connells management incentive scheme costs, FSCS charges, profits or losses on disposal of Group undertakings, and impairment of Group undertakings or goodwill.

Risk considerations

In order to ensure that rewards are based on sustainable performance, set in a multi-year period, the Remuneration Committee conducts a ‘sustainable performance assessment’ for senior schemes (SVPA and Senior Leaders), one year after the original performance year. The review also considers feedback from the Board Risk and Board Audit Committees provided as part of the annual risk assessment process. The sustainability review conducted in February 2021 for the 2019 SVPA and Senior Leaders schemes demonstrated that 2019 performance levels had been maintained in 2020. The Committee concluded, therefore, that no adjustment to the 2019 award was required.

The Society has a Risk Adjustment Policy which sets out its approach to ex-ante and post risk adjustment, malus and clawback. Where the Remuneration Committee determines that risk adjustment is required, payments due from the scheme and deferred payments (if applicable) may be postponed, reduced or cancelled for some, or all, participants. In certain circumstances, the business may need to apply clawback arrangements and require repayment of an appropriate amount of variable pay relating to the event which has occurred.

The Remuneration Committee, after consultation with the Board Audit and Risk Committees and consideration of performance against risk appetites, did not make any risk adjustment for 2020.

Deferral arrangements

SVPA

The SVPA scheme requires a minimum deferral of 50% of the award over a period of five years for all participants but this increases to 60% for Executive Directors if remuneration for the current performance year exceeds de minimis limits, i.e. the total remuneration awarded for the current performance year is greater than £500,000 or the variable amount awarded for the current year is more than 33% of total remuneration. Where remuneration exceeds these limits, then 50% of the SVPA award will need to be paid in ‘instruments’. In a listed company, this would be a form of share instrument, but for ourselves as a mutual organisation this means that 50% of the award payable in each year will be retained for a further 12 months and will only be paid subject to meeting agreed capital levels. The retained amount cannot increase or attract interest payments during the deferral and retention periods.

Deferred awards are released on a pro-rated basis between three and seven years if the Director is classified as a ‘Senior Manager’ under the PRA’s Senior Managers Regime and remuneration exceeds the de minimis level.

For 2020, the Executive voluntarily forfeited their awards and therefore no awards were granted to the Executive. Mr Cutter and Mr Ndawula both received a deferral payment in March 2020 based on prior year schemes. A deferred payment which was due to be paid to Mr Cutter in September 2020 was deferred for payment in 2021 due to COVID-19.

The schedule below details the deferrals for 2019. In 2019, the total remuneration awarded to Mr Cutter and Mr Ndawula exceeded the de minimis level and therefore 60% of the SVPA was deferred and released over years three to seven. Mr Bottomley and Mr Cornelius’ awards were below the de minimis threshold in 2019 and therefore 50% of the award was released over years one to five in line with the SVPA scheme rules.

2019	Total award (£000)	Non-deferred element	Mar-20	Mar-21	Deferred element	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27	Mar-28
Mr Cutter	205	40%	20%	20%	60%	-	-	6%	12%	12%	12%	12%	6%
Mr Ndawula	132	40%	20%	20%	60%	-	-	6%	12%	12%	12%	12%	6%
Mr Bottomley	119	50%	50%	-	50%	10%	10%	10%	10%	10%	-	-	-
Mr Cornelius	120	50%	50%	-	50%	10%	10%	10%	10%	10%	-	-	-

Notes

1. The table reflects the percentage of the total award and how the payments are phased over time.
2. The 20% due in March 2021 is the retained element of the non-deferred portion of the award.

Current and deferred awards can be reduced or clawed back at the discretion of the Remuneration Committee. This could be in the event of a significant loss, a material error, material failure of risk management or failure to meet appropriate standards of fitness and propriety or some other substantial reason.

Medium Term Incentive (MTI)

The three year performance cycle for the 2015 – 2017 MTI ended in December 2017. Payments resulting from this performance cycle, which were phased 50% in 2018, 25% in 2019 and 25% in 2020, are subject to malus and clawback in the usual way. The MTI scheme was discontinued from 2016 and no new awards are due to be made. No further payments will be made against this scheme after 2020.

Directors' Remuneration Report *(continued)*

Directors' pension benefits

Mr Cutter is a deferred member of the Skipton Building Society (2015) Group Pension Scheme which is a defined benefit fund registered with HM Revenue and Customs under the Finance Act 2004. The scheme is closed to the future accrual of benefits and no member contributions were made during the year. The value of his benefits in the scheme is set out below.

Audited 2020	Normal retirement date	Member's contribution for the year ended 31 December 2020 £000	Accrued pension entitlement at 31 December 2019 £000 pa	Accrued pension entitlement at 31 December 2020 £000 pa	Value of remuneration for the year ended 31 December 2020 £000
Mr D J Cutter	1 January 2027	-	95	97	-

Audited 2019	Normal retirement date	Member's contribution for the year ended 31 December 2019 £000	Accrued pension entitlement at 31 December 2018 £000 pa	Accrued pension entitlement at 31 December 2019 £000 pa	Value of remuneration for the year ended 31 December 2019 £000
Mr D J Cutter	1 January 2027	-	93	95	-

Normal retirement date for members of the scheme is when they reach the age of 65. The scheme rules specify that this is the earliest date at which members are entitled to benefits from the scheme:

- without consent (from the employer or the Trustee of the scheme); and
- without actuarial reduction in the benefits;
- but disregarding any special provisions in the scheme rules relating to a member's entitlement to early payment of their benefits on the grounds of ill health, redundancy or dismissal.

During the year Mr Cutter's accrued pension entitlement was revalued in line with the scheme rules. The value of remuneration shown above is calculated using a modified version of HM Revenue and Customs' tax rules for pension savings, as laid out in the regulations. The additional value earned by Mr Cutter during the year due to his membership of the scheme is included in his total remuneration.

Non-Executive Directors' remuneration

Non-Executive Directors' fees (excluding those of the Chair) are reviewed annually by the Non-Executive Directors' Remuneration Committee, in line with the policy outlined earlier in the report. The Non-Executive Directors' Remuneration Committee makes recommendations concerning Non-Executive Directors' remuneration to the Board.

In 2020 the Non-Executive Directors voluntarily decided to donate 20% of their net fees for three months. The donation went to the Society's chosen charity Mental Health UK.

No changes were made to the Non-Executive Directors' fees in 2020. Details are shown below:

	2020 £	2019 £
Non-Executive Directors	52,100	52,100
Audit Committee, Risk Committee and Remuneration Committee Chairs	14,600	14,600
Deputy Chair	6,200	6,200
Connells Non-Executive Director	34,700	34,700

Audited	Note	2020 Fees £000	2020 Committee chair fees £000	2020 Taxable benefits[1] £000	2020 Total £000	2019 Fees £000	2019 Committee chair fees £000	2019 Taxable benefits[1] £000	2019 Total £000
Mr R D East (Chair)		165	-	1	166	158	-	6	164
Mr M J Lund (Deputy Chair)		58	-	1	59	58	-	5	63
Miss A J Burton	2	78	-	-	78	81	-	3	84
Ms M Cassoni	3	-	-	-	-	17	5	2	24
Mr J R Coates	4	52	15	-	67	51	10	1	62
Mrs D P Cockrem	5	49	-	-	49	51	-	3	54
Mr D A Hall	6	52	15	1	68	51	14	4	69
Ms H L Jackson		52	-	-	52	51	-	2	53
Ms H C Stevenson	7	52	15	1	68	51	13	3	67
		558	45	4	607	569	42	29	640

Notes

1. The taxable benefits shown in the table above relate to the reimbursement of travel and subsistence expenses between home and Skipton head office (and for Miss Burton, who is also a Non-Executive Director of Connells, Connells' head office), including for attendance at Board and Committee meetings.
2. Miss Burton is also a Non–Executive Director of Connells Limited for which she receives an annual fee of £34,700 (increased from £26,500 with effect from 1 August 2019 to reflect the fact that she now chairs Connells' remuneration committee), included pro-rata in the table above. Following the closure of the housing market, Miss Burton sacrificed this fee for three months between April 2020 and June 2020.
3. Ms Cassoni was the Chair of the Board Audit Committee until 29 April 2019 when she retired from the Board.
4. Mr Coates was appointed Chair of the Board Audit Committee on 30 April 2019.
5. With effect from 1 July 2019, Mrs Cockrem waived her basic fee and it is now paid to her employer organisation, which is wholly owned by a charitable trust, and compensates them for the time she spends as a Skipton Non-Executive Director.
6. Mr Hall is Chair of the Board Risk Committee.
7. Ms Stevenson is the Chair of the Remuneration Committee.

History of Group Chief Executive's remuneration – Mr D J Cutter

The table below shows a breakdown of the total remuneration of the Group Chief Executive over the last ten years, together with the SVPA/STI and MTI awarded to the Group Chief Executive as a percentage of his maximum possible award.

Year	Base pay[1] £000	Benefits and pension £000	Variable pay (SVPA)[2] £000	Variable pay (MTI)[3] £000	Total remuneration £000	SVPA/STI as % of maximum	MTI as % of maximum
2020	526	120	-	N/A	646	N/A	N/A
2019	521	119	205	N/A	845	78	N/A
2018	510	117	234	N/A	861	91	N/A
2017	500	115	234	163	1,012	93	79
2016	490	113	161	157	921	66	79
2015	418	99	149	N/A	666	71	N/A
2014	408	96	195	N/A	699	95	N/A
2013	366	89	296	N/A	751	94	N/A
2012	352	84	181	N/A	617	60	N/A
2011	344	85	53	N/A	482	18	N/A

Notes

1. The Group Chief Executive's base pay was increased by 15.4% in 2016 to compensate for the reduction in his variable pay opportunity (from 100% to 50%).
2. From 2018, the SVPA (maximum 50% of salary) is the only variable pay awarded.
3. A proportion of the SVPA and MTI is deferred and paid in future years as set out on page 91.

Directors' Remuneration Report *(continued)*

Remuneration in the Society

How does executive remuneration for 2020 align with the wider workforce?

	Salary	Bonus
Executive Directors	Pay increases awarded in April 2020 were postponed to October 2020. The average pay increase was 1.7%.	No bonus awarded for 2020 performance year.
Other Executive Committee members	Pay increases awarded in April 2020 were postponed to October 2020. The average pay increase was 4.7%.	No bonus awarded for 2020 performance year.
Senior leaders	Pay increases were awarded in April 2020. The average pay increase was 2.3%.	Bonuses were awarded for the 2020 performance year. The average award was 18.0%.
All other colleagues	Pay increases were awarded in April 2020. The average pay increase was 2.5%.	Bonuses were awarded for the 2020 performance year. The average award was 4.9%.

Note
1. The salary increase figure for other Executive Committee members includes an element to address market position for a number of individuals.

The Committee does not currently consult employees on remuneration policy for Directors but it does take into consideration remuneration arrangements for the wider population in the Society when determining executive remuneration.

2020 has been an exceptional time and despite the turbulent year the Society felt able to deliver bonus and salary increases for senior leaders and all other colleagues. It felt important to reward our colleagues for all the hard work and dedication they have shown through 2020.

A set of fair pay principles have been developed taking into consideration the many views of colleagues across the Society and these underpin the Society's current and future reward strategies.

Change in Directors' remuneration compared with employees

The following table sets out the percentage change in the salary/fees, benefits and bonus for each Director from 2019 to 2020 compared with the average percentage change for the wider workforce.

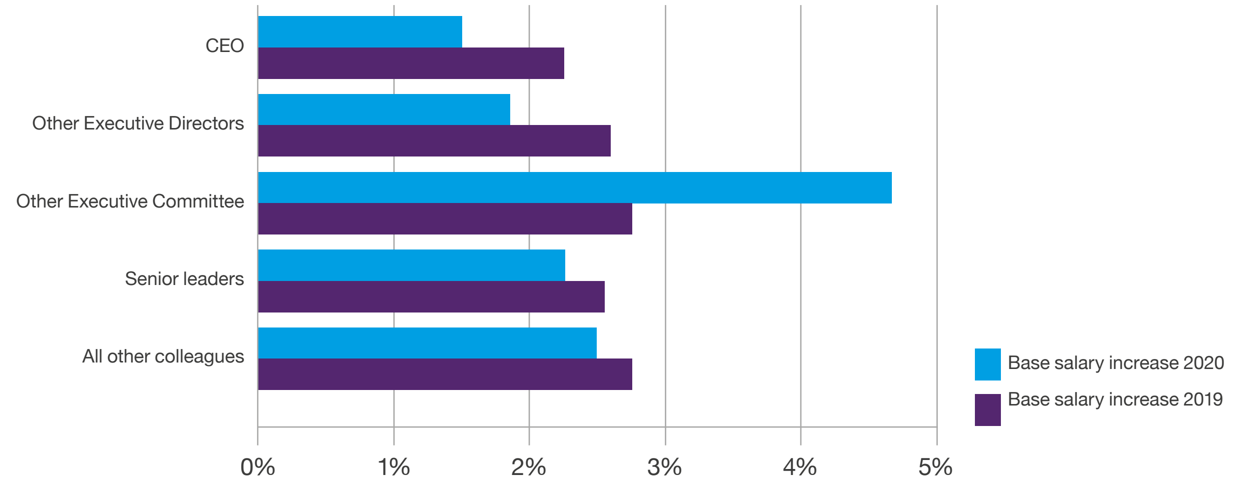
	Salary/Fees	Benefits[1]	Bonus
Executive Directors			
Mr D J Cutter	1%	0%	-100%
Mr A P Bottomley	1%	0%	-100%
Mr I M Cornelius	1%	0%	-100%
Mr R S D M Ndawula	1%	0%	-100%
Non-Executive Directors			
Miss A J Burton	-4%	-100%	-
Mr J R Coates	1%	-100%	-
Mrs D P Cockrem	-4%	-100%	-
Mr R D East	4%	-83%	-
Mr D A Hall	3%	-75%	-
Ms H L Jackson	1%	-100%	-
Mr M J Lund	1%	-80%	-
Ms H C Stevenson	4%	-67%	-
Wider workforce			
Executive Committee	2%	0%	-100%
Senior leaders	2%	7%	-8%
Average employee of the Society[2]	3%	3%	-28%

Notes
1. The benefits figure for Executive Directors comprises car allowance and private medical insurance and, for Non-Executive Directors, comprises reimbursed travel expenses.
2. The average employee of the Society figures are based on earnings of full-time employees that were employed throughout the current and comparison period. The percentage change for some will indicate an individual change in role and therefore a potential change in benefit entitlement or change of bonus scheme.

Comparison of average base salary increases awarded in the annual pay review

The table below illustrates the average annual base salary increases, expressed as a percentage of salary, made as part of the annual pay review.

Base salary increase



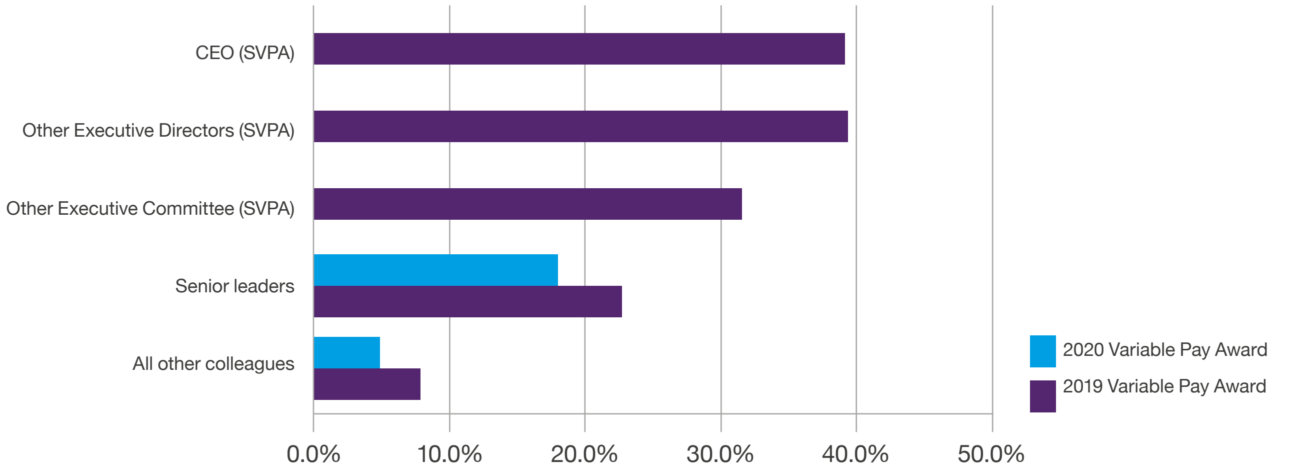
The 'all other colleagues' remuneration comparator relates to Society employees only as this is considered to be the most appropriate comparator to use due to the varying remuneration policies across the Group's subsidiaries. The salary increase figure for other Executive Committee members includes an element to address market position for a number of Executive Committee members.

Comparison of annual variable pay awarded in respect of 2020

Bonus payments are determined based on the achievement of a mixture of Group profit and customer satisfaction and growth targets taken directly from the corporate plan.

Variable pay award as a % of salary

The table below illustrates the average annual variable pay awards, expressed as a percentage of salary, made in respect of 2020:



Note
1. The calculations for average bonus awards are based on full year participation.

The Executive Committee voluntarily forfeited their 2020 performance award and therefore the Group Chief Executive's award under the Society's SVPA scheme in respect of 2020 represented 0% of his base salary (2019: 39.1%). This compares to the average amount awarded to the other Executive Directors of 0% (2019: 39.3%) and other Executive Committee members of 0% (2019: 31.5%). The average amount awarded to the senior leaders was 18.0% (2019: 22.7%) and to the remainder of our people in the Society was 4.9% (2019: 7.9%).

Governance

Directors' Remuneration Report *(continued)*

Cascade of remuneration in the Society

The Society has well-being at the forefront of its culture and continues to support colleagues physically, mentally and financially. 2020 saw the launch of our reward platform, Select, which builds awareness and enables personalisation and choice of the benefits on offer. One of the many features is a total reward statement allowing an individual to understand how their package is constructed and reflect on the true value when all elements are included. To date, over 90% of colleagues have accessed the platform, with a 40% selection rate, which evidences its success.

Cascade of Remuneration through the Society

	Executive	Leaders	Colleagues
Base Salary	✓	✓	✓
Annual Bonus - cash	✓	✓	✓
Pension	✓	✓	✓
Life Cover	✓	✓	✓
Group Income Protection (GIP) Private Medical Insurance (PMI)	✓	✓	✗
Company Sick Pay	✓	✓	✓
Annual Health Check	✓	✗	✗
Other Benefits	✓	✓	✓

CEO Pay Ratio

In line with the requirements for listed companies, the Board has agreed to voluntarily publish the CEO pay ratio for the Society only. Given the diversity of the wider Skipton Group, the Society measure was thought to be more appropriate as it would provide a more meaningful comparison with our peers in financial services.

For the purposes of this year's disclosure, the April 2020 gender pay gap data has been used to identify the three appropriate employees for comparison with the CEO (Option B). The latest available gender pay gap data is used to identify the best equivalent for three colleagues whose hourly rates of pay are at the 25th, 50th and 75th percentiles for the Group and their total pay and benefits figure for 2020 is then calculated. A sample of colleagues with hourly pay rates either side of the initially identified individuals are also reviewed to ensure that the appropriate representative colleagues are selected.

The table below compares the total remuneration of the Chief Executive against the total remuneration of the median employee and those who sit at the 25th, 50th and 75th percentiles for the Group.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option B	35:1	30:1	18:1
2020	Option B	32:1	21:1	14:1

The total remuneration and salary values for the 25th, median and 75th percentile employees in 2020 are:

Gender Pay Data	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Salary (£)	19,041	26,487	39,658
Total remuneration (£)	20,471	30,637	44,971

Notes
1. As recognised by the BEIS, those companies with multiple subsidiaries and payrolls can opt to use Option B.
2. Employee data includes full time equivalent total remuneration for Society employees as at 31 December 2020.

Base salaries of all employees, including our Executive Directors, are set with reference to a range of factors including market practice, experience and performance in role. The CEO's remuneration package is weighted more heavily towards variable pay than the wider workforce due to the nature of the role, and this means the ratio is likely to fluctuate depending on the performance of the business and associated outcomes of incentive plans each year.

Statement of implementation of Remuneration Policy in 2021

The SVPA for 2021 will continue to be based on a balanced scorecard of financial and non-financial measures, as outlined in our policy section. The construct of the 2021 scheme remains unaltered from 2020.

The 30% weighting for personal and strategic team objectives is designed to give a continued focus on the achievement of longer term strategic objectives. The team objectives for the Executive Directors cover four key areas:

- Change
- Organisational design and capability
- Financial advice
- Cost efficiency

The measures and weightings in 2021 are set out in the table below:

Financial measures	Weighting	Team KPIs (non-financial measures)	Weighting	Objectives	Weighting
Group profit	8%	Net member growth	5%	Personal objectives	15%
Mortgages and Savings division profit	24%	Net customer satisfaction	5%	Strategic team objectives	15%
Mortgages and Savings division cost income ratio	8%	Employee opinion survey overall score	5%		
Year-end mortgage balances	4%	Audit actions	2%		
Year-end savings balances	4%	Compliance actions	2%		
		Women in Finance Charter – gender mix	3%		
Total weighting	48%		22%		30%

The maximum opportunity will remain as 50% of base salary and will be 30% of base salary at target.

The deferral arrangements operating in 2020 will continue to apply in 2021 and Directors' salaries will be reviewed on 1 April 2021 as they are for all colleagues in the Society.

Governance

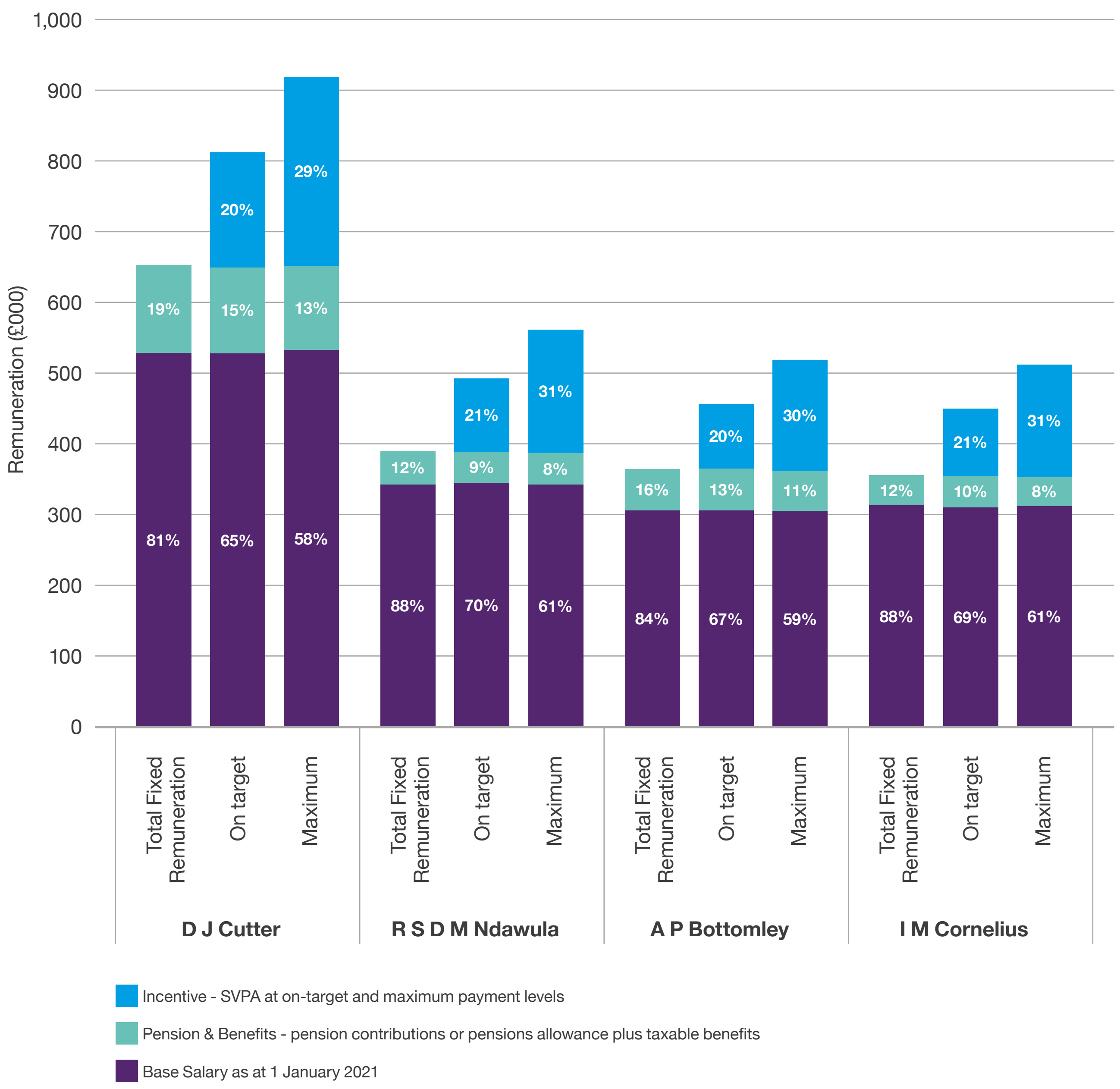
Directors’ Remuneration Report *(continued)*

Illustration of application of remuneration policy

The chart below illustrates the 2021 remuneration that would be paid to each of the Executive Directors under three different performance scenarios: (i) Minimum; (ii) On-target; and (iii) Maximum. The minimum scenario assumes that no pay-out is achieved from any variable elements of remuneration and on-target and maximum scenarios are as defined in the policy table on pages 86 and 88.

The chart illustrates that the application of the policy evidences predictability of outcomes at threshold, target and maximum.

The elements of remuneration have been categorised into three components: (i) Base salary; (ii) Pension and benefits; and (iii) Incentive (Single Variable Pay Arrangement).



On a broader level in 2021, the Committee will continue to review our overarching approach to remuneration and our principles of fairness through the Society. We will also work on the implementation of CRD V regulatory changes.

Material Risk Takers

Material Risk Takers (MRTs) are those ‘whose professional activities have a material impact on an institution’s risk profile’ and, in accordance with CRD IV and the criteria set out by the European Banking Authority (EBA), we have identified MRTs in the Society and in the Group subsidiary companies who are in scope of the regulations.

The Remuneration Committee is responsible for approving remuneration policies, maintaining oversight of the remuneration of MRTs and for ensuring that remuneration is paid to them in accordance with regulatory requirements.

Details of the MRTs’ remuneration arrangements for 2020 are included in the Pillar 3 document which is available at skipton.co.uk/about-us/pillar-3-disclosure.

The Committee and its advisers

The purpose of the Remuneration Committee is

To determine, on behalf of the Board, the Remuneration Policy	Ensure that remuneration arrangements support and encourage desired behaviours and culture
Maintain policies that are compliant with governing laws and regulations	Ensure appropriate governance of remuneration practices across the Society and its subsidiary companies and exercise effective oversight of these

Ensure that remuneration policies, principles and practices are appropriate to enable the business to attract, retain and reward people with the right skills, experience, knowledge and behaviours to support achievement of business goals and objectives

Amongst its other duties, the Committee specifically:

- Determines and agrees, on behalf of the Board, the Society’s Remuneration Principles and Policy, ensuring alignment to the business strategy, risk profile, corporate values, regulatory requirements and the long term interests of the Society and its members;
- Provides adequate oversight arrangements to ensure policies are operating as intended;
- Works closely with the Board Audit and Board Risk Committees to ensure that Remuneration Policy promotes sound and effective risk management;
- Maintains an effective risk adjustment policy and process which takes into account the Board Risk Appetite, capital and liquidity levels and ensures remuneration levels reflect overall performance;
- Assesses with regard to variable pay the achievement of performance targets and the need for ex-ante or ex-post risk adjustments, including the application of malus and clawback arrangements;
- Determines and agrees remuneration for the Chair of the Society Board and Society Executive Directors which shall be subject to the Remuneration Principles;
- Oversees the remuneration of the senior officers in the Risk and Compliance functions;
- Receives recommendations from the Group Chief Executive for approval of the remuneration for Senior Executives which shall be subject to the Remuneration Principles;
- Determines the policy, term, objectives and content of Society Executive Directors’ and Society Senior Executives’ service contracts to ensure they remain aligned to the Committee’s overarching Remuneration Policy, regulatory requirements and good practice guidance; and
- Reviews any proposed remuneration structures or pay proposals which fall outside the parameters of the agreed Remuneration Principles.

The Committee ensures that clear remuneration principles for the Society and its subsidiaries are set and agreed annually. For the PRA and FCA regulated businesses, the principles set out appropriate standards for remuneration design, governance, risk management, and, where applicable, remuneration for MRTs. The Committee receives reports from the Group Remuneration Oversight Committee on the implications of the remuneration policies within the Group and compliance with the principles. The Chief Risk Officers update the Committee on risk related matters and provide information and insight as part of the risk adjustment process.

The full terms of reference of the Remuneration Committee and the Remuneration Principles are available on request from the Secretary. The terms of reference are also available online at skipton.co.uk/about-us/governance/board-committees.

The Remuneration Committee met seven times during 2020. In discharging its duties, the Committee reviews and considers independently produced data in relation to similar financial services organisations. Remuneration consultants advising the Committee are independent from the Group.

Helen Stevenson, the Remuneration Committee Chair, has been in tenure since May 2016.

The Non-Executive Directors’ Remuneration Committee, which currently comprises Messrs East (Chair), Bottomley, Cutter, Cornelius and Ndawula, determines the level of the other Non-Executive Directors’ fees.

The Chair, Group Chief Executive, Chief Conduct Risk Officer and Secretary and Chief Human Resources Officer have regularly attended meetings by invitation and external advisers are invited to attend meetings as and when appropriate.

PwC were appointed by the Committee in 2015 following a review of potential advisers. PwC is a signatory to the voluntary Code of Conduct in relation to remuneration in the UK. Their remuneration team have continued to support the Committee in 2020 and have received £65,000 (net of VAT) in fees in respect of remuneration services provided. The Committee maintains oversight of remuneration policy and practice through an annual internal audit which is supported by other independent remuneration experts.

In addition to remuneration, PwC provide other services to the Society such as accounting, internal audit and tax advice.

Consideration of member views

The Committee has, for a number of years, invited members to vote (on an advisory basis) on the Remuneration Policy and annual Remuneration Report and takes member feedback into account when determining policy and outcomes.

Statement of voting at the 2020 AGM

At the 2020 AGM the Directors’ Remuneration Report was subject to an advisory vote of members, the results of which were as follows:

		Votes	
	For	**Against**	**Withheld**
2019 remuneration report	**54,045 (91.1%)**	**5,296 (8.9%)**	**1,227**

Helen Stevenson
Chair of the Remuneration Committee

23 February 2021

3 Financial Statements

Independent Auditor's Report

Independent auditor's report to the members of Skipton Building Society

Opinion

In our opinion, the financial statements:

- The Group and Society's financial statements (the financial statements) give a true and fair view of the state of the Group's and the Society's affairs as at 31 December 2020 and of the Group's and the Society's income and expenditure for the year then ended;
- The financial statements have been properly prepared in accordance with International Accounting Standards in conformity with requirements of the Building Societies Act 1986 and, as regards the Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union; and
- The financial statements have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of the Group and the Society which comprise:

Group	Society
Consolidated Statement of Financial Position as at 31 December 2020	Statement of Financial Position as at 31 December 2020
Consolidated Income Statement for the year ended 31 December 2020	Income Statement for the year ended 31 December 2020
Consolidated Statement of Comprehensive Income for the year then ended 31 December 2020	Statement of Comprehensive Income for the year ended 31 December 2020
Consolidated Statement of Changes in Members' Interests for the year then ended 31 December 2020	Statement of Changes in Members' Interests for the year ended 31 December 2020
Consolidated Statement of Cash flows for the year then ended 31 December 2020	Statement of Cash Flows for the year ended 31 December 2020
Related notes 1 to 45 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 45 to the financial statements, including a summary of significant accounting policies
Information of Country by Country Reporting	

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Building Societies Act 1986 and, as regards to the Group financial statements, International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC)'s Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

The Directors have voluntarily complied with the UK Corporate Governance Code (the "Code") and Listing Rule 9.8.6(R)(3)(a) of the FCA and provided a statement in relation to going concern, required for companies with a premium listing on the London Stock Exchange.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and Society's ability to continue to adopt the going concern basis of accounting included:

- We obtained the Directors' going concern assessment, including the cash flow forecasts for the going concern period which covers a year from the date of signing this audit opinion. The Group has modelled a number of adverse scenarios in its cash flow forecasts in order to incorporate unexpected changes to the forecasted liquidity and capital positions of the Group.
- We compared the budgeted financial information with historical actual results, in order to form a view on the reliability of the forecasting process.
- We assessed the Group's funding risk with considerations to the maturity of significant debt obligations, and reviewed the Group's planned funding schedule to offset maturities and fund operational activity.
- We obtained the Directors' reverse stress testing and downside sensitivity analysis, and challenged key assumptions, in particular relating to liquidity and capital.
- We considered the impact of COVID-19, including considerations relating to operational resilience, customer behaviour and business operations.
- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- We reviewed regulatory correspondence and committee and board meeting minutes to identify events or conditions that may impact the Group's ability to continue as a going concern.
- We reviewed the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Society's ability to continue as a going concern for a period of at least a twelve month period from when the financial statements are authorised for issue.

In relation to the Group and Society's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's or Society's ability to continue as a going concern.

Overview of our audit approach	
Audit scope	• We performed an audit of the complete financial information of three components and audit procedures on specific balances for a further eight components. • The components where we performed full or specific audit procedures accounted for 99.7% of total income, 100% of total members' interests and 100% of total assets.
Key audit matters	• Measurement of loan impairments relating to retail and commercial mortgages • Fair value of the equity release portfolio • Revenue recognition relating to effective interest rate (EIR) • Risk of management override in Connells revenue streams
Materiality	• Overall Group materiality of £7.8m which represents 0.46% of total members' interests.

An overview of the scope of the Society and the Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 16 reporting components of the Group, we selected 11 components covering entities within the United Kingdom, New Zealand and Guernsey, which represent the principal business units within the Group.

Of the 11 components selected, we performed an audit of the complete financial information of three components (full scope components) which were selected based on their size or risk characteristics. For the remaining eight components (specific scope components), we performed audit procedures on specific accounts within that component that we

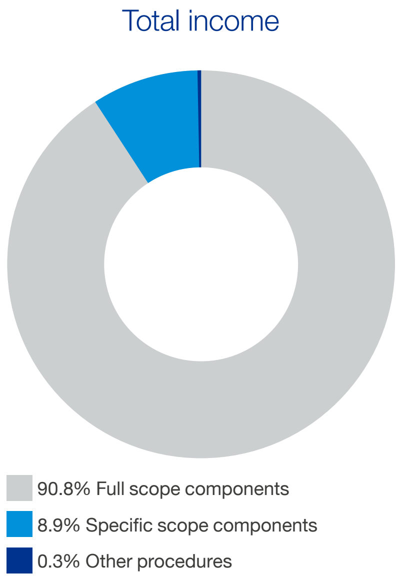
Independent Auditor's Report *(continued)*

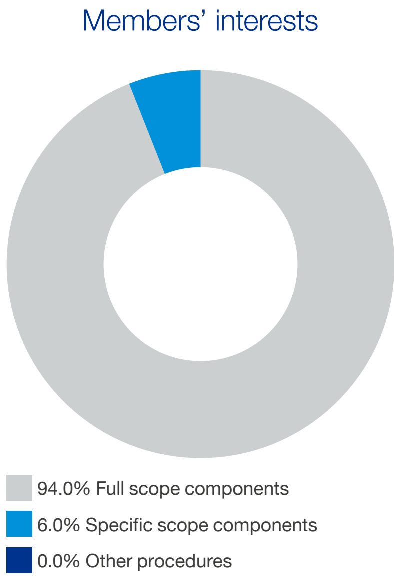
considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

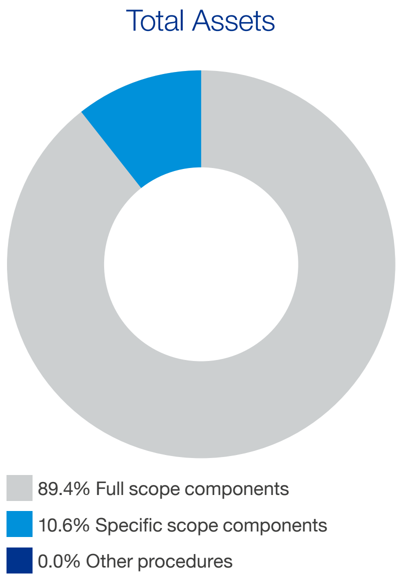
The reporting components where we performed audit procedures accounted for 99.7% (2019: 99.7%) of the Group's total income, 100% of the Group's total members' interests (2019: 100%) and 100% (2019: 100%) of the Group's total assets. For the current year, the full scope components contributed 90.8% (2019: 92.3%) of the Group's total income, 94.0% of the Group's total members' interests (2019: 95.5%) and 89.4% (2019: 89.9%) of the Group's total assets. The specific scope component contributed 8.9% (2019: 7.4%) of the Group's total income, 6.0% (2019: 4.5%) of the Group's total members interests' and 10.6% (2019: 10.1%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage tested for the Group.

Of the remaining five components that together represent less than 1% of the Group's total income and total members' interests, none are individually greater than 1% of the Group's total income. For these components, we performed other procedures, including detailed analytical reviews to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.







Changes from the prior year

A new entity has formed part of the Group audit scope in the year to 31 December 2020. Darrowby No. 5 plc is a special purpose vehicle which has listed debt using mortgage backed securities purchased from Skipton Building Society. Darrowby No. 5 plc has been designated as specific scope for the 2020 audit engagement. There have been no other changes relating to Group audit scoping from the prior year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the three full scope components, audit procedures were performed on one of these directly by the primary audit team and audit procedures on two of these were performed by component teams. For the eight specific scope components, audit procedures were performed by the primary team except for one specific scope component where the work was performed by component auditors. We determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary team led a number of video conference calls with the component teams to discuss the audit approach with the component team, any issues arising from their work, as well as meeting virtually with local management, and reviewing key audit working papers on risk areas. The primary team instructed component auditors as to the significant areas to be covered for the purpose of the Group audit, including the key audit matters given above, materiality levels to be used and the specific information to be reported back to the primary team.

The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Measurement of loan impairments relating to retail and commercial mortgages (Group - 31 December 2020: £41.9m; Society - 31 December 2020: £30.2m) The measurement of the loan impairment provision under IFRS 9 is subjective and requires the Directors to exercise judgement with regards to estimating future losses that the Group may occur within the retail and commercial mortgage books. In the current pandemic environment, the expected credit loss (ECL) calculation continues to be highly subjective and judgemental, particularly related to assessing the impact of significant increases in credit risk arising from payment deferrals, government support schemes, and recovery profiles and timing. Key judgements and estimates include: • The application of multiple economic scenarios, including the appropriate weightings for the various scenarios. • Completeness and valuation of post-model adjustments. • Identifying assets that have experienced a significant increase in credit risk (SICR) since origination (stage 2) and those that are credit-impaired (stage 3), including evaluating the impact of government support schemes. • Accounting interpretations and modelling assumptions used to build the models and calculate the ECL. Furthermore, there is a risk that financial disclosures do not comply with the requirements of IFRS.	We understood and evaluated the design effectiveness of key controls over the impairment process, and adopted a substantive audit approach. Our substantive audit procedures over the residential and commercial IFRS 9 provision models included assessing, challenging and substantiating key assumptions, such as: definition of default, probability of default (PD), loss given default, significant increases in credit risk and the staging applied, forward looking assumptions and the determination of lifetime PDs. We tested the assumptions, inputs and model calculations used in a risk-based sample of ECL models with involvement of our internal credit modelling specialists. This included assessing the appropriateness of the model design, model performance and ECL replication on a sample basis. To assess data quality, we tested data used in the ECL calculation by reconciling and performing sample tests for accuracy of key data fields to source systems. For a sample of commercial mortgage provisions we independently challenged the provision adequacy by assessing the valuation of collateral at the balance sheet date and considered assumptions about future recoverability. We critically assessed the Group's methodology for determining the SICR criteria and independently tested staging allocation by selecting a sample of loans in stages 1, 2 and 3 from a complete population to verify whether they were allocated appropriately, with reference to the	We communicated that we were satisfied that loan impairment provisions were reasonable and in compliance with the requirements of IFRS 9. We communicated to the Audit Committee that our independent testing of models and underlying modelling assumptions resulted in minor differences that were considered to be immaterial in aggregate. We considered the multiple economic scenarios incorporated in the IFRS 9 models and post model overlays to be reasonable. We noted immaterial differences from our testing of post model adjustments and that the Group had recognised post model adjustments relating to COVID-19 overlays. We also concluded that disclosures relating to loan impairments were in compliance with the requirements of IFRS.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	Group's SICR criteria. We independently challenged the economic scenario central case and alternative economic scenarios adopted with support from economics specialists. We challenged the probability weightings ascribed to the scenarios and compared them to other scenarios from a variety of external sources, as well as EY internally developed forecasts. With the assistance of economics specialists, we assessed whether forecast macroeconomic variables, such as unemployment, interest rates and house price indexes were appropriate loan loss provision drivers. We assessed the completeness of post model adjustments using our knowledge and experience across the UK lending sector and tested material overlays for reasonableness of estimation with reference to observable market data. We assessed the appropriateness and the calculation of the overlays adopted in response to COVID-19 related economic uncertainty. We corroborated the adequacy and appropriateness of the disclosures made within the financial statements for compliance with both IFRS 9 and IFRS 7.	
Fair value of equity release portfolio **(Group - 31 December 2020: £433.8m;** **Society - 31 December 2020: £433.8m)** The Society holds three equity release mortgage portfolios that carry a no negative equity guarantee (NNEG). This guarantee limits the Society's maximum return to the value of the relevant customer's property on redemption. The Society is therefore exposed to potential losses on the portfolio, albeit any loss is limited in part by a further guarantee provided to the Society by a third party. The Society uses equity release swaps to manage the interest rate risk and reduce income statement volatility that would otherwise result from changes in the fair value of the equity release mortgage portfolio.	We understood and evaluated the design effectiveness of key controls over the fair value of the equity release portfolio and corresponding swaps, and adopted a substantive audit approach. With support from our valuation specialists, we assessed the appropriateness of the valuation techniques and independently calculated a range of fair values for the equity release portfolio. We compared the Directors' modelled fair values against this range. Our valuation specialists assessed the valuation methodologies used in relation to the swaps, and independently calculated fair values. We challenged assumptions used in the fair value models, including the discount rates, mortality rates, future changes in house prices and prepayment rates. We compared assumptions applied in the fair value	We communicated to the Audit Committee that the models and assumptions informing the fair value of the equity release portfolio and associated swaps as at 31 December 2020 were reasonable. We also communicated our observations on the key assumptions. We highlighted the subjectivity in the property volatility assumption and the discount rates, including illiquidity premia. We were satisfied that the assumptions deployed in the fair value of the equity release portfolio and corresponding swap models were reasonable in the context of the equity release mortgage portfolio and current market conditions, including considerations relating to COVID-19.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The fair value of the equity release portfolio is determined using a complex model which uses a Monte Carlo simulation and a number of different judgemental assumptions to derive an estimated value. The equity release swaps are also valued using a Monte Carlo based model. The key assumptions used in the models include: • Discount rates, including illiquidity premia • Mortality rates • Future increases in house prices ('HPI') • Prepayment rates Due to the degree of judgement that needs to be exercised by the Directors around the key assumptions into the valuation model, and the complexity of the calculation, this was considered a key audit matter.	models to the Society's historical experience and benchmarked assumptions to observable market data where applicable. We assessed how the impact of COVID-19 had been incorporated into the relevant assumptions. We tested the completeness and accuracy of data used within the fair value models by agreeing the model data to source systems and underlying evidence. We validated the accuracy and sufficiency of the disclosures made within the financial statements regarding the key estimates made within the fair value models, and their sensitivity to reasonable alternative assumptions.	
Revenue recognition relating to effective interest rate (EIR) accounting **(Group - 31 December 2020: £441.7m;** **Society - 31 December 2020: £391.4m)** The EIR method of revenue recognition involves significant management judgement and complex calculations in both determining the initial EIR and recording the present value of adjustments arising in subsequent periods when cash flows are reforecast. As such, it represents a risk of fraud in revenue recognition and through management override of internal controls. The Group's EIR models are most sensitive to changes in the behavioural life and future interest rate assumptions. Modelled forecast cash flows may be measured incorrectly due to the use of inaccurate or incomplete data, erroneous formulae or inappropriate assumptions.	We understood and evaluated the design effectiveness of key controls over the EIR process, and adopted a substantive audit approach. We validated and challenged assumptions used in the EIR models, including the behavioural lives of assets and the approach to estimating future interest rates. Our challenge included comparing customer redemption assumptions with recent customer behaviours observable in the Group's portfolios, and comparing the forecast interest rate methodology with market derived base rate forecasts and the Society's expectations of future interest margins. We assessed how the impact of COVID-19 had been incorporated into the relevant assumptions, including the effect of mortgage payment deferrals. We tested the accuracy of the EIR calculations by independently recalculating the EIR for a sample of mortgages, factoring in the change in the Society's variable rates in May 2020.	We communicated to the Audit Committee that the model, assumptions and calculations informing the EIR calculation as at 31 December 2020 were reasonable and that these resulted in EIR adjustments to interest income which were appropriately derived. We also communicated our observations on the key assumptions. We highlighted the subjectivity in the behavioural life and future assumptions. We were satisfied that the assumptions deployed in the EIR model were reasonable in the context of the Society's mortgage portfolio and current market conditions, including appropriate consideration of factors arising from COVID-19.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Due to the degree of judgement that needs to be exercised by the directors around forecast future cash flows (particularly given the uncertainty surrounding economic and customer impacts of COVID-19), the number of different products the Group has across its loan portfolio and the complexity of calculation, this was considered a key audit matter.	We performed data integrity testing on the key data fields used within the EIR calculations by corroborating data back to the Society systems and source documentation. We tested the accuracy of the disclosures made in the financial statements regarding the key estimates used in the EIR models, and their sensitivity to reasonable alternative assumptions.	
Risk of management override in Connells revenue streams **(Connells - 31 December 2020: £377.2m)** There is a risk that management may override controls and post manual journals in order to overstate revenue and achieve targets set within respective management incentive schemes. This risk is specific to manual revenue journals posted during the financial year within the Connells revenue streams which are material to the Group. Given the manual nature and volume of revenue transactions in Connells, this was considered a key audit matter.	We understood and evaluated the design effectiveness of key controls over the revenue recognition process, and we adopted a substantive audit approach. We performed cut off testing on a sample of transactions falling either side of the 31 December 2020 year end date. We performed data analysis procedures to assess the recognition of revenue throughout the year. We performed testing over full populations of transactions using data analysis tools to analyse all of the revenue transactions for the significant revenue streams. We tested the correlation of revenue to cash receipts to verify the occurrence of revenue. For some of the Connells subsidiaries where we did not use data analysis tools, we performed alternative substantive procedures including tracing from origination of revenue through to the general ledger to confirm that the revenue was appropriately recorded in the correct period and at the correct value. We performed testing over a sample of manual journal entries recorded for each significant revenue stream. We substantiated these journals to supporting documentation and validated that revenue recognition criteria had been fulfilled and that values were materially correct.	We communicated to the Audit Committee that through our data analysis procedures we identified a correlation of transactions between revenue and trade receivables. We concluded that we did not identify any evidence of material misstatements in the revenue recognised or any instances of management override.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £7.8 million (2019: £7.8 million), which is 0.46% of members' interests (2019: 5% of adjusted profit before tax).

We determined materiality for the Society to be £3.8 million (2019: £3.8 million), which is 0.25% of members' interests (2019: 5% of adjusted profit before tax).

We believe that members' interests provides us with an appropriate measure of materiality given the unusual circumstances in 2020 in respect of the COVID-19 pandemic. We consider that the Group and Society members' interests position is more relevant to users in this uncertain economic environment.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was £5.8m (2019: £3.9m), being 75% (2019: 50%) of our planning materiality. We have set performance materiality at this percentage after considering our experience in the prior year, which was our first year auditing the Group and of an effective control environment with only minor audit differences resulting from our work. As a result, we determined that the higher of our permissible thresholds for our performance materiality was appropriate.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.2m to £3.1m (2019: £0.8m to £2.0m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.4m (2019: £0.4m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 6 to 100, including 2020 Group Highlights, the Chair's Statement, the Group Chief Executive's Report, the Strategic Report, the Sustainability Report, the Board of Directors, the Directors' Report, the Directors' Report on Corporate Governance, the Audit Committee Report, the Risk Management Report and the Directors' Remuneration Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- The Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements; and
- The information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Independent Auditor's Report *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- Proper accounting records have not been kept by the Society; or
- The Group or Society's financial statements are not in agreement with the accounting records; or
- We have not received all the information and explanations and access to documents we require for our audit.

Voluntary reporting matters

Corporate Governance Statement

The directors have voluntarily complied with the UK Corporate Governance Code (the Code) and prepare a Corporate Governance Statement in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA).

The Directors have requested that we review the parts of the Corporate Governance Statement relating to the Society's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) as if the Society were a premium listed company.

The Directors have voluntarily complied with the UK Corporate Governance Code (the Code) and Listing Rule 9.8.6(R)(3)(a) of the FCA. The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Society's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement are materially consistent with the financial statements or our knowledge obtained during the audit:

- The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 54;
- The Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on pages 54 and 55;
- The Directors' statement on fair, balanced and understandable set out on page 55;
- The Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 54;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 60 and 61; and;
- The section describing the work of the audit committee set out on page 64.

Directors' Remuneration Report

The Society voluntarily prepares a Report of the Directors on remuneration in accordance with the provisions of the Companies Act 2006. The Directors have requested that we audit the part of the Report of the Directors on remuneration specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 53, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Society and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant were the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Building Societies Act 1986.
- We understood how the Group complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and UK regulatory bodies; reviewed minutes of the Board and Board Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's Operational Risk Framework and internal control processes.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved inquiries of legal counsel, executive management, internal audit, and focused testing as referred to in the Key Audit Matters section above.
- The Group operates in the financial services sector which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the Audit Committee, we were appointed by the Society on 10 May 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society and we remain independent of the Group and the Society in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee

Use of our report

This report is made solely to the Society's members, as a body, in accordance with Section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society'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 Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Steven Robb (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

23 February 2021

Income Statements

For the year ended 31 December 2020

	Notes	Group 2020 £m	Group 2019 Re-presented* £m	Society 2020 £m	Society 2019 £m
Interest receivable and similar income:					
Accounted for using the effective interest rate method	2	441.7	510.0	391.4	452.8
Other	2	(2.1)	4.9	1.1	5.4
Total interest receivable and similar income		439.6	514.9	392.5	458.2
Interest payable and similar charges	3	(201.7)	(276.8)	(210.3)	(277.0)
Net interest receivable		237.9	238.1	182.2	181.2
Fees and commissions receivable	4a)	420.8	477.2	27.2	31.9
Fees and commissions payable		(7.3)	(8.2)	(2.6)	(2.8)
Fair value (losses) / gains on financial instruments mandatorily held at FVTPL:					
Hedging instruments and hedged items		(0.1)	1.2	4.3	2.8
Other derivatives	15	(22.4)	2.6	(22.4)	2.6
Equity release portfolio	15	19.7	(6.0)	19.7	(6.0)
Share warrants		0.1	-	-	-
Put options held by minority shareholders		(0.3)	-	-	-
Equity share investments	17e)	0.1	-	-	-
Debt securities		-	-	(4.8)	1.0
Fair value gains / (losses) on deemed loans from subsidiary undertakings designated at FVTPL		-	-	0.1	(1.0)
Realised profits on treasury assets held at FVOCI		0.6	2.4	0.6	2.4
Income from shares in subsidiary undertakings		-	-	12.4	38.5
Profit on disposal of subsidiary undertakings	17c)	0.8	1.1	-	-
Share of profits from joint ventures		3.4	1.7	-	-
Other income		1.0	0.8	5.5	6.1
Total income		654.3	710.9	222.2	256.7
Administrative expenses	5	(506.3)	(554.0)	(149.1)	(146.3)
Operating profit before impairment and provisions		148.0	156.9	73.1	110.4
Impairment (losses) / credit on loans and advances to customers	14	(25.7)	(0.5)	(19.6)	0.3
Impairment (losses) / credit on liquid assets		(0.1)	0.2	(0.1)	0.1
Impairment of goodwill	21	(2.0)	-	-	-
Impairment of joint ventures		(1.5)	-	-	-
Realised losses on equity release portfolio	15	(0.1)	(0.5)	(0.1)	(0.5)
Provisions for liabilities	29	0.2	(2.9)	(0.5)	1.1
Profit before tax		118.8	153.2	52.8	111.4
Tax expense	9	(21.8)	(30.8)	(7.1)	(17.3)
Profit for the financial year attributable to members of Skipton Building Society		97.0	122.4	45.7	94.1

* The Group comparative amounts for 'Fees and commissions receivable' and 'Provisions for liabilities' have been re-presented. There is no impact on overall profit and no impact on reserves (see note 4a) for further details).

Segmental performance of the Group is shown in note 42.

The accompanying notes form part of these financial statements.

Statements of Comprehensive Income

For the year ended 31 December 2020

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Profit for the financial year		97.0	122.4	45.7	94.1
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Remeasurement (losses) / gains on defined benefit obligations	31	(22.7)	0.5	(14.3)	0.3
Income tax on items that will not be reclassified to profit or loss	35	7.1	0.3	4.7	0.2
		(15.6)	0.8	(9.6)	0.5
Items that may be reclassified subsequently to profit or loss:					
Movement in cash flow hedging reserve:					
(Losses) / gains taken to equity		(12.9)	3.1	(10.8)	3.2
Realised gains transferred to Income Statement		(3.2)	(6.9)	(3.2)	(6.9)
Movement in fair value reserve (debt securities):					
Gains / (losses) taken to equity		4.6	(0.3)	5.3	(0.3)
Impairment loss allowance on debt securities held at FVOCI	11	(0.1)	(0.1)	(0.1)	(0.1)
Movement in cost of hedging reserve:					
Gains / (losses) taken to equity		0.9	(5.2)	-	-
Exchange differences on translation of foreign operations		0.4	(0.7)	-	-
Income tax on items that may be reclassified to profit or loss	35	2.4	2.5	0.4	2.4
		(7.9)	(7.6)	(8.4)	(1.7)
Other comprehensive expense for the year, net of tax		(23.5)	(6.8)	(18.0)	(1.2)
Total comprehensive income for the year attributable to members of Skipton Building Society		73.5	115.6	27.7	92.9

The accompanying notes form part of these financial statements.

Financial Statements

Statements of Financial Position

As at 31 December 2020

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Assets					
Cash in hand and balances with the Bank of England		3,237.8	1,793.1	3,237.8	1,793.1
Loans and advances to credit institutions	10	724.7	546.6	615.0	465.8
Debt securities	11	1,505.0	2,182.9	1,707.7	2,032.5
Derivative financial instruments		64.1	38.5	75.9	46.6
Loans and advances to customers held at amortised cost	12	21,865.0	20,065.6	19,629.5	17,891.6
Loans and advances to customers held at FVTPL	16	1.3	1.5	1.3	1.5
Equity release portfolio held at FVTPL	15	433.8	410.0	433.8	410.0
Current tax asset		-	1.0	-	-
Investments in Group undertakings	17a)	-	-	851.9	898.5
Investments in joint ventures		13.3	12.5	-	-
Equity share investments	17e)	1.7	1.5	-	-
Property, plant and equipment	18	72.5	75.7	40.7	39.2
Right-of-use assets	19	60.9	67.4	12.0	12.7
Investment property	20	8.1	9.4	8.1	9.4
Intangible assets	21	157.7	162.6	2.2	3.4
Deferred tax asset	30	46.4	38.6	29.9	26.6
Other assets	22	71.1	82.5	12.2	16.9
Total assets		28,263.4	25,489.4	26,658.0	23,647.8
Liabilities					
Shares	23	18,709.4	17,364.1	18,725.2	17,362.3
Amounts owed to credit institutions	24	2,149.2	1,678.3	2,538.8	1,743.6
Amounts owed to other customers	25	2,130.3	1,816.9	997.0	415.4
Debt securities in issue	26	2,452.5	2,302.6	1,976.7	2,194.9
Derivative financial instruments		445.9	361.1	442.5	321.7
Current tax liability		4.0	16.0	1.4	10.6
Lease liabilities	27	62.5	66.6	12.2	12.5
Other liabilities	28	50.9	52.6	11.5	11.9
Accruals		42.9	42.3	13.3	14.8
Deferred income		2.3	2.7	-	-
Provisions for liabilities	29	18.9	23.7	0.9	1.0
Deferred tax liability	30	1.2	1.7	-	0.3
Retirement benefit obligations	31	96.4	87.0	51.1	48.8
Subordinated liabilities	32	349.7	-	349.7	-
Subscribed capital	33	41.6	41.6	41.6	41.6
Total liabilities		26,557.7	23,857.2	25,161.9	22,179.4
Members' interests					
General reserve		1,715.3	1,633.9	1,504.3	1,468.2
Fair value reserve		4.1	1.4	4.7	1.5
Cash flow hedging reserve		(15.1)	(3.3)	(12.9)	(2.7)
Cost of hedging reserve		(3.5)	(4.3)	-	1.4
Translation reserve		4.9	4.5	-	-
Attributable to members of Skipton Building Society		1,705.7	1,632.2	1,496.1	1,468.4
Total members' interests and liabilities		28,263.4	25,489.4	26,658.0	23,647.8

The accompanying notes form part of these financial statements.

These Accounts were approved by the Board of Directors on 23 February 2021 and were signed on its behalf by:

Robert East	**Chair**
David Cutter	**Group Chief Executive**
Bobby Ndawula	**Group Finance Director**

Statements of Changes in Members' Interests

For the year ended 31 December 2020

Group

	General reserve £m	Fair value reserve £m	Cash flow hedging reserve £m	Cost of hedging reserve £m	Translation reserve £m	Total £m
Balance at 1 January 2020	1,633.9	1.4	(3.3)	(4.3)	4.5	1,632.2
Profit for the financial year	97.0	-	-	-	-	97.0
Other comprehensive income						
Remeasurement losses on defined benefit obligations	(15.6)	-	-	-	-	(15.6)
Net gains / (losses) from changes in fair value	-	2.8	(9.2)	0.8	-	(5.6)
Debt securities at FVOCI: impairment loss allowance	-	(0.1)	-	-	-	(0.1)
Cash flow hedges: realised gains transferred to the Income Statement	-	-	(2.6)	-	-	(2.6)
Exchange differences on translation of foreign operations	-	-	-	-	0.4	0.4
Total other comprehensive income (note 35)	(15.6)	2.7	(11.8)	0.8	0.4	(23.5)
Total comprehensive income for the year	81.4	2.7	(11.8)	0.8	0.4	73.5
Balance at 31 December 2020	1,715.3	4.1	(15.1)	(3.5)	4.9	1,705.7

For the year ended 31 December 2019

Group

	General reserve £m	Fair value reserve £m	Cash flow hedging reserve £m	Cost of hedging reserve £m	Translation reserve £m	Total £m
Balance at 1 January 2019	1,510.7	1.6	(0.4)	(0.5)	5.2	1,516.6
Profit for the financial year	122.4	-	-	-	-	122.4
Other comprehensive income						
Remeasurement gains on defined benefit obligations	0.8	-	-	-	-	0.8
Net (losses) / gains from changes in fair value	-	(0.1)	2.7	(3.8)	-	(1.2)
Debt securities at FVOCI: impairment loss allowance	-	(0.1)	-	-	-	(0.1)
Cash flow hedges: realised gains transferred to the Income Statement	-	-	(5.6)	-	-	(5.6)
Exchange differences on translation of foreign operations	-	-	-	-	(0.7)	(0.7)
Total other comprehensive income (note 35)	0.8	(0.2)	(2.9)	(3.8)	(0.7)	(6.8)
Total comprehensive income for the year	123.2	(0.2)	(2.9)	(3.8)	(0.7)	115.6
Balance at 31 December 2019	1,633.9	1.4	(3.3)	(4.3)	4.5	1,632.2

Statements of Changes in Members' Interests *(continued)*

For the year ended 31 December 2020

Society	**General reserve**	**Fair value reserve**	**Cash flow hedging reserve**	**Cost of hedging reserve**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Balance at 1 January 2020	**1,468.2**	**1.5**	**(2.7)**	**1.4**	**1,468.4**
Profit for the financial year	45.7	-	-	-	**45.7**
Other comprehensive income					
Remeasurement losses on defined benefit obligations	(9.6)	-	-	-	**(9.6)**
Net gains / (losses) from changes in fair value	-	3.3	(7.6)	(1.4)	**(5.7)**
Debt securities at FVOCI: impairment loss allowance	-	(0.1)	-	-	**(0.1)**
Cash flow hedges: realised gains transferred to the Income Statement	-	-	(2.6)	-	**(2.6)**
Total other comprehensive income (note 35)	**(9.6)**	**3.2**	**(10.2)**	**(1.4)**	**(18.0)**
Total comprehensive income for the year	**36.1**	**3.2**	**(10.2)**	**(1.4)**	**27.7**
Balance at 31 December 2020	**1,504.3**	**4.7**	**(12.9)**	**-**	**1,496.1**

For the year ended 31 December 2019

Society	General reserve	Fair value reserve	Cash flow hedging reserve	Cost of hedging reserve	Total
	£m	£m	£m	£m	£m
Balance at 1 January 2019	1,373.6	1.7	0.2	-	1,375.5
Profit for the financial year	94.1	-	-	-	94.1
Other comprehensive income					
Remeasurement gains on defined benefit obligations	0.5	-	-	-	0.5
Net (losses) / gains from changes in fair value	-	(0.1)	2.7	1.4	4.0
Debt securities at FVOCI: impairment loss allowance	-	(0.1)	-	-	(0.1)
Cash flow hedges: realised gains transferred to the Income Statement	-	-	(5.6)	-	(5.6)
Total other comprehensive income (note 35)	0.5	(0.2)	(2.9)	1.4	(1.2)
Total comprehensive income for the year	94.6	(0.2)	(2.9)	1.4	92.9
Balance at 31 December 2019	1,468.2	1.5	(2.7)	1.4	1,468.4

The accompanying notes form part of these financial statements.

Statements of Cash Flows

For the year ended 31 December 2020

	Notes	**Group 2020 £m**	Group 2019 £m	**Society 2020 £m**	Society 2019 £m
Cash flows from operating activities					
Profit before tax		**118.8**	153.2	**52.8**	111.4
Adjustments for:					
Impairment charge / (credit) on loans and advances to customers	14	**25.7**	0.5	**19.6**	(0.3)
Loans and advances written off, net of recoveries	14	**(0.7)**	(2.2)	**(0.2)**	(1.2)
Impairment losses / (credit) on liquid assets		**0.1**	(0.2)	**0.1**	(0.1)
Impairment losses / (credit) on trade receivables	40c)	**0.9**	(0.1)	**0.1**	-
Impairment of goodwill	21	**2.0**	-	**-**	-
Impairment of joint ventures		**1.5**	-	**-**	-
Depreciation and amortisation	18, 19, 20, 21	**38.1**	37.7	**8.5**	8.2
Impairment of property, plant and equipment, right-of-use assets and investment property	18, 19, 20	**2.6**	0.5	**1.2**	0.5
Income from shares in subsidiary undertakings		**-**	-	**(12.4)**	(38.5)
Income Statement charge for fair value of subsidiary management incentive scheme liability	5	**1.2**	1.8	**-**	-
Fair value gains on equity share investments	17e)	**(0.1)**	-	**-**	-
Interest on subordinated liabilities and subscribed capital	3	**6.3**	4.5	**6.3**	4.5
Interest on lease liabilities	3	**1.3**	1.4	**0.2**	0.3
Loss / (profit) on disposal of property, plant and equipment, investment property and intangible assets		**0.5**	(0.6)	**0.6**	(0.6)
Profit on disposal of treasury assets		**(0.6)**	(2.4)	**(0.6)**	(2.4)
Share of profits from joint ventures		**(3.4)**	(1.7)	**-**	-
Profit on disposal of subsidiary undertakings	17c)	**(0.8)**	(1.1)	**-**	-
Fair value (gains) / losses on equity release portfolio	15	**(19.7)**	6.0	**(19.7)**	6.0
Fair value gains on share warrants		**(0.1)**	-	**-**	-
Realised losses on equity release portfolio	15	**0.1**	0.5	**0.1**	0.5
Other non-cash movements		**(20.0)**	(17.7)	**(18.5)**	(12.4)
		153.7	180.1	**38.1**	75.9
Changes in operating assets and liabilities:					
Movement in prepayments and accrued income		**5.8**	(4.4)	**6.9**	(4.7)
Movement in accruals and deferred income		**(35.1)**	(4.0)	**(38.5)**	0.2
Movement in provisions for liabilities		**(4.8)**	-	**(0.1)**	(3.1)
Movement in fair value of derivatives		**59.2**	115.5	**91.5**	61.0
Movement in fair value adjustments for hedged risk		**(39.6)**	(93.6)	**(80.0)**	(46.9)
Fair value movements in debt securities	11	**(14.7)**	0.7	**(10.5)**	(0.3)
Movement in loans and advances to customers		**(1,725.7)**	(1,866.4)	**(1,653.3)**	(1,826.8)
Movement in shares		**1,376.3**	1,231.5	**1,376.3**	1,231.5
Net movement in amounts owed to credit institutions and other customers		**785.7**	(74.1)	**1,379.9**	(369.7)
Net movement in debt securities in issue		**97.7**	919.1	**(218.4)**	995.4
Net movement in loans and advances to credit institutions		**(152.5)**	(98.1)	**(152.1)**	(98.4)
Net movement in other assets		**1.3**	(2.1)	**-**	2.5
Net movement in other liabilities		**(15.6)**	(8.7)	**(12.4)**	(1.6)
Income taxes paid		**(31.7)**	(32.7)	**(14.9)**	(16.0)
Net cash flows from operating activities		**460.0**	262.8	**712.5**	(1.0)

Statements of Cash Flows *(continued)*

For the year ended 31 December 2020

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Net cash flows from operating activities		460.0	262.8	712.5	(1.0)
Cash flows from investing activities					
Purchase of debt securities	11	(2,414.6)	(2,611.5)	(2,291.9)	(2,035.1)
Proceeds from maturities and disposals of debt securities		3,108.2	1,813.4	2,627.8	1,350.2
Purchase of property, plant and equipment and investment property	18, 20	(11.6)	(12.7)	(6.3)	(7.0)
Purchase of intangible assets	21	(3.9)	(7.7)	(0.3)	(1.8)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		0.9	3.7	-	2.8
Dividends received from subsidiary undertakings		-	-	12.4	38.5
Decrease in loans to subsidiary undertakings	17a)	-	-	46.6	76.5
Dividends received from joint ventures		1.1	1.4	-	-
Contingent consideration received following disposal of subsidiary (net of costs)		6.4	6.2	-	-
Investment in equity share investments	17e)	(0.1)	(0.7)	-	-
Purchase of other business units	17b)	(1.3)	(0.3)	-	-
Deferred consideration paid in respect of prior year acquisitions of subsidiary undertakings and business assets		-	(0.1)	-	-
Net cash flows from investing activities		685.1	(808.3)	388.3	(575.9)
Cash flows from financing activities					
Exercise of share options in subsidiary management incentive scheme	28	(0.6)	(9.3)	-	-
Share options issued in subsidiary management incentive scheme	28	-	0.7	-	-
Exercise of put options held by non-controlling shareholders	28	-	(0.6)	-	-
Proceeds from issue of subordinated liabilities		348.6	-	348.6	-
Interest paid on subordinated liabilities and subscribed capital		(4.6)	(4.5)	(4.6)	(4.5)
Interest paid on lease liabilities		(1.3)	(1.4)	(0.2)	(0.3)
Payment of lease liabilities	27	(16.3)	(16.3)	(2.4)	(2.8)
Net cash flows from financing activities		325.8	(31.4)	341.4	(7.6)
Net increase / (decrease) in cash and cash equivalents		1,470.9	(576.9)	1,442.2	(584.5)
Cash and cash equivalents at 1 January		1,845.1	2,421.9	1,764.3	2,348.8
(Increase) / decrease in impairment loss allowance on cash and cash equivalents		(0.2)	0.1	(0.2)	-
Cash and cash equivalents at 31 December		3,315.8	1,845.1	3,206.3	1,764.3

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

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Cash in hand and balances with the Bank of England		3,237.8	1,793.1	3,237.8	1,793.1
Mandatory reserve deposit with the Bank of England		(71.9)	(57.8)	(71.9)	(57.8)
		3,165.9	1,735.3	3,165.9	1,735.3
Loans and advances to credit institutions	10	149.9	109.8	40.4	29.0
Cash and cash equivalents at 31 December		3,315.8	1,845.1	3,206.3	1,764.3

The accompanying notes form part of these financial statements.

Notes to the Accounts

1. Accounting policies

The principal accounting policies applied consistently in the preparation of these consolidated Annual Accounts are set out below.

a) Basis of preparation

The Annual Accounts of the Group and the Society are prepared on a going concern basis (see page 54 of the Directors' Report). The Annual Accounts are prepared in accordance with International Accounting Standards in conformity with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 that are applicable and, as regards the Group financial statements, International Financial Reporting Standards (IFRS) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Annual Accounts have been prepared under the historical cost convention as modified by the application of fair value measurements required or allowed by relevant accounting standards.

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

b) Changes to significant accounting policies

i) Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In August 2020 the IASB issued *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* which the Group has early adopted in these consolidated financial statements.

The amendments allow a relief for accounting for changes to financial assets and liabilities where the modification is as a direct result of the IBOR reforms. The amendments allow firms to account for the modification to the asset or liability by applying the updated effective interest rate following a transition to a new benchmark interest rate to value the financial asset or liability, rather than continuing to discount the asset or liability at the original discount rate and recognising a gain or loss in the Income Statement as per the usual requirements under IFRS 9 for modifications of financial assets and liabilities.

During the year the Group converted its outstanding LIBOR covered bond to SONIA, following consent from noteholders. In addition, the derivative held to economically hedge the Euro denominated covered bond issuance was also amended, with consent from the counterparty, from LIBOR to SONIA. The Phase 2 amendments were applied to these transactions; the effective interest rates applied to these instruments were updated to reflect the new interest rate following transition to SONIA as the benchmark rate.

In addition, the amendments state that a hedging relationship must not be discontinued solely due to the IBOR reform. Where the Group's hedging instruments and hedged items that are in a hedging relationship have been converted from LIBOR to SONIA, the hedging relationship has not been discontinued and all hedging documentation has been updated accordingly in line with the requirements of the amendments.

Further details of how the Group is managing its transition to replacement benchmark interest rates, and the amount of LIBOR exposure that remains as at 31 December 2020, are set out in note 37.

ii) Prior period reclassification of clawback provisions

As described in note 4a), the Group's 2019 comparative amounts for 'Fees and commissions receivable' and 'Provisions for liabilities' within the Income Statement have been re-presented to show certain items on a net basis; this revised presentation more fairly reflects the substance of the arrangements. This reclassification is presentational only; there is no impact on profits and no impact on reserves.

c) Basis of consolidation

Subsidiary undertakings

Subsidiary undertakings are entities controlled by the Society. Control exists when the Society is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. In assessing control, only substantive rights (i.e. rights that can be practically exercised) are taken into account.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are recorded in the Society's Statement of Financial Position at cost, less any provision for impairment. The Group Accounts consolidate the financial statements of the Society and all its subsidiary undertakings, eliminating intra-Group transactions and balances.

1. Accounting policies *(continued)*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the separately identifiable net assets acquired. Any goodwill arising is accounted for in accordance with the Group's accounting policy for goodwill (see note 1d)). Any gain on a bargain purchase is recognised in profit or loss immediately. All transaction or acquisition costs are written off to the Income Statement as incurred.

In accordance with IFRS 3 *Business Combinations (2008)*, goodwill is accounted for only upon the acquisition of a subsidiary undertaking or as a result of a business combination. Subsequent changes in the Group's interest in a subsidiary undertaking, where control is retained, are recognised in equity. In accordance with IFRS 10 *Consolidated Financial Statements (2011)*, for business combinations which have taken place from 1 January 2010 onwards, all transactions relating to ownership interests with non-controlling interests are recorded in equity if there has been no change in control.

When the Group loses control over a subsidiary, through disposal or other changes in circumstances, it derecognises the assets and liabilities of the subsidiary and any associated goodwill, as well as any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the Income Statement.

Put options

Within a number of subsidiary undertakings where the Group has less than 100% ownership, there is an option for the non-controlling shareholders to require the Group to purchase their shares at some point in the future. In accordance with IAS 32 *Financial Instruments: Presentation*, the Group recognises the present value of these options as a financial obligation, along with recognition of further goodwill on the future purchase of remaining non-controlling interests. Under this accounting policy the Group consolidates 100% of the results of such subsidiary undertakings to reflect the 100% implicit ownership in the recording of the future purchase of the non-controlling interests' shareholdings (i.e. the put option liability).

Any changes in the valuation of a put option obligation in respect of an entity acquired after 1 January 2010 are credited or charged through the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Put options held by minority shareholders' line in the Income Statement. Put options issued prior to 1 January 2010 are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements (2003)* and IFRS 3 *Business Combinations (2004)* and any adjustment to the Group's estimation of the present value of the put option liability results in an adjustment to goodwill. Dividends paid to the non-controlling interests are charged through the 'Administrative expenses' line in the Income Statement. The change in fair value of the liability due to the accretion of the discount of the liability is expensed in the 'Interest payable and similar charges' line in the Income Statement.

Joint ventures

A joint venture is an undertaking in which the Group has joint control and has rights to the net assets of the arrangement.

The results and assets and liabilities of joint ventures are accounted for in these consolidated financial statements using the equity method of accounting. Investments in joint ventures are carried within the Statement of Financial Position at cost, as adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments.

Equity share investments

An equity share investment is an investment in the share capital of a company where the Group does not have significant influence.

Unconsolidated structured entities

The Group invests in structured entities where the principal purpose of the structured entity is to provide investors with access to specific portfolios of assets and also provide the investor liquidity through the securitising of financial assets. A structured entity is one that has been set up so that any voting rights or similar rights are not the determining factor in deciding which party controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

A structured entity often has some or all of the following characteristics:

- Restricted activities;
- A narrow and well-defined objective;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

Third party funding entities

The Group invests in structured entities through the purchase of issued mortgage backed securities, as disclosed in note 11. These structured funding entities are not consolidated into the Group Accounts because the Group does not have the ability to direct the activities of the entities in question and does not control these entities through voting rights, contractual rights, funding agreements or any other means. The Group's involvement is in relation to investment activity only.

Interests in unconsolidated structured entities

The Group's interests in unconsolidated structured entities refer to involvement that exposes the Group to variability of returns from the performance of the structured entities.

Income derived from involvement with unconsolidated structured entities

Interest income on funding provided to unconsolidated structured entities is recognised within interest receivable in the Income Statement.

Special purpose funding vehicles

The Society has transferred the beneficial interest in certain portfolios of loans and advances to customers to special purpose funding vehicles (SPVs). These SPVs enable the subsequent raising of debt, either by the SPVs or the Society, to investors who gain the security of the underlying assets as collateral. The SPVs are fully consolidated into the Group Accounts in accordance with IFRS 10.

The transfers of the beneficial interest in these loans to the SPVs are not treated as sales by the Society and are not derecognised. The Society continues to recognise these assets within its own Statement of Financial Position after the transfer because it retains substantially all the risks and rewards of these mortgage portfolios through the receipt of interest income and deferred consideration from the SPVs for the transfer of the beneficial interest in the mortgage loans. For securitisations, in the accounts of the Society, the proceeds received from the transfer of mortgage loans are accounted for as a deemed loan repayable to the SPV and are included in 'Amounts owed to other customers' within the Society's Statement of Financial Position.

Where the Society issues the debt, as is the case for the covered bonds (see note 17a)), it then lends the proceeds on back-to-back terms to Skipton Covered Bonds Limited Liability Partnership (LLP); the proceeds lent to the LLP are known as the 'term advance'. Some or all of the proceeds from the term advance are then paid to the Society from the LLP as consideration for the beneficial interest in the mortgage pool and this is accounted for as a deemed loan repayable to the LLP. In the accounts of the Society, the term advance and the deemed loan are not recognised separately as additional assets and liabilities; the difference between the term advance and the deemed loan are shown net within the Society's Statement of Financial Position as an amount owed from subsidiary undertakings. This is to avoid the 'grossing up' of the Statement of Financial Position.

To manage interest rate risk, the Society enters into interest rate swap arrangements with the LLP; the Society receives interest payments from the LLP relating to receipts on the mortgages in the pool and pays a floating rate of interest to the LLP. In accordance with IFRS 9 these swap arrangements are treated as part of the deemed loan and not separately fair valued because the relevant mortgage loans to which the interest swaps relate are not derecognised. All other derivatives relating to securitisations are treated as explained in note 1e).

To manage currency risk arising from the Euro-denominated covered bond issuances, the LLP has entered into a cross-currency swap transaction. These derivatives are designated in hedge accounting relationships against the term advance, which mirrors the conditions of the debt issued, effectively hedging the debt issued by the Society. In accordance with IFRS 9, any cost for currency basis spread priced within the cross-currency swap is permitted to be excluded from the hedge relationship and is recognised directly in reserves (the cost of hedging reserve). The Group has elected to apply this treatment for these hedge relationships. See note 1e) for further details.

Further details on the nature and amount of the beneficial interest transferred to the SPVs can be found in note 13 to these financial statements.

d) Intangible assets

Goodwill

Goodwill arising on the acquisition of Group undertakings or other businesses represents the excess of the fair value of the consideration paid over the fair value of separately identifiable net assets acquired at the date of acquisition. Goodwill arising on the acquisition of subsidiary undertakings is included in the 'Intangible assets' line within the Statement of Financial Position. Goodwill arising on the acquisition of joint ventures, associates or other businesses is included within the carrying value of the underlying investment within the Statement of Financial Position.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses, and is reviewed for impairment, at least, at each reporting date. Any impairment is recognised in the Income Statement.

1. Accounting policies *(continued)*

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of combination. The impairment test compares the carrying value of the cash generating unit, being its net assets plus associated goodwill, to its associated value in use. The value in use calculations are carried out by discounting the forecast future cash flows of the cash generating unit to present value (see note 21). Future cash flows are ordinarily based upon the corporate plans of the cash generating units for the next five years and assumed growth thereafter, generally in line with long-term growth rates. The cash flows are extrapolated for subsequent years indefinitely (or a specific number of years where circumstances dictate), to reflect the fact that cash generating units are held for the long term. The Group estimates discount rates based upon the weighted average cost of capital which is adjusted to take account of the market risks associated with each cash generating unit.

Goodwill arising on acquisitions before the transition to IFRS on 1 January 2005 has been retained at its previous UK GAAP amount and is reviewed for impairment, at least, at each reporting date, as above.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit, and then to reduce the carrying amounts of the other assets in the cash generating unit on a pro-rata basis.

Computer software, databases, brands and customer contracts

In accordance with IAS 38 *Intangible Assets*, computer software, databases, brands and customer contracts are recognised as an intangible asset if, and only if, the cost incurred leads to the creation of an identifiable asset whose cost can be measured reliably and it is probable that the asset created will generate future economic benefits which will flow to the Group. Furthermore, brands and customer contracts are only eligible to be recognised as an intangible asset when purchased externally or when acquired as part of a business combination; internally generated brands and customer contracts are not capitalised. Expenditure incurred to maintain existing levels of performance is recognised as an expense as incurred.

Intangible assets are initially recognised at cost, or at fair value when acquired as part of a business combination, and subsequently amortised from the date they are available for use using the straight line method over their estimated useful economic lives (unless deemed to have an indefinite economic life), which can be up to 10 years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets are tested for impairment at each reporting date or when there is an indication of impairment. The Group identifies impairment by comparing the future economic benefit to the Group against the carrying value of the asset. The assessment of future economic benefit includes value in use calculations to determine recoverable amounts for cash generating units.

e) Financial assets

In accordance with IFRS 9, the financial assets of the Group are each classified into one of three categories (amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL)), further details of which are provided below.

In classifying each financial asset, the Group assesses:

- The objective of the business model in which the financial asset is held; and
- Whether the contractual cash flows of the financial asset are 'solely payments of principal and interest' (SPPI).

Financial assets are reclassified when, and only when, the Group changes its business model for managing the assets.

Business model assessment

The Group's business model assessment is made at a portfolio level as this best reflects the way the business is managed and how information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, matching the duration of the financial assets to the duration of any related liabilities or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Solely Payment of Principal and Interest (SPPI) assessment

For the purposes of the Group's SPPI assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Contingent events that would change the amount or timing of cash flows;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

As a result of the assessments outlined above, the financial assets of the Group have been classified as follows:

At amortised cost

A financial asset is measured at amortised cost only if it meets both of the following conditions and is not designated as at fair value through profit or loss (FVTPL):

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

The following have been assessed by the Group to be in a 'held to collect' business model and to have cash flows that pass the SPPI test:

- Loans and advances to customers (except for a small number of loans held at FVTPL)
- Cash balances
- Loans and advances to credit institutions
- Trade receivables
- Loans to subsidiary undertakings (in the Society's Statement of Financial Position)

The Group's financial assets measured at amortised cost are initially recognised at fair value less any directly attributable transaction costs. The assets are subsequently measured at amortised cost using the effective interest method, less impairment loss allowances. The effective interest method calculates an interest rate which exactly discounts the forecast cash flows of an asset over its expected life back to its carrying value. For financial assets that are not credit-impaired (see note 1g)), interest revenue is calculated by applying the effective interest rate to the gross carrying amount of the asset. For financial assets that are credit-impaired, interest revenue is calculated by applying the effective interest rate to the amortised cost of the asset.

In accordance with the effective interest method, directly attributable upfront costs and fees such as cashbacks, mortgage premia paid or discounts received on acquisition of mortgage books, lending charges paid by customers, procuration fees and completion fees are deferred and recognised over the expected life of mortgage assets. Historical and forecast mortgage redemption data and management judgement of future performance are used to estimate the expected lives of mortgage assets.

A change to management's estimate of expected mortgage lives results in an immediate adjustment to the carrying amount of the mortgage asset (discounted at its effective interest rate) at the point this change is made, which recalculates the carrying value to account for the revised assumptions.

If a change is made to the rate that fixed rate mortgage customers will revert to at the end of the product's fixed term (i.e. the Mortgage Variable Rate (MVR) or Standard Variable Rate (SVR)), and it can be demonstrated that this change is driven by changes in market rates, this is accounted for as a change to the effective interest rate which means that the impact of the change is spread over the remaining life of the mortgage asset. Otherwise, any change in MVR or SVR is accounted for as described in the paragraph above.

Included in loans and advances to customers of the Society are balances which have been used to secure funding issued by the Group's special purpose funding vehicles which are consolidated into the Group Accounts, further details of which are included in note 17a). The beneficial interest in the underlying loans has been transferred to these entities. The loans are retained within the Society's Statement of Financial Position however as the Society retains substantially all the risks and rewards relating to the loans.

Notes to the Accounts *(continued)*

1. Accounting policies *(continued)*

In accordance with IFRS 9, an impairment loss allowance is determined for financial assets at amortised cost in relation to expected credit losses (ECLs; see note 1g) for details on measurement of ECLs). The movement in the impairment loss allowance recognised during the period is charged or credited to the Income Statement.

At fair value through other comprehensive income (FVOCI)

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

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

The majority of the Group's debt securities, which are held to manage liquidity requirements, have been assessed by the Group to be in a 'held to collect and sell' business model and to have cash flows that pass the SPPI test.

Financial assets held at FVOCI are initially recognised at fair value plus directly attributable transaction costs, with subsequent changes in fair value recognised in equity. The majority of fair values of financial assets held at FVOCI are based on quoted prices, which represent the bid price. Where debt securities held at FVOCI do not have quoted prices available, the fair value is based on the present value of discounted cashflows using market observable inputs.

In accordance with IFRS 9, an impairment loss allowance is determined for debt securities measured at FVOCI in relation to ECLs. For debt instruments measured at FVOCI, the impairment loss allowance is not deducted from the carrying amount of the asset; instead the loss allowance is recognised through other comprehensive income. The movement in the impairment loss allowance recognised during the period is charged or credited to the Income Statement.

Interest income is recognised in the Income Statement on an effective interest basis. When the debt instruments are derecognised, the accumulated gains or losses within equity are reclassified to the Income Statement.

The premia and discounts arising on the purchase of these assets are amortised over the period to the maturity date of the security on an effective interest basis. Any amounts amortised are charged or credited to the Income Statement in the relevant financial periods.

At fair value through profit or loss (FVTPL)

All financial assets which are not classified as either amortised cost or FVOCI, as described above, are measured at FVTPL. This includes all derivative financial assets. On initial recognition the Group may irrevocably designate as FVTPL a financial asset that otherwise meets the requirements to be measured at either amortised cost or FVOCI, if so doing eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Loans and advances to customers

A small number of loans are held at FVTPL because they contain contractual cash flows which do not pass the SPPI test. These loans consist mainly of certain lifetime mortgages. The fair value of these loans is determined by discounting future expected cash flows. Where the portfolio is so small that a probabilistic methodology to estimate future cash flows is not appropriate, management assumes that voluntary prepayments will be 100% in year one.

Equity release portfolio

The Group holds an equity release portfolio. The mortgage products within this portfolio provide the customer with a 'no negative equity guarantee' (NNEG), which is an embedded derivative. Under IFRS 9, the equity release portfolio and the NNEG are assessed together as a hybrid financial instrument. The Group assessed the characteristics of the equity release cash flows and concluded that the contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest. As a result, the equity release portfolio is classified as FVTPL.

The existence of the NNEG means that the Group's maximum return on redemption of these loans is limited to the value of the customer's property at that time. The Group's exposure to potential losses as a result of the NNEG is limited in part by a guarantee provided to the Group by a third party for the longevity element of this risk. Due to the structured nature of the portfolio there is no single industry pricing methodology and assumptions for valuing these products differ by institution. Further complexity arises on a portion of the portfolio due to the customer rate being linked to the Retail Price Index (RPI).

A stochastic model was chosen and devised internally for the purpose of valuing this portfolio. The model uses inputs including mortality rates, voluntary prepayment rates, estimates of future RPI and a House Price Index (HPI) to predict future cash flows on the portfolio. These are then discounted back to present value using a discount curve based on a Sterling Overnight Index Average (SONIA) curve plus an illiquidity spread. The illiquidity spread reflects the fact that no repayments are made by the customer until the product redeems which may be many years into the future.

Where possible the inputs are market-driven or, where no market-driven data is available, based on management judgement that is informed by observable data wherever possible. Due to the high level of variability within these inputs, the model also runs several thousand scenarios for both the RPI and HPI inputs. The Group has robust control procedures in place regarding all the inputs to the valuation model.

As this valuation technique uses one or more significant inputs that are not based on observable market data, it is classed as a Level 3 valuation technique. For further details on the different levels of the fair value hierarchy, see note 41b). The impact of applying reasonably possible alternative assumptions of certain inputs into the valuation of the portfolio is found in note 1u).

Interest income on the equity release portfolio is recognised in the Income Statement on an effective interest basis. Fair value gains or losses on the portfolio are recognised within the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement. Realised losses recognised on redemption of loans within the portfolio are recognised in the 'Realised losses on equity release portfolio' line in the Income Statement.

Derivative financial instruments

The Group's derivative financial instruments, which are held solely for hedging purposes, are measured and held at fair value within the Statement of Financial Position. The Group has elected to adopt the hedge accounting requirements of IFRS 9 for all hedge relationships covered by those requirements. As permitted under IFRS 9, the Group continues to apply the requirements of IAS 39 for derivatives designated in a portfolio fair value hedge. For all other derivatives designated in a hedging relationship, the Group applies the requirements of IFRS 9.

The Group uses derivative financial instruments to hedge its exposure to market risks (for example, interest rate risk) arising from operational, financing and investment activities. In accordance with its treasury policy and the Building Societies Act 1986, the Group does not hold or issue derivative financial instruments for trading purposes. In line with accounting standards, the changes in fair value of derivatives used to hedge particular risks can either be offset in the Income Statement or deferred to equity.

There are two types of hedge accounting strategies that the Group undertakes and these are summarised below:

- Fair value hedges - Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability (or portion of a recognised asset or liability), any gain or loss on the hedging instrument is recognised in the Income Statement. To the extent that there is an effective hedge relationship, the associated hedged items (for example, mortgage assets) are stated at fair value in respect of the hedged risk, with any gain or loss also recognised in the Income Statement. As a result, fair value movements in the hedging instrument and in the hedged items offset each other and reduce income statement volatility. Any residual fair value hedge ineffectiveness is also recognised in the Income Statement. In order to calculate the fair value in respect of hedged risk in relation to mortgage assets and some retail savings, the Group applies estimated prepayment assumptions using historical analysis. For fair value hedge relationships where ineffectiveness would arise as a result of foreign currency basis spread, movements are recognised in other comprehensive income (OCI) through the cost of hedging reserve (see below) in accordance with IFRS 9.
- Cash flow hedges - Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability (or portion of a recognised asset or liability) or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in OCI and deferred in a separate reserve. The effective portion recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the Income Statement immediately.

In accordance with IFRS 9, where foreign currency basis spread arises in fair value hedge relationships, this is separated and excluded from the designation of a financial instrument as the hedging instrument; movements relating to the foreign currency basis spread are recognised in OCI through the cost of hedging reserve. The Group calculates the value of the foreign currency basis spread by comparing the change in value of the actual foreign currency hedging instrument (excluding fees not relating to the hedge relationship) and the value of a hypothetical instrument derived and valued using market data excluding foreign currency basis spread.

Hedge accounting relationships within the scope of IFRS 9 require hedge accounting to only be discontinued when the qualifying criteria are no longer met. Additionally, if the hedge no longer meets the qualifying criteria due to a mismatch in the hedge ratio, the relationship must be rebalanced if possible, rather than discontinuing hedge accounting.

Fair values are determined by the three tier valuation hierarchy as defined in IFRS 13 *Fair Value Measurement* and Amendments to IFRS 7 *Financial Instruments: Disclosures* and as described in note 41b). All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

In valuing derivatives used to hedge our mortgage and savings portfolios, the Group has not valued them as one net pool for market risk and credit risk management purposes as permitted under IFRS 13, but has valued each derivative individually.

1. Accounting policies *(continued)*

Interest on derivatives is included within interest receivable where the derivative economically hedges an asset and within interest expense where the derivative economically hedges a liability, to align the recognition with its economic purpose.

Fair value gains and losses on derivatives and hedged items that are posted to the Income Statement are recognised in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Hedging instruments and hedged items' line in the Income Statement, with the exception of the derivatives hedging the Group's equity release portfolio, where changes in fair value are recognised in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Other derivatives' line in the Income Statement.

To the extent that the hedge is effective, unrealised fair value gains and losses on cash flow hedging derivatives are recognised in the cash flow hedging reserve.

Where the Group enters into a cross-currency swap, as is the case for the issuance of Euro-denominated covered bonds (see page 121), the Group recognises the movement in the fair value of these derivatives as follows:

- Foreign exchange movements are recognised in the 'Interest payable and similar charges' line in the Income Statement;
- Movements due to interest rate risk are recognised in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Hedging instruments and hedged items' line in the Income Statement; and
- Movements due to foreign currency basis spread are recognised directly in the cost of hedging reserve as permitted by IFRS 9.

Contingent consideration

The Group holds a contingent consideration asset in relation to the disposal of a previous subsidiary undertaking. The Group assessed the characteristics of the contingent consideration cash flows based on the facts and circumstances that existed at initial recognition of the asset. As the contractual cash flows were dependent on the future performance of the counterparty, the Group concluded that the contractual terms did not give rise to cash flows on specified dates that are solely payments of principal and interest. The contingent consideration asset is therefore classified as FVTPL. The fair value of this asset is determined by calculating the present value of the expected future cash flows, discounted at an appropriate rate.

Equity share investments

Under IFRS 9 equity share investments are measured at FVTPL, except where an election is made at initial recognition to irrevocably designate an equity share investment that is not held for trading as FVOCI. The FVOCI election can be made on an instrument-by-instrument basis; the Group has made no such elections in respect of its existing equity share investments. The Group's equity share investments are therefore held at FVTPL. They are initially recognised at fair value, with subsequent changes in fair value being recognised in the Income Statement. Transaction costs are expensed to the Income Statement.

Share warrants

Within other assets of the Group are share warrants held in an unlisted entity. Other assets also include amounts recognised, where appropriate, for additional share warrants yet to be received. The Group assessed the characteristics of the related cash flows and concluded that the contractual terms fail the SPPI test; these assets are therefore classified by the Group as FVTPL. The fair value is determined by reference to information included in an independent third party valuation.

Debt securities

The Society holds in its Statement of Financial Position residential mortgage backed securities that were issued in previous periods by the Group's securitisation vehicles. Certain tranches of these securities are held at FVTPL because they fail the SPPI test due to an elevated level of credit risk relative to other tranches.

f) Financial liabilities

In accordance with IFRS 9, the financial liabilities of the Group are classified as measured at either amortised cost or FVTPL. A financial liability is classified as at FVTPL if it meets the definition of 'held for trading', which includes derivatives (except for derivatives that are financial guarantee contracts or which are designated and effective hedging instruments). On initial recognition the Group may irrevocably designate as FVTPL a financial liability that otherwise meets the requirements to be measured at amortised cost if so doing results in more relevant information; this can be either because it eliminates or significantly reduces an accounting mismatch that would otherwise arise, or because a group of financial liabilities is managed and evaluated on a fair value basis.

Financial liabilities at FVTPL are measured at fair value. Gains and losses, including any interest expense, are recognised in profit or loss unless the financial liability is one that was designated as FVTPL, in which case fair value changes are presented as follows:

- The amount of fair value change that is attributable to changes in the credit risk of the liability is presented in other comprehensive income (except where this would create or enlarge an accounting mismatch in profit or loss); and
- The remaining amount of fair value change is presented in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with any interest expense being recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The financial liabilities of the Group have been classified as set out below.

Borrowings, comprising shares, deposits and debt securities in issue, and subordinated liabilities are recognised initially at fair value, being the amounts deposited or proceeds issued, net of premia, discounts and transaction costs incurred. Borrowings and subordinated liabilities are subsequently measured at amortised cost using the effective interest method. Derivative liabilities and the fair value of the put option obligation are measured at fair value through profit or loss.

Permanent Interest Bearing Shares (PIBS) with no fixed maturity are classified as financial liabilities as opposed to equity instruments since their terms do not permit the Directors discretion to avoid the payment of interest, as the only instance where interest could not be paid on these instruments would be where capital levels are insufficient to allow such a payment to be made. PIBS are carried at amortised cost.

Where financial liabilities are hedged, the Group elects to use fair value hedging for those hedged financial liabilities. This treatment has been adopted to reduce the volatility that would otherwise exist given that the interest rate risk element of the underlying liabilities is economically hedged by derivatives which are held at fair value through profit or loss.

The deemed loan to the Society from the special purpose vehicle Darrowby No. 4 plc has been voluntarily designated as FVTPL under IFRS 9. This designation, which is irrevocable, was on the grounds that doing so is intended to reduce an accounting mismatch that could arise had they been held at amortised cost, given that the associated derivatives held to hedge fair value movements in the deemed loans are also held at FVTPL. Where applicable, changes in fair value of the deemed loans that are due to changes in credit risk of the Society are recognised in other comprehensive income. At 31 December 2020 the Society has considered the effect of its own credit risk and considers this to be not material.

The Group has elected not to voluntarily designate the deemed loan to the Society from Darrowby No. 5 plc as FVTPL and therefore this loan falls under the criteria to be accounted for at amortised cost under IFRS 9. The election not to voluntarily designate the deemed loan as FVTPL was made as management believe that holding the deemed loan at amortised cost more accurately reflects the economic value of the deemed loan, which is based on the value of the pool of mortgages that are used as the collateral for the securitisation transaction, and which are also held at amortised cost.

g) Impairment of financial assets

Under IFRS 9, impairment of financial assets is assessed using a forward-looking expected credit loss (ECL) model. This model applies to financial assets measured at either amortised cost or FVOCI (except any equity share investments held as such, of which the Group currently has none). The Group recognises impairment loss allowances for ECLs on the following financial assets that are not measured at FVTPL:

- Loans and advances to customers;
- Loan commitments;
- Trade receivables;
- Treasury assets, which comprise debt securities held at FVOCI, cash in hand and balances with the Bank of England and loans and advances to credit institutions; and
- Loans to subsidiary undertakings (within the Society's Statement of Financial Position) and firm commitments made in relation to such loans.

The Group recognises an impairment loss allowance for loan commitments where a firm offer has been made to the customer.

Measurement of ECLs

ECLs are an unbiased probability-weighted estimate of the present value of credit losses, taking account of forward-looking information that includes a range of possible economic outcomes. ECLs are measured as the difference between contractual cash flows and expected cash flows, discounted at the asset's effective interest rate.

When measuring ECLs, the Group assesses the probability of default, the expected exposure at the time of default, and the loss that is expected to arise on default. The maximum period considered is the maximum contractual period over which the Group is exposed to credit risk. The probabilities of default are adjusted to take account of expected customer redemptions. The Group typically assesses ECLs on an individual asset basis.

1. Accounting policies *(continued)*

IFRS 9 requires an impairment loss allowance to be recognised at an amount equal to either 12-month ECLs ('stage 1' ECLs) or lifetime ECLs. Lifetime ECLs are ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group measures impairment loss allowances at an amount equal to lifetime ECLs, except for the following which are measured as 12-month ECLs:

- treasury assets that are determined to have low credit risk at the reporting date. The Group considers a treasury asset to have low credit risk when its credit rating is equivalent to the globally understood definition of 'investment grade'; and
- other financial assets on which credit risk has not increased significantly since their initial recognition (except trade receivables, for which the Group will always recognise lifetime ECLs in accordance with the simplified approach in IFRS 9).

Lifetime ECLs are required where the credit risk on a financial asset has increased significantly since initial recognition (except for investment grade treasury assets, as noted above).

For loan commitments, 12-month ECLs are measured by the Group for the percentage of such commitments expected to convert from an outstanding customer offer into a completed customer loan. The conversion factors applied are based on actual trends observed for the Group and are aligned with the Group's existing internal ratings based (IRB) approach for regulatory capital purposes.

Financial assets that are subject to the impairment requirements of IFRS 9 are described according to their ECL 'stage' as follows:

- 'Stage 1' - Assets for which a 12-month ECL is recognised;
- 'Stage 2' - Assets for which a lifetime ECL is recognised where there has been a 'significant increase in credit risk' but which are not credit-impaired;
- 'Stage 3' - Assets for which a lifetime ECL is recognised and which are 'credit-impaired'.

The Group's definitions of 'significant increase in credit risk' and 'credit-impaired' are detailed below.

IFRS 9 includes specific requirements for financial assets that are credit-impaired when initially purchased or originated (POCI assets). For POCI assets, an entity recognises only the cumulative change in lifetime ECLs since initial recognition, discounted by the credit-adjusted effective interest rate. For POCI assets, interest revenue is accounted for using the credit-adjusted effective interest rate. The Group had no POCI assets during the current or prior period.

The assessment of impairment requires a number of estimates and assumptions, details of which are included in note 1u).

Forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of ECLs. The time period over which the Group assesses forward-looking information is the maximum period over which the Group is exposed to credit risk. The Group determines a range of representative scenarios for the possible future direction of key economic variables; this includes forecasts of quarterly movements in these variables for years one to five, followed by phased transition assumptions for years six to ten, arriving at a view of long-run averages from year eleven onwards. The scenarios are derived by reference to external information where this is publicly available and appropriate, together with internally generated views. A probability-weighting, based on management judgement, is assigned to each scenario.

The Group's 'central' scenario represents a view of the most likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The selection of alternative scenarios is intended to model the non-linear impact of economic factors on ECLs for the Group's financial assets.

For UK mortgage impairment (including Skipton International's UK buy-to-let portfolio), the Group typically considers three scenarios; this includes the central scenario, together with an upside scenario (more optimistic than the central scenario) and a downside scenario (more pessimistic than the central scenario). For non-UK mortgage impairment and for treasury asset impairment, the Group typically considers the central scenario and a downside scenario. Further details are included in note 1u).

Significant increase in credit risk

The Group monitors all financial assets and loan commitments that are subject to IFRS 9's impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition of the asset. IFRS 9 includes a rebuttable presumption that credit risk has significantly increased when contractual payments are more than 30 days past due.

The Group uses internal credit risk metrics that reflect its assessment of the probability of default (PD) of individual counterparties. The credit risk of each exposure is assessed at initial recognition, based on the available information about the counterparty. For loans and advances to customers, the credit risk at initial recognition is typically assessed by reference to information as at the loan drawdown date; this information is not always held by the Group for loans drawn down prior to 2007, in which case the Group uses the earliest available information as a proxy (which is typically January 2007 data for pre-2007 loans that were originated by the Society). All exposures are monitored and the credit risk assessment is updated to reflect current information on an ongoing basis.

For residential mortgages, the Group considers that credit risk has significantly increased if one or more of the following criteria are met:

- the remaining lifetime PD as at the reporting date, as compared to the remaining lifetime PD for this point in time that was estimated on initial recognition of the asset, exceeds pre-determined thresholds which are set by the Group and reviewed periodically. The thresholds applied will depend on the credit quality at initial recognition, with a lower percentage change in PD being required for higher risk accounts. The use of an absolute lifetime PD hurdle for residential mortgages is also applied where lifetime PD goes above 25%. Further details are included in note 1u);
- the account is in a current state of forbearance (see page 130);
- the account is in arrears (no minimum); or
- the account term has expired.

For commercial mortgages, the Group considers that credit risk has significantly increased when an account is placed on a watchlist or is in arrears of at least 50% of the contractual monthly payment.

For residential and commercial mortgages, the above criteria for assessing significant increase in credit risk ensures compliance with IFRS 9's backstop of more than 30 days past due.

A number of payment deferrals were granted in the year in response to COVID-19, where in accordance with regulatory guidance, these mortgage payment deferrals are not automatically recorded as forbearance cases and do not automatically have an impact on the reported staging of balances except where credit risk is judged to have significantly increased since the loan was initially recognised in line with the criteria listed above. A post model adjustment has been recognised for residential mortgages to reflect the risks associated with these payment deferrals that have not yet been observed through underlying data or through migration to stage 2. Further details can be found in note 1u).

For debt factoring advances, the Group considers that credit risk has significantly increased when an account is placed on a watchlist.

For treasury assets, the Group applies criteria that consider the relative increase in the asset's lifetime PD, by reference to external credit ratings where available. Notwithstanding these criteria, the Group considers that credit risk has not increased significantly for any treasury asset that is determined to have 'low' credit risk at the reporting date. The Group considers a treasury asset to have low credit risk when its credit rating is equivalent to the globally understood definition of 'investment grade'.

The Society's Statement of Financial Position includes loans to subsidiary undertakings that are repayable on demand. For these loans, the Society considers that credit risk has significantly increased when the subsidiary undertaking no longer has sufficient liquid assets to repay the loan if demanded at the reporting date or where other factors indicate that, in the judgement of management, a significant increase in credit risk has occurred; this assessment takes into account the specific characteristics of each subsidiary loan and the subsidiary's own business.

Definition of default

For residential mortgages, the Group's definition of default is aligned with its existing IRB definition of default for regulatory capital purposes. For IFRS 9 accounting purposes, stage 3 loans which no longer meet any of the default criteria are subject to a six month minimum probation period before they become eligible for transfer out of stage 3. Default occurs when one or more of the following criteria are met:

- The borrower is 90 days or more past due on their contractual payments.
- The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. The instances are:
  - the loan is in repossession;
  - the borrower has filed for bankruptcy;
  - at least two payments are in arrears and forbearance activity has been applied; or
  - other evidence is available that the customer is not going to be able to meet their loan commitments.

1. Accounting policies *(continued)*

For commercial mortgages, stage 3 loans which no longer meet any of the default criteria are subject to a three month minimum probation period before they become eligible for transfer out of stage 3. Default occurs when one or more of the following criteria are met:

- The borrower is 90 days or more past due on their contractual payments;
- The loan is in repossession;
- A receiver has been appointed;
- The mortgage term has expired; or
- Other evidence is available that the customer is not going to be able to meet their loan commitments.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets (other than those held at FVTPL) are credit-impaired. For those assets that have become credit-impaired, interest revenue is subsequently calculated by applying the effective interest rate to the amortised cost of the asset.

A financial asset is 'credit-impaired' when one or more events have occurred that have a detrimental impact on the estimated future cash flows of the financial asset. Evidence that a financial asset is credit-impaired includes the following:

- a breach of contract such as a default; or
- the disappearance of an active market for a security because of financial difficulties.

For residential and commercial mortgages, the Group considers that a loan that meets the definition of default is credit-impaired. For loans to no longer be considered credit-impaired, consistently good repayments must be demonstrated over a period of time, being not less than six months for residential loans and not less than three months for commercial loans.

For debt factoring advances, the Group considers that an account is credit-impaired when there is no reasonable expectation of recovery due, typically, to financial difficulties of the customer.

To assess whether sovereign and corporate debt instruments are credit-impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

To assess whether trade receivables are credit-impaired, the Group considers factors such as the ageing profile, historical default rates and specific case knowledge.

Forbearance

In certain circumstances, the Group renegotiates loans to customers in financial difficulties (referred to as forbearance activities) to maximise collection opportunities and minimise the risk of default whilst ensuring the best outcome for the customer. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the customer is currently in default on their loan or if there is a high risk of default, there is evidence that the customer made all reasonable efforts to pay under the original contractual terms and the customer is expected to be able to meet the revised terms.

The revised terms typically include extending the maturity of the loan, changing the timing of interest payments or amending the terms of loan covenants. Both retail and commercial loans are subject to the forbearance policy. The Retail Credit Committee regularly reviews reports on forbearance activities.

A number of payment deferrals were granted in the year in response to COVID-19, offering an initial three-month mortgage payment deferral, subsequently extended upon request for up to six months, with interest continuing to accrue on these loans. In accordance with regulatory guidance, these mortgage payment deferrals are not automatically recorded as forbearance cases and do not automatically have an impact on the reported staging of balances except where credit risk is judged to have significantly increased since the loan was initially recognised.

For the purposes of disclosures in these financial statements, loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider.

Write-offs

A financial asset is written off (in full or in part) when the Group judges there to be no reasonable expectation that the asset can be recovered (in full or in part). This is typically the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is performed at the individual asset level. The related impairment loss allowance is also written off once all the necessary procedures have been completed and the loss amount has crystallised. Financial assets that are written off could still be subject to enforcement activities and subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Income Statement.

h) Financial assets and liabilities – modification, derecognition and offsetting

Modification

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new cash flows are substantially different to the original cash flows.

If the cash flows are substantially different, then the contractual rights to cash flows from the original loan are deemed to have expired. In this case, the original loan is derecognised (as discussed below) and a new loan is recognised initially at fair value. Where impairment is held against the original loan (i.e. the loan is not held at FVTPL), the original loan is derecognised from its existing impairment stage (which may be stage 1, stage 2 or stage 3) and the new loan is initially recognised in stage 1 with its new origination date. Thereafter, the assessment of whether there has been a significant increase in credit risk is made by reference to changes in credit risk for the new loan starting from the new origination date. Examples of loan modification events for which the Group typically applies derecognition include an existing borrower switching to a new mortgage product and an existing borrower porting their loan to a new property.

If the cash flows of a modified loan carried at amortised cost are not substantially different, then the modification does not result in derecognition of the loan. In this case, the Group recalculates the gross carrying amount of the loan and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the Income Statement. If such a modification is carried out because of financial difficulties of the borrower, the gain or loss is presented together with impairment losses. In other cases, it is presented within interest income. The Group assesses whether there has been a significant increase in credit risk by comparing the remaining lifetime PD as at the reporting date (based on the modified contractual terms) to the remaining lifetime PD for this point in time that was estimated at initial recognition (based on the original, unmodified contractual terms). An example of a loan modification event for which the Group typically does not apply derecognition is the application of forbearance strategies.

Derecognition

The Group derecognises a financial asset when the contractual rights to receive the asset's cash flows expire (including deemed expiry arising from a modification with substantially different terms as discussed above), or when the contractual rights have been transferred and either i) the Group transfers substantially all the risks and rewards of ownership, or ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of i) the consideration received (including any new asset obtained less any new liability assumed) and ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Society has not derecognised the loans transferred to the Group's special purpose funding vehicles because substantially all the risks and rewards are retained by the Society as detailed in note 1c).

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

Offsetting

Financial assets and financial liabilities are offset and the net amount presented within the Statement of Financial Position when, and only when, the Group has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS. With the exception of bank balances included within 'Loans and advances to credit institutions', there are no other financial assets or liabilities which are offset within the Statement of Financial Position and all other financial assets and liabilities are presented on a gross basis. The Group has a cash-pooling arrangement in place with one of its banking counterparties between its subsidiaries and the Society. At the reporting date, the Group has a legally enforceable right to offset balances in these bank accounts and so, in accordance with IAS 32, the net presentation more appropriately reflects the substance of the arrangement. At 31 December 2020 the Group has offset £1.5m (31 December 2019: £nil) of balances against 'Loans and advances to credit institutions' that would otherwise be shown within 'Amounts owed to credit institutions' within the Statement of Financial Position.

i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the closing rate of exchange. Exchange differences are taken to the Income Statement as they arise.

On consolidation, the income statements of subsidiary undertakings with non-Sterling functional currencies are translated into Sterling (the Group's presentational currency) at the monthly average rates for the period and their assets and liabilities are translated into Sterling at the closing rate of exchange at the reporting date. Any exchange differences arising on the translation of net assets of overseas subsidiary undertakings are taken to reserves as a separate component of equity and disclosed in the Statement of Comprehensive Income, except to the extent that the translation difference is allocated to the non-controlling interests.

1. Accounting policies *(continued)*

Where a foreign operation is disposed of in its entirety, or partially disposed of such that control is lost, the cumulative amount of translation differences recognised as a separate component of equity is reclassified to the Income Statement as part of the gain or loss on disposal.

j) Government grants

Government grants and other assistance are recognised in the Income Statement over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate. A government grant that becomes receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Group entity with no future related costs, is recognised in the Income Statement in the period in which it becomes receivable.

Government grants are recognised when the Group has reasonable assurance that it will comply with the conditions attached to the grant and there is a reasonable assurance that the grant will be received.

k) Taxation

The income tax expense or credit on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity and disclosed in the Statement of Comprehensive Income.

Current tax is the expected tax payable or receivable on the taxable income or expenditure for the year, using tax rates in force during the period, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position asset and liability method, which recognises temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor income and expenditure, and differences relating to investments in subsidiary undertakings, associates and joint arrangements to the extent that it is probable they will not reverse in the foreseeable future. Deferred tax 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 reporting date.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at least annually and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and deferred tax liabilities are offset only where certain criteria are met.

l) Leases

Definition of a lease

Under IFRS 16 a contract is a lease, or contains a lease, if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the following practical expedient permitted by the standard:

- For the purposes of identifying leases held by the Group, the Group elected to retain the assessments previously made by the Group under IAS 17 and IFRIC 4; IFRS 16 was therefore initially applied at 1 January 2019 only to those contracts that were previously identified as leases under IAS 17 and IFRIC 4. Contracts existing at 1 January 2019 that were not previously identified as leases under IAS 17 and IFRIC 4 were not reassessed. The new IFRS 16 definition of a lease is therefore applied by the Group only to contracts entered into, or changed, on or after 1 January 2019.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset becomes available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date, less any lease incentives received. Where an obligation is incurred by the Group, the cost also includes an estimate of costs for dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

If the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use asset is depreciated over the useful life of the underlying asset. Otherwise, the right-of-use asset is depreciated on a straight-line basis over the shorter of the estimated useful life of the right-of-use asset and the lease term. In accordance with IAS 36 *Impairment of Assets*, right-of-use assets are regularly reviewed, at least annually, for indications of impairment. Any impairment identified is charged to the Income Statement.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments for this purpose include fixed payments (including in-substance fixed payments but deducting lease incentives receivable), variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option where reasonably certain to be exercised by the Group, and payments of penalties for terminating a lease (if the lease term reflects the Group exercising the option to terminate). Variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

The present value of lease payments is determined using an appropriate discount rate. The Group uses the interest rate implicit in the lease where this can be readily determined; otherwise (and generally), the Group uses its incremental borrowing rate at the lease commencement date.

After the commencement date, the lease liability is increased to reflect the accretion of interest and is reduced for lease payments made. In addition, the lease liability is remeasured if there is a modification, a change in lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Exempt leases

The Group has elected to take the recognition exemption for short-term leases, except for property leases that are short-term by virtue of being under renegotiation. Short-term leases are those which, at the commencement date, have a lease term of not more than twelve months and do not contain a purchase option.

Except for leases of motor vehicles, the Group has elected to take the recognition exemption for leases for which the underlying asset is of low value when new. The Group considers an underlying asset to be of low value where its value, when new, is not more than approximately £4,000.

For exempt leases, the Group expenses lease rentals to the Income Statement on a straight-line basis over the lease term.

Other practical expedients

Certain of the Group's lease contracts contain non-lease components (e.g. service charges). Except for property leases, the Group has elected not to separate out the non-lease components and therefore to account for these as part of the lease component. For property leases, the Group accounts separately for lease components and non-lease components.

COVID-19 related rent concessions

During 2020, the Group has adopted the amendments to IFRS 16 for *COVID-19 Related Rent Concessions*, with short term rent concessions in relation to COVID-19 being recognised directly in the Income Statement, and not resulting in a recalculation of the right-of-use asset or lease liability within the Statement of Financial Position. This amendment has had no material impact on these financial statements.

m) Employee benefits

Defined contribution pension arrangements

Obligations for contributions to defined contribution pension arrangements are recognised as an expense in the Income Statement as incurred.

Defined benefit schemes

The Group operates three defined benefit pension schemes (one of which is a hybrid scheme). The schemes are administered by a corporate Trustee, the funds of which are separate from those of the Group.

Included within the Statement of Financial Position are the Group's net obligations in respect of the defined benefit pension schemes. The obligation of each scheme is calculated separately by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods.

That benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is based on the average yield available from AA-rated corporate bonds of appropriate duration. The calculation is performed by a qualified actuary using the projected unit credit method.

Net interest income on the defined benefit obligations comprises interest income on plan assets, less the interest cost on the scheme liabilities, and interest on the effect of the asset ceiling. Net interest income relating to the defined benefit pension schemes is recognised in 'Other income' in the Income Statement.

1. Accounting policies *(continued)*

Remeasurements of the retirement benefit obligations, which comprise actuarial gains or losses (arising from the differences between previous actuarial assumptions and actual experience), the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised in the Statement of Comprehensive Income.

Service costs are recognised immediately in the Income Statement. When a plan is curtailed, the resulting gain or loss on settlement is also recognised immediately in the Income Statement. The Group recognises gains or losses on the settlement of a retirement benefit obligation when the settlement occurs.

Contributions are transferred to the schemes on a regular basis to secure the benefits provided under the rules of the schemes. Pension contributions are assessed in accordance with the advice of a professionally-qualified actuary.

n) Fees and commissions

The Group recognises fees and commissions receivable in accordance with IFRS 15 *Revenue from Contracts with Customers*. Revenue is measured based on the consideration specified in a contract with a customer.

Financial advice fees and commissions

Fees and commissions receivable from financial advice are recognised when both the customer has formally accepted and all of the advice within their case has been contracted in the financial markets. A provision for future clawbacks is made for repayment in the event of early termination by the customer.

Estate agency services

Estate agency commissions earned on the sales of properties and land and auction income are recognised on the date contracts are exchanged unconditionally. Property management income is recognised when the cash is received, which reflects the point at which income is earned and contractual obligations have been fulfilled. Insurance commission is recognised upon fulfilment of contractual obligations with a provision for future clawback repayment in the event of early termination by the customer. Survey and valuation revenue is recognised on the date the survey or valuation report is completed, which reflects the point at which all contractual obligations have been fulfilled; revenue and costs are recognised gross of sub-contracted panel fees. Mortgage origination income is recognised on completion of the mortgage transaction. Asset management commission is recognised on exchange of contracts and additional services are recognised upon completion of work, both of which reflect the point at which all performance obligations are considered to have been fulfilled.

Software products and services

Revenue from software licence fees is recognised when access to the software has been made available to the customer to enable implementation. Revenue from implementation and consulting services is recognised in proportion to the stage of completion, typically in accordance with the achievement of contract milestones or days expended. Customer support revenue and systems management revenue are recognised on a straight-line basis over the period of the service rendered. The amount of revenue recognised is adjusted for expected returns.

Fees and commissions payable are generally recognised on an accruals basis as services are received.

o) Property, plant and equipment

Property, plant and equipment is measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of those items.

Depreciation is calculated to write down the cost of items of property, plant and equipment to their estimated residual values over their estimated useful lives as set out below on a straight line basis unless stated otherwise.

Freehold and long leasehold buildings	50 to 100 years
Special purpose freehold head office facilities	40 years
Refurbishment of freehold and long leasehold buildings	five to 10 years
Short leasehold buildings	period of lease
Equipment, fixtures and fittings	two to 10 years
Motor vehicles	25% reducing balance

Land is not depreciated. Major items of property, plant and equipment purchased are depreciated on a monthly basis from the date the asset is available for utilisation. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted where appropriate. In accordance with IAS 36 *Impairment of Assets*, all items of property, plant and equipment are regularly reviewed, at least annually, for indications of impairment. Any impairment identified is charged to the Income Statement.

Subsequent expenditure on items of property, plant and equipment is capitalised only if the subsequent expenditure increases the item's revenue generating capabilities and it is probable that future economic benefits associated with the expenditure will flow to the Group.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in 'Other income' in the Income Statement.

p) Segmental reporting

In accordance with IFRS 8 *Operating Segments*, each operating segment is determined according to distinguishable operating components of the Group for which discrete financial information is available. The chief operating decision maker, the Board, regularly reviews internal reporting for each segment to appropriately allocate resources and assess their performance. The Group does not aggregate any of its operating segments for the purposes of financial reporting.

Information regarding the results of each reportable segment is included in note 42.

q) Cash and cash equivalents

For the purposes of the Statements of Cash Flows, cash comprises cash in hand and unrestricted loans and advances to credit institutions repayable on demand, and excludes the mandatory deposit the Society is required to place with the Bank of England. Cash equivalents comprise highly liquid unrestricted investments, typically with original maturities of less than three months, that are readily convertible into known amounts of cash with an insignificant risk of changes in value.

The Statements of Cash Flows have been prepared using the indirect method.

r) Investment properties

Properties held by the Group for capital appreciation or which earn rentals are recognised as investment properties at cost less depreciation and impairment losses. The depreciation policy for investment properties is consistent with the policy for property, plant and equipment. Investment properties are regularly reviewed for indications of impairment and any impairment identified is charged to the Income Statement.

Rental income from investment property is recognised over the term of the lease and is included in 'Other income' in the Income Statement.

Any gain or loss on disposal of investment property is also recognised in 'Other income'.

s) Sale and repurchase agreements

Investments and other securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained within the Statement of Financial Position when substantially all the risks and rewards of ownership remain with the Group and the liability associated with the cash advanced is included separately within the Statement of Financial Position.

The difference between the sale and repurchase price is accrued over the life of the agreement and recognised within net interest income.

t) Provisions for liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date. Further details can be found in note 29.

u) Critical accounting judgements and estimates in applying accounting policies

Critical judgements

The Group has to make judgements in applying its accounting policies which affect the amounts recognised in the financial statements. The key judgements management has made in applying the Group's accounting policies are set out below.

Transfer of beneficial interest in mortgage loans

Management has judged that the transfer of the beneficial interest in the loans transferred from the Society to the SPVs does not result in a transfer of the risks and rewards in relation to these loans. Therefore, the transfer of the beneficial interest is not recognised as a sale by the Society, and the loans continue to be recognised within the Society's Statement of Financial Position, with the proceeds received from the transfer accounted for as a deemed loan repayable to the SPVs.

The Group's accounting policy for its SPVs is outlined in note 1c).

Notes to the Accounts *(continued)*

1. Accounting policies *(continued)*

Impairment of mortgage loans and advances

Assessing loan impairment in accordance with IFRS 9 requires the following key judgements:

- determining whether credit risk has significantly increased since the loan was initially recognised; and
- the definition of default.

Residential mortgages

For residential mortgages, management judges that significant increase in credit risk is determined by reference to certain quantitative and qualitative criteria. The quantitative criteria involve measuring the relative increase in lifetime probability of default for the loan. The qualitative criteria include the loan being in forbearance, in arrears or term expired. Management has further judged that the definition of default should align with the Group's existing IRB definition for regulatory capital purposes. For IFRS 9 accounting purposes, stage 3 loans which no longer meet any of the default criteria are subject to a six month minimum probation period before they become eligible for transfer out of stage 3. Further details are found in note 1g).

Commercial mortgages

For commercial mortgages, management judges that credit risk has significantly increased when an account is placed on a watchlist or is in arrears of at least 50% of the contractual monthly payment. Management has further judged that an account is regarded as in default by reference to certain quantitative and qualitative criteria; these criteria include an account being 90 days past due (the IFRS 9 'backstop'). Further details are found in note 1g).

IFRS 16

When accounting for leases in accordance with IFRS 16 the Group makes the following key judgements that have an effect on the reported amounts of assets and liabilities:

Lease term

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease where this is reasonably certain to be exercised, or any periods covered by an option to terminate the lease where this is reasonably certain not to be exercised.

Many of the Group's leases, particularly property leases, contain options for the Group to extend and / or terminate the lease term. The Group applies judgement in evaluating whether it is reasonably certain to exercise these options, taking account of all relevant factors that create an economic incentive for it to do so. After the lease commencement date, the Group reassesses the lease term if there has been a significant event or change in circumstances that is within its control and which affects its ability to exercise (or not to exercise) the option to renew and / or to terminate (e.g. a change in business strategy).

Interest rate benchmark reform (IBOR reform)

In 2019 the Group early adopted *Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS* 7). The Group has continued to apply these amendments during the year and will continue to apply them until the uncertainty arising from the interest rate benchmark reforms, with respect to the timing and amount of the underlying cash flows to which the Group is exposed, ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fall-back clauses which have yet to be added to the Group's contracts and the negotiation with lenders and bondholders. Further details of the remaining net exposure to LIBOR at 31 December 2020 are found in note 37.

Critical estimates

The Group also makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

Estimates and assumptions are evaluated on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key estimates and assumptions are set out below.

Effective interest rate

The carrying value of assets measured at amortised cost is accounted for using the effective interest method. This method imputes an interest rate which discounts the forecast future cash flows of an asset over its expected life back to its carrying value. The most critical factor in calculating the amortised cost of assets held by the Group is the expected lives of these assets which are determined on the basis of historical data and management judgement. The impact of a one month increase / (decrease) in the anticipated life of loans and advances to customers would result in the following increase / (decrease) in interest income:

	Group		Society	
	2020	2019	2020	2019
	£m	£m	£m	£m
One month increase / (decrease)	24.2 / (26.5)	28.1 / (23.7)	23.8 / (26.0)	27.5 / (23.0)

During the year no charge (2019: £2.7m) for the Group and Society was recognised through interest income in relation to the reassessment of the expected lives of loans and advances to customers.

Impairment of mortgage loans and advances

The estimation of credit exposures for risk management purposes is complex and requires the use of models, a number of inputs into which are sources of estimation and require the Group to apply judgement. Key sources of estimation the Group uses to measure ECLs include:

- Probability of Default (PD) – the probability at a point in time that a customer will default;
- Exposure at Default (EAD) – the expected outstanding loan amount at the time of default;
- Loss Given Default (LGD) – the loss that is expected to arise on default, taking account of expected recoveries from collateral held;
- Thresholds to determine whether credit risk has significantly increased; and
- Use of forward-looking information.

ECLs are measured by multiplying together the PD, EAD and LGD, and are discounted using the loan's original effective interest rate. EAD is derived by adjusting the current outstanding loan amount for expected cashflows to the date of default. LGD is estimated on a discounted cash flow basis using the effective interest rate. The Group's LGD models consider factors including historical recovery rates and possible future property price changes.

Credit risk information is collected by the Group, based on a range of qualitative and quantitative data considered to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. The Group's PD models use the relevant information to generate estimates of the remaining lifetime PD of exposures and how these are expected to change over time. The PDs are adjusted to take account of expected customer redemptions and also for the impact of forward-looking information.

The following data is typically used to monitor the Group's exposure to credit risk:

- Payment record, including payment ageing analysis;
- Forbearance activity;
- Changes in business, financial and economic conditions;
- Credit reference information supplied by external agencies; and
- Internally generated data of customer behaviour, affordability metrics etc.

1. Accounting policies *(continued)*

For residential mortgages, the assessment of whether credit risk has significantly increased includes assessing the degree by which the remaining lifetime PD at the reporting date has increased compared to initial estimates. The Group determines thresholds for this purpose, expressed as a multiple of the initial PD estimate. The thresholds vary according to the credit quality of the loan at initial recognition. They are set with the aim of identifying accounts with significantly increased credit risk before the borrower misses a payment. The Group periodically reviews the effectiveness of the criteria in achieving this objective and, as a result of this review, has during the year split the low risk grade into two grades, 'slight risk' and 'low risk'. Creating a fourth risk grade allows a higher PD multiple to be used for the lowest risk accounts and significantly improves the efficiency of these thresholds whilst maintaining effectiveness. Details of these changes, which do not materially impact these financial statements, are set out below.

Lifetime PD band at initial recognition	Multiple by which remaining lifetime PD has to increase compared to initial estimate for significant increase in credit risk to have occurred	
	2020	2019
Slight risk	initial estimate x 8	initial estimate x 5
Low risk	initial estimate x 5	initial estimate x 5
Medium risk	initial estimate x 2.6	initial estimate x 2.6
High risk	initial estimate x 1	initial estimate x 1

To further improve the effectiveness of its 'significant increase in credit risk' (SICR) criteria the Group has introduced the use of an absolute lifetime PD hurdle for residential mortgages where lifetime PD goes above 25%. These accounts are considered to have a significant increase in credit risk and will automatically be migrated to Stage 2.

Forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of ECLs. In accordance with IFRS 9, the Group's estimate of ECLs is an unbiased and probability-weighted amount that reflects a range of possible outcomes. As outlined in note 1g), the Group determines a range of representative scenarios for the possible future direction of key economic variables and a probability-weighting is assigned to each scenario. The Group's central scenario represents a view of the most likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. In addition, the Group incorporates an upside scenario (representing a more optimistic view than the central scenario) and a downside scenario (representing a more pessimistic view than the central scenario); the selection of these alternative scenarios is intended to model the non-linear impact of economic factors on ECLs for the Group's mortgage portfolios.

The scenarios applied by the Group as at 31 December 2020 were determined with due consideration to the economic uncertainty surrounding the COVID-19 pandemic and the UK's departure from the EU.

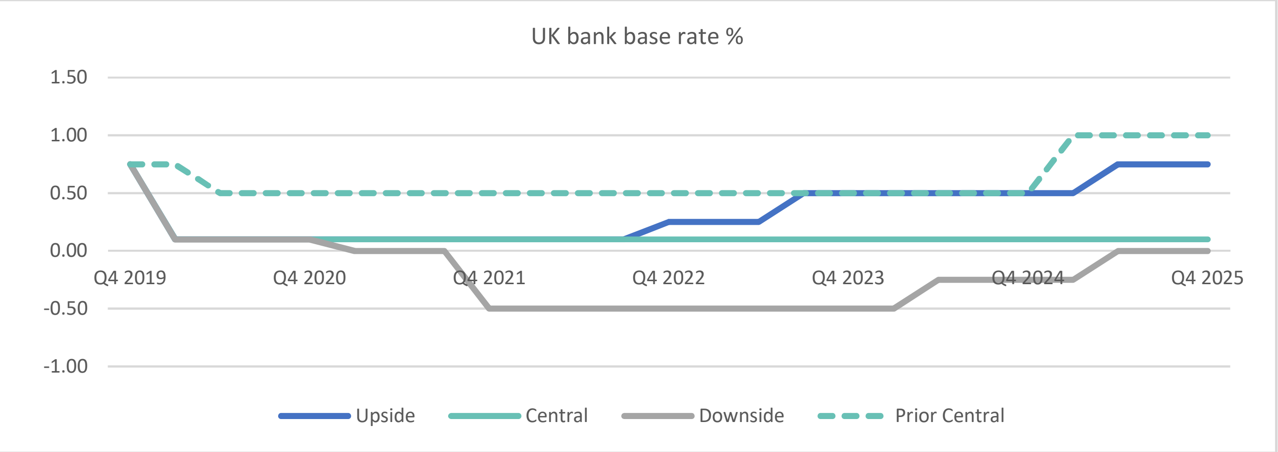
The Group's central scenario is set in the context of a 'U' shaped recovery from COVID-19's economic impacts. The economic shock was substantial in the second quarter of 2020 as GDP contracted significantly before partly recovering in the second half of 2020. Our central forecast assumes GDP stabilises by the third quarter of 2021 when there is a slow yet steady recovery. Unemployment significantly increases during 2021 then slowly recovers during 2022. House prices see a reduction in the second quarter of 2021 following the end of the stamp duty holiday and the impact of unemployment rising, but will begin to recover in late 2021 on the premise that a vaccine is widely implemented by the third quarter of 2021.

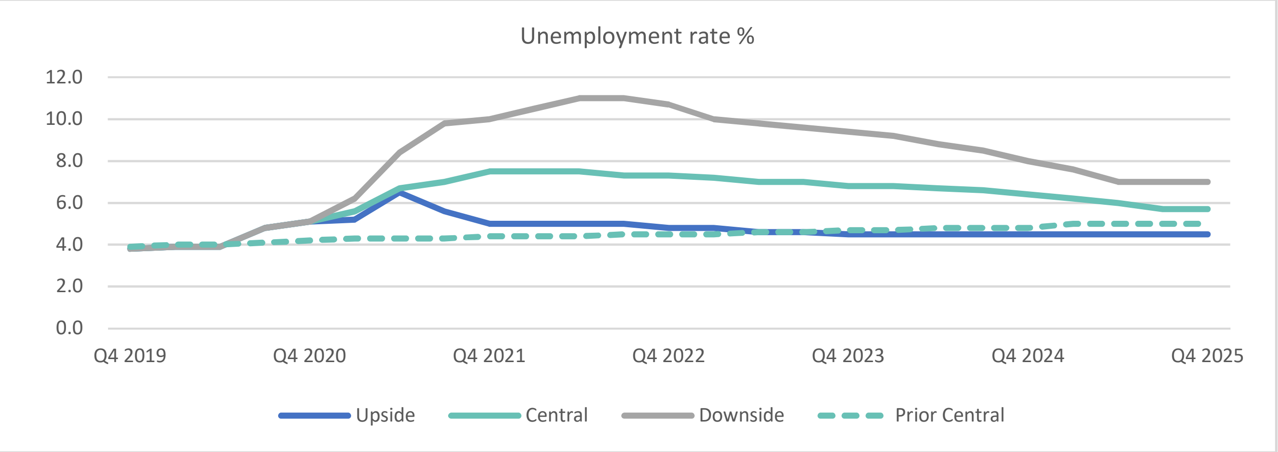
The Group's upside scenario is set in the context of a swift 'V' shaped recovery from COVID-19's economic impacts. The pandemic has led to a significant economic shock, but there is a swift bounce back in late 2021 to near normality. The annual impact on GDP in 2021 is negative but less severe than for the central scenario. Whilst unemployment does increase, the UK Government's unprecedented support measures preserve many jobs and only the most directly impacted sectors such as travel and hospitality see long term effects.

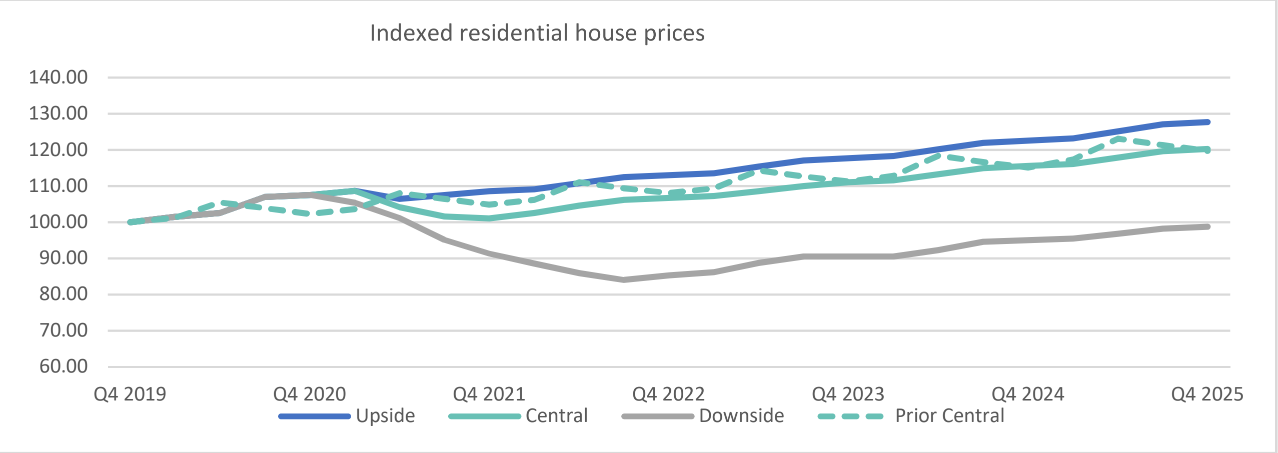
The Group's downside scenario is set in the context of an 'L' shaped recovery from COVID-19's economic impacts due to further restrictions and the current vaccine rendered ineffective due to a new variant becoming prevalent requiring a new vaccine to be developed and rolled out. The pandemic significantly impacts the functioning of the economy until late 2021, with social distancing measures lasting into 2022. GDP sharply contracts and unemployment sharply rises, with little recovery until an effective vaccine is widely implemented in 2022. There is a profound effect on the housing market, which does not return to normal transaction levels until mid-2022. House prices slump by 22% cumulatively and take time to recover. Globally, the recession is severe and long-lasting.

The key economic variables considered by the Group when developing the forecast scenarios are set out below for the first five years of each of the Group's scenarios. As noted above, the assumptions assigned to each scenario have been revised during the period taking account of the significant economic uncertainties surrounding COVID-19 and the UK's departure from the EU.

The graphs below show the historical and forecasted Bank Base Rate, indexed residential house prices and unemployment rate for the Group's three economic scenarios along with the prior year central scenario for context. The indexed residential house price graph uses a starting value of 100 in the fourth quarter of 2019 for illustrative purposes to show how a property value moves over time when the annual house price inflation (UK) assumptions are applied:







1. Accounting policies *(continued)*

Economic variables (from reporting date to peak or trough over 5 year forecast period)	2020			2019		
	Upside	Central	Downside	Upside	Central	Downside
Bank of England base rate (%) (note 1)	0.10 / 0.75	0.10	(0.5) / 0.10	0.75 / 2.0	0.5 / 0.75	0.0 / 0.75
Unemployment (%) (note 2)	6.5	7.5	11.0	4.4	4.8	7.0
House price inflation (UK) (%) (note 3)	18.7 / (1.0)	11.8 / (6.0)	0.0 / (21.9)	31.8 / 0.0	18.4 / 0.0	3.2 / (12.5)
Commercial property price growth (%) (note 3)	8.2 / 0.0	0.0 / (19.0)	0.0 / (29.0)	10.4 / 0.0	0.0 / 0.0	0.0 / (21.7)

Notes
1. The Bank of England base rate is shown as the lowest/highest rate over the forecast period.
2. Unemployment is shown as the highest rate over the forecast period. In the downside scenario for example, the peak is assumed to occur in Q3 2022, which is therefore higher than the 2022 year-end position shown in the table below.
3. House price inflation and commercial property price growth are shown as the largest cumulative growth / fall from 1 January 2021 (2019: from 1 January 2020) over the 5 year forecast period.

Economic variables (annual rate)		As at 31.12.20				
	Scenario	2021	2022	2023	2024	2025
Bank of England base rate (%) (note 1)	Upside	0.10	0.25	0.50	0.50	0.75
	Central	0.10	0.10	0.10	0.10	0.10
	Downside	(0.50)	(0.50)	(0.50)	(0.25)	0.00
Unemployment (%) (note 1)	Upside	5.0	4.8	4.5	4.5	4.5
	Central	7.5	7.3	6.8	6.4	5.7
	Downside	10.0	10.7	9.4	8.0	7.0
House price inflation (UK) (%) (note 2)	Upside	1.0	4.1	4.2	4.2	4.2
	Central	(6.0)	5.6	4.1	4.1	4.1
	Downside	(15.1)	(6.6)	6.1	5.0	4.0
Commercial property price growth (%) (note 2)	Upside	-	2.0	2.0	2.0	2.0
	Central	(15.6)	(4.0)	-	-	-
	Downside	(23.3)	(7.5)	-	-	-

		As at 31.12.19				
	Scenario	2020	2021	2022	2023	2024
Bank of England base rate (%) (note 1)	Upside	1.0	1.25	1.5	1.75	2.0
	Central	0.5	0.5	0.5	0.5	0.5
	Downside	0.0	0.25	0.25	0.25	0.25
Unemployment (%) (note 1)	Upside	3.9	4.0	4.1	4.3	4.4
	Central	4.2	4.4	4.5	4.7	4.8
	Downside	5.8	6.5	6.8	6.6	6.5
House price inflation (UK) (%) (note 2)	Upside	4.0	5.4	5.7	5.6	5.6
	Central	2.3	2.5	3.0	3.0	3.5
	Downside	(4.3)	(5.5)	(1.0)	2.0	2.8
Commercial property price growth (%) (note 2)	Upside	2.0	2.0	2.0	2.0	2.0
	Central	0.0	0.0	0.0	0.0	0.0
	Downside	(14.2)	(8.8)	0.0	0.0	0.0

Notes
1. The Bank of England base rates and unemployment rates are the position at 31 December each year.
2. House price inflation and commercial property price growth are the annual growth rate in each year. In addition to house price inflation, the Group's impairment calculations also include a 'forced sale discount' reflecting the likely reduction in property price when selling a repossessed property. The forced sale discount is calculated at account level, taking into account the specific circumstances of each account and the property in question.

The relative weightings assigned to each scenario have also been revised during the period taking into account the severity of the scenarios which have been significantly updated to reflect the impacts of the COVID-19 pandemic and the level of uncertainty over the economic outlook, both domestic and global. The Group's scenario weightings as at 31 December 2020 were 55% for the central scenario, 5% for the upside scenario and 40% for the downside scenario (31 December 2019: central scenario 50%, upside scenario 10%, downside scenario 40%).

Whilst actual loan cash flows and the level of losses realised are unaffected by IFRS 9's expected credit loss approach, the level of loan impairment accounted for by the Group under IFRS 9 can be volatile; this is due to the inherent uncertainty when incorporating forward-looking information. IFRS 9 impairment is expected to vary as expectations of economic conditions become either more pessimistic (which is likely to increase ECLs) or more optimistic (which is likely to reduce ECLs).

A post model adjustment of £1.6m for Group and £1.4m for Society has been recognised for residential mortgages to reflect the risks associated with payment deferrals granted in response to COVID-19 that have not yet been observed through underlying data or through migration to stage 2. In accordance with regulatory guidance, these mortgage payment deferrals are not automatically recorded as forbearance cases and do not automatically have an impact on the reported staging of balances except where credit risk is judged to have significantly increased since the loan was initially recognised. Due to the limited observable data available at the reporting date, this additional provision is subject to significant levels of estimation and is expected to evolve as additional performance data becomes available.

Management assesses the performance of the Group's ECL estimation process by comparison of actual and expected credit losses over a 12 month outcome; as IFRS 9 has been effective only since 2018, there is currently limited experience available for the Group to back-test predicted lifetime ECLs against actual results. Additional assurance is gained from validation of the composite sub-models. The ECL calculation is subject to formal quarterly monitoring, with output reported to the Society's Model Governance Committee for review, challenge and approval. In addition, the ECL calculation and all sub-components are subject to regular first-line review and independent validation.

To give an indication of the sensitivity of ECLs to different economic scenarios, the tables below show the ECL if a 100% weighting was applied to each scenario for both residential and commercial.

Residential	2020		2019	
Scenario	Actual weighting applied %	ECL at 100% weighting £m	Actual weighting applied %	ECL at 100% weighting £m
Upside	5	9.4	10	5.2
Central	55	11.2	50	6.0
Downside	40	40.0	40	15.6
Probability weighted ECL	100	23.1	100	9.6

Commercial	2020		2019	
Scenario	Actual weighting applied %	ECL at 100% weighting £m	Actual weighting applied %	ECL at 100% weighting £m
Upside	5	5.5	10	3.0
Central	55	11.1	50	5.3
Downside	40	28.4	40	8.9
Probability weighted ECL	100	17.8	100	6.5

The ECL at 100% weighting for each scenario multiplied by the actual scenario weighting applied will not reconcile to the overall probability weighted ECL. Whilst the stage allocation of loans varies in each individual scenario, each loan is allocated to a single stage in the overall ECL calculation based on a weighted average PD which takes into account the economic scenarios. A probability weighted 12 month or lifetime ECL (which also takes into account the economic scenarios) is then calculated based on the stage allocation.

The following tables outline the impact on the impairment loss allowance for the residential and commercial loan portfolio of possible alternative assumptions of other certain estimates used in calculating the ECLs. Each sensitivity shown considers one change in isolation and the combined impact on the impairment loss allowance of more than one sensitivity occurring would not necessarily be the sum of the impact of the individual sensitivities.

Notes to the Accounts *(continued)*

1. Accounting policies *(continued)*

Residential

Assumption	Change to current assumption	Group 2020	Group 2019	Society 2020	Society 2019
		Increase / (decrease) in impairment allowance			
		£m	£m	£m	£m
Downside scenario weighting (note 1)	Absolute increase of 10%	2.6	1.1	1.7	0.5
Significant increase in credit risk criteria (note 2)	Relative reduction by 25%	4.1	0.2	3.7	0.2
Future house price inflation	+ / - 0.5% pa	(1.3) / 1.5	(0.4) / 0.4	(0.8) / 0.9	(0.1) / 0.2

Notes
1. This sensitivity shows the impact of an increase of 10% to the probability weighting assigned to the downside scenario, from 40% to 50% (2019: from 40% to 50%), with a relative decrease to the probability weighting assigned to each of the base case and upside scenarios.
2. As outlined above, the assessment of whether credit risk has significantly increased since initial recognition includes the degree by which the remaining lifetime PD at the reporting date has increased compared to initial estimates. This sensitivity shows the impact of simultaneously reducing each multiplier threshold by 25%.

Commercial

Assumption	Change to current assumption	Group and Society 2020	Group and Society 2019
		Increase / (decrease) in impairment allowance	
		£m	£m
Downside scenario weighting (note 1)	Absolute increase of 10%	1.8	0.4
Significant increase in credit risk criteria (note 1)	Additional 5% of balances placed on watchlist	0.1	2.0
Future commercial property price growth	+ / - 0.5% pa	(0.4) / 0.4	(0.1) / 0.1

Notes
1. This sensitivity shows the impact of an increase of 10% to the probability weighting assigned to the downside scenario, from 40% to 50% (2019: from 40% to 50%), with a relative decrease to the probability weighting assigned to each of the base case and upside scenarios.
2. As outlined in note 1g), the assessment of whether credit risk has significantly increased since initial recognition is based on accounts being placed on a watchlist or being in arrears of at least 50% of the contractual monthly payment. This sensitivity shows the impact of management identifying an additional 5% of gross loan balances to be placed on a watchlist. For each period presented, the impact has been estimated by reference to the average ECL coverage ratios by stage for the commercial loan portfolio as at the relevant period end.

Impairment of treasury assets

The Group incorporates forward-looking information into its ECL assessment for treasury assets. In addition to the central view, the Group also considers the impact of an extreme economic downturn such as a two-notch downgrade on the entire portfolio. At 31 December 2020, the relative weightings assigned to each scenario were 95% for the central scenario and 5% for the downside scenario (2019: central scenario 95%; downside scenario 5%).

The following table outlines the impact on the impairment loss allowance for treasury assets of possible alternative assumptions of certain estimates used in calculating the ECLs.

Assumption	Change to current assumption	Group 2020	Group 2019	Society 2020	Society 2019
		Increase / (decrease) in impairment allowance			
		£m	£m	£m	£m
Downside scenario weighting	Absolute increase of 10%	0.1	0.1	0.1	0.1
Downside scenario weighting	Increase to 100%	0.8	0.7	0.8	0.7

Valuation of equity release portfolio

The valuation of the equity release portfolio relies on the calculation of future cash flows. The size and timing of these can vary depending on a number of different factors. These factors include future expected house prices, future expected inflation, mortality rates, anticipated redemption profiles (arising due to voluntary redemption, decease or a move to long term care) and market driven yield curves.

Some of the factors are based on market expectations (e.g. market-implied RPI swap prices are used to construct a forward-looking inflation curve in order to forecast future expected cash flows receivable from the portfolio), whilst others are derived from historical trends on the portfolio (e.g. anticipated future voluntary redemptions). However, where market prices are not available and historical trends are not deemed to be appropriate the Group uses management judgement; this is the case for future house price index (HPI) growth and property price volatility. Management has reviewed these expectations during the year with due consideration to the economic uncertainties surrounding the COVID-19 pandemic.

The expectations of the economic inputs that require management judgement are in line with the economic environment that forms the central scenario as outlined on pages 138 to 140; further detail on the movements in the portfolio in the year can be found in note 15.

The Group uses an expectation of HPI growth that is aligned to that used for the central path of the ECL model and corporate planning. This is a negative growth assumption in the near term before recovery in late 2021 as set out above, reverting to a long run expectation of an average of 4%. This is considerably lower than long term historical levels and reflects management's view. A volatility assumption is also used within the model, which allows for an expected range of realised growth around the central HPI growth figure.

During the year the HPI volatility assumption and the impact of property dilapidations assumption were combined into one input, the property volatility assumption. The use of a property volatility assumption is in line with emerging industry best practice and guidelines. A property volatility assumption of 13% is now used; the property volatility assumption considers index volatility, adjustments for autocorrelation, basis risk and concentration risk, and is not used in conjunction with a dilapidation assumption.

In addition, the illiquidity premia, which is a spread added onto the discount rate used to discount the equity release loans to present value, and reflects the fact that no repayments are made by the customer until the product redeems, has also been reviewed and updated during the year, resulting in a £6.2m loss to the portfolio during the year; this is included within the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement.

The following table outlines the impact of reasonably possible alternative assumptions of key inputs which rely on management judgement and are not market observable.

Assumption	Change to current assumption	Group and Society 2020	Group and Society 2019
		(Decrease) / increase in fair value of portfolio	
		£m	£m
Redemption rates	+ / - 1% pa	(11.7) / 13.2	(11.0) / 12.4
Illiquidity premia	+ / - 0.2%	(10.6) / 10.9	(9.9) / 10.3
HPI forecast	+ / - 0.5% pa	8.8 / (9.4)	9.4 / (11.1)
Impact of property dilapidations (note 1)	+ / - 5%	n/a	(8.1) / 6.7
HPI volatility (note 1)	+ / - 3% pa	n/a	(4.8) / 3.9
Property volatility (note 1)	+ / - 1%	(5.4) / 5.3	n/a

Note
1. As outlined above, the HPI volatility assumption and the impact of property dilapidations assumption were combined into one input, the property volatility assumption, during the year. This change, and the resulting recalculation of inputs to the valuation, did not result in a material change to the valuation of the equity release portfolio. There is no impact on the financial statements for prior periods.

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

The sensitivities are calculated by comparing the fair value of the portfolio, as reported within the Statement of Financial Position, to the value of the portfolio at the reporting date when each input is adjusted as listed above, as per the valuation model. Each sensitivity shown considers one change in isolation and the combined impact on the valuation of the portfolio of all sensitivities occurring would not necessarily be the sum of the impact of the individual sensitivities.

The Group holds derivative financial instruments to hedge the movements in the equity release portfolio, which offsets to some extent the movements in the valuation of the portfolio, further details of which are found below.

Notes to the Accounts *(continued)*

1. Accounting policies *(continued)*

Derivative financial instruments

The Group holds derivatives which are used to hedge the Group's interest rate risk and inflation risk arising from the equity release portfolio. These derivatives are valued using discounted cash flow models using market observable benchmark rates consistent with accepted market methodologies for pricing financial instruments, and, as the notional values of the derivatives are intended to match the balance of the underlying mortgage assets, also include estimated redemption profiles (arising where a customer voluntarily prepays, moves permanently into long term care or is deceased) that are based on historical data (reviewed periodically against actuals) and published mortality tables. These redemption profiles are not market observable, therefore an element of management judgement is applied based on historical performance of redemptions.

In order to value these derivatives, the Group uses market-implied RPI swap prices to construct a forward looking inflation curve to forecast future expected cash flows relating to these derivatives. The model used to value the derivatives incorporates multiple scenarios for RPI in order to take account of the uncertainty and volatility of future RPI rates. The range of multiple scenarios used is based on management judgement and so is not market observable. The Group has robust control procedures in place regarding the inputs to the valuation that are based on management judgement.

The effect on the fair value of these derivatives of reasonably possible alternative assumptions is outlined below.

Assumption	Change to current assumption	Group and Society 2020	2019
		(Decrease) / increase in liability	
		£m	£m
Redemption rates (note1)	+ / - 1% pa	(14.3) / 16.2	(15.1) / 17.1
RPI volatility (note1)	+ / - 0.5% pa	(4.4) / 3.5	(5.3) / 4.1

Note

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

Any change in fair value of the derivative liabilities is offset to some extent by a corresponding but opposite change in the value of the equity release portfolio. The characteristics and the valuation requirements differ slightly between the derivatives and the equity release portfolio resulting in the changes in fair value not offsetting completely.

Subsidiary management incentive scheme

In 2014 or 2019, senior management of Connells Limited purchased equity shares in that company and at the same time the Group issued options to these shareholders which required the Group to purchase these shares at some future dates. In accordance with IFRS 2 *Share-based Payment*, the Group recognises the increase or decrease in the fair value of the liability through the Income Statement, spread over the vesting period, to the estimated dates of exercise. The fair value of this liability is dependent on the following assumptions: an estimate of when the options will be exercised by the non-controlling shareholders, as well as forecasts of EBITDA (i.e. earnings before interest, tax, depreciation and amortisation, and as adjusted under the specific scheme rules) and cash flows of the Connells group over the period to exercise. The following table outlines the impact of reasonably possible alternative assumptions of certain estimates used in calculating the liability:

Assumption	Change to current assumption	Group 2020	Group 2019
		Increase / (decrease) in liability*	
		£m	£m
Connells group EBITDA	10% increase / decrease (note 1)	1.9 / (1.9)	1.3 / (1.3)
Date of exercise of options	Earliest possible opportunity (note 2)	(1.3)	-
Date of exercise of options	Latest possible opportunity (note 2)	(0.3)	0.1

* With a corresponding increase / decrease in the charge to the Income Statement.

Notes

1. As described above, the estimate of the liability is dependent on the assumptions of future EBITDA and cash flows of the Connells group over the period to exercise. The above sensitivity outlines the increase / decrease to the liability that would result if it was assumed that Connells' forecast EBITDA was 10% higher / lower each year (from 2021 to the periods of exercise) than that included in its corporate plans.
2. The fair value of the liability at 31 December 2020 is based on judgement as to when management will exercise their remaining options in the scheme. The above sensitivities show the impact on the liability if we assumed management were to exercise all remaining options at the earliest or latest opportunity respectively.

Goodwill

The carrying value of goodwill is assessed against value in use calculations. The key assumptions for the value in use calculations are those regarding cash flows, discount rates and growth rates. These assumptions are reviewed on a regular basis, at least at every reporting date, by senior management.

The future cash flows of the cash generating units are based on the latest detailed five year corporate plans available and are sensitive to assumptions regarding the long-term growth pattern thereafter. The cash flows reflect management's view of future business prospects at the time of the assessment which reflect the most recent view of key economic indicators as well as wider prevailing circumstances.

The discount rate used to discount the future expected cash flows is based on the cost of capital assigned to each cash generating unit (see note 21) and can have a significant effect on the valuation of a cash generating unit. The cost of capital is derived from a weighted average cost of capital calculation which incorporates a number of inputs including the risk-free interest rate and a premium to reflect the inherent risk of the business being evaluated. These variables are subject to fluctuations in external markets and economic conditions which are out of management's control and therefore are established on the basis of management judgement.

At 31 December 2020, to the extent that discount rates were to increase by 25%, e.g. from 10% to 12.5%, there would be no increase to the goodwill impairment charge (2019: no increase). A reduction in the long term growth rate assumption from 2.5% to 0% would also result in no increase to the impairment charge (2019: no increase).

Retirement benefit obligations

The defined benefit pension schemes expose the Group to actuarial risks such as investment risk, interest rate risk, inflation risk and longevity risk. In conjunction with its actuaries the Group makes key financial assumptions that are used in the actuarial valuation of the defined benefit pension obligation and, therefore, changes to these assumptions have an impact on the pension obligation shown within the Statement of Financial Position. These assumptions include inflation and discount rates, life expectancy, commutation allowances and the rate of salary growth; see note 31 for further details on these assumptions.

A decrease in gilt / corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to scheme liabilities. This would impact the Statement of Financial Position adversely and may give rise to increased charges in future years' Income Statements. This effect would be partially offset by an increase in the value of the schemes' gilt and bond holdings and caps on inflationary increases also exist to protect the schemes against high levels of inflation.

Approximate sensitivities of the principal assumptions are set out in the table below which shows the increase or reduction in the scheme liabilities that would result. The methods used for calculating the sensitivities are the same as those used to determine the valuation of the defined benefit obligation as set out in note 31. Each sensitivity shown considers one change in isolation.

Assumption	Change in assumption	Group 2020	Group 2019	Society 2020	Society 2019
		(Decrease) / increase in liabilities			
		£m	£m	£m	£m
Discount rate	+ / -0.25% pa	(12.0) / 14.9	(11.2) / 11.9	(6.7) / 8.3	(6.1) / 6.5
Rate of inflation	+ / -0.5% pa	13.1 / (10.2)	10.6 / (9.5)	6.8 / (5.2)	5.2 / (4.6)
Rate of salary growth	+ / -0.5% pa	-	-	-	-
Commutation allowance	+ / -10% pa	3.8 / (3.8)	2.3 / (2.3)	1.8 / (1.8)	1.2 / (1.2)
Life expectancy	+ / -1 year	12.1 / (9.7)	8.7 / (8.5)	6.6 / (5.3)	4.8 / (4.8)

The rate of salary growth has no impact on the pension liabilities as the schemes are closed to future accrual of benefit.

2. Interest receivable and similar income

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
On financial assets held at amortised cost:				
On loans fully secured on residential property	495.7	478.8	417.4	396.5
On other loans and advances:				
To subsidiary undertakings	-	-	33.1	34.1
Other	10.0	12.9	4.2	5.8
On other liquid assets	5.0	16.1	4.9	15.7
	510.7	507.8	459.6	452.1
On financial assets held at fair value through other comprehensive income:				
On debt securities	14.7	20.9	15.4	19.6
On financial instruments held at FVTPL:				
Net expense on derivative financial instruments held to hedge assets in qualifying hedge accounting relationships	(83.7)	(18.7)	(83.6)	(18.9)
Interest receivable accounted for using the effective interest rate method	441.7	510.0	391.4	452.8
On financial instruments held at FVTPL:				
On loans and advances to customers	0.1	-	0.1	-
On equity release portfolio	14.8	16.8	14.8	16.8
On debt securities	-	-	0.2	0.4
Net expense on derivative financial instruments held to hedge assets in non-qualifying hedge accounting relationships	(17.0)	(11.9)	(14.0)	(11.8)
Other interest and similar income	(2.1)	4.9	1.1	5.4
	439.6	514.9	392.5	458.2

3. Interest payable and similar charges

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
On financial liabilities held at amortised cost:				
On shares held by individuals	171.9	212.8	171.9	212.8
On shares held by others	1.3	1.5	1.3	1.5
On subscribed capital	4.5	4.5	4.5	4.5
On deposits and other borrowings:				
Subordinated liabilities	1.8	-	1.8	-
Subsidiary undertakings	-	-	0.4	0.7
Wholesale and other funding	37.0	56.6	19.6	35.7
Lease liabilities	1.3	1.4	0.2	0.3
	217.8	276.8	199.7	255.5
On financial instruments held at FVTPL:				
Net (income) / expense on derivative financial instruments held for hedging liabilities	(16.1)	0.2	(28.3)	(7.6)
Finance credit on put option liability	-	(0.2)	-	-
Deemed loans from Group undertakings	-	-	38.9	29.1
	201.7	276.8	210.3	277.0

4. Fees and commissions

a) Fees and commissions receivable

The tables below provide further information regarding the nature, amount and timing of fees and commissions receivable. IFRS 15 requires that revenue is recognised by the Group in a way that depicts the transfer of goods or services to customers; some revenue is therefore recognised at a point in time and some revenue is recognised over a period of time. Further details as to the revenue recognition policies applied to fees and commissions receivable by the Group are set out in note 1n).

Group	2020			2019 Re-presented*		
	Products and services transferred at a point in time £m	Products and services transferred over time £m	Total £m	Products and services transferred at a point in time £m	Products and services transferred over time £m	Total £m
Mortgage origination fees	38.0	10.6	48.6	42.5	11.3	53.8
Other mortgage related fees	2.0	-	2.0	2.0	-	2.0
General insurance income	41.3	1.2	42.5	41.9	1.1	43.0
Commissions earned on property sales	133.6	-	133.6	154.2	-	154.2
Commissions earned on property lettings	58.9	-	58.9	61.6	-	61.6
Survey and valuation fees	44.1	-	44.1	55.4	-	55.4
Asset management commission	9.3	0.2	9.5	15.6	0.2	15.8
Conveyancing fees	27.6	-	27.6	31.0	-	31.0
Financial advice fees	25.2	-	25.2	29.3	-	29.3
Software and consultancy fees	0.3	14.6	14.9	0.1	16.1	16.2
Factoring and invoice discounting services	9.6	-	9.6	10.2	-	10.2
Other fees and commissions	3.7	0.6	4.3	3.7	1.0	4.7
	393.6	27.2	420.8	447.5	29.7	477.2

* Certain fees and commissions receivable that were previously presented gross of associated clawback provisions have been re-presented on a net basis. This is considered to more fairly reflect the substance of the arrangements and the comparative figures in the above tables have been re-presented accordingly. This results in a £15.2m decrease in general insurance income. There is a corresponding £15.2m decrease in the charge for provisions for liabilities (see note 29) and therefore there is no impact on profits and no impact on reserves.

Society	2020			2019		
	Products and services transferred at a point in time £m	Products and services transferred over time £m	Total £m	Products and services transferred at a point in time £m	Products and services transferred over time £m	Total £m
Mortgage related fees	1.8	-	1.8	1.7	-	1.7
General insurance income	-	1.0	1.0	-	1.1	1.1
Financial advice fees	23.9	-	23.9	27.8	-	27.8
Other fees and commissions	0.5	-	0.5	1.3	-	1.3
	26.2	1.0	27.2	30.8	1.1	31.9

4. Fees and commissions (continued)

The table below provides a reconciliation of fees and commissions receivable by the Group to the amounts presented by reportable segment in note 42:

Group	2020				
	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Mortgage origination fees	-	49.5	-	(0.9)	48.6
Other mortgage related fees	2.0	-	-	-	2.0
General insurance income	1.0	41.5	-	-	42.5
Commissions earned on property sales	-	133.6	-	-	133.6
Commissions earned on property lettings	-	58.9	-	-	58.9
Survey and valuation fees	-	51.6	-	(7.5)	44.1
Asset management commission	-	9.5	-	-	9.5
Conveyancing fees	-	28.6	-	(1.0)	27.6
Financial advice fees	25.2	-	-	-	25.2
Software and consultancy fees	-	-	15.9	(1.0)	14.9
Factoring and invoice discounting services	-	-	9.6	-	9.6
Other fees and commissions	0.6	4.0	-	(0.3)	4.3
Fees and commissions receivable	28.8	377.2	25.5	(10.7)	420.8
Other	(4.3)	(1.5)	(0.7)	0.2	(6.3)
Net non-interest income	24.5	375.7	24.8	(10.5)	414.5

Group	2019 Re-presented*				
	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Mortgage origination fees	-	54.9	-	(1.1)	53.8
Other mortgage related fees	2.0	-	-	-	2.0
General insurance income	1.1	41.9	-	-	43.0
Commissions earned on property sales	-	154.2	-	-	154.2
Commissions earned on property lettings	-	61.6	-	-	61.6
Survey and valuation fees	-	65.0	-	(9.6)	55.4
Asset management commission	-	15.8	-	-	15.8
Conveyancing fees	-	31.0	-	-	31.0
Financial advice fees	29.3	-	-	-	29.3
Software and consultancy fees	-	-	17.0	(0.8)	16.2
Factoring and invoice discounting services	-	-	10.2	-	10.2
Other fees and commissions	1.2	4.5	0.4	(1.4)	4.7
Fees and commissions receivable	33.6	428.9	27.6	(12.9)	477.2
Other	(3.9)	(3.0)	(0.7)	0.2	(7.4)
Net non-interest income	29.7	425.9	26.9	(12.7)	469.8

* The comparatives are re-presented as outlined on page 119, resulting in a £15.2m decrease in general insurance income.

b) Fees and commissions payable

The total shown in the Income Statement for fees and commissions payable includes £1.8m for the Group (2019: £2.7m) and £nil for the Society (2019: £nil) relating to financial assets not measured at FVTPL. These figures exclude amounts which are incorporated in determining the effective interest rate on such financial assets.

5. Administrative expenses

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Employee costs:				
Wages and salaries	295.3	319.0	80.3	80.2
Social security costs	30.7	31.2	7.9	7.8
Pension costs:				
Defined contribution arrangements (note 31)	12.9	12.2	6.2	5.8
Past service costs	1.5	-	0.7	-
	340.4	362.4	95.1	93.8
Government grants	(21.2)	-	-	-
Other administrative expenses	187.1	191.6	58.0	56.8
Central administrative costs recharged to Group undertakings	-	-	(4.0)	(4.3)
	506.3	554.0	149.1	146.3
Other administrative expenses comprise:				
Depreciation and amortisation (notes 18, 19, 20 and 21)	38.1	37.7	8.5	8.2
Impairment of property, plant and equipment, right-of-use assets and investment property (notes 18, 19 and 20)	2.6	0.5	1.2	0.5
Impairment losses / (credit) on trade receivables (note 39c))	0.9	(0.1)	0.1	-
Lease expenses:				
Short-term leases	1.0	2.1	0.8	0.8
Variable lease payments not included in measurement of lease liability	0.1	0.1	-	-
Other property and establishment costs	12.8	18.1	5.5	5.4
Postage and communications	19.9	15.9	6.7	6.0
IT costs	12.7	14.3	11.0	9.5
Marketing and advertising	17.6	22.1	5.7	7.4
Insurance	4.5	4.8	1.6	2.2
Legal, professional and consultancy	17.4	17.2	12.5	12.1
Training, recruitment and other employee related costs	10.6	16.7	2.5	4.6
Costs of Connells' management incentive scheme (note 28)	1.2	1.8	-	-
Other	47.7	40.4	1.9	0.1
	187.1	191.6	58.0	56.8

A credit of £21.2m has been recognised in the year relating to the value of Government assistance claimed by Connells under the Coronavirus Job Retention Scheme. This scheme allows employers to continue to pay colleagues where a business cannot maintain its workforce because operations have been affected by COVID-19. For colleagues being recorded as on furlough, Connells applied for a grant to cover a portion, up to 80% or £2,500 per employee per month, of their usual monthly wage costs.

Connells have also taken business rates relief in the period of £3.7m automatically applied by the Government for retail, hospitality and leisure businesses, and which would have otherwise been included in 'other administrative expenses: other property and establishment costs' above.

Other Government assistance received by Connells in the period comprised access to the Government's Retail Cash Grant Scheme, receiving £0.8m recognised within 'other income', and taking advantage of the Government's VAT deferral option. This allowed Connells to defer £11.5m of VAT payments from March 2020; these were subsequently paid in November 2020 ahead of the March 2021 deadline.

5. Administrative expenses *(continued)*

Included within legal, professional and consultancy costs above are amounts relating to external auditor remuneration. The remuneration of the Group's external auditor EY, from the date of their appointment on 10 May 2019, is set out below (excluding VAT):

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Audit of the Society and Group Annual Accounts	0.6	0.3	0.6	0.3
Audit of the Group's subsidiary undertakings' accounts pursuant to legislation	0.7	0.6	-	-
Audit-related assurance services	0.1	0.1	0.1	0.1
Other non-audit services	0.1	0.1	0.1	0.1
	1.5	1.1	0.8	0.5

In the prior year, remuneration of the Group's former external auditor KPMG, up until the date of their resignation on 29 April 2019, was £0.1m for both Group and Society in relation to non-audit services.

6. Employee numbers

The average number of full and part-time persons employed during the year (including Executive Directors) was as follows:

	Group 2020	Group 2019	Society 2020	Society 2019
Principal office	1,789	1,771	1,789	1,771
Society branches	502	518	502	518
Subsidiary undertakings	7,167	7,243	-	-
	9,458	9,532	2,291	2,289

7. Directors' emoluments

Directors' emoluments are set out within the Directors' Remuneration Report on pages 80 to 100.

Total Directors' emoluments for 2020 amounted to £2.3m (2019: £2.9m).

8. Related party transactions

A number of transactions are entered into with related parties in the normal course of business; these are detailed below.

Key management personnel

For the purposes of these disclosures, key management personnel comprises the Executive Directors and Non-Executive Directors of the Society, plus all other members of the Society's Executive Committee. Executive Committee members are, in addition to the Executive and Non-Executive Directors, responsible for ensuring the Society meets its strategic and operational objectives.

The table below summarises the benefits awarded to key management personnel in the year:

Group and Society	2020 £m	2019 £m
Salary, benefits and annual performance pay	3.1	3.9
Employer pension contributions	0.3	0.3
	3.4	4.2

The table below sets out the outstanding balances in relation to related party transactions with key management personnel and persons who are connected with key management personnel:

	2020 £000	2019 £000
Mortgage loans outstanding at 31 December	845	343
Savings balances at 31 December	2,650	2,351

Interest receivable and payable on the above accounts during the year was as follows:

	2020 £000	2019 £000
Interest receivable	10	1
Interest payable	25	20

Loans and savings of key management personnel are at normal commercial rates. There are no provisions for impairment against these loans.

Key management personnel loans and transactions

At 31 December 2020 there were nine (2019: six) outstanding mortgage loans granted in the ordinary course of business amounting in aggregate to £844,668 (2019: £342,938) to six (2019: three) key management personnel or persons who are connected with key management personnel. These mortgages are provided at market interest rates and are subject to repayment under normal lending terms. No amounts have been waived or written off.

A register is maintained at the Principal Office of the Society which shows details of all loans, transactions and arrangements with Directors and connected persons. A statement for the current financial year of the appropriate details contained in the register will be available for inspection at the Principal Office for a period of 15 days up to and including the Annual General Meeting.

Contributions to pension schemes

During the year, the Group and Society paid contributions of £29.4m (2019: £26.8m) and £19.8m (2019: £10.3m) respectively to pension schemes, which are classified as related parties.

Related party transactions

During the year the Society had the following related party transactions with subsidiary undertakings:

	2020 £m	2019 £m
Rendering and receiving of services	0.2	0.3
Recharges of central costs	4.0	4.3
Interest receivable	33.3	34.5
Interest payable	(39.3)	(29.8)
Mortgage referral, valuation and legal fees (note 1)	(8.5)	(10.9)
Other income	7.1	5.0
Collateral transferred to funding vehicles	1,174.4	1,996.7
Collateral transferred from funding vehicles	(38.5)	(168.5)
Repayment of debt securities	(26.5)	(54.6)

Note

1. These are fees payable by the Society to Connells for the above services, which are amortised through net interest receivable in the Society's books on an effective interest basis.

All the above transactions were entered into on an arm's-length basis. For details of the relationship between the Society and its principal subsidiary undertakings see note 17a).

At 31 December 2020 the Society owed £1,276.1m (2019: £381.5m) to subsidiary undertakings and was owed £731.3m (2019: £777.9m) by subsidiary undertakings. Interest on intra-Group borrowings is charged at an appropriate market rate. As at 31 December 2020 the Society recognised no impairment loss allowance in respect of loans to subsidiary undertakings, on the grounds of immateriality (2019: £nil).

8. Related party transactions *(continued)*

As disclosed in note 45, on 31 December 2020 Connells Limited announced that it had reached agreement with Countrywide plc to acquire the entire share capital and voting rights of Countrywide for cash consideration of £134.3m. In order to fund the transaction, enable Connells to repay existing borrowings in Countrywide and provide working capital, the Society has agreed to provide a loan of £253.0m to Connells Limited on completion of the acquisition. This had been committed to but not drawn down as at 31 December 2020.

Under IFRS 9, the commitment is required to be assessed for impairment. As at 31 December 2020, we have assessed the expected cash flows on the loan arising from the loan commitment and determined that expected credit losses (ECLs) are immaterial, and therefore no impairment provision has been recognised against this commitment.

During the year the Group had the following related party transactions with joint ventures and associates:

	2020 £m	2019 £m
Services provided to the Group	3.2	4.2
Services provided by the Group	2.3	3.5

At 31 December 2020 the Group was owed £0.7m (2019: £0.2m) by joint ventures, and owed £nil (2019: £0.2m) to joint ventures.

There were no provisions in respect of sales of goods and services or in respect of outstanding loans between the Group or Society and its related parties as at 31 December 2020 or 31 December 2019.

9. Tax expense

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Current tax	22.1	31.6	6.7	16.1
Deferred tax (note 30)	(0.3)	(0.8)	0.4	1.2
	21.8	30.8	7.1	17.3

A reconciliation of the tax expense on profit before tax at the standard UK corporation tax rate to the actual tax expense is as follows:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Profit before tax	118.8	153.2	52.8	111.4
Share of profits from joint ventures, net of tax	(3.4)	(1.7)	-	-
	115.4	151.5	52.8	111.4
Tax calculated at standard UK corporation tax rate of 19.0% (2019: 19.0%)	21.9	28.8	10.0	21.2
Effects of:				
Expenses not deductible for tax purposes	3.2	1.8	0.7	0.3
Adjustment to tax expense in respect of prior periods	(0.8)	(0.3)	(1.0)	(0.6)
Tax assets not recognised on losses	-	0.1	-	-
Non-taxable income	(0.2)	(1.0)	(2.4)	(7.5)
Corporation tax rate change	(0.4)	0.3	(0.2)	0.4
Higher tax rates on overseas earnings	-	0.1	-	-
Effects of lower tax rates in other jurisdictions (see below)	(2.0)	(1.9)	-	-
Banking surcharge	1.1	3.6	1.1	3.6
Recognition of tax losses not previously recognised	-	(0.5)	-	-
Other	(1.0)	(0.2)	(1.1)	(0.1)
Tax expense	21.8	30.8	7.1	17.3

The effective tax rate for the Group for the year ended 31 December 2020 is 18.9% (2019: 20.3%) compared with the standard rate of UK corporation tax of 19.0% (2019: 19.0%). The rate is lower than the standard rate due mainly to the lower tax rate in Guernsey which applies to the taxable profits of Skipton International Limited. The rate is also increased by expenditure disallowable for tax purposes.

The effective tax rate for the Society for the year ended 31 December 2020 is 13.4% (2019: 15.5%). The major impact on the effective rate of tax is the non-taxable dividend income received of £12.4m (2019: £38.5m). The Society's taxable profits above £25m are also subject to an 8% banking companies surcharge.

10. Loans and advances to credit institutions

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Gross carrying amount	724.7	546.6	615.0	465.8
Loss allowance	-	-	-	-
Net carrying amount	724.7	546.6	615.0	465.8

As outlined in note 1e), loans and advances to credit institutions are held at amortised cost. All amounts shown in the table above were held in stage 1 for both the Group and Society at the end of the current and prior year.

No amounts were written off during the current or prior year in either the Group or the Society. For further details on the assessment of ECLs on liquid assets, see note 1g).

The table below provides maturity information for the net carrying amounts.

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Repayable on demand:				
Cash and cash equivalents	148.3	108.3	40.4	29.0
Cash pledged as collateral	574.6	436.4	574.6	436.4
	722.9	544.7	615.0	465.4
In not more than three months:				
Cash and cash equivalents	1.6	1.5	-	-
Cash pledged as collateral	0.2	-	-	-
	1.8	1.5	-	-
In more than one year but not more than five years:				
Cash pledged as collateral	-	0.4	-	0.4
	-	0.4	-	0.4
Total loans and advances to credit institutions	724.7	546.6	615.0	465.8
Total included within cash and cash equivalents	149.9	109.8	40.4	29.0

Collateral

Cash is pledged and received as collateral against derivative contracts which are used by the Group to manage its exposure to market risk. Collateral is pledged to derivative contract counterparties where there is a net amount outstanding to the counterparty and collateral is received from derivative contract counterparties where there is a net amount due to the Group.

Non-standardised and some legacy derivatives are collateralised based on bilateral Credit Support Annex (CSA) agreements. Under the terms of a CSA, collateral is passed between parties to mitigate the credit risk of counterparties which is inherent in the outstanding derivative contracts. Standardised derivatives are cleared with a central clearing counterparty in accordance with the European Market Infrastructure Regulation (EMIR). Under the arrangements for cleared derivatives, additional collateral is required to protect the central clearing house against credit risk of the counterparties and to cover intra-day market movements and variations in valuation of the derivative contracts. At 31 December 2020 the Group and Society pledged £186.7m (2019: £152.1m) of this additional collateral, which is included in the total on-balance sheet cash pledged as collateral against derivative contracts below.

10. Loans and advances to credit institutions *(continued)*

Collateral pledged and received is ring-fenced by all parties to the derivative contract for the sole purpose of collateralisation of the contracts. All derivatives are marked to market on a daily basis, with collateral being either returned or pledged based on the market valuation of the derivatives.

The Group's derivative contracts have an outstanding contractual period of up to 37 years (2019: 38 years).

In addition, cash collateral can be pledged or received as repurchase agreement contracts. Repurchase agreements are funding arrangements which allow a party to sell a financial asset as security to raise funds and the borrower agrees to repurchase the financial asset at a later agreed date. Where there is a movement in valuation of the underlying financial asset used as security, the borrower is required to pledge cash (known as 'valuation margin') to make up the shortfall in the value of the security. This valuation margin protects the counterparty against the risk that the security changes in value over time. Cash pledged in this way is ring-fenced for the sole purpose of collateralisation and is separate to the funds raised as part of the underlying repurchase agreement. At 31 December 2020 the Group has no cash (2019: £nil) pledged as collateral in repurchase arrangements.

For the Group and Society, total on-balance sheet cash pledged as collateral against derivative contracts at 31 December 2020 is £574.8m (2019: £436.8m). Off-balance sheet cash held against derivative contracts at 31 December 2020 is £5.3m (2019: £nil) for the Group and £27.7m (2019: £5.0m) for the Society.

11. Debt securities

The majority of debt securities held are highly liquid assets which are used on a continuing basis in the Group's activities.

Group	2020 FVOCI and Total £m	2019 FVOCI and Total £m
Gilts	303.2	291.9
Certificates of deposit	-	31.0
Fixed rate bonds	599.2	446.1
Floating rate notes	229.6	204.2
Treasury bills	12.5	779.8
Covered bonds	202.8	286.4
Residential mortgage backed securities	157.7	143.5
	1,505.0	2,182.9
Debt securities have remaining maturities as follows:		
In not more than three months	138.0	331.1
In more than three months but not more than one year	74.2	692.0
In more than one year but not more than five years	1,066.5	1,038.3
In more than five years	226.3	121.5
	1,505.0	2,182.9
Transferable debt securities comprise:		
Listed on a recognised investment exchange	1,505.0	2,151.9
Unlisted	-	31.0
	1,505.0	2,182.9

Society	2020 FVOCI £m	2020 FVTPL £m	2020 Total £m	2019 FVOCI £m	2019 FVTPL £m	2019 Total £m
Gilts	303.2	-	303.2	291.9	-	291.9
Certificates of deposit	-	-	-	31.0	-	31.0
Fixed rate bonds	599.2	-	599.2	446.1	-	446.1
Floating rate notes	204.6	-	204.6	204.2	-	204.2
Treasury bills	-	-	-	571.8	-	571.8
Covered bonds	202.8	-	202.8	286.4	-	286.4
Residential mortgage backed securities	300.1	97.8	397.9	165.1	36.0	201.1
	1,609.9	97.8	1,707.7	1,996.5	36.0	2,032.5
Debt securities have remaining maturities as follows:						
In not more than three months	152.5	36.9	189.4	227.9	-	227.9
In more than three months but not more than one year	74.2	-	74.2	587.2	-	587.2
In more than one year but not more than five years	1,156.9	60.9	1,217.8	1,059.9	36.0	1,095.9
In more than five years	226.3	-	226.3	121.5	-	121.5
	1,609.9	97.8	1,707.7	1,996.5	36.0	2,032.5
Transferable debt securities comprise:						
Listed on a recognised investment exchange	1,609.9	97.8	1,707.7	1,965.5	36.0	2,001.5
Unlisted	-	-	-	31.0	-	31.0
	1,609.9	97.8	1,707.7	1,996.5	36.0	2,032.5

The tables below provide further detail on the movement in debt securities during the year.

Group	2020 FVOCI and Total £m	2019 FVOCI and Total £m
At 1 January	2,182.9	1,383.1
Additions	2,414.6	2,611.5
Maturities and disposals	(3,107.6)	(1,811.0)
Changes in fair value	14.7	(0.7)
Other	0.4	-
At 31 December	1,505.0	2,182.9

Society	2020 FVOCI £m	2020 FVTPL £m	2020 Total £m	2019 FVOCI £m	2019 FVTPL £m	2019 Total £m
At 1 January	1,996.5	36.0	2,032.5	1,262.9	82.0	1,344.9
Additions	2,225.3	66.6	2,291.9	2,035.1	-	2,035.1
Maturities and disposals	(2,627.2)	-	(2,627.2)	(1,300.8)	(47.0)	(1,347.8)
Changes in fair value	15.3	(4.8)	10.5	(0.7)	1.0	0.3
At 31 December	1,609.9	97.8	1,707.7	1,996.5	36.0	2,032.5

11. Debt securities *(continued)*

The tables below provide further detail on the movement in the impairment loss allowance held in respect of debt securities during the year. There were no amounts written off by the Group or Society during the current or prior year.

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Loss allowance at 1 January	0.1	0.2	0.2	0.3
Increases due to origination, acquisition and additions	-	0.1	-	0.1
Decrease due to derecognition, repayments and disposals	(0.1)	(0.2)	(0.1)	(0.2)
Loss allowance at 31 December	-	0.1	0.1	0.2

All balances for Group and Society included in the table above are classified as FVOCI and held in stage 1 in both the current and prior year.

Collateral

At 31 December 2020, £0.5m (2019: £0.4m) of debt securities have been pledged by the Group, and £464.4m (2019: £117.8m) have been pledged by the Society, as collateral in repurchase transactions. These transactions are used to either obtain liquidity or to test the liquidity of the assets pledged as collateral. Where debt securities are pledged as collateral in repurchase transactions, the debt securities are not derecognised from the balance sheet and the transaction is accounted for as a secured loan.

Further detail on debt securities that have been pledged as collateral is found in the table below.

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Gilts	-	-	198.0	-
Fixed rate bonds	0.5	0.4	169.9	0.4
Treasury bills	-	-	-	61.7
Covered bonds	-	-	-	34.0
Residential mortgage backed securities	-	-	96.5	21.7
Total on-balance sheet debt securities pledged as collateral	0.5	0.4	464.4	117.8

The collateral is pledged for the duration of the repurchase agreement, and is returned on maturity of the agreement, subject to the repayment of the amount raised. The securities cannot be pledged again by the Group until maturity of the repurchase agreement, however the recipient of the collateral is free to sell or further repurchase the assets. As at 31 December 2020, the Group's repurchase agreements have a contractual period of up to two months (2019: two months).

There were no debt securities held by the Group or the Society at the end of 2020 or 2019 that were pledged as collateral by counterparties (known as 'reverse repurchase agreements').

Residential mortgage backed securities

The Group's investments in residential mortgage backed securities represent investments in unconsolidated structured entities, as described in note 1c).

The maximum exposure to losses from unconsolidated structured entities is equivalent to the book value plus accrued interest, determined by the carrying value of these investments plus any unrealised losses / less any unrealised gains recognised within the fair value reserve as shown below.

Group and Society	2020 £m	2019 £m
Carrying value of assets	157.7	143.5
Cumulative unrealised losses recognised in fair value reserve	0.8	0.4
Maximum exposure to loss at 31 December	158.5	143.9

During the year, the Group and Society received interest income of £1.2m (2019: £2.3m) from its investments in unconsolidated structured entities and incurred impairment charges of £nil (2019: £nil). In addition, £0.4m of unrealised losses were recognised through the fair value reserve (2019: £1.0m of unrealised gains).

No collateral has been received by the Group in respect of the above third party funding entities. The total size of unconsolidated structured entities as shown in the table above is determined by reference to the Group's total notional exposure to the unconsolidated structured entities in question.

The Group did not provide any non-contractual support, nor any contractual guarantees, during the current or prior year to unconsolidated structured entities and currently has no intentions to provide any such support. The Group is not required to absorb losses of any unconsolidated structured entities before other parties and the Group did not act as a sponsor to any unconsolidated structured entities during the current or prior year. The Group would, in general, be regarded as a sponsor of an unconsolidated structured entity if market participants would reasonably associate the entity with the Group.

At 31 December 2020 the Society also held £142.4m (2019: £21.6m) of residential mortgage backed securities held at FVOCI and £97.8m (2019: £36.0m) of residential mortgage backed securities held at FVTPL that were issued by the Group's securitisation vehicles Darrowby No. 4 plc and Darrowby No. 5 plc.

12. Loans and advances to customers held at amortised cost

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Loans fully secured on residential property	21,355.7	19,612.8	19,276.6	17,609.8
Other loans:				
Loans fully secured on land	201.2	230.2	201.2	230.2
Other loans and advances	155.9	164.9	-	-
Fair value adjustment for hedged risk	152.2	57.7	151.7	51.6
	21,865.0	20,065.6	19,629.5	17,891.6
The remaining maturity of loans and advances to customers from the reporting date is as follows:				
On call and at short notice	81.5	102.8	0.5	1.1
In not more than three months	22.9	29.7	17.2	19.5
In more than three months but not more than one year	49.5	58.2	39.7	27.7
In more than one year but not more than five years	599.4	650.0	514.8	454.6
In more than five years	21,153.6	19,241.8	19,087.5	17,399.5
	21,906.9	20,082.5	19,659.7	17,902.4
Less: Impairment (note 14)	(41.9)	(16.9)	(30.2)	(10.8)
	21,865.0	20,065.6	19,629.5	17,891.6

The values in the tables above for 2020 include a post model adjustment of £1.6m for Group and £1.4m for Society to reflect the estimated impact on ECLs of mortgage payment deferrals granted in response to the COVID-19 pandemic. For further details see note 1u).

Included in loans fully secured on residential property is a £22.9m adjustment (2019: £21.7m) in Group and a £38.3m adjustment (2019: £36.1m) in Society that arises as a result of applying the effective interest method of accounting for these mortgages. A critical factor in calculating this adjustment, which determines the overall carrying value of these mortgages and associated interest income recognised, is the expected life of the mortgages in question as the total interest income expected to be received is spread over this expected life using the effective interest method. Further details can be found in note 1u).

13. Transfers of financial assets

As outlined in note 1c) the Society has transferred the beneficial interest in certain portfolios of loans and advances to customers to the Group's special purpose vehicles (SPVs) Darrowby No. 4 plc, Darrowby No. 5 plc and Skipton Covered Bonds LLP, to enable the subsequent raising of debt to investors who gain the security of the underlying mortgage loans as collateral.

The transfers of the beneficial interest in the mortgage loans to the SPVs are not treated as sales by the Society and are not derecognised. The Society continues to recognise these assets within its own Statement of Financial Position because it substantially retains the risks and rewards of these mortgage portfolios. The Society continues to operationally manage these mortgage loans in the same manner as the remainder of its mortgage portfolio and is exposed to the rewards of these assets, primarily through the receipt of interest income, and is exposed to the risks of these assets, which is primarily exposure to the credit risk associated with these mortgage loans.

The underlying mortgage loans are ring-fenced and cannot be used for any purpose by the Society or the SPV other than as security for the debt raised.

At 31 December 2020, loans and advances to customers held at amortised cost include £3,406.4m (2019: £2,860.1m) of balances for both the Group and Society which have been used in these secured funding arrangements, resulting in the beneficial interest in these loans being transferred to Darrowby No. 4 plc (£117.8m; 2019: £150.1m), Darrowby No. 5 plc (£578.4m; 2019: £nil) and Skipton Covered Bonds LLP (£2,710.2m; 2019: £2,710.0m). These loans secure £2,354.7m (2019: £1,989.5m) of funding for the Group.

The proceeds received from the transfer of mortgage loans are accounted for as a deemed loan repayable to the SPVs in the Society's books. At 31 December 2020 the balance on the deemed loans repayable to Darrowby No. 4 plc and Darrowby No. 5 plc, which represent the proceeds received for the transferred financial assets, included in 'Amounts owed to other customers' in the Society was £696.2m (2019: £150.1m).

At 31 December 2020, the deemed loan repayable to Skipton Covered Bonds LLP, which represents the proceeds received for the transferred financial assets, was included within 'Loans to subsidiary undertakings' and netted against the term advance between the Society and the LLP. The balance on the deemed loan at 31 December 2020 was £1,812.0m (2019: £1,832.1m).

The Group's accounting policies for the derecognition of financial assets held at amortised cost are set out in note 1h). During the year, no gains or losses arose in respect of loans and advances to customers held at amortised cost that were derecognised by the Group or Society.

14. Impairment losses on loans and advances to customers

Group	Loans fully secured on residential property £m	Loans fully secured on land £m	Other loans and advances £m	Total £m
Loss allowance as at 1 January 2020	**9.6**	**6.5**	**0.8**	**16.9**
Amounts written off during the year, net of recoveries	**(0.2)**	**(0.2)**	**(0.3)**	**(0.7)**
Income statement charge for the year	**13.7**	**11.5**	**0.5**	**25.7**
Loss allowance as at 31 December 2020	**23.1**	**17.8**	**1.0**	**41.9**

	Loans fully secured on residential property £m	Loans fully secured on land £m	Other loans and advances £m	Total £m
Loss allowance as at 1 January 2019	9.9	7.9	0.8	18.6
Amounts written off during the year, net of recoveries	(0.8)	(1.2)	(0.2)	(2.2)
Income statement charge / (credit) for the year	0.5	(0.2)	0.2	0.5
Loss allowance as at 31 December 2019	9.6	6.5	0.8	16.9

Society	Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m
Loss allowance as at 1 January 2020	**4.3**	**6.5**	**10.8**
Amounts written off during the year, net of recoveries	**-**	**(0.2)**	**(0.2)**
Income statement charge for the year	**8.1**	**11.5**	**19.6**
Loss allowance as at 31 December 2020	**12.4**	**17.8**	**30.2**

	Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m
Loss allowance as at 1 January 2019	4.4	7.9	12.3
Amounts written off during the year, net of recoveries	-	(1.2)	(1.2)
Income statement credit for the year	(0.1)	(0.2)	(0.3)
Loss allowance as at 31 December 2019	4.3	6.5	10.8

The values in the tables above for 2020 include a post model adjustment of £1.6m for Group and £1.4m for Society to reflect the estimated impact on ECLs of mortgage payment deferrals granted in response to the COVID-19 pandemic. For further details see note 1u).

15. Equity release portfolio held at FVTPL

Movements during the year in the equity release portfolio are outlined below.

	Group and Society 2020 £m	2019 £m
At 1 January	**410.0**	410.9
Redemptions	**(3.7)**	(3.9)
Further advances	**0.1**	0.2
Movements in fair value	**19.7**	(6.0)
Realised losses on redemption	**(0.1)**	(0.5)
Accrued interest	**7.8**	9.3
At 31 December	**433.8**	410.0

Further details on how the valuation of the equity release portfolio is derived including the key inputs into the calculation are found in note 1e) and note 1u).

The Group holds derivative financial instruments to economically hedge the movements in fair value of the equity release portfolio. The loss in fair value of the derivatives held to hedge the equity release portfolio during the year was £22.4m (2019: £2.6m gain) and is included in the Income Statement line 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Other derivatives'.

The equity release portfolio comprises loans against which collateral is held in the form of property in the UK. As at 31 December 2020 this collateral was valued at £564.8m (2019: £563.8m).

16. Loans and advances to customers held at FVTPL

Movements during the year are outlined below.

	Group and Society 2020 £m	2019 £m
At 1 January	1.5	1.9
Repayments	(0.3)	(0.5)
Accrued interest	0.1	0.1
At 31 December	1.3	1.5

As outlined in note 1e), the above loans consist mainly of certain lifetime mortgages that are required, under IFRS 9, to be held at FVTPL.

Collateral is held against the above loans in the form of property in the UK and is valued as at 31 December 2020 at £7.2m (2019: £9.2m).

17. Investments in Group undertakings

a) Subsidiary undertakings

The net movement in investments in subsidiary undertakings during the year was as follows:

Society	Shares in subsidiary undertakings 2020 £m	2019 £m	Loans to subsidiary undertakings 2020 £m	2019 £m	Total 2020 £m	2019 £m
Cost						
At 1 January	183.5	183.5	777.9	854.4	961.4	1,037.9
Additions	-	-	71.1	21.2	71.1	21.2
Repayments	-	-	(117.7)	(97.7)	(117.7)	(97.7)
At 31 December	183.5	183.5	731.3	777.9	914.8	961.4
Provisions						
At 1 January	62.9	62.9	-	-	62.9	62.9
At 31 December	62.9	62.9	-	-	62.9	62.9
Net book value at 31 December	120.6	120.6	731.3	777.9	851.9	898.5

In respect of loans provided by the Society to its subsidiary undertakings, limits in place define the maximum amount that can be advanced to each subsidiary and any changes to these limits are required to be pre-approved by the Group Wholesale Credit Committee.

At the end of the current and preceding financial year the Group held a controlling interest in the following principal trading subsidiary undertakings:

Name of subsidiary undertaking	Principal business activity	Registered office	Percentage of ownership interest 2020	2019
Amber Homeloans Limited	Lending body	The Bailey, Skipton, North Yorkshire, BD23 1DN	100.0	100.0
Connells Limited and subsidiary undertakings*	Estate agency and related businesses	Cumbria House, 16-20 Hockliffe Street, Leighton Buzzard, Bedfordshire, LU7 1GN	99.8	99.8
Darrowby No. 4 plc	Funding vehicle	1 Bartholomew Lane, London, EC2N 2AX	(See below)	(See below)
Darrowby No. 5 plc	Funding vehicle	10th Floor, 5 Churchill Place, London, E14 5HU	(See below)	-
Jade Software Corporation Limited and subsidiary undertakings	Provider of software development services	5 Sir Gil Simpson Drive, Christchurch, New Zealand	99.98	99.98
North Yorkshire Mortgages Limited	Lending body	The Bailey, Skipton, North Yorkshire, BD23 1DN	100.0	100.0
Northwest Investments NZ Limited	Provider of software development services	C/- Bell Gully, Level 22 Vero Centre, 48 Shortland Street, Auckland, New Zealand	100.0	100.0
Skipton Business Finance Limited	Provider of debt factoring services	The Bailey, Skipton, North Yorkshire, BD23 1DN	100.0	100.0
Skipton Covered Bonds Limited Liability Partnership	Mortgage acquisition and guarantor of covered bonds	The Bailey, Skipton, North Yorkshire, BD23 1DN	(See below)	(See below)
Skipton Financial Services Limited	Financial adviser	The Bailey, Skipton, North Yorkshire, BD23 1DN	100.0	100.0
Skipton Group Holdings Limited (SGHL)	Intermediate holding company	The Bailey, Skipton, North Yorkshire, BD23 1DN	100.0	100.0
Skipton International Limited (SIL)	Offshore deposit taker and lender	Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 6DS	100.0	100.0
Skipton Trustees Limited	Provider of will writing services	The Bailey, Skipton, North Yorkshire, BD23 1DN	100.0	100.0

* Indicates where an option to purchase non-controlling interests in the future exists.

All the above entities are incorporated, registered and operate in the United Kingdom except for SIL, which is incorporated and registered in Guernsey and operates in Guernsey, Jersey and the UK; Northwest Investments NZ Limited, which is incorporated, registered and operates in New Zealand; and Jade Software Corporation Limited, which is incorporated and registered in New Zealand and operates worldwide.

Consolidation of special purpose vehicles (SPVs)

Darrowby No. 4 plc and Darrowby No. 5 plc are securitisation vehicles formed with only nominal share capital. Skipton Covered Bonds LLP, of which the Society is a member, was formed to guarantee payments on covered bonds that the Society issues to the wholesale market. These SPVs are funded through loans from the Society and their activities are carried out under the direction of the Society, in line with the transaction documentation. The Society is exposed to variable returns from these entities and has the ability to affect those returns in line with the transaction documentation; these SPVs therefore pass the test of control under IFRS 10 and are fully consolidated into the Group Accounts.

The Society has no contractual arrangements or intention to provide additional financial or other support to these SPVs.

b) Acquisitions

In 2020 Connells Limited purchased the trade and assets of a number of small businesses for total consideration of £1.3m (with a further £0.2m deferred consideration), generating goodwill of £0.8m.

In the prior year Connells Limited acquired a further 5.5% shareholding in Gascoigne Halman Group Limited for cash consideration of £0.6m, increasing the Group's shareholding to 82.75%. Connells also purchased the trade and assets of a number of small businesses for total consideration of £0.3m, generating goodwill of £0.2m.

c) Disposals

The profit on disposal of subsidiary undertakings for the year was £0.8m for the Group (2019: £1.1m) and £nil for the Society (2019: £nil).

17. Investments in Group undertakings *(continued)*

During 2014, the Group sold its then subsidiary Homeloan Management Limited (HML). The sale of HML to Computershare included contingent consideration dependent on HML's performance over a period following the disposal and this resulted in amounts being receivable by the Group of £32.5m between 2018 and 2022.

The third instalment of £6.4m was received by the Group in May 2020 (May 2019: £6.2m) and the discounted contingent consideration asset stands at £12.3m at 31 December 2020 (2019: £17.9m). The profit recognised in the Income Statement in relation to the HML disposal during the year of £0.8m (2019: £1.1m) is included in the 'Profit on disposal of subsidiary undertakings' line in the Income Statement.

d) Joint ventures

At 31 December 2020, the Group held interests in the following companies that are classed as joint ventures:

Name of investment	Principal business activity	Registered office	Class of shares held	Percentage of ownership interest 2020	2019
TM Group (UK) Limited	Property search services	1200 Delta Business Park, Swindon, Wiltshire, SN5 7XZ	Ordinary	33.3	33.3
Cybele Solutions Holdings Limited	Conveyancing services	Bickerton House, Lloyd Drive, Ellesmere Port, Cheshire, CH65 9HQ	Ordinary	50.0	50.0
Vibrant Energy Matters Limited	Home energy, property and eco services	2 Foxes Lane, Oakdale Business Park, Blackwood, Gwent, NP12 4AB	Ordinary	46.1	46.1

The Group's combined share of net assets and the Group's combined share of profit after tax for the above joint ventures are as shown within the Statement of Financial Position and Income Statement respectively. The Directors have reviewed the carrying value of joint ventures included in the table above in the year and an impairment charge of £1.0m was made against Cybele Solutions Holdings Limited and £0.5m against Vibrant Energy Matters Limited and these are recognised in the income statement in the 'Impairment of Joint Ventures' line.

e) Equity share investments

At 31 December 2020, the Group held interests in the following companies:

		Percentage of ownership interest		Carrying value	
		2020	2019	2020	2019
Name of investment	Principal business activity	%	%	£m	£m
Hearthstone Investments plc	Property fund management	17.1	17.1	-	-
OnTheMarket plc	Property search provider	0.3	0.1	0.3	0.2
Viewber Limited	Property viewings services	3.2	2.7	0.4	0.3
Tactile Limited	Software application provider	8.7	8.7	0.4	0.4
Global Property Ventures Limited	Property management services	5.7	5.7	0.6	0.6
Twenty7Tec Group Ltd	Software application provider	2.0	1.2	-	-
				1.7	1.5

The movement in the Group's equity share investments during the year is analysed below:

	Group 2020 £m	Group 2019 £m
At 1 January	1.5	0.8
Additions	0.1	0.7
Fair value gains recognised in Income Statement	0.1	-
At 31 December	1.7	1.5

Listed investments

The carrying value of the Group's investment in OnTheMarket plc is determined by reference to that company's share price.

Unlisted investments

The carrying values of the Group's investments in Viewber Limited, Tactile Limited (trading as Fixflo), Global Property Ventures Limited and Twenty7Tec Group Ltd are the cost of the amounts invested by the Group. The Directors have reviewed all these investments and consider that their respective carrying values represent the best indication of fair value. The investment in Hearthstone Investments plc has been written down in full in previous years.

18. Property, plant and equipment

Group	2020 Land and buildings £m	2020 Equipment, fixtures and fittings £m	2020 Total £m	2019 Land and buildings £m	2019 Equipment, fixtures and fittings £m	2019 Total £m
Cost						
At 1 January	100.8	97.3	198.1	99.7	94.4	194.1
Additions	4.9	6.4	11.3	5.7	7.0	12.7
Disposals	(1.8)	(4.0)	(5.8)	(4.6)	(4.0)	(8.6)
Foreign exchange movements on translation	-	0.1	0.1	-	(0.1)	(0.1)
Reclassification to investment property	(0.2)	-	(0.2)	-	-	-
At 31 December	103.7	99.8	203.5	100.8	97.3	198.1
Depreciation						
At 1 January	47.7	74.7	122.4	46.7	69.5	116.2
Charge for the year	5.5	8.0	13.5	5.4	7.9	13.3
Impairment charge	0.1	-	0.1	-	0.5	0.5
Disposals	(1.4)	(3.6)	(5.0)	(4.4)	(3.1)	(7.5)
Foreign exchange movements on translation	-	0.1	0.1	-	(0.1)	(0.1)
Reclassification to investment property	(0.1)	-	(0.1)	-	-	-
At 31 December	51.8	79.2	131.0	47.7	74.7	122.4
Net book value at 1 January	53.1	22.6	75.7	53.0	24.9	77.9
Net book value at 31 December	51.9	20.6	72.5	53.1	22.6	75.7

18. Property, plant and equipment *(continued)*

Society	2020 Land and buildings £m	2020 Equipment, fixtures and fittings £m	2020 Total £m	2019 Land and buildings £m	2019 Equipment, fixtures and fittings £m	2019 Total £m
Cost						
At 1 January	53.2	40.7	93.9	53.2	38.1	91.3
Additions	4.3	1.7	6.0	4.3	2.7	7.0
Disposals	(1.2)	(1.0)	(2.2)	(4.3)	(0.1)	(4.4)
Reclassification to investment property	(0.2)	-	(0.2)	-	-	-
At 31 December	56.1	41.4	97.5	53.2	40.7	93.9
Depreciation						
At 1 January	21.1	33.6	54.7	23.2	31.6	54.8
Charge for the year	2.2	2.1	4.3	2.0	1.6	3.6
Impairment charge	0.1	-	0.1	-	0.5	0.5
Disposals	(1.2)	(1.0)	(2.2)	(4.1)	(0.1)	(4.2)
Reclassification to investment property	(0.1)	-	(0.1)	-	-	-
At 31 December	22.1	34.7	56.8	21.1	33.6	54.7
Net book value at 1 January	32.1	7.1	39.2	30.0	6.5	36.5
Net book value at 31 December	34.0	6.7	40.7	32.1	7.1	39.2

The net book value of land and buildings comprises:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Freehold	41.3	40.5	27.5	26.2
Long leasehold	1.3	1.4	0.9	1.0
Short leasehold	9.3	11.2	5.6	4.9
	51.9	53.1	34.0	32.1

19. Right-of-use assets

Group	2020 Land and buildings £m	2020 Equipment, fixtures and fittings £m	2020 Total £m	2019 Land and buildings £m	2019 Equipment, fixtures and fittings £m	2019 Total £m
Cost						
Balance at 31 December	77.4	6.6	84.0	-	-	-
Adjustment on initial adoption of IFRS 16	-	-	-	67.0	1.1	68.1
Adjusted balance at 1 January	77.4	6.6	84.0	67.0	1.1	68.1
Additions	9.6	0.6	10.2	11.2	5.7	16.9
Lease modifications and remeasurements	3.4	(0.2)	3.2	1.5	(0.1)	1.4
Disposals	(4.6)	(0.2)	(4.8)	(2.3)	(0.1)	(2.4)
At 31 December	85.8	6.8	92.6	77.4	6.6	84.0
Depreciation						
Balance at 31 December	16.0	0.6	16.6	-	-	-
Adjustment on initial adoption of IFRS 16	-	-	-	0.6	-	0.6
Adjusted balance at 1 January	16.0	0.6	16.6	0.6	-	0.6
Charge for the year	15.7	1.3	17.0	16.3	0.7	17.0
Impairment charge	1.5	-	1.5	-	-	-
Disposals	(3.0)	(0.4)	(3.4)	(0.9)	(0.1)	(1.0)
At 31 December	30.2	1.5	31.7	16.0	0.6	16.6
Net book value at 1 January	61.4	6.0	67.4	66.4	1.1	67.5
Net book value at 31 December	55.6	5.3	60.9	61.4	6.0	67.4

19. Right-of-use assets *(continued)*

Society	2020 Land and buildings £m	2020 Equipment, fixtures and fittings £m	2020 Total £m	2019 Land and buildings £m	2019 Equipment, fixtures and fittings £m	2019 Total £m
Cost						
Balance at 31 December	15.6	0.2	15.8	-	-	-
Adjustment on initial adoption of IFRS 16	-	-	-	13.7	0.1	13.8
Adjusted balance at 1 January	15.6	0.2	15.8	13.7	0.1	13.8
Additions	3.2	-	3.2	3.0	0.1	3.1
Disposals	(2.5)	-	(2.5)	(1.1)	-	(1.1)
At 31 December	16.3	0.2	16.5	15.6	0.2	15.8
Depreciation						
Balance at 31 December	3.0	0.1	3.1	-	-	-
Adjustment on initial adoption of IFRS 16	-	-	-	0.3	-	0.3
Adjusted balance at 1 January	3.0	0.1	3.1	0.3	-	0.3
Charge for the year	2.6	-	2.6	3.0	0.1	3.1
Impairment charge	0.1	-	0.1	-	-	-
Disposals	(1.3)	-	(1.3)	(0.3)	-	(0.3)
At 31 December	4.4	0.1	4.5	3.0	0.1	3.1
Net book value at 1 January	12.6	0.1	12.7	13.4	0.1	13.5
Net book value at 31 December	11.9	0.1	12.0	12.6	0.1	12.7

The Group's leases relate mainly to branch premises operated by the Society and by Connells. The Group's leases are typically negotiated on an individual basis and thus include a wide variety of terms and conditions, including options to extend or terminate. There are no significant restrictions or covenants, residual value guarantees or sale and leaseback transactions. As at 31 December 2020, the lease liability (see note 27) is considered by the Group to represent a reliable estimate of the present value of the future cash outflows to which the Group is exposed.

A number of the Group's leased properties are sublet, in full or in part, by the Group. For the year ended 31 December 2020, other operating income includes £0.3m (2019: £0.5m) (Group) and £0.1m (2019: £0.1m) (Society) relating to the subleasing of properties accounted for as right-of-use assets.

For details of the Group's lease liabilities, see note 27. For further details of the Group's lease expenses in the year, see note 5.

20. Investment property

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Cost				
At 1 January	24.7	28.1	24.7	28.0
Additions	0.3	-	0.3	-
Disposals	(0.1)	(3.4)	(0.1)	(3.4)
Reclassification from property, plant and equipment	0.2	-	0.2	-
Other	-	-	-	0.1
At 31 December	25.1	24.7	25.1	24.7
Depreciation				
At 1 January	15.3	16.1	15.3	16.0
Charge for the year	0.7	0.6	0.7	0.6
Impairment charge	1.0	-	1.0	-
Disposals	(0.1)	(1.4)	(0.1)	(1.4)
Reclassification from property, plant and equipment	0.1	-	0.1	-
Other	-	-	-	0.1
At 31 December	17.0	15.3	17.0	15.3
Net book value at 1 January	9.4	12.0	9.4	12.0
Net book value at 31 December	8.1	9.4	8.1	9.4

All investment property relates to property purchased by the Society and is either unoccupied by the Society or relates to branches where part of the property is subleased.

The amount of rental income from investment property recognised in the Income Statement during the year was £1.8m (2019: £1.7m) for the Group and Society.

The aggregate estimated market value of investment properties is set out in the table below:

	Group and Society 2020 £m	Group and Society 2019 £m
Market value of investment property	9.5	13.0

The estimated market value of the investment properties has been determined by an appropriately qualified internal valuer, supported by external valuations where appropriate, in accordance with RICS Appraisal and Valuation Standards and is an indication of fair value. This fair value measurement is categorised as a Level 3 fair value measurement, as described in note 41b).

For the majority of the Group's investment properties, fair value is estimated using the market valuation approach which uses prices and other relevant information generated by market transactions involving comparable properties. Where comparable transactions may not be available, the Group may also consider a discounted cash flow technique which considers the present value of the net cash flows to be generated from the property, taking into account expected rental growth, void periods and rent-free periods. The expected net cash flows are discounted using risk-adjusted discount rates.

The Directors have assessed the carrying value of the investment properties compared to their fair value and have concluded that £1.0m of impairment should be recognised during the year (2019: no impairment).

21. Intangible assets

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Goodwill	135.4	137.5	-	-
Other intangible assets	22.3	25.1	2.2	3.4
	157.7	162.6	2.2	3.4

Goodwill	Group 2020 £m	Group 2019 £m
Cost, less amortisation to 1 January 2004*		
At 1 January	147.2	147.4
Acquisitions of subsidiary undertakings and business units	0.8	0.2
Revaluation of put options	(0.9)	-
Written off	-	(0.4)
At 31 December	147.1	147.2
Impairment losses		
At 1 January	9.7	10.1
Impairment loss during the year	2.0	-
Written off	-	(0.4)
At 31 December	11.7	9.7
Net book value at 1 January	137.5	137.3
Net book value at 31 December	135.4	137.5

* Prior to the transition to IFRS on 1 January 2005 goodwill was held at cost less accumulated amortisation in line with UK GAAP. Goodwill arising on acquisitions before the transition to IFRS on 1 January 2005 has been retained at its previous UK GAAP amount, as described in note 1d).

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

Operating segment	Group 2020 Cost of goodwill £m	Group 2020 Accumulated impairment £m	Group 2020 Carrying value £m	Group 2019 Cost of goodwill £m	Group 2019 Accumulated impairment £m	Group 2019 Carrying value £m
Mortgages and Savings	2.9	0.1	2.8	2.9	0.1	2.8
Estate Agency	135.8	6.7	129.1	135.9	4.7	131.2
Investment Portfolio	8.4	4.9	3.5	8.4	4.9	3.5
Total goodwill	147.1	11.7	135.4	147.2	9.7	137.5

Based upon the Directors' assessment of recoverable amounts, the Directors have concluded that impairment of £2.0m is required to be recognised in respect of goodwill within the Estate Agency division in 2020 (2019: no impairment).

The recoverable amounts of the operating segments are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding cash flows, discount rates and growth rates.

The cash flows are derived from the most recent corporate plans for the next five years, which take into account the risks inherent in each of the businesses. The cash flows are extrapolated for subsequent years indefinitely (or a specific number of years where circumstances dictate), to reflect that the subsidiary undertakings are held for long term investment, based on a long-term growth rate of 2.5% (2019: 2.5%) or specific growth rates where circumstances dictate.

The cash flows from the corporate plans are based upon the following key drivers:

Operating segment	Key drivers
Mortgages and Savings	Volume of new business, level of unemployment, house price inflation and interest rates
Estate Agency	Volume of UK property transactions, house price inflation, level of unemployment and interest rates
Investment Portfolio	Volume of new business, level of unemployment and interest rates

The Group estimates discount rates based upon the weighted average cost of capital which is adjusted to take account of the market risks associated with each cash generating unit.

The pre-tax discount rates are as follows:

Operating segment	Group 2020 %	Group 2019 %
Mortgages and Savings	12	11
Estate Agency	14	10
Investment Portfolio	10	10

Other intangible assets	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Cost				
At 1 January	95.7	92.0	21.5	19.7
Acquisition of other business assets	0.7	0.3	-	-
Additions	3.9	7.7	0.3	1.8
Foreign exchange movements on translation	0.8	(0.9)	-	-
Disposals	(0.6)	(3.4)	(0.6)	-
At 31 December	100.5	95.7	21.2	21.5
Amortisation and impairment				
At 1 January	70.6	67.9	18.1	17.2
Amortisation charge for the year	6.9	6.8	0.9	0.9
Foreign exchange movements on translation	0.7	(0.7)	-	-
Disposals	-	(3.4)	-	-
At 31 December	78.2	70.6	19.0	18.1
Net book value at 1 January	25.1	24.1	3.4	2.5
Net book value at 31 December	22.3	25.1	2.2	3.4

The net book value of other intangible assets comprises:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Brands	6.5	6.5	-	-
Customer contracts and relationships	3.0	4.6	-	-
Computer software and databases	12.8	14.0	2.2	3.4
	22.3	25.1	2.2	3.4

22. Other assets

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Trade receivables	27.8	30.7	1.8	1.4
Prepayments	14.1	14.8	8.9	10.6
Accrued income	5.5	9.8	0.9	3.9
Contingent consideration	12.3	17.9	-	-
Share warrants	6.5	3.2	-	-
Other	4.9	6.1	0.6	1.0
	71.1	82.5	12.2	16.9

Further details regarding trade receivables are included in note 40c).

23. Shares

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Held by individuals	18,547.1	17,201.1	18,547.1	17,201.1
Other shares	158.2	161.0	158.2	161.0
Fair value adjustment for hedged risk	4.1	2.0	19.9	0.2
	18,709.4	17,364.1	18,725.2	17,362.3

A maturity analysis of shares is included in note 38.

24. Amounts owed to credit institutions

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Amounts owed to subsidiary undertakings	-	-	389.6	66.7
Other	2,149.2	1,678.3	2,149.2	1,676.9
	2,149.2	1,678.3	2,538.8	1,743.6

A maturity analysis of amounts owed to credit institutions is included in note 38.

25. Amounts owed to other customers

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Amounts owed to subsidiary undertakings	-	-	886.5	314.8
Other	2,129.8	1,816.6	110.5	100.6
Fair value adjustment for hedged risk	0.5	0.3	-	-
	2,130.3	1,816.9	997.0	415.4

A maturity analysis of amounts owed to other customers is included in note 38.

Amounts owed to other customers by the Group relate primarily to retail deposits accepted through the Group's Channel Islands based subsidiary, Skipton International Limited. At 31 December 2020 the amount of such deposits included above, net of fair value adjustment for hedged risk, is £1,937.9m (2019: £1,644.7m).

Amounts owed to subsidiary undertakings by the Society include £696.2m (2019: £150.1m) in respect of the deemed loans from the special purpose vehicles (SPVs) Darrowby No. 4 plc and Darrowby No. 5 plc which have been designated as at FVTPL and amortised cost respectively, in line with the accounting policies outlined in note 1f).

As also outlined in note 1f), any changes in fair value of the deemed loan from Darrowby No. 4 plc attributable to changes in credit risk of the Society are recognised in other comprehensive income. The deemed loan is an agreement to pay over the income received by the Society on the mortgage pool to the SPV and the only credit risk that arises is from the Society, however the Society is not required to make up any shortfall (i.e. any bad debts from customers within the mortgage pool) as per the deemed loan contract and therefore the credit risk on cash flows owed to Darrowby No. 4 plc is considered very low. During the year, and cumulatively to the reporting date, there has been no change in the fair value of the deemed loan from Darrowby No. 4 plc that is attributable to changes in the Society's own credit risk; the Group has determined this on the grounds that the credit risk within this deemed loan is very low. The difference between the amount the Society would be contractually obliged to pay at maturity in order to discharge this liability and the carrying value as at 31 December 2020 is £nil (2019: £nil). There have been no transfers of the cumulative gain or loss within equity during the year (2019: none).

26. Debt securities in issue

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Certificates of deposit	14.1	-	14.1	-
Senior unsecured debt	66.5	349.1	66.5	349.1
Covered bonds	1,889.7	1,889.1	1,895.5	1,846.2
Securitisation	465.0	100.4	-	-
Fair value adjustment for hedged risk	17.2	(36.0)	0.6	(0.4)
	2,452.5	2,302.6	1,976.7	2,194.9

A maturity analysis of debt securities in issue is included in note 38.

Group debt securities in issue include £2,354.7m (2019: £1,989.5m) of funding secured on certain loans and advances to customers through the Group's securitisation vehicles Darrowby No. 4 plc, Darrowby No. 5 plc and the special purpose vehicle Skipton Covered Bonds LLP.

27. Lease liabilities

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Balance at 31 December	66.6	-	12.5	-
Adjustment on initial adoption of IFRS 16	-	64.7	-	13.0
Adjusted balance at 1 January	66.6	64.7	12.5	13.0
Additions	10.3	17.0	3.2	3.0
Modifications / remeasurements of existing lease liabilities	3.4	1.4	-	-
Transfer from provision for the costs of surplus properties (note 29)	-	1.2	-	-
Interest charged	1.3	1.4	0.2	0.3
Lease payments (including interest)	(17.6)	(17.7)	(2.6)	(3.1)
Disposals	(1.5)	(1.4)	(1.1)	(0.7)
Balance at 31 December	62.5	66.6	12.2	12.5

A maturity analysis of lease liabilities is included in note 38.

For details of the Group's right-of-use assets, see note 19. For further details of the Group's lease expenses in the year, see note 5.

28. Other liabilities

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Trade payables	4.7	6.7	2.1	2.5
Fair value of put option obligation	6.9	7.5	-	-
Fair value of liability of subsidiary management incentive scheme	4.4	3.8	-	-
VAT and employment taxes	19.2	15.0	3.8	2.1
Other	15.7	19.6	5.6	7.3
	50.9	52.6	11.5	11.9

Put option obligation

The movement in the fair value of the put option obligation is summarised below:

	Group 2020 £m	Group 2019 £m
At 1 January	7.5	8.3
Unwind of the discount factor	0.2	0.2
Exercise of put options by non-controlling shareholders	-	(0.6)
Revaluation of market values and changes to future exercise dates	(0.8)	(0.4)
At 31 December	6.9	7.5

Subsidiary management incentive scheme

Three members of Connells Limited senior management purchased equity shares in that company in 2014 or 2019. At the same time, the Group issued options to these shareholders to require SGHL to purchase their shareholdings in Connells Limited at some future dates. At the end of 2020, all three options remain outstanding, with the maximum option length being seven years from 31 December 2020. In accordance with IFRS 2 *Share-based Payment*, this is a cash-settled scheme in the Group Accounts, with the fair value of the liability being spread over the period to exercise. The fair value of the liability is subsequently remeasured at each reporting date with any changes in fair value recognised in the Income Statement.

The movement in the fair value of the liability of the subsidiary management incentive scheme is summarised below:

	Group 2020 £m	Group 2019 £m
At 1 January	3.8	10.6
Exercise of share options during the year	(0.6)	(9.3)
Share options issued in the year	-	0.7
Movement in fair value of the liability recognised in the Income Statement	1.2	1.8
At 31 December	4.4	3.8

29. Provisions for liabilities

The movements in provisions for liabilities during the year were as follows:

Group 2020	Provision for the costs of surplus properties £m	Commission clawbacks £m	Survey and valuation claims £m	Customer compensation £m	Other provisions £m	Total £m
At 1 January 2020	1.5	13.9	4.0	0.7	3.6	23.7
(Credit) / charge for the year	(0.2)[1]	9.1[2]	0.3[1]	0.6[1]	(0.9)[1]	8.9
Utilised during the year	-	(10.5)	(0.1)	(0.7)	(2.4)	(13.7)
At 31 December 2020	1.3	12.5	4.2	0.6	0.3	18.9

Group 2019	Provision for the costs of surplus properties £m	FSCS £m	Commission clawbacks £m	Survey and valuation claims £m	Customer compensation £m	Other provisions £m	Total £m
At 31 December 2018	3.7	-	10.7	3.7	5.9	0.3	24.3
Adjustment on initial adoption of IFRS 16	(0.6)	-	-	-	-	-	(0.6)
At 1 January 2019	3.1	-	10.7	3.7	5.9	0.3	23.7
(Credit) / charge for the year	(0.1)[1]	(0.3)[1]	15.2[2]	0.8[1]	(0.8)[1]	3.3[1]	18.1
Transfer to lease liabilities (note 27)	(1.2)	-	-	-	-	-	(1.2)
Utilised during the year	(0.3)	0.3	(12.0)	(0.5)	(4.4)	-	(16.9)
At 31 December 2019	1.5	-	13.9	4.0	0.7	3.6	23.7

Society 2020	Commission clawbacks £m	Customer compensation £m	Other provisions £m	Total £m
At 1 January 2020	0.3	0.5	0.2	1.0
Charge for the year	-	0.5[1]	-	0.5
Utilised during the year	(0.1)	(0.5)	-	(0.6)
At 31 December 2020	0.2	0.5	0.2	0.9

Society 2019	Provision for the costs of surplus properties £m	FSCS £m	Commission clawbacks £m	Customer compensation £m	Other provisions £m	Total £m
At 31 December 2018	0.3	-	0.4	3.5	0.2	4.4
Adjustment on initial adoption of IFRS 16	(0.3)	-	-	-	-	(0.3)
At 1 January 2019	-	-	0.4	3.5	0.2	4.1
Credit for the year	-	(0.3)[1]	-	(0.8)[1]	-	(1.1)
Utilised during the year	-	0.3	(0.1)	(2.2)	-	(2.0)
At 31 December 2019	-	-	0.3	0.5	0.2	1.0

Notes

1. The (credit) / charge for the year is recognised within the 'Provisions for liabilities' line in the Income Statement.
2. The provision for commission clawbacks include an expected future clawback on insurance commissions in the event of early termination by the customer. Insurance commission income is recognised net of these provisions, and therefore the charge for the year of £9.1m (2019: £15.2m) has been recognised against 'Fees and commissions receivable' in the Income Statement.

29. Provisions for liabilities *(continued)*

Provision for the costs of surplus properties

The dilapidation provision was booked prior to the introduction of IFRS 16 for properties with non-cancellable leases where the Group no longer occupies the property. The provision represents the rent to the end of the lease, less any rental income from subletting the properties. The provision for the costs of surplus properties is expected to reverse over the remaining life of the leases or period to anticipated date of disposal, if sooner.

Commission clawbacks

The commission clawback provision represents an estimate of the repayment of commission to suppliers as a result of cancelled policies sold by the Estate Agency division and the financial advice activities of the Group. These are estimated based upon anticipated cancellation rates and arise in the normal course of business.

Survey and valuation claims

Provision is made for professional indemnity claims and potential claims that arise during the normal course of business in relation to surveys and valuations carried out by the Connells group. The provision is based upon the expected level of future professional indemnity claims relating to services already provided and the value provided on each claim is the lower of the professional indemnity insurance excess per claim or the estimated exposure. To assess the level of future claims, analysis is performed on the number of preliminary notifications expected to turn into future claims and on historical claim trends to forecast the number of future claims where a notification is yet to be received. Historical data on claims success frequency and value is also used to estimate the size of the liability.

The professional indemnity claim provision is stated at the Directors' best estimate of the eventual liability, based on the information available at the time. Whilst the level of future claims is uncertain, the Group has robust processes in place that aim to restrict the number and magnitude of these.

Due to the nature of the professional indemnity claims it is difficult to indicate approximate payment timescales or claims received in future years. The provision will be utilised as individual claims are settled.

Customer compensation

The customer compensation provision includes provisions for claims on payment protection insurance (PPI) of £0.2m (2019: £0.3m).

30. Deferred tax

Deferred tax is calculated on temporary differences under the statement of financial position asset and liability method, using the enacted tax rate expected to apply in the relevant tax jurisdiction when these differences reverse, which is 27% (2019: 25%) for the Society and 19% (2019: 17%) for most other Group companies.

The movement in deferred tax during the year was as follows:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
At 1 January	36.9	35.9	26.3	25.7
Income Statement credit / (charge) (note 9)	0.3	0.8	(0.4)	(1.2)
Items taken directly to other comprehensive income	8.1	0.2	4.0	1.8
Assumed on acquisition of business assets	(0.1)	-	-	-
At 31 December	45.2	36.9	29.9	26.3

The adoption of IFRS 9 in 2018 resulted in an adjustment to the deferred tax asset in the Group of £12.9m and in the Society of £13.3m, which is being released to the Income Statement over a 10 year period as permitted by the standard.

Deferred tax assets and liabilities are attributable to the following items:

Deferred tax assets

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Fixed asset temporary differences	2.7	2.0	0.8	0.8
Intangible asset temporary differences (note 1)	(0.2)	-	-	-
Derivatives and loans	12.2	12.9	8.2	10.5
Pension obligations	24.4	19.0	15.8	12.6
Provisions	1.8	1.9	0.3	0.4
Corporation tax losses	0.6	0.5	-	-
Contingent consideration (note 1)	(1.9)	(2.5)	-	-
Cash flow hedges	5.6	1.8	4.8	0.9
Other	1.2	3.0	-	1.4
	46.4	38.6	29.9	26.6

Note
1.Deferred tax assets and liabilities relating to the same taxation authority are offset within the Statement of Financial Position where there is a legally enforceable right of offset and the intention is to settle tax liabilities and assets on a net basis.

Deferred tax liabilities

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Fixed asset temporary differences	0.2	-	-	-
Intangible asset temporary differences	0.9	0.9	-	-
Derivatives and loans	-	0.5	-	-
Financial assets held at FVOCI	-	0.3	-	0.3
Other	0.1	-	-	-
	1.2	1.7	-	0.3
Net deferred tax asset	45.2	36.9	29.9	26.3

The deferred tax (credit) / charge in the Income Statement comprises the following:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Fixed asset temporary differences	(0.5)	(1.0)	-	(0.7)
Intangible asset temporary differences	0.2	(0.2)	-	-
Provisions	0.1	0.4	-	0.5
Derivatives and loans	0.3	-	0.4	-
Contingent consideration	(0.6)	(0.8)	-	-
Other	0.2	0.8	-	1.4
	(0.3)	(0.8)	0.4	1.2

Unrecognised deferred tax relating to trading losses carried forward at 31 December 2020 amounts to £2.9m (2019: £2.9m) for the Group and £nil for the Society (2019: £nil).

The majority of deferred tax assets are anticipated to be recoverable after one year. The Group's plans indicate that the Group and Society will generate sufficient taxable profits over its five-year planning period to absorb the corporation tax losses included within deferred tax at the reporting date, together with those other temporary differences that are expected to reverse during that period.

31. Pensions

Defined contribution schemes

The amount charged to the Income Statement in respect of contributions to the Group's defined contribution and stakeholder pension arrangements is the contribution payable in the year. The total pension cost charged to the Income Statement amounted to £12.9m for the Group (2019: £12.2m) and £6.2m for the Society (2019: £5.8m).

Defined benefit schemes

The Group sponsors two funded defined benefit arrangements and one hybrid arrangement (with a funded defined benefit element). Skipton Pension Trustees Limited, a company that acts as the sole Trustee of each scheme, has been appointed to manage all three schemes:

- The Skipton (2015) Group Pension Scheme (the 'Skipton (2015) Scheme')
- The Connells (2014) Group Pension Scheme (the 'Connells (2014) Scheme')
- The Holmesdale Building Society Pension Scheme (the 'Holmesdale Scheme')

These are separate trustee administered funds holding the pension scheme assets to meet long-term liabilities for current and past employees as follows:

- Skipton (2015) Scheme – 728 members
- Connells (2014) Scheme – 960 members
- Holmesdale Scheme – 5 members

The level of retirement benefit in each scheme is principally based on salary and is linked to changes in inflation up to retirement. For all three schemes the level of retirement benefit is based on salary earned in each year of employment prior to leaving active service as follows:

- Skipton (2015) Scheme. There are two separate benefits sections within the scheme, as a result of the merger of two former pension schemes into the Skipton (2015) Scheme, where members' benefits in the former pension schemes were preserved. The benefits are as follows:
    - Old Skipton Scheme - the highest annual average salary earned over three consecutive years in the last 10 years of employment prior to leaving active service or, for members previously employed by Skipton Financial Services, the annual average salary earned in the last five years of employment prior to leaving active service;
    - Scarborough Scheme - the highest (prior to 2003) or the average (post 2003) annual salary earned in the last three years of employment prior to leaving active service.
- Connells (2014) Scheme. There are three separate benefit sections within the scheme, as the Connells (2014) Scheme is a result of three previous schemes merged into one scheme in 2014. The benefits are as follows:
    - Scheme 1 - the highest annual average salary earned over three consecutive years in the last 10 years of employment prior to leaving active service;
    - Scheme 2 - the annual average salary earned in the last three years of employment prior to leaving active service;
    - Scheme 3 - the greater of the annual average salary earned in the last three years and the highest annual average salary earned over three consecutive years in the last 10 years of employment prior to leaving active service.
- Holmesdale Scheme - the highest pensionable salary in the last five years immediately preceding 5 April 2004, or if earlier the highest pensionable salary in the last five years immediately preceding normal retirement date or the last date of employment prior to leaving active service.

The schemes are all closed to new members and to the future accrual of benefits, with the exception of the Scarborough section of the Skipton (2015) Scheme where active members retain a link to salary (capped at 5% per annum). The Scarborough Scheme closed to the future accrual of benefits, subject to the exception noted above, on 1 May 2007, the Connells (2014) Scheme on 1 January 2009, the Skipton (2015) Scheme on 31 December 2009 and the Holmesdale Scheme on 31 March 2004. Following the closure of all the schemes, all active members left pensionable service and became entitled to deferred benefits.

The schemes are subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and guidance notes adopted by the Financial Reporting Council, sets out the framework for funding defined benefit occupational pension schemes in the UK.

The Trustee of each scheme is required to act in the best interests of the scheme's beneficiaries. The appointment of the Trustee is determined by the scheme's trust documentation.

Full actuarial valuations were carried out as at the dates set out below in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of each scheme is agreed between the Group and the Trustee in line with those requirements. This legislation requires the deficit to be calculated using prudent, as opposed to best estimate, actuarial assumptions. The most recent actuarial valuations for each of the schemes showed the following:

Scheme	Valuation date	Deficit £m	Recovery period	Annual contribution £m
Skipton (2015)	31 December 2019	59.1	7 years	1.7
Connells (2014)	30 April 2020	64.1	7 years	2.9
Holmesdale	31 December 2017	0.2	5 years	-

The actuarial valuations of each scheme showed deficits and the Group has agreed with the Trustees that it will aim to eliminate the deficit over a specified period by the payment of annual contributions as agreed by the Group and the Trustees. The current best estimate of contributions to be paid by the Group to the schemes for the year commencing 1 January 2021 is £45.1m, which includes expected lump sum payments of £40.5m, for further details of which see page 181.

The pension obligations are valued separately for accounting and funding purposes. For the purposes of IAS 19 *Employee Benefits*, the actuarial valuations, which were carried out by a qualified independent actuary, have been updated on an approximate basis to 31 December 2020. The actuarial valuation deficits shown in the table above will always be different to the IAS 19 accounting deficit of £96.4m (2019: £87.0m) as, in addition to the different dates of each valuation, accounting standards require best estimate assumptions to be used whereas the funding valuation uses more prudent assumptions. There have been no material changes in the valuation methodology adopted for this year's disclosures compared to the previous year's disclosures.

Scheme expenses and levies to the Pension Protection Fund are payable by the Group as and when they are due and are accounted for within the Group's administrative expenses.

The aggregate costs of the three schemes are recognised in accordance with IAS 19.

The main financial assumptions used in the actuarial valuation are as follows:

	Group and Society 2020 %	2019 %
Retail price inflation (RPI)	**3.00**	3.00
Consumer price inflation (CPI)	**2.50**	2.00
Discount rate	**1.45**	2.05
Increases to pension payment:		
in line with RPI, subject to a max of 5% pa	**2.95**	2.95
in line with RPI, subject to a min of 3% and max of 5% pa	**3.52**	3.52
in line with RPI, subject to a max of 2.5% pa	**2.15**	2.15
in line with CPI, subject to a max of 5% pa	**2.50**	2.04
in line with CPI, subject to a min of 3% and max of 5% pa	**3.33**	3.20
in line with CPI, subject to a max of 2.5% pa	**1.95**	1.69
Rate of increase for deferred pensions (in line with CPI, subject to a max of 5% pa)	**2.50**	2.00
Allowance for commutation of pension for cash at retirement	**82% of post A day maximum**	82% of post A day maximum

All the schemes' deferred pensions accrue inflationary increases based on CPI rather than RPI, unless the scheme rules specifically refer to RPI.

31. Pensions *(continued)*

The most significant non-financial assumption is the assumed rate of longevity. For the year ended 31 December 2020, this has been based on mortality rates that are 98% of the standard S3PxA tables, with an allowance for projected improvements in mortality in line with CMI 2019 improvements with a 1% per annum long-term rate of convergence. The tables adopted imply the following life expectancy:

	Life expectancy at age 65 (years)	
	2020	2019
Male retiring in the current year	22.1	22.5
Female retiring in the current year	24.3	23.5
Male retiring in 15 years' time	22.8	23.2
Female retiring in 15 years' time	25.2	24.4

The table below shows the net pension liability recognised within the Statement of Financial Position:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Fair value of plan assets	210.3	183.8	116.1	96.8
Present value of defined benefit obligations	(306.4)	(270.6)	(166.9)	(145.4)
Impact of asset ceiling	(0.3)	(0.2)	(0.3)	(0.2)
Net pension liability	(96.4)	(87.0)	(51.1)	(48.8)

The present value of scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out by the schemes using the projected unit credit method. The value calculated in this way is reflected in the net liability within the Statement of Financial Position as shown above.

The projected unit credit method is a valuation method in which each potential cash flow from the schemes (for example, annual pension payment or potential lump sum payment on death) is multiplied by an assumed probability of payment and discounted between the valuation date and the time the payment is needed.

All remeasurements are recognised in the year in which they occur in the Statement of Comprehensive Income. As all remeasurements and assets are recognised, the deficits shown above are those recognised within the Statement of Financial Position.

IAS 19 allows an employer to recognise a surplus as an asset to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme, even if the refunds may only be available at some distant time in the future, such as after the last benefit has been paid. The Holmesdale scheme is in surplus on an IAS 19 basis, therefore the amount recognised in the Statement of Financial Position is limited to the asset ceiling. The asset ceiling is the present value of any economic benefits available to the entity in the form of a refund or a reduction in future contributions.

The table below sets out a reconciliation of the present value of the defined benefit obligation for the year:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
At 1 January	270.6	248.4	145.4	132.1
Interest expense	5.4	6.9	2.9	3.7
Remeasurement losses / (gains) arising from changes in:				
Scheme experience	1.6	(0.5)	2.9	(0.3)
Demographic assumptions	(1.1)	(5.0)	(0.4)	(2.8)
Financial assumptions	38.8	30.7	21.0	17.0
Actual benefit payments	(10.4)	(9.9)	(5.6)	(4.3)
Past service costs	1.5	-	0.7	-
At 31 December	306.4	270.6	166.9	145.4

There have been no settlements, plan amendments or curtailments in the year.

The estimated average duration of the defined benefit obligation as at 31 December 2020 is 18 years (2019: 18 years).

The table below sets out the reconciliation of the fair value of scheme assets for the year:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
At 1 January	183.8	149.0	96.8	80.0
Interest income	3.7	4.3	2.0	2.3
Return on plan assets (excluding amounts included in interest income)	16.7	25.8	9.3	14.3
Contributions by employer	16.5	14.6	13.6	4.5
Benefits paid	(10.4)	(9.9)	(5.6)	(4.3)
At 31 December	210.3	183.8	116.1	96.8

The actual return on the scheme assets, including interest income on plan assets, over the year ended 31 December 2020 was as follows:

- Group £20.4m (2019: £30.1m)
- Society £11.3m (2019: £16.6m)

The table below sets out the fair value of the scheme assets by each major category:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Diversified growth fund (note 1)	109.5	106.1	58.6	55.8
Liability driven investments (note 2)	90.6	40.2	47.5	21.1
Equities	-	35.8	-	18.7
Cash	9.6	1.1	9.4	0.6
Corporate bonds	0.3	0.3	0.3	0.3
Government bonds	0.3	0.3	0.3	0.3
	210.3	183.8	116.1	96.8

Notes
1. Diversified growth funds (DGF) target equity-like returns with lower volatility which is achieved through dynamic diversification. Funds are invested in a diversified range of assets, including equities, bonds, property and cash and the allocation between these asset classes is actively managed by a fund manager reflecting the changing correlations and risk characteristics.
2. Liability driven investments (LDI) are investments in assets which are expected to behave in a similar manner to liabilities and therefore aim to provide a better match against liability movements than conventional bonds or gilts.

Each of the schemes invests in an LDI fund which aims to provide protection against interest rate and inflation movements. The LDI funds aim to cover up to 100% of the interest rate sensitivity and up to 100% of the inflation sensitivity of the funded liabilities of each scheme on the scheme funding basis.

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group. All of the schemes' assets have a quoted market price with the exception of the Trustee's bank account balance.

It is the policy of the Trustee and the Group to review the investment strategy at the time of each funding valuation. The Trustee's investment objectives and the processes undertaken to measure and manage the risks inherent in the scheme investment strategy are documented in the scheme's Statement of Investment Principles.

The schemes are exposed to the following investment risks:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

31. Pensions *(continued)*

- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The main investment objective for the Trustee of the scheme is to maintain a portfolio of suitable assets to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due. The scheme has exposure to investment risks because of the investments it makes to implement its investment strategy, as detailed in the Statement of Investment Principles.

The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the scheme's investment managers and are monitored by the Trustee by regular reviews of the investment portfolios.

Credit risk

The schemes invest in pooled investment vehicles and are therefore directly exposed to credit risk in relation to the pooled investment vehicles and are indirectly exposed to credit risks arising on the financial instruments held by the vehicles.

The schemes' holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The investment manager carries out its own due diligence checks before a new pooled fund is invested in, and on an ongoing basis monitors any changes to the regulatory and operating environment of the underlying pooled investment managers.

Indirect credit risk arises in relation to underlying investments held in the LDI pooled investment vehicles, as well as DGF pooled investment vehicles due to the bond holdings within these funds.

The LDI funds use robust collateralisation management procedures so as to mitigate the impact of credit risk.

Market risk

Currency risk

The schemes do not take explicit unhedged positions in overseas investments through their investment strategy, either directly or indirectly via pooled investment vehicles.

The DGF managers' default position is that any investment in overseas assets is hedged back to Sterling in order to reduce currency risk. The DGF managers may from time to time take unhedged overseas investment positions in pursuit of growth opportunities or to reduce overall fund risk. Overall however, their neutral position is considered to be 100% Sterling.

Interest rate risk

The schemes' assets are subject to indirect interest rate risk through their LDI pooled investment vehicles, as well as DGF pooled investment vehicles due to the bond holdings within these funds.

The schemes' liabilities are exposed to a significant level of interest rate movement and for this reason it is desirable for the assets to also be exposed to interest rate risk. The schemes manage interest rate risk by considering the net risk when taking account of the liabilities valued.

Other price risk

Other price risk arises principally in relation to the schemes' return seeking portfolio which includes DGFs held in pooled investment vehicles, as well as the LDI pooled investment vehicles due to the inflation sensitive elements of the fund. The scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

The table below sets out the amounts which have been recognised within the Income Statement. The service costs are recognised in 'Administrative expenses', whilst the net interest expense is recognised in 'Other income'.

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Service costs				
Past service costs	1.5	-	0.7	-
Net interest expense	1.7	2.6	0.9	1.4
Total recognised in Income Statement	3.2	2.6	1.6	1.4

Past service costs above relate to the estimated impact of the application of Guaranteed Minimum Pension (GMP) equalisation rules to historical transfers out of pension schemes.

The table below sets out the remeasurements of retirement benefit obligations which have been recognised within the Statement of Comprehensive Income:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Remeasurements of retirement benefit obligations:				
Actuarial (losses) / gains arising from:				
Experience adjustments	(1.6)	0.5	(2.9)	0.3
Demographic assumptions	1.1	5.0	0.4	2.8
Financial assumptions	(38.8)	(30.7)	(21.0)	(17.0)
Impact of asset ceiling	(0.1)	(0.1)	(0.1)	(0.1)
Return on plan assets (excluding amounts included in net interest expense)	16.7	25.8	9.3	14.3
Total amount recognised in Other Comprehensive Income	(22.7)	0.5	(14.3)	0.3

The table below sets out the Group's estimate of the aggregate contributions expected to be paid into the schemes during the year ending 31 December 2021, based on the most recent actuarial valuations.

	Group 2021 £m	Society 2021 £m
Estimated employer contributions		
Ongoing	4.6	1.7
Lump sum contributions	40.5	20.5
Estimated employee contributions	-	-
Estimated total contributions	45.1	22.2

In line with UK pensions legislation, a formal actuarial valuation ('triennial valuation') of the assets and liabilities of the Schemes is carried out at least every three years by an independent actuary. The results of the most recent triennial valuations are set out on page 177. Following completion of the most recent actuarial valuations carried out on the Skipton and Connells Schemes, a new schedule of deficit contributions payable by the Group was agreed with the Trustees, and the Group agreed to pay £20.0m in lump sums into the Connells Scheme during 2021 and continue its ongoing deficit contributions of £2.9m per annum into that scheme and to pay £30.0m in lump sums into the Society Schemes (£9.5m paid in December 2020 and £20.5m to be paid during 2021), reducing its ongoing deficit contributions to £1.7m per annum into those schemes.

32. Subordinated liabilities

	Group and Society 2020 £m	2019 £m
Fixed rate notes:		
Senior non-preferred (SNP) notes 2026	350.7	-
	350.7	-
Unamortised discount on issue	(0.4)	-
Fair value adjustment for hedged risk	(0.6)	-
	349.7	-

The fixed rate notes are denominated in Sterling. Coupons are paid on a fixed basis semi-annually.

The notes have a maturity date of 2 October 2026 and an optional redemption date of 2 October 2025; the optional redemption, at 100% of the principal amount plus accrued and unpaid interest to (but excluding) the date of redemption, is subject to conditions including regulatory approval. The note holders' rights are subordinate to those of depositors and other creditors.

Amounts shown in the above table represent the nominal value plus accrued interest, except for 'Unamortised discount on issue' which is the difference between face values and current book values.

33. Subscribed capital

	Group and Society 2020 £m	2019 £m
8.500% Sterling Permanent Interest Bearing Shares	**15.2**	15.2
12.875% Sterling Permanent Interest Bearing Shares	**26.4**	26.4
	41.6	41.6

All Permanent Interest Bearing Shares are unsecured and rank pari passu with each other. They are deferred shares of the Society and rank behind the claims against the Society of all subordinated note holders, depositors, payables and investing members of the Society. These shares are measured at amortised cost.

34. Cash flows from financing activities

For the purposes of the Statements of Cash Flows, put option obligations, the subsidiary management incentive scheme, lease liabilities, subordinated liabilities and subscribed capital are classified as liabilities arising from financing activities. The table below provides a reconciliation of movements in liabilities arising from financing activities:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Balance at 1 January	**119.5**	60.5	**54.1**	41.6
Changes from financing cash flow:				
Proceeds from issuances	**348.6**	0.7	**348.6**	-
Payments made	**(16.9)**	(26.2)	**(2.4)**	(2.8)
Interest paid	**(5.9)**	(5.9)	**(4.8)**	(4.8)
Total changes from financing cash flow	**325.8**	(31.4)	**341.4**	(7.6)
Changes in fair value	**(0.2)**	1.4	**(0.6)**	-
Liability-related changes:				
Interest expense	**7.6**	5.9	**6.5**	4.8
Lease modifications	**3.4**	1.4	**-**	-
Adjustments on initial adoption of IFRS 16	**-**	65.9	**-**	13.0
Lease additions	**10.3**	17.0	**3.2**	3.0
Lease disposals	**(1.5)**	(1.4)	**(1.1)**	(0.7)
Total liability-related changes	**19.8**	88.8	**8.6**	20.1
Other non cash flow changes:				
Unwind of discount factor	**0.2**	0.2	**-**	-
Total other changes	**0.2**	0.2	**-**	-
Balance at 31 December	**465.1**	119.5	**403.5**	54.1

The Group balance at 31 December 2020 in the table above consists of £6.9m (2019: £7.5m) of put option obligations, a £4.4m (2019: £3.8m) subsidiary management incentive scheme liability, £62.5m (2019: £66.6m) of lease liabilities, £349.7m (2019: £nil) of subordinated liabilities and £41.6m (2019: £41.6m) of subscribed capital.

The Society balance at 31 December 2020 in the table above consists of £12.2m (2019: £12.5m) of lease liabilities, £349.7m (2019: £nil) of subordinated liabilities and £41.6m (2019: £41.6m) of subscribed capital.

35. Tax effects relating to each component of other comprehensive income

	Group					
	2020			2019		
	Before-tax amount £m	Tax (expense) / benefit £m	Net-of-tax amount £m	Before-tax amount £m	Tax benefit / (expense) £m	Net-of-tax amount £m
Financial assets held at FVOCI	4.5	(1.8)	2.7	(0.4)	0.2	(0.2)
Cash flow hedges	(16.1)	4.3	(11.8)	(3.8)	0.9	(2.9)
Cost of hedging reserve	0.9	(0.1)	0.8	(5.2)	1.4	(3.8)
Remeasurements of defined benefit obligations	(22.7)	7.1	(15.6)	0.5	0.3	0.8
Translation of foreign operations	0.4	-	0.4	(0.7)	-	(0.7)
Other comprehensive income	(33.0)	9.5	(23.5)	(9.6)	2.8	(6.8)

	Society					
	2020			2019		
	Before-tax amount £m	Tax (expense) / benefit £m	Net-of-tax amount £m	Before-tax amount £m	Tax benefit £m	Net-of-tax amount £m
Financial assets held at FVOCI	5.2	(2.0)	3.2	(0.4)	0.2	(0.2)
Cash flow hedges	(14.0)	3.8	(10.2)	(3.7)	0.8	(2.9)
Cost of hedging reserve	-	(1.4)	(1.4)	-	1.4	1.4
Remeasurements of defined benefit obligations	(14.3)	4.7	(9.6)	0.3	0.2	0.5
Other comprehensive income	(23.1)	5.1	(18.0)	(3.8)	2.6	(1.2)

36. Other financial commitments and contingent liabilities

As disclosed in note 45, on 31 December 2020 Connells Limited announced that it had reached agreement with the board of Countrywide plc to acquire the entire share capital and voting rights of Countrywide for cash consideration of £134.3m. In order to fund the transaction, enable Connells to repay existing borrowings in Countrywide and provide working capital, the Society has committed to providing a loan of £253.0m to Connells Limited on completion. At 31 December 2020 the loan has been committed to, but draw down was conditional on completion of the acquisition which is expected to occur by the end of the first quarter of 2021.

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

37. Derivative financial instruments

The Group uses derivative financial instruments (derivatives) to manage the risks arising from its operations.

The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks in accordance with Section 9A (4) of the Building Societies Act 1986 and derivatives are used by the Group for economic hedging purposes only. The Group does not run a trading book.

The principal derivatives used by the Group are interest rate swaps, index swaps and cross currency swaps that are used to hedge Group exposures arising from fixed rate lending and savings products, funding and investment activities. The accounting policies for derivatives are described in note 1e) to the Accounts.

For the purpose of assessing hedge effectiveness, the Group determines the economic relationship between the hedged item and the hedging instrument by comparing the terms of each item, including reference rate, notional amount and maturity.

Risk management strategy

The Group has a formal structure for managing risk, including established risk limits, reporting requirements, mandates and other control procedures. This structure is reviewed regularly by the Asset & Liability Committee (ALCO).

Interest rate risk

The main market risk faced by the Group is interest rate risk. Interest rate risk is the risk that the fair values of financial assets or financial liabilities, or future cash flows receivable or payable on financial assets or financial liabilities, fluctuate as a result of changes in market interest rates.

Interest rate risk predominantly arises on the fixed rate mortgages and savings products offered by the Group. Further detail on the Group's exposure to interest rate risk is found in note 39.

The Group uses the following derivatives to hedge its exposure to interest rate risk:

Fair value hedges of interest rate risk

Portfolio hedging

The Group manages the interest rate risk arising from fixed rate mortgages and savings by entering into swaps on a frequent basis. The level of exposure from the mortgage portfolio frequently changes due to new loans being originated, contractual customer repayments and early customer repayments. As a result, the Group adopts a dynamic hedging strategy to hedge the interest rate risk component within the exposure profile by entering into new swap agreements each month. The Group uses a portfolio of fair value hedges of interest rate risk to recognise fair value changes related to changes in interest rate risk on fixed rate mortgages and savings products, to therefore reduce the profit or loss volatility that would otherwise occur from changes in the fair value of the interest rate swaps alone.

The hedge relationship is reassessed prospectively each month in order that the ratio between the notional value of the hedged items and the notional value of the hedging instruments is recalibrated to be close to 100%, thereby reducing hedge ineffectiveness.

Occasionally hedge ineffectiveness can arise, i.e. the derivative fails to hedge the interest rate risk to the extent that is expected. The Group assesses hedge ineffectiveness on an ongoing basis. Where the Group assesses that the hedge relationship has changed to such an extent that the existing hedge ratio is no longer suitable, the hedging relationship would be rebalanced to ensure hedge effectiveness.

The main sources of ineffectiveness in fair value hedges of interest rate risk are:

- Differences between the expected and actual volume of customer prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- Differences in the timing of cash flows from the mortgage loans and the interest rate swaps; and
- Differences in the maturities of the interest rate swap and the mortgage loans.

Micro hedging

Fair value hedge relationships are also designated for hedging the interest rate risk component arising from the Group's liquidity portfolio and Medium Term Note (MTN) liabilities. For these items, a hedge is taken out specifically for the individual asset or liability, and therefore critical terms of the hedged item and hedging instrument match. Where critical terms match, the fair value adjustment on the hedged item offsets exactly the change in fair value of the hedging instrument.

The Group assesses all of its micro fair value hedges of interest rate risk to have a hedge effectiveness ratio of 100%, as all derivatives hedge an amount of underlying instrument equal to the notional amount.

Hedge ineffectiveness could potentially arise if amendments were made to either the hedged item or the hedging instrument, or if there were significant changes in the credit rating of the hedged item or hedging instrument's counterparties; the Group has assessed the likelihood of this to be low.

Cash flow hedges of interest rate risk

The Group also has exposure to interest rate risk arising from its free reserves portfolio, which is composed of reserves held in excess of required reserves. The Group uses derivatives to hedge this risk component and accounts for these derivatives as cash flow hedges against variable rate instruments. The aim of cash flow hedging is to reduce the exposure to variability in cash flows arising from a financial asset or liability. The variable rate on the hedging instrument, i.e. the swap, offsets the hedged items, which are SONIA-linked financial assets or liabilities.

Hedge ineffectiveness for cash flow hedges is assessed using the 'hypothetical derivative' method and ineffectiveness has been assessed as £nil (2019: £nil) for the Group's cash flow hedges.

Hedge ineffectiveness could potentially arise if amendments were made to either the hedged item or the hedging instrument, or if there were significant changes in the credit rating of the hedged item or hedging instrument's counterparties; the Group has assessed the likelihood of this to be low.

Currency risk

The Group's exposure to foreign currency risk arises predominantly as a result of issuing Euro-denominated regulated covered bonds to the wholesale funding market.

37. Derivative financial instruments *(continued)*

Fair value hedges of currency risk

The Group has entered into a cross-currency swap agreement to hedge the foreign currency risk and interest rate risk components arising from the Society's Euro covered bond issuances. Fixed rate Euro-denominated receipts are swapped to floating rate Sterling payments through these derivatives. The derivative is entered into by the LLP, with the hedged item being the term advance from the Society to the LLP, which mirrors the bond issued by the Society, effectively hedging the debt issued by the Society. Foreign currency basis spread is priced into the derivative but is excluded from the hedging relationship and any gain or loss arising from this is recognised directly in reserves in the cost of hedging reserve, as permitted by IFRS 9.

Equity release portfolio

In addition to the above, the Group holds derivative financial instruments to economically hedge the equity release portfolio which do not qualify as being in a designated hedging relationship for accounting purposes. As the derivatives held to hedge the equity release portfolio are not in a hedge accounting relationship, they are not included in the tables on pages 186 to 190. Further information on the derivatives held to hedge this portfolio can be found on page 159.

Other derivatives not held in an accounting hedge

Certain other derivatives cannot be accounted for in a fair value or cash flow hedge as the economic hedging relationship does not meet the criteria set out by IFRS 9. These derivatives are held at FVTPL and their change in fair value is included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Hedging instruments and hedged items' line in the Income Statement.

Hedging instruments

The following table sets out the maturity profile and average price and rate of the hedging instruments used in the Group's hedge accounting strategies.

Group	2020				2019			
	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years
Cash flow hedges								
Interest rate swaps								
Notional (£m)	-	-	671.0	321.0	39.0	51.6	756.0	144.0
Weighted average fixed interest rate (%)	-	-	0.0%	0.1%	1.8%	1.9%	0.6%	0.6%
Fair value hedges								
Interest rate swaps								
Notional (£m)	1,659.5	5,365.8	12,535.2	356.0	1,505.7	5,761.1	13,061.2	275.5
Weighted average fixed interest rate (%)	0.8%	0.7%	0.6%	0.4%	0.8%	0.8%	0.8%	0.9%
Cross currency swaps								
Notional (£m)	-	-	891.6	-	-	-	891.6	-
Weighted average fixed interest rate (%)	-	-	0.3%	-	-	-	0.3%	-

Society	2020				2019			
	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years
Cash flow hedges								
Interest rate swaps								
Notional (£m)	-	115.0	857.8	325.0	39.0	51.6	815.0	144.0
Weighted average fixed interest rate (%)	-	0.0%	0.0%	0.1%	1.8%	1.9%	0.6%	0.6%
Fair value hedges								
Interest rate swaps								
Notional (£m)	1,716.9	5,545.4	13,440.0	361.6	1,558.1	5,919.8	13,967.7	281.0
Weighted average fixed interest rate (%)	0.8%	0.7%	0.6%	0.5%	0.8%	0.8%	0.8%	0.9%

The table below provides further detail on the Group's fair value hedges used in hedge accounting relationships:

	2020				
	Notional	Carrying amount (note 1) Assets	Liabilities	Change in fair value (charge) / credit (note 2)	Hedge ineffectiveness charge (note 3)
Group	£m	£m	£m	£m	£m
Interest rate swaps	19,916.5	42.2	(256.4)	(137.1)	(0.8)
Cross currency swaps	891.6	12.0	-	52.8[4]	-
Society					
Interest rate swaps	21,063.9	64.9	(257.4)	(122.2)	(1.2)
	2019				
Group					
Interest rate swaps	20,603.5	28.4	(105.5)	(80.7)	(6.7)
Cross currency swaps	891.6	-	(41.7)	(42.4)	(0.1)
Society					
Interest rate swaps	21,726.6	36.5	(106.8)	(74.7)	(5.2)

Notes
1. The Statement of Financial Position lines that includes these items are 'Derivative financial instruments'.
2. The change in fair value during the period that was used as the basis for calculating hedge ineffectiveness and which was recognised in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Hedging instruments and hedged items' line in the Income Statement.
3. The amount of hedge ineffectiveness recognised in the Income Statement during the period. The Income Statement line that includes the hedge ineffectiveness recognised during the period is 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Hedging instruments and hedged items'.
4. In addition, £0.9m of fair value gains (2019: £5.2m losses) were recognised directly in the Group's cost of hedging reserve due to ineffectiveness arising as a result of foreign currency basis spread as described in note 1e).

The table below provides further detail on the Group's cash flow hedges used in hedge accounting relationships.

	2020				
	Notional	Carrying amount (note 1) Assets	Liabilities	Change in fair value (charge) / credit (note 2)	Gains reclassified from OCI to Income Statement
Group	£m	£m	£m	£m	£m
Interest rate swaps	992.0	0.3	(1.3)	(5.7)	3.2
Society					
Interest rate swaps	1,297.8	1.4	(1.3)	(4.0)	3.2
	2019				
Group					
Interest rate swaps	990.6	5.5	(0.8)	1.9	6.9
Society					
Interest rate swaps	1,049.6	5.5	(1.4)	2.0	6.9

Notes
1. The Statement of Financial Position lines that includes these items are 'Derivative financial instruments'.
2. The change in fair value during the period that was used as the basis for calculating hedge ineffectiveness and is recognised within the 'Movement in cashflow hedging reserve: (Losses) / gains taken to equity' line of the Statement of Comprehensive Income.

There was no hedge ineffectiveness recognised during either 2020 or 2019 in respect of the Group or Society's cashflow hedges.

37. Derivative financial instruments *(continued)*

Hedged items

The tables below provide further detail on the Group's hedged items:

Group 2020	Carrying amount Assets £m	Carrying amount Liabilities £m	Fair value adjustments on hedged item (note 1) £m	SOFP line	Change in fair value credit / (charge) (note 2) £m	Amount remaining on items de-designated from hedge relationship (note 3) £m
Cash flow hedges						
Floating rate assets	154.2	-	n/a	note 4	n/a	(20.9)
Floating rate liabilities	-	837.8	n/a	note 5	n/a	1.1
Fair value hedges						
Fixed rate mortgages	13,239.9	-	152.2	note 6	94.5	-
Debt securities	901.1	-	12.8	note 4	10.1	-
Fixed rate savings	-	3,647.9	4.6	note 7	(2.3)	-
Covered bonds	-	915.0	16.6	note 5	(52.2)	-
Debt securities in issue	-	66.5	0.6	note 5	(1.0)	-
Subordinated liabilities	-	350.7	(0.6)	note 8	0.6	-
2019						
Cash flow hedges						
Floating rate assets	587.0	-	n/a	note 4	n/a	(8.1)
Floating rate liabilities	-	403.6	n/a	note 5	n/a	0.4
Fair value hedges						
Fixed rate mortgages	13,170.9	-	57.7	note 6	74.1	-
Debt securities	718.3	-	2.7	note 4	(0.4)	-
Fixed rate savings	-	6,140.8	2.3	note 7	(18.1)	-
Covered bonds	-	813.7	(35.6)	note 5	41.9	-
Debt securities in issue	-	349.5	(0.4)	note 5	(4.3)	-

Society 2020	Carrying amount Assets £m	Carrying amount Liabilities £m	Fair value adjustments on hedged item (note 1) £m	SOFP line	Change in fair value credit / (charge) (note 2) £m	Amount remaining on items de-designated from hedge relationship (note 3) £m
Cash flow hedges						
Floating rate assets	330.0	-	n/a	note 4	n/a	(20.9)
Floating rate liabilities	-	967.8	n/a	note 5	n/a	3.2
Fair value hedges						
Fixed rate mortgages	13,394.7	-	151.7	note 6	100.1	-
Debt securities	901.1	-	12.8	note 4	10.1	-
Fixed rate savings	-	4,640.4	19.9	note 7	(19.7)	-
Debt securities in issue	-	66.5	0.6	note 5	(1.0)	-
Subordinated liabilities	-	350.7	(0.6)	note 8	0.6	-
2019						
Cash flow hedges						
Floating rate assets	587.0	-	n/a	note 4	n/a	(8.1)
Floating rate liabilities	-	462.6	n/a	note 5	n/a	1.7
Fair value hedges						
Fixed rate mortgages	13,399.1	-	51.6	note 6	67.8	-
Debt securities	728.4	-	2.7	note 4	(0.4)	-
Fixed rate savings	-	6,985.7	0.2	note 7	(16.6)	-
Debt securities in issue	-	349.5	(0.4)	note 5	(4.3)	-

Notes
1. Fair value adjustments on hedged items are included within the Statement of Financial Position as adjustments to the relevant SOFP line; see below notes for details.
2. The change in fair value during the period that is used as the basis for calculating hedge ineffectiveness and is recognised within the 'Movement in cashflow hedging reserve: (Losses) / gains taken to equity' line of the Statement of Comprehensive Income.
3. The accumulated amount of fair value hedge adjustments remaining (in the Statement of Financial Position for fair value hedges; in the cash flow hedging reserve for cash flow hedges) for any hedged items that have ceased to be adjusted for hedging gains and losses.
4. The Statement of Financial Position line that includes these items is 'Debt securities'.
5. The Statement of Financial Position line that includes these items is 'Debt securities in issue'.
6. The Statement of Financial Position line that includes these items is 'Loans and advances to customers'.
7. The Statement of Financial Position line that includes these items is 'Shares' and 'Amounts owed to other customers' in Group and 'Shares' in Society.
8. The Statement of Financial Position line that includes these items is 'Subordinated liabilities'.

37. Derivative financial instruments *(continued)*

Group	Notional £m	Carrying amount: Assets £m	Carrying amount: Liabilities £m	Change in fair value recognised in OCI: credit / (charge) £m	Amount reclassified from OCI to Income Statement £m
2020					
Cross currency swaps	891.6	12.0	-	0.9	-
2019					
Cross currency swaps	891.6	-	(41.7)	(5.2)	-

The table below provides an analysis of amounts recognised in other comprehensive income resulting from hedge accounting during the period:

Group	2020 Cash flow hedging reserve £m	2020 Cost of hedging reserve £m	2020 Total £m	2019 Cash flow hedging reserve £m	2019 Cost of hedging reserve £m	2019 Total £m
Balance at 1 January	(3.3)	(4.3)	(7.6)	(0.4)	(0.5)	(0.9)
Change in fair value of derivatives in effective hedging relationships:						
Held to hedge interest rate risk	(4.3)	0.9	(3.4)	2.2	(5.2)	(3.0)
Net amounts reclassified to profit or loss from derivatives:						
Held to hedge interest rate risk	(11.8)	-	(11.8)	(6.0)	-	(6.0)
Tax on movements in reserves during the period	4.3	(0.1)	4.2	0.9	1.4	2.3
Balance at 31 December	(15.1)	(3.5)	(18.6)	(3.3)	(4.3)	(7.6)

Society	2020 Cash flow hedging reserve £m	2020 Cost of hedging reserve £m	2020 Total £m	2019 Cash flow hedging reserve £m	2019 Cost of hedging reserve £m	2019 Total £m
Balance at 1 January	(2.7)	1.4	(1.3)	0.2	-	0.2
Change in fair value of derivatives in effective hedging relationships:						
Held to hedge interest rate risk	(2.9)	-	(2.9)	2.2	-	2.2
Net amounts reclassified to profit or loss from derivatives:						
Held to hedge interest rate risk	(11.1)	-	(11.1)	(5.9)	-	(5.9)
Tax on movements in reserves during the period	3.8	(1.4)	2.4	0.8	1.4	2.2
Balance at 31 December	(12.9)	-	(12.9)	(2.7)	1.4	(1.3)

Interest rate benchmark reform (IBOR reform)

In 2019 the Group early adopted *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*. The Group will continue to apply these amendments until the uncertainty arising from the interest rate benchmark reforms, with respect to the timing and amount of the underlying cash flows to which the Group is exposed, ends.

The Group has assumed that this uncertainty will not end until the Group's remaining contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment.

In addition, during the year the Group has early adopted *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*. These amendments relate to the reporting of financial assets and liabilities in the period in which the interest rate benchmark is replaced (further details can be found in note 1b)).

The Group now has little outstanding exposure to the benchmark interest rate LIBOR, having used other benchmarks for hedging purposes for a number of years and also having carried out an exercise to close out existing LIBOR interest rate swaps for the majority of its mortgage products and all savings products. In addition, the Society obtained consent from noteholders to convert its one outstanding LIBOR covered bond to SONIA; the change came into effect in August 2020. The project that was established to manage the transition remains on course to close out all of its LIBOR exposures during 2021. The table below indicates the nominal amount and weighted average maturity of the Group's remaining net exposure to LIBOR at 31 December 2020.

	Group Nominal amount £m	Group Average maturity Years	Society Nominal amount £m	Society Average maturity Years
Non-derivative financial assets				
Loans and advances to customers	300.1	4.1	218.0	4.0
Debt securities	64.3	1.6	128.2	0.9
Non-derivative financial liabilities				
Debt securities in issue	(57.8)	0.2	-	-
Derivative financial instruments				
In non-qualifying hedge accounting relationships	192.3	35.2	94.1	23.3
Net exposure as at 31 December 2020	**498.9**		**440.3**	

38. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost. It is an inherent part of the Group's business as long term mortgages are funded mainly by shorter term retail customer balances. Mortgages can have a contractual maturity date of, for example, 25 years but in practice are frequently repaid early; conversely retail deposits, nominally repayable on demand or with short notice periods, frequently remain with the Group beyond their contractual notice. It is this mismatch in the maturity profiles of retail assets and liabilities that creates liquidity risk.

The Group's liquidity policy is designed to ensure the maintenance of sufficient liquid assets to cover statutory, regulatory and operational requirements. This is achieved through maintaining a sufficient level of liquid assets in realisable form to ensure the Group is able to meet its liabilities as they arise and to absorb potential cash flow requirements created by the maturity mismatches referred to above or by a liquidity stress scenario. ALCO manages liquidity under delegated authority, within risk appetite limits established by the Board, and also monitors the composition of liquidity in line with risk management objectives.

The Group's liquidity is managed as follows:

- the Board establishes limits over the quantity and quality of the Group's portfolio of liquid assets. The portfolio is managed by the Treasury function, monitored by the Market & Liquidity Risk function and overseen by ALCO under a series of delegated authorities;
- the Group's Market & Liquidity Risk function conducts a series of daily, weekly and monthly stress tests that are designed to ensure that the Group's liquidity is sufficient to meet its cash flow needs under any one of a number of adverse scenarios should they arise. The scenarios include both Group specific and general market events, and incorporate both severe retail savings outflows and the unavailability of wholesale funding; and
- under the Regulatory liquidity regime, the Group is required to hold highly liquid assets (such as government and supranational debt securities and cash) to satisfy the Liquidity Coverage Ratio (LCR).

There are two measures that the Group considers key to monitoring its liquidity position:

- LCR – which analyses daily the amount of high quality liquidity that it is necessary to hold; and
- liquidity stress tests – whereby, as noted above, the Group models how far its liquid asset holdings would fall under a number of different stress scenarios.

38. Liquidity risk *(continued)*

The tables below analyse the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining maturity period at the reporting date to the contractual maturity. In practice, customer deposits, i.e. shares, amounts owed to credit institutions and amounts owed to other customers, are likely to be repaid later than on the earliest date on which repayment can be required.

Group	2020					
	Repayable on demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Assets						
Cash in hand and balances with the Bank of England	3,237.8	-	-	-	-	**3,237.8**
Loans and advances to credit institutions	722.9	1.8	-	-	-	**724.7**
Debt securities	-	138.0	74.2	1,066.5	226.3	**1,505.0**
Derivative financial instruments	-	4.7	5.7	45.0	8.7	**64.1**
Loans and advances to customers held at amortised cost	81.3	22.9	49.4	598.3	21,113.1	**21,865.0**
Loans and advances to customers held at FVTPL	1.3	-	-	-	-	**1.3**
Equity release portfolio at FVTPL	-	3.3	12.7	60.4	357.4	**433.8**
Equity share investments	-	-	-	-	1.7	**1.7**
Trade receivables	16.4	11.4	-	-	-	**27.8**
Contingent consideration	-	-	6.4	5.9	-	**12.3**
Share warrants	6.5	-	-	-	-	**6.5**
Other assets	-	1.4	-	-	-	**1.4**
Total financial assets	**4,066.2**	**183.5**	**148.4**	**1,776.1**	**21,707.2**	**27,881.4**
Liabilities						
Shares	5,139.9	9,086.8	3,356.8	1,116.3	9.6	**18,709.4**
Amounts owed to credit institutions	24.0	22.0	252.9	1,850.3	-	**2,149.2**
Amounts owed to other customers	558.4	529.1	869.8	173.0	-	**2,130.3**
Debt securities in issue	-	64.9	2.0	2,385.6	-	**2,452.5**
Derivative financial instruments	-	7.6	36.3	253.1	148.9	**445.9**
Lease liabilities	-	4.0	9.9	36.7	11.9	**62.5**
Trade payables	-	4.7	-	-	-	**4.7**
Fair value of put option obligation	-	-	1.3	5.6	-	**6.9**
Subordinated liabilities	-	-	-	349.7	-	**349.7**
Subscribed capital	-	-	-	-	41.6	**41.6**
Total financial liabilities	**5,722.3**	**9,719.1**	**4,529.0**	**6,170.3**	**212.0**	**26,352.7**
Net liquidity gap	**(1,656.1)**	**(9,535.6)**	**(4,380.6)**	**(4,394.2)**	**21,495.2**	**1,528.7**

Group	2019					
	Repayable on demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Assets						
Cash in hand and balances with the Bank of England	1,793.1	-	-	-	-	1,793.1
Loans and advances to credit institutions	544.7	1.5	-	0.4	-	546.6
Debt securities	-	331.1	692.0	1,038.3	121.5	2,182.9
Derivative financial instruments	-	1.8	5.6	26.8	4.3	38.5
Loans and advances to customers held at amortised cost	102.7	29.7	58.2	649.5	19,225.5	20,065.6
Loans and advances to customers held at FVTPL	1.5	-	-	-	-	1.5
Equity release portfolio at FVTPL	-	2.2	11.0	60.7	336.1	410.0
Equity share investments	-	-	-	-	1.5	1.5
Trade receivables	18.3	12.4	-	-	-	30.7
Contingent consideration	-	-	6.3	11.6	-	17.9
Share warrants	3.2	-	-	-	-	3.2
Other assets	-	3.2	-	-	-	3.2
Total financial assets	2,463.5	381.9	773.1	1,787.3	19,688.9	25,094.7
Liabilities						
Shares	4,275.2	10,150.7	1,722.8	1,212.3	3.1	17,364.1
Amounts owed to credit institutions	23.6	13.1	2.4	1,639.2	-	1,678.3
Amounts owed to other customers	448.7	380.7	817.7	169.8	-	1,816.9
Debt securities in issue	-	0.2	-	2,302.4	-	2,302.6
Derivative financial instruments	-	3.9	17.8	176.9	162.5	361.1
Lease liabilities	-	4.2	9.8	38.6	14.0	66.6
Trade payables	-	6.7	-	-	-	6.7
Fair value of put option obligation	-	-	7.5	-	-	7.5
Subscribed capital	-	-	-	-	41.6	41.6
Total financial liabilities	4,747.5	10,559.5	2,578.0	5,539.2	221.2	23,645.4
Net liquidity gap	(2,284.0)	(10,177.6)	(1,804.9)	(3,751.9)	19,467.7	1,449.3

38. Liquidity risk *(continued)*

Society	Repayable on demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
2020	£m	£m	£m	£m	£m	£m
Assets						
Cash in hand and balances with the Bank of England	3,237.8	-	-	-	-	**3,237.8**
Loans and advances to credit institutions	615.0	-	-	-	-	**615.0**
Debt securities	-	189.4	74.2	1,217.8	226.3	**1,707.7**
Derivative financial instruments	-	5.0	6.4	55.4	9.1	**75.9**
Loans and advances to customers held at amortised cost	0.5	17.2	39.6	514.0	19,058.2	**19,629.5**
Loans and advances to customers held at FVTPL	1.3	-	-	-	-	**1.3**
Equity release portfolio at FVTPL	-	3.3	12.7	60.4	357.4	**433.8**
Loans to subsidiary undertakings	731.3	-	-	-		**731.3**
Trade receivables	1.3	0.5	-	-	-	**1.8**
Total financial assets	**4,587.2**	**215.4**	**132.9**	**1,847.6**	**19,651.0**	**26,434.1**
Liabilities						
Shares	5,144.2	9,094.4	3,359.7	1,117.3	9.6	**18,725.2**
Amounts owed to credit institutions	46.3	389.2	252.9	1,850.4	-	**2,538.8**
Amounts owed to other customers	202.4	212.6	14.0	568.0	-	**997.0**
Debt securities in issue	-	7.1	2.0	1,967.6	-	**1,976.7**
Derivative financial instruments	-	7.8	37.0	253.3	144.4	**442.5**
Lease liabilities	-	0.6	1.7	6.8	3.1	**12.2**
Trade payables	-	2.1	-	-	-	**2.1**
Subordinated debt	-	-	-	349.7	-	**349.7**
Subscribed capital	-	-	-	-	41.6	**41.6**
Total financial liabilities	**5,392.9**	**9,713.8**	**3,667.3**	**6,113.1**	**198.7**	**25,085.8**
Net liquidity gap	**(805.7)**	**(9,498.4)**	**(3,534.4)**	**(4,265.5)**	**19,452.3**	**1,348.3**

Society	Repayable on demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
2019	£m	£m	£m	£m	£m	£m
Assets						
Cash in hand and balances with the Bank of England	1,793.1	-	-	-	-	1,793.1
Loans and advances to credit institutions	465.4	-	-	0.4	-	465.8
Debt securities	-	227.9	587.2	1,095.9	121.5	2,032.5
Derivative financial instruments	-	1.9	6.1	34.4	4.2	46.6
Loans and advances to customers held at amortised cost	1.1	19.5	27.7	454.3	17,389.0	17,891.6
Loans and advances to customers held at FVTPL	1.5	-	-	-	-	1.5
Equity release portfolio at FVTPL	-	2.2	11.0	60.7	336.1	410.0
Loans to subsidiary undertakings	777.9	-	-	-	-	777.9
Trade receivables	1.4	-	-	-	-	1.4
Total financial assets	3,040.4	251.5	632.0	1,645.7	17,850.8	23,420.4
Liabilities						
Shares	4,275.2	10,150.7	1,722.8	1,212.3	1.3	17,362.3
Amounts owed to credit institutions	20.9	62.3	2.0	1,658.4	-	1,743.6
Amounts owed to other customers	187.8	6.5	81.4	139.7	-	415.4
Debt securities in issue	-	-	-	2,194.9	-	2,194.9
Derivative financial instruments	-	4.0	18.0	137.3	162.4	321.7
Lease liabilities	-	0.6	1.8	6.9	3.2	12.5
Trade payables	-	2.5	-	-	-	2.5
Subscribed capital	-	-	-	-	41.6	41.6
Total financial liabilities	4,483.9	10,226.6	1,826.0	5,349.5	208.5	22,094.5
Net liquidity gap	(1,443.5)	(9,975.1)	(1,194.0)	(3,703.8)	17,642.3	1,325.9

Loans and advances to customers classified as repayable on demand represent those loans and advances that are on call and at short notice.

Group debt securities in issue include £465.0m (2019: £100.4m) of funding obtained through the Group's securitisation issuances carried out through Darrowby No. 4 plc and Darrowby No. 5 plc. The final maturity dates of the securitisation notes are significantly out into the future, however the Group can exercise call options to repurchase the outstanding notes at dates within the next 5 years and these are expected to be exercised. As a result, all such amounts have been shown within less than 5 years in the tables above. The final maturity date of the subordinated liabilities is six years from the date of issue, however the Group can call to repurchase the outstanding debt at five years, when this is expected to be exercised. As a result, such amounts have also been shown within less than 5 years in the table above.

38. Liquidity risk *(continued)*

The following table is an analysis of undiscounted gross contractual cash flows payable on financial liabilities:

Group			2020		
	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Shares	14,239.6	3,375.8	1,150.0	9.6	18,775.0
Amounts owed to credit institutions, other customers and debt securities in issue	1,233.9	1,130.3	4,428.2	-	6,792.4
Derivative financial instruments	22.7	84.4	187.0	165.1	459.2
Lease liabilities	4.0	10.8	38.0	17.6	70.4
Trade payables	4.7	-	-	-	4.7
Fair value of put option obligation	-	1.3	5.7	-	7.0
Subordinated debt	-	7.0	378.0	-	385.0
Subscribed capital	1.6	2.9	18.0	44.9	67.4
	15,506.5	4,612.5	6,204.9	237.2	26,561.1

Group			2019		
	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Shares	14,427.8	1,738.4	1,259.1	3.1	17,428.4
Amounts owed to credit institutions, other customers and debt securities in issue	874.1	847.2	4,184.4	-	5,905.7
Derivative financial instruments	13.1	47.3	158.4	157.5	376.3
Lease liabilities	4.5	10.7	40.0	17.8	73.0
Trade payables	6.7	-	-	-	6.7
Fair value of put option obligation	-	7.5	-	-	7.5
Subscribed capital	1.6	2.9	18.0	44.9	67.4
	15,327.8	2,654.0	5,659.9	223.3	23,865.0

The undiscounted gross contractual cash flows of debt securities in issue that have been issued as securitisation funding in the tables above have been calculated on the assumption that the call options referred to on page 195 are exercised.

The final maturity date of the subordinated debt is October 2026; however, the Group has an option to exercise call options to repurchase the outstanding notes in October 2025, and these are expected to be exercised. As a result all such amounts have been shown within less than 5 years in the tables above.

The Group has off-balance sheet exposure from commitments to lend where a mortgage has been offered but not yet completed. The total amount of such loan commitments at 31 December 2020 is £1,382.3m (2019: £1,324.7m) which are due in up to 3 months.

Society			2020		
	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Shares	14,239.6	3,375.8	1,150.0	9.6	18,775.0
Amounts owed to credit institutions, other customers and debt securities in issue	867.4	274.0	4,399.2	-	5,540.6
Derivative financial instruments	24.8	86.6	197.8	165.4	474.6
Lease liabilities	0.6	1.8	7.3	3.1	12.8
Trade payables	2.1	-	-	-	2.1
Subordinated debt	-	7.0	378.0	-	385.0
Subscribed capital	1.6	2.9	18.0	44.9	67.4
	15,136.1	3,748.1	6,150.3	223.0	25,257.5

Society			2019		
	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Shares	14,427.8	1,738.4	1,259.1	1.3	17,426.6
Amounts owed to credit institutions, other customers and debt securities in issue	284.1	110.7	4,063.4	-	4,458.2
Derivative financial instruments	9.8	37.9	114.0	157.0	318.7
Lease liabilities	0.8	2.1	7.4	3.0	13.3
Trade payables	2.5	-	-	-	2.5
Subscribed capital	1.6	2.9	18.0	44.9	67.4
	14,726.6	1,892.0	5,461.9	206.2	22,286.7

Amounts owed to other customers in the Society tables above include deemed loans from the Group's securitisation vehicles Darrowby No. 4 plc and Darrowby No. 5 plc, which arise from the funding transactions carried out through these entities. The undiscounted gross contractual cash flows arising on these loans have been calculated on the assumption that the call options referred to on page 195 are exercised.

The final maturity date of the subordinated debt is October 2026; however, the Society has an option to exercise call options to repurchase the outstanding notes in October 2025, and these are expected to be exercised. As a result all such amounts have been shown within less than 5 years in the tables above.

The Society has off-balance sheet exposure from commitments to lend where a mortgage has been offered but not yet completed. The total amount of such loan commitments at 31 December 2020 is £1,331.8m (2019: £1,283.9m) which are due in up to 3 months.

As disclosed in note 45, the Society has agreed to provide a loan of £253.0m to Connells Limited on completion of the Countrywide plc acquisition. This had been committed to but not drawn down as at 31 December 2020.

39. Market risk

Market risk is the risk that the value of, or income arising from, the Group's assets and liabilities changes as a result of changes in market prices, the principal elements being interest rate risk (including the use of derivatives) and foreign currency risk.

The Group's Treasury function is responsible for managing the Group's exposure to all aspects of market risk within the operational limits set out in the Group's Treasury policy, which is reviewed and recommended by ALCO and approved by the Board. The Group's Market & Liquidity Risk function measures and monitors adherence to the Treasury policy and reports regularly on all aspects of market risk exposure, including interest rate risk and foreign currency risk.

a) Interest rate risk

The main market risk faced by the Group is interest rate risk.

The Group uses a number of different metrics to monitor interest rate risk and details of these are set out below.

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

Other interest rate risk metrics employed by the Group incorporate earnings-at-risk and market value methodologies. The market value exposure position is calculated using at least 250 monthly yield curve movements from, approximately, the last seven years. The earnings-at-risk methodology is calculated using at least 100 stochastically (randomly) generated rate paths. Both of these approaches employ 95% confidence intervals. The outputs of these interest rate risk measurement methodologies are compared to their respective Board limits and operational triggers at least weekly and are reported to ALCO and the Board monthly.

39. Market risk *(continued)*

The levels of Group interest rate risk exposures throughout the reporting period, based on measures taken at each month end, were as follows:

	As at 31 December 2020 £m	Average 2020 £m	High 2020 £m	Low 2020 £m	As at 31 December 2019 £m
Static earnings-at-risk	0.4	1.5	3.8	0.1	6.0
Historical value-at-risk	1.1	1.3	3.5	0.4	0.2
2% parallel interest rate shift	1.2	4.8	18.9	-	0.4

Although these measures provide valuable insights into the market risk to which the Group is exposed, they need to be viewed in the context of the following limitations:

- Historical data is not necessarily the best guide to future events, but is a reasonable proxy;
- The use of 95% confidence levels, by definition, does not take account of changes that may occur beyond this level of confidence and therefore may not fully take into account the most extreme events; and
- Exposures are calculated on static Statement of Financial Position positions and therefore future changes in the structure of the Statement of Financial Position are ignored.

Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics, for example SONIA and Bank of England Base Rate), are also monitored closely and regularly reported to ALCO.

b) Currency risk

The currency risk appetite of the Group is low and any funding issues denominated in foreign currency are immediately swapped into Sterling.

The Group has issued two regulated covered bonds in Euros totalling €1,000m (2019: two bonds, €1,000m). The exposure to foreign currency fluctuations on these bonds are fully hedged as derivative contracts were taken out to swap the Euros into Sterling on issuance of the bonds.

The Group has investments in its subsidiary undertakings Jade Software Corporation Limited and Northwest Investments NZ Limited, which are denominated in New Zealand Dollars. The foreign currency fluctuations in relation to these investments are not hedged, and are recognised in the Group's translation reserve.

In addition, a number of the Group's businesses undertake transactions denominated in foreign currency as part of their normal business. Any amounts outstanding at 31 December 2020 are not material.

c) Other price risk

The Group also has exposure to market risk arising from the movement in the Retail Price Index and house price indices. In particular, movements in these indices impact on the valuation of the equity release portfolio, as outlined further on page 143.

40. Credit risk

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group.

The Group faces this risk from its lending to:

- individual customers (retail mortgages);
- businesses (through past commercial lending and current debt factoring / invoice discounting);
- wholesale counterparties (including other financial institutions). Credit risk within our treasury portfolio arises from the investments held by the Group in order to meet liquidity requirements and for general business purposes; and
- for the Society, lending to other Group entities.

Changes in the credit quality and the recoverability of loans and amounts due from counterparties influence the Group's exposure to credit risk. The Group's strategy is to maintain a cautious approach to credit risk and new lending. Adverse changes in the credit quality of counterparties, collateral values or deterioration in the wider economy, including rising unemployment, changes in interest rates, deterioration in household finances and any contraction in the UK property market leading to falling property values, could affect the recoverability and value of the Group's assets and influence its financial performance. An economic downturn and falls in house prices and commercial property values would adversely affect the level of impairment losses.

The Group has embedded a comprehensive risk management framework with clear lines of accountability and oversight as part of its overall governance framework.

The Group has processes and policies to monitor, control, mitigate and manage credit risk within the Group's credit risk appetite. The Retail Credit Committee and the Group Wholesale Credit Committee provide oversight to the effectiveness of all credit management across the Group and the controls in place ensure lending is within the Board approved credit risk appetite. The reporting structure ensures timely and accurate reporting of all substantive risk matters to the Board and the Board Risk Committee. The Board receives monthly updates on the credit risk profile of the Group.

Management makes use of the Group's IFRS 9 ECL information for purposes that include regulatory capital management, certain product pricing models and credit risk forecasting.

The maximum exposure to credit risk for financial assets is represented by the carrying amount of each financial asset, except for the following:

- A fair value adjustment for hedged risk of £152.2m (2019: £57.7m) for Group and £151.7m (2019: £51.6m) for Society is included within loans and advances to customers. This is indirectly exposed to credit risk through the relationship with the underlying loans covered by the Group's hedging strategy.
- The Group has credit risk exposure from commitments to lend where a mortgage has been offered but not yet completed, which leads to the recognition of a financial asset (within loans and advances to customers) on completion of the mortgage. As outlined in note 1g), an impairment loss allowance is held against these commitments in accordance with IFRS 9. The total amount of such loan commitments at 31 December 2020 is £1,382.3m (2019: £1,324.7m) for Group and £1,331.8m (2019: £1,283.9m) for Society and the impairment loss allowance held against these commitments is £0.1m (2019: less than £0.1m) for both Group and Society.
- The Society has agreed to provide a loan of £253.0m to Connells Limited conditional on completion of the Countrywide plc acquisition. This had been committed to but not drawn down as at 31 December 2020 and no impairment loss allowance is held.

Retail mortgage lending to customers

The Group currently lends in the prime residential UK mortgage market, including buy-to-let, through the Society, whilst SIL lends in the Channel Islands and in the UK. The Board's credit risk appetite defines a number of limits regarding customer and collateral credit quality to which all lending activity must adhere.

The credit decision process utilises automated credit scoring and policy rules with lending policy criteria supporting manual underwriting. All aspects of the credit decision process are subject to regular independent review and development ensuring they support decisions in line with the Board's credit risk appetite.

The Group also has credit exposures through Amber Homeloans Limited (Amber) and North Yorkshire Mortgages Limited (NYM) which comprise residential UK mortgages, including buy-to-let, across prime and non-prime lending markets. These portfolios closed to new customer origination and lending in 2008 and are managed by adherence to clear policies in relation to mortgage servicing and credit management.

Commercial lending to customers and businesses

The Society's commercial mortgage portfolio was closed to new lending in November 2008.

Other loans and advances

These include advances made by our factored debt and invoice discounting business, Skipton Business Finance Limited, which continue to be managed by appropriately skilled teams. In addition, other loans and advances include advances made to residential mortgage customers in Guernsey and Jersey by SIL; these are secured on shares in a property management company which owns the building in which the properties are located. These loans are monitored by appropriately skilled teams in SIL.

Wholesale lending to other financial institutions

Wholesale credit risk arises from the wholesale investments held by the Society's Treasury function which is responsible for managing this aspect of credit risk in line with the Board approved credit risk appetite and wholesale credit policies. Wholesale counterparty limits are reviewed monthly by the Group Wholesale Credit Committee based on analyses of counterparties' financial performance, ratings and other market information to ensure that limits remain within our risk appetite. We regularly review and closely monitor the number of counterparties to whom we will lend and, for those counterparties to whom we have lent, we review both the amount and duration of any limits.

A deterioration in wholesale credit markets could lead to volatility in the value of the Group's portfolio of treasury assets together with the risk of further impairment within our treasury investments portfolio.

ALCO provides oversight to the effectiveness of wholesale credit risk management.

40. Credit risk (continued)

Intra-Group lending

Credit risk also arises on loans made by the Society to other Group entities, including any committed to but undrawn amounts. Intra-Group counterparty limits are reviewed monthly by, and any increases must be pre-approved by, the Group Wholesale Credit Committee.

a) Credit risk - loans and advances to customers held at amortised cost

The table below shows the breakdown of the Group and Society's loans and advances to customers held at amortised cost at the reporting date:

Group	**Gross carrying amount**	**ECL allowance (note 14)**	**2020 Fair value adjustment for hedged risk**	**Carrying amount**	
	£m	**£m**	**£m**	**£m**	**%**
Residential mortgages	**21,378.8**	**(23.1)**	**152.2**	**21,507.9**	**98.4**
Loans fully secured on land^	**219.0**	**(17.8)**	**-**	**201.2**	**0.9**
Other lending:					
Debt factoring advances	**86.0**	**(1.0)**	**-**	**85.0**	**0.4**
Other loans	**70.9**	**-**	**-**	**70.9**	**0.3**
	21,754.7	**(41.9)**	**152.2**	**21,865.0**	**100.0**

Group	Gross carrying amount	ECL allowance (note 14)	2019 Fair value adjustment for hedged risk	Carrying amount	
	£m	£m	£m	£m	%
Residential mortgages	19,622.4	(9.6)	57.7	19,670.5	98.1
Loans fully secured on land^	236.7	(6.5)	-	230.2	1.1
Other lending:					
Debt factoring advances	97.9	(0.8)	-	97.1	0.5
Other loans	67.8	-	-	67.8	0.3
	20,024.8	(16.9)	57.7	20,065.6	100.0

Society	**Gross carrying amount**	**ECL allowance (note 14)**	**2020 Fair value adjustment for hedged risk**	**Carrying amount**	
	£m	**£m**	**£m**	**£m**	**%**
Residential mortgages	**19,289.0**	**(12.4)**	**151.7**	**19,428.3**	**99.0**
Loans fully secured on land^	**219.0**	**(17.8)**	**-**	**201.2**	**1.0**
	19,508.0	**(30.2)**	**151.7**	**19,629.5**	**100.0**

Society	Gross carrying amount	ECL allowance (note 14)	2019 Fair value adjustment for hedged risk	Carrying amount	
	£m	£m	£m	£m	%
Residential mortgages	17,614.1	(4.3)	51.6	17,661.4	98.7
Loans fully secured on land^	236.7	(6.5)	-	230.2	1.3
	17,850.8	(10.8)	51.6	17,891.6	100.0

^ Also known as commercial mortgages.

For details on how the Group assesses ECLs see note 1g).

i) Residential mortgages

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

The tables below provide information on residential loans and advances by payment due status:

2020	**Group**				**Society**			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Not past due	19,119.6	2,074.5	8.5	**21,202.6**	17,314.5	1,874.5	6.0	**19,195.0**
Up to 30 days past due	-	69.1	1.4	**70.5**	-	32.2	0.5	**32.7**
31 to 60 days past due	-	30.1	3.5	**33.6**	-	18.6	2.4	**21.0**
61 to 90 days past due	-	10.7	5.8	**16.5**	-	6.1	4.0	**10.1**
Over 90 days past due	-	-	55.6	**55.6**	-	-	30.2	**30.2**
	19,119.6	**2,184.4**	**74.8**	**21,378.8**	**17,314.5**	**1,931.4**	**43.1**	**19,289.0**

2019	Group				Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Not past due	19,012.0	412.1	11.5	19,435.6	17,151.6	355.7	7.9	17,515.2
Up to 30 days past due	-	73.2	2.4	75.6	-	30.9	1.7	32.6
31 to 60 days past due	-	36.1	8.6	44.7	-	21.0	5.6	26.6
61 to 90 days past due	-	13.0	9.4	22.4	-	6.1	5.8	11.9
Over 90 days past due	-	-	44.1	44.1	-	-	27.8	27.8
	19,012.0	534.4	76.0	19,622.4	17,151.6	413.7	48.8	17,614.1

The tables below provide information on movements in the gross carrying amount of residential loans and advances to customers during the year:

2020	**Group**				**Society**			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount as at 1 January	19,012.0	534.4	76.0	**19,622.4**	17,151.6	413.7	48.8	**17,614.1**
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(1,826.7)	1,771.1	-	**(55.6)**	(1,673.5)	1,618.8	-	**(54.7)**
From stage 1 to stage 3	(5.9)	-	5.9	**-**	(3.3)	-	3.2	**(0.1)**
From stage 2 to stage 1	122.0	(126.7)	-	**(4.7)**	108.4	(113.0)	-	**(4.6)**
From stage 2 to stage 3	-	(16.3)	16.6	**0.3**	-	(5.2)	5.3	**0.1**
From stage 3 to stage 2	-	14.3	(14.8)	**(0.5)**	-	7.5	(8.0)	**(0.5)**
From stage 3 to stage 1	0.9	-	(1.0)	**(0.1)**	0.9	-	(1.0)	**(0.1)**
Modification of contractual cashflows	(19.6)	16.8	1.1	**(1.7)**	(15.2)	11.2	1.7	**(2.3)**
Increases due to origination	4,290.2	51.8	1.1	**4,343.1**	3,973.7	51.9	1.1	**4,026.7**
Decrease due to derecognition and repayments	(2,455.9)	(63.7)	(7.2)	**(2,526.8)**	(2,230.0)	(56.6)	(6.3)	**(2,292.9)**
Written off	(0.3)	(0.8)	(3.3)	**(4.4)**	-	(0.2)	(1.9)	**(2.1)**
Other movements	2.9	3.5	0.4	**6.8**	1.9	3.3	0.2	**5.4**
Gross carrying amount as at 31 December	**19,119.6**	**2,184.4**	**74.8**	**21,378.8**	**17,314.5**	**1,931.4**	**43.1**	**19,289.0**

40. Credit risk *(continued)*

	2019							
	Group				Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount as at 1 January	17,304.2	337.9	83.6	17,725.7	15,530.4	165.3	56.4	15,752.1
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(337.1)	324.2	-	(12.9)	(304.1)	291.6	-	(12.5)
From stage 1 to stage 3	(9.2)	-	9.1	(0.1)	(6.1)	-	6.0	(0.1)
From stage 2 to stage 1	86.5	(88.9)	-	(2.4)	27.7	(28.9)	-	(1.2)
From stage 2 to stage 3	-	(13.3)	13.3	-	-	(6.3)	6.3	-
From stage 3 to stage 2	-	9.6	(9.9)	(0.3)	-	6.2	(6.4)	(0.2)
From stage 3 to stage 1	3.1	-	(3.3)	(0.2)	1.7	-	(1.8)	(0.1)
Modification of contractual cashflows	(11.1)	3.3	4.1	(3.7)	(12.2)	5.1	2.8	(4.3)
Increases due to origination	4,750.5	6.4	0.5	4,757.4	4,449.2	6.4	0.5	4,456.1
Decrease due to derecognition and repayments	(2,783.4)	(44.6)	(15.4)	(2,843.4)	(2,543.3)	(25.9)	(11.8)	(2,581.0)
Written off	(0.5)	(1.1)	(6.1)	(7.7)	(0.3)	(0.4)	(3.2)	(3.9)
Other movements	9.0	0.9	0.1	10.0	8.6	0.6	-	9.2
Gross carrying amount as at 31 December	19,012.0	534.4	76.0	19,622.4	17,151.6	413.7	48.8	17,614.1

The amounts included in the tables above represent the movement in the gross carrying amount between each reporting period end and not the balance as at the date of the movement.

As shown in the table above, during 2020 there was a net increase in stage 2 loans of £1,650.0m for the Group and £1,517.7m for the Society. As outlined in note 1u), during the year the Group has revised its view on forward-looking economic indicators which has resulted in an increase in accounts transferred to stage 2 in the year, the impact of which has been tempered by the updates made to the quantitative thresholds applied for the purposes of assessing 'significant increase in credit risk'. The revised thresholds have improved the effectiveness of the criteria by reducing the number of 'false positives' moving into stage 2.

Gains and losses arising during the year from loan modifications that did not result in derecognition were not significant. Amounts written off are in accordance with the Group's accounting policy for write-offs (see note 1g)). Amounts presented within 'other movements' in the tables above include movements in the Group's effective interest rate asset as described in note 1e).

For residential mortgages, stage 3 loans which no longer meet any of the default criteria are subject to a six month minimum probation period before they become eligible for transfer out of stage 3. At 31 December 2020, stage 3 loans include £14.3m for the Group (2019: £24.9m) and £8.7m for the Society (2019: £14.8m) being held in stage 3 under this probation period.

The table below provides information on movements in the impairment loss allowance for residential loans and advances to customers during the year:

	2020							
	Group				Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance as at 1 January	2.2	3.8	3.6	**9.6**	1.2	1.4	1.7	**4.3**
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(0.6)	7.5	-	**6.9**	(0.2)	4.1	-	**3.9**
From stage 1 to stage 3	-	-	0.2	**0.2**	-	-	0.1	**0.1**
From stage 2 to stage 1	0.1	(0.2)	-	**(0.1)**	-	(0.1)	-	**(0.1)**
From stage 2 to stage 3	-	(0.5)	1.2	**0.7**	-	(0.1)	0.2	**0.1**
From stage 3 to stage 2	-	0.3	(0.3)	**-**	-	0.1	(0.1)	**-**
Remeasurements within existing stage	1.0	1.3	0.9	**3.2**	1.0	0.3	0.2	**1.5**
Increases due to origination	0.8	0.2	0.3	**1.3**	0.8	0.2	0.3	**1.3**
Decrease due to derecognition and repayments	(0.2)	(0.2)	(0.2)	**(0.6)**	(0.1)	(0.1)	(0.2)	**(0.4)**
Changes due to modification without derecognition	-	0.2	0.8	**1.0**	-	0.1	0.4	**0.5**
Written off	-	(0.2)	(0.5)	**(0.7)**	-	-	(0.2)	**(0.2)**
Additional provision for payment deferrals (note 1)				**1.6**				**1.4**
Loss allowance as at 31 December	**3.3**	**12.2**	**6.0**	**23.1**	**2.7**	**5.9**	**2.4**	**12.4**

Note

1. An additional provision for credit losses has been recognised to reflect the estimated impact on ECLs of payment deferrals granted in response to the COVID-19 pandemic where no other indicator of significant increase in credit risk has occurred. The additional provision at 31 December 2020 is £1.6m for Group and £1.4m for Society. This additional provision has not been allocated to the underlying loans nor has it been attributed to stages but is shown in the total column of the table. Additional details on how this value is calculated are included in note 1u).

	2019							
	Group				Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance as at 1 January	2.8	3.8	3.3	9.9	1.7	1.1	1.6	4.4
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(0.2)	1.3	-	1.1	(0.1)	0.4	-	0.3
From stage 1 to stage 3	-	-	0.4	0.4	-	-	0.2	0.2
From stage 2 to stage 1	0.3	(0.8)	-	(0.5)	-	(0.2)	-	(0.2)
From stage 2 to stage 3	-	(0.3)	0.6	0.3	-	(0.1)	0.3	0.2
From stage 3 to stage 2	-	0.3	(0.3)	-	-	0.1	(0.1)	-
Remeasurements within existing stage	(0.8)	(0.2)	(0.1)	(1.1)	(0.6)	0.1	(0.1)	(0.6)
Increases due to origination	0.4	-	-	0.4	0.4	-	-	0.4
Decrease due to derecognition and repayments	(0.3)	(0.2)	(0.2)	(0.7)	(0.2)	(0.1)	(0.1)	(0.4)
Changes due to modification	-	0.1	0.6	0.7	-	0.1	0.4	0.5
Written off	-	(0.2)	(0.7)	(0.9)	-	-	(0.5)	(0.5)
Loss allowance as at 31 December	2.2	3.8	3.6	9.6	1.2	1.4	1.7	4.3

40. Credit risk *(continued)*

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

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

Group — 2020

Probability of default	Gross carrying amount Stage 1 £m	Gross carrying amount Stage 2 £m	Gross carrying amount Stage 3 £m	Gross carrying amount Total £m	Loss allowance Stage 1 £m	Loss allowance Stage 2 £m	Loss allowance Stage 3 £m	Loss allowance Total £m
<0.15%	952.8	0.9	-	953.7	0.1	-	-	0.1
0.15% - <0.25%	2,768.3	0.6	-	2,768.9	0.3	-	-	0.3
0.25% - <0.5%	9,677.2	2.3	-	9,679.5	1.3	-	-	1.3
0.5% - <0.75%	4,410.9	1.7	-	4,412.6	0.9	-	-	0.9
0.75% - <2.5%	1,304.7	73.8	-	1,378.5	0.7	-	-	0.7
2.5% - <10%	5.7	1,069.5	-	1,075.2	-	1.6	-	1.6
10% - <100%	-	1,035.6	-	1,035.6	-	10.6	-	10.6
Default	-	-	74.8	74.8	-	-	6.0	6.0
Additional provision for payment deferrals								1.6
	19,119.6	2,184.4	74.8	21,378.8	3.3	12.2	6.0	23.1
ECL coverage by stage (%)					0.02%	0.56%	8.02%	0.11%

Group — 2019

Probability of default	Gross carrying amount Stage 1 £m	Gross carrying amount Stage 2 £m	Gross carrying amount Stage 3 £m	Gross carrying amount Total £m	Loss allowance Stage 1 £m	Loss allowance Stage 2 £m	Loss allowance Stage 3 £m	Loss allowance Total £m
<0.15%	6,181.7	0.8	-	6,182.5	0.4	-	-	0.4
0.15% - <0.25%	8,564.9	0.1	-	8,565.0	0.6	-	-	0.6
0.25% - <0.5%	3,820.0	1.5	-	3,821.5	0.6	-	-	0.6
0.5% - <0.75%	282.6	1.7	-	284.3	0.2	-	-	0.2
0.75% - <2.5%	150.6	38.8	-	189.4	0.4	-	-	0.4
2.5% - <10%	11.8	220.2	-	232.0	-	0.2	-	0.2
10% - <100%	0.4	271.3	-	271.7	-	3.6	-	3.6
Default	-	-	76.0	76.0	-	-	3.6	3.6
	19,012.0	534.4	76.0	19,622.4	2.2	3.8	3.6	9.6
ECL coverage by stage (%)					0.01%	0.71%	4.74%	0.05%

Society — 2020

Probability of default	Gross carrying amount Stage 1 £m	Gross carrying amount Stage 2 £m	Gross carrying amount Stage 3 £m	Gross carrying amount Total £m	Loss allowance Stage 1 £m	Loss allowance Stage 2 £m	Loss allowance Stage 3 £m	Loss allowance Total £m
<0.15%	950.2	0.7	-	950.9	0.1	-	-	0.1
0.15% - <0.25%	2,765.0	0.6	-	2,765.6	0.3	-	-	0.3
0.25% - <0.5%	8,737.9	2.3	-	8,740.2	1.1	-	-	1.1
0.5% - <0.75%	3,716.5	1.7	-	3,718.2	0.8	-	-	0.8
0.75% - <2.5%	1,140.1	72.5	-	1,212.6	0.4	-	-	0.4
2.5% - <10%	4.8	1,052.5	-	1,057.3	-	1.5	-	1.5
10% - <100%	-	801.1	-	801.1	-	4.4	-	4.4
Default	-	-	43.1	43.1	-	-	2.4	2.4
Additional provision for payment deferrals								1.4
	17,314.5	1,931.4	43.1	19,289.0	2.7	5.9	2.4	12.4
ECL coverage by stage (%)					0.02%	0.31%	5.57%	0.06%

Society — 2019

Probability of default	Gross carrying amount Stage 1 £m	Gross carrying amount Stage 2 £m	Gross carrying amount Stage 3 £m	Gross carrying amount Total £m	Loss allowance Stage 1 £m	Loss allowance Stage 2 £m	Loss allowance Stage 3 £m	Loss allowance Total £m
<0.15%	6,167.1	0.4	-	6,167.5	0.3	-	-	0.3
0.15% - <0.25%	7,128.2	0.1	-	7,128.3	0.6	-	-	0.6
0.25% - <0.5%	3,606.5	1.3	-	3,607.8	0.3	-	-	0.3
0.5% - <0.75%	184.6	1.7	-	186.3	-	-	-	-
0.75% - <2.5%	58.6	37.2	-	95.8	-	-	-	-
2.5% - <10%	6.6	212.7	-	219.3	-	0.2	-	0.2
10% - <100%	-	160.3	-	160.3	-	1.2	-	1.2
Default	-	-	48.8	48.8	-	-	1.7	1.7
	17,151.6	413.7	48.8	17,614.1	1.2	1.4	1.7	4.3
ECL coverage by stage (%)					0.01%	0.34%	3.48%	0.02%

The table below provides an analysis of residential loans held in stage 2 as at the balance sheet date, reflecting the reasons for inclusion in stage 2. For the purpose of this analysis, where a loan satisfies at the balance sheet date more than one of the stage 2 criteria, the loan is included below within one category only and in order of the categories as presented. The amounts presented below as 'Over 30 days past due' therefore include all stage 2 loans which are over 30 days past due as at the balance sheet date, including those where this was not the initial reason for being classified as stage 2.

Stage 2 analysis Group

	2020 Gross carrying amount £m	2020 ECL allowance £m	2020 ECL coverage %	2019 Gross carrying amount £m	2019 ECL allowance £m	2019 ECL coverage %
Over 30 days past due	40.8	1.6	3.9%	49.1	1.3	2.6%
In forbearance	15.7	-	-	45.8	0.2	0.4%
In arrears	67.2	1.6	2.4%	71.4	1.1	1.5%
Term expired	19.5	0.1	0.5%	20.0	0.1	0.5%
Increase in PD since origination	2,041.2	8.9	0.4%	348.1	1.1	0.3%
	2,184.4	12.2	0.6%	534.4	3.8	0.7%

40. Credit risk *(continued)*

Stage 2 analysis Society	**2020 Gross carrying amount £m**	**2020 ECL allowance £m**	**2020 ECL coverage %**	2019 Gross carrying amount £m	2019 ECL allowance £m	2019 ECL coverage %
Over 30 days past due	24.7	0.6	2.4%	27.1	0.4	1.5%
In forbearance	10.2	-	-	31.7	0.1	0.3%
In arrears	30.4	0.3	1.0%	29.1	0.3	1.0%
Term expired	14.7	-	-	16.2	-	-
Increase in PD since origination	1,851.4	5.0	0.3%	309.6	0.6	0.2%
	1,931.4	**5.9**	**0.3%**	413.7	1.4	0.3%

The tables below provide further information on the types of lending and geographical split:

Group	**2020 Stage 1 £m**	**2020 Stage 2 £m**	**2020 Stage 3 £m**	**2020 Total £m**	2019 Stage 1 £m	2019 Stage 2 £m	2019 Stage 3 £m	2019 Total £m
Prime:								
Residential	15,161.0	922.8	43.9	**16,127.7**	14,430.9	356.2	47.7	14,834.8
Buy-to-let	3,717.4	1,085.5	8.1	**4,811.0**	4,204.9	86.1	6.4	4,297.4
Self build	22.8	11.1	1.5	**35.4**	34.0	6.3	1.8	42.1
Fast track	20.2	4.7	0.4	**25.3**	26.7	2.5	0.4	29.6
Self certified	154.6	108.8	13.2	**276.6**	240.9	52.1	11.7	304.7
Sub-prime^:								
Residential	8.5	8.9	2.0	**19.4**	12.3	7.8	1.1	21.2
Buy-to-let	12.1	6.9	0.4	**19.4**	20.3	1.5	0.4	22.2
Self build	0.2	0.3	-	**0.5**	0.2	0.3	-	0.5
Self certified	22.8	35.4	5.3	**63.5**	41.8	21.6	6.5	69.9
	19,119.6	**2,184.4**	**74.8**	**21,378.8**	19,012.0	534.4	76.0	19,622.4

^ Sub-prime mortgages are defined as loans to borrowers that typically had weakened credit histories at the time the loan was advanced.

Society	**2020 Stage 1 £m**	**2020 Stage 2 £m**	**2020 Stage 3 £m**	**2020 Total £m**	2019 Stage 1 £m	2019 Stage 2 £m	2019 Stage 3 £m	2019 Total £m
Prime:								
Residential	14,238.9	879.4	37.4	**15,155.7**	13,519.1	333.1	43.6	13,895.8
Buy-to-let	3,040.6	1,043.5	5.0	**4,089.1**	3,584.3	75.4	3.9	3,663.6
Self build	8.6	3.1	0.1	**11.8**	14.0	1.9	0.7	16.6
Fast track	20.2	4.7	0.4	**25.3**	26.7	2.5	0.4	29.6
Self certified	6.2	0.7	0.2	**7.1**	7.5	0.8	0.2	8.5
	17,314.5	**1,931.4**	**43.1**	**19,289.0**	17,151.6	413.7	48.8	17,614.1

Group Region	**2020 Stage 1 £m**	**2020 Stage 2 £m**	**2020 Stage 3 £m**	**2020 Total £m**	2019 Stage 1 £m	2019 Stage 2 £m	2019 Stage 3 £m	2019 Total £m
North	706.8	77.0	4.5	**788.3**	734.9	23.4	4.5	762.8
Yorkshire	1,713.7	187.9	6.9	**1,908.5**	1,750.8	56.5	9.5	1,816.8
East Midlands	1,342.0	159.5	5.3	**1,506.8**	1,336.5	42.6	5.4	1,384.5
East Anglia	578.9	66.4	1.2	**646.5**	566.7	13.9	2.5	583.1
London	2,962.2	447.6	11.0	**3,420.8**	2,932.9	80.5	9.2	3,022.6
South East	3,675.9	431.5	12.8	**4,120.2**	3,578.2	94.3	12.5	3,685.0
South West	1,908.5	207.6	7.2	**2,123.3**	1,883.2	47.6	5.5	1,936.3
West Midlands	1,408.8	162.4	5.3	**1,576.5**	1,396.9	45.7	5.5	1,448.1
North West	1,782.7	215.5	10.5	**2,008.7**	1,775.9	61.1	9.2	1,846.2
Wales	632.6	71.9	1.9	**706.4**	656.9	24.0	2.8	683.7
Scotland	1,454.8	144.8	6.8	**1,606.4**	1,477.8	37.8	8.2	1,523.8
Northern Ireland	16.8	7.2	1.2	**25.2**	21.9	4.4	1.2	27.5
Channel Islands	935.9	5.1	0.2	**941.2**	899.4	2.6	-	902.0
	19,119.6	**2,184.4**	**74.8**	**21,378.8**	19,012.0	534.4	76.0	19,622.4

Society Region	**2020 Stage 1 £m**	**2020 Stage 2 £m**	**2020 Stage 3 £m**	**2020 Total £m**	2019 Stage 1 £m	2019 Stage 2 £m	2019 Stage 3 £m	2019 Total £m
North	694.8	68.5	3.1	**766.4**	716.1	19.8	3.1	739.0
Yorkshire	1,679.9	167.5	5.1	**1,852.5**	1,702.4	46.8	8.0	1,757.2
East Midlands	1,314.2	142.4	2.6	**1,459.2**	1,298.2	33.4	3.5	1,335.1
East Anglia	558.9	59.4	0.4	**618.7**	540.0	11.2	1.9	553.1
London	2,533.2	397.0	3.7	**2,933.9**	2,535.6	57.8	2.6	2,596.0
South East	3,544.6	383.0	6.4	**3,934.0**	3,415.1	66.8	7.7	3,489.6
South West	1,863.4	189.7	4.8	**2,057.9**	1,822.0	39.9	3.5	1,865.4
West Midlands	1,362.6	143.5	3.2	**1,509.3**	1,346.2	36.1	3.6	1,385.9
North West	1,713.5	185.2	6.8	**1,905.5**	1,694.1	47.4	6.4	1,747.9
Wales	609.7	57.5	1.2	**668.4**	623.3	18.0	1.7	643.0
Scotland	1,427.6	134.5	5.7	**1,567.8**	1,444.1	34.1	6.6	1,484.8
Northern Ireland	12.1	3.2	0.1	**15.4**	14.5	2.4	0.2	17.1
	17,314.5	**1,931.4**	**43.1**	**19,289.0**	17,151.6	413.7	48.8	17,614.1

Indexed loan-to-value information on the Group's residential loan portfolio is set out below:

Group Loan-to-value	**2020 Stage 1 £m**	**2020 Stage 2 £m**	**2020 Stage 3 £m**	**2020 Total £m**	2019 Stage 1 £m	2019 Stage 2 £m	2019 Stage 3 £m	2019 Total £m
<40%	3,638.3	509.8	11.8	**4,159.9**	3,207.9	87.7	10.7	3,306.3
40% - 50%	3,121.0	439.0	11.3	**3,571.3**	2,763.6	71.4	11.7	2,846.7
50% - 60%	3,638.2	482.8	16.7	**4,137.7**	3,650.0	100.0	14.1	3,764.1
60% - 70%	3,513.2	429.8	16.3	**3,959.3**	3,540.4	116.4	14.3	3,671.1
70% - 80%	2,945.3	239.7	8.7	**3,193.7**	3,011.4	103.6	11.2	3,126.2
80% - 90%	2,108.1	67.2	5.3	**2,180.6**	2,198.2	44.0	7.4	2,249.6
90% - 100%	145.3	8.0	1.6	**154.9**	616.6	6.9	2.6	626.1
>100%	10.2	8.1	3.1	**21.4**	23.9	4.4	4.0	32.3
	19,119.6	**2,184.4**	**74.8**	**21,378.8**	19,012.0	534.4	76.0	19,622.4

40. Credit risk *(continued)*

Society	**2020**				2019			
Loan-to-value	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<40%	3,398.4	483.3	9.1	**3,890.8**	2,996.8	78.4	8.9	3,084.1
40% - 50%	2,865.5	407.5	7.2	**3,280.2**	2,513.5	59.2	8.5	2,581.2
50% - 60%	3,255.3	422.7	9.8	**3,687.8**	3,279.8	74.4	7.9	3,362.1
60% - 70%	3,044.3	361.9	7.0	**3,413.2**	3,085.1	85.7	9.7	3,180.5
70% - 80%	2,630.7	192.8	5.3	**2,828.8**	2,642.5	78.7	6.5	2,727.7
80% - 90%	1,983.1	55.3	2.1	**2,040.5**	2,044.4	33.1	4.1	2,081.6
90% - 100%	132.1	4.0	0.7	**136.8**	577.4	2.7	0.8	580.9
>100%	5.1	3.9	1.9	**10.9**	12.1	1.5	2.4	16.0
	17,314.5	**1,931.4**	**43.1**	**19,289.0**	17,151.6	413.7	48.8	17,614.1

Balances of 80% or greater loan-to-value in the tables above have decreased during the year primarily following positive house price growth together with restrictions placed on higher loan-to-value lending in the year as a result of the uncertainty brought about by the COVID-19 pandemic.

The Group indexes property prices using the quarterly Halifax regional non-seasonally adjusted index. The new lending policy is currently a maximum loan-to-value ratio of 90% for residential mortgages and 75% for buy-to-let lending. In addition, SIL lend up to 100% on their 'Next Generation' mortgages whereby 20% is required to be guaranteed by a guarantor. In the year, lending policies varied due to a scale back of high LTV lending, however many of these products have now been re-introduced.

At 31 December 2020, the average indexed loan-to-value of Group residential mortgages on a valuation weighted basis (calculated as the total outstanding balance divided by the total value of collateral held), was 44.8% (2019: 46.8%) and for Society residential mortgages was 44.2% (2019: 46.2%).

Forbearance

Where appropriate for customers, the Group applies a policy of forbearance. This may be applied where the actual or apparent financial stress of the customer is considered to be short term with a potential to be recovered. Forbearance may involve arrears capitalisation, a reduction in the monthly payment (known as a concession), a conversion to interest only or a mortgage term extension. Forbearance is undertaken in order to achieve the best outcome for both the customer and the business through dealing with repayment difficulties at an early stage.

Possession is generally considered only as a last resort, once all other options for the customer have been exhausted. Possession balances represent loans against which the Group has taken ownership of properties pending their sale. The Group does not occupy repossessed properties for business use or use assets acquired in its operations. All customer accounts are monitored to ensure that these strategies remain appropriate.

In addition to our regular forbearance activity, residential borrowers financially affected by the COVID-19 pandemic are being supported through payment deferrals. Further details of this support are provided below.

Support for residential borrowers impacted by COVID-19

COVID-19 may have an impact on mortgage members and support is being offered in these challenging times. Where borrowers are experiencing or reasonably expect to experience payment difficulties caused by COVID-19, support is being provided by offering an initial three-month mortgage payment deferral, subsequently extended upon request for up to six months, that gives borrowers a period of flexibility. Interest will continue to accrue on these loans and in accordance with regulatory guidance, these payment deferrals have not been automatically included within the forbearance population and do not automatically have an impact on the reported staging balances except where credit risk is judged to have significantly increased since the loan was initially recognised.

The following table shows the value of residential mortgages with a mortgage payment deferral related to COVID-19 at 31 December 2020. Further information is included in note 1u).

Subject to a payment deferral due to COVID-19	**Gross balance**	**Percentage of total residential loans and advances to customers**
Loans and advances to customers	**£179.1m**	**0.8%**

During the year over 25,000 mortgage payment deferrals were granted and 4.7% of these were outstanding at 31 December 2020 with gross balances of £179.1m. The balance included in the table above represents 0.7% of our residential mortgage lending when calculated on an account basis.

Possessions

For the Group, at 31 December 2020 the balance of residential loans where the property has been taken into possession was £1.1m and represents less than 0.1% of total outstanding loans (2019: £2.2m; less than 0.1%). For the Society, at 31 December 2020 the balance of residential loans where the property has been taken into possession was £0.5m and represents less than 0.1% of total outstanding loans (2019: £1.1m; less than 0.1%). All possessions balances are classified as stage 3.

Forbearance activity

The tables below provide further information on residential mortgages regarded as being in forbearance as at 31 December 2020, showing the type of account renegotiations applied. For the purpose of these forbearance tables, the Group applies the Bank of England Prudential Regulatory Authority (PRA) definition of forbearance (which is aligned to the European Banking Authority, EBA, definition). Under the PRA definition, loans are required to meet certain payment and arrears criteria before they are deemed to exit forbearance; this includes a minimum two year probation period following the forbearance event (extended to three years in certain situations).

For the purpose of the tables below, the following loans are therefore regarded as being in forbearance as at 31 December 2020:

- any loan to which forbearance measures were applied within the two years prior to the reporting date (regardless of whether the loan remains on renegotiated terms at 31 December 2020); and
- any loan to which forbearance measures were applied and which remains on renegotiated terms at 31 December 2020 (even if the forbearance event was more than two years prior to the reporting date).

For the purpose of the tables below, loans are presented according to the ECL stage in which they were held as at the reporting date.

For the avoidance of doubt, the Group does not, and is not required to, apply the PRA definition of forbearance in its accounting policies; the Group's accounting policy for forbearance does not therefore include the minimum two year probation period that is included in the PRA definition (for full details of the Group's accounting policies for forbearance and the measurement of impairment losses, see note 1g)).

Group 2020	**Total £m**	**Capitalisation £m**	**Reduced payment £m**	**Transfer to interest only £m**	**Term extension £m**	**Total renegotia-tions £m**	**%**
Stage 1							
Not past due	19,119.6	-	11.9	6.5	0.7	19.1	0.1
	19,119.6	**-**	**11.9**	**6.5**	**0.7**	**19.1**	**0.1**
Stage 2							
Not past due	2,074.5	0.2	29.4	13.1	0.7	43.4	2.1
Past due up to 30 days	69.1	-	7.7	0.8	0.2	8.7	12.6
Over 30 days past due	40.8	-	7.6	0.9	-	8.5	20.8
	2,184.4	**0.2**	**44.7**	**14.8**	**0.9**	**60.6**	**2.8**
Stage 3							
Not past due	8.5	-	1.8	0.7	-	2.5	29.4
Past due up to 90 days	10.7	-	3.8	0.6	0.3	4.7	43.9
Over 90 days past due	55.6	-	16.2	2.7	1.3	20.2	36.3
	74.8	**-**	**21.8**	**4.0**	**1.6**	**27.4**	**36.6**
Gross carrying amount	**21,378.8**	**0.2**	**78.4**	**25.3**	**3.2**	**107.1**	**0.5**
Loss allowance	**(23.1)**	**-**	**(2.5)**	**(0.2)**	**(0.3)**	**(3.0)**	**13.0**
	21,355.7	**0.2**	**75.9**	**25.1**	**2.9**	**104.1**	**0.5**

40. Credit risk *(continued)*

Group 2019	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Term extension £m	Total renegotiations £m	%
Stage 1							
Not past due	19,012.0	-	11.0	8.5	0.7	20.2	0.1
	19,012.0	-	11.0	8.5	0.7	20.2	0.1
Stage 2							
Not past due	412.1	0.2	13.3	9.6	3.5	26.6	6.5
Past due up to 30 days	73.2	-	10.4	0.9	0.2	11.5	15.7
Over 30 days past due	49.1	-	8.4	0.4	0.2	9.0	18.3
	534.4	0.2	32.1	10.9	3.9	47.1	8.8
Stage 3							
Not past due	11.5	-	1.5	0.5	0.3	2.3	20.0
Past due up to 90 days	20.4	0.1	5.4	1.7	1.1	8.3	40.7
Over 90 days past due	44.1	-	16.8	2.7	0.9	20.4	46.3
	76.0	0.1	23.7	4.9	2.3	31.0	40.8
Gross carrying amount	19,622.4	0.3	66.8	24.3	6.9	98.3	0.5
Loss allowance	(9.6)	-	(1.5)	(0.1)	(0.2)	(1.8)	18.8
	19,612.8	0.3	65.3	24.2	6.7	96.5	0.5

Society 2020	**Total £m**	**Capitalisation £m**	**Reduced payment £m**	**Transfer to interest only £m**	**Term extension £m**	**Total renegotiations £m**	**%**
Stage 1							
Not past due	17,314.5	-	7.2	6.5	0.6	14.3	0.1
	17,314.5	**-**	**7.2**	**6.5**	**0.6**	**14.3**	**0.1**
Stage 2							
Not past due	1,874.5	0.1	16.1	9.9	0.4	26.5	1.4
Past due up to 30 days	32.2	-	6.3	0.8	0.2	7.3	22.7
Over 30 days past due	24.7	-	6.4	0.9	-	7.3	29.6
	1,931.4	**0.1**	**28.8**	**11.6**	**0.6**	**41.1**	**2.1**
Stage 3							
Not past due	6.0	-	1.1	0.7	-	1.8	30.0
Past due up to 90 days	6.9	-	2.8	0.6	0.3	3.7	53.6
Over 90 days past due	30.2	-	10.9	2.7	1.1	14.7	48.7
	43.1	**-**	**14.8**	**4.0**	**1.4**	**20.2**	**46.9**
Gross carrying amount	**19,289.0**	**0.1**	**50.8**	**22.1**	**2.6**	**75.6**	**0.4**
Loss allowance	**(12.4)**	**-**	**(1.1)**	**(0.2)**	**(0.2)**	**(1.5)**	**12.1**
	19,276.6	**0.1**	**49.7**	**21.9**	**2.4**	**74.1**	**0.4**

Society 2019	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Term extension £m	Total renegotiations £m	%
Stage 1							
Not past due	17,151.6	-	7.7	8.3	0.1	16.1	0.1
	17,151.6	-	7.7	8.3	0.1	16.1	0.1
Stage 2							
Not past due	355.7	0.2	11.0	7.4	2.5	21.1	5.9
Past due up to 30 days	30.9	-	6.3	0.8	0.2	7.3	23.6
Over 30 days past due	27.1	-	6.4	0.4	0.2	7.0	25.8
	413.7	0.2	23.7	8.6	2.9	35.4	8.6
Stage 3							
Not past due	7.9	-	1.4	0.5	0.3	2.2	27.8
Past due up to 90 days	13.1	0.1	3.2	1.7	1.0	6.0	45.8
Over 90 days past due	27.8	-	10.8	2.7	0.9	14.4	51.8
	48.8	0.1	15.4	4.9	2.2	22.6	46.3
Gross carrying amount	17,614.1	0.3	46.8	21.8	5.2	74.1	0.4
Loss allowance	(4.3)	-	(0.7)	(0.1)	(0.2)	(1.0)	23.3
	17,609.8	0.3	46.1	21.7	5.0	73.1	0.4

Collateral

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

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

Fair value of capped collateral held

Some properties in the Group's mortgage book are in negative equity, which increases the possibility of the Group incurring a loss if the property is taken into possession.

	Group 2020 £m	Group 2019 £m	**Society 2020 £m**	Society 2019 £m
Stage 1	**19,116.2**	19,006.9	**17,313.1**	17,149.0
Stage 2	**2,182.8**	533.5	**1,930.6**	413.5
Stage 3	**74.1**	75.0	**42.9**	48.4
	21,373.1	19,615.4	**19,286.6**	17,610.9
Gross loan balances	**21,378.8**	19,622.4	**19,289.0**	17,614.1
Negative equity	**5.7**	7.0	**2.4**	3.2
Capped collateral held in respect of possessions (included within stage 3 above)	**1.1**	1.9	**0.5**	1.0

The fair value of residential property used to derive the figures in the table above is determined by reference to a recognised house price index. Movements in this index to the reporting date are applied to all properties in the portfolio on a regional basis. For the majority of the Group's loans, the Group holds excess collateral however this cannot be used to offset those instances where the loan amount exceeds the collateral held. The fair value of capped collateral in the table above therefore represents, on an individual loan basis, 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. The total fair value of collateral held in respect of residential mortgages for the Group at 31 December 2020 is £47,735.2m (2019: £41,943.5m) and for the Society is £43,619.6m (2019: £38,133.9m).

40. Credit risk *(continued)*

At 31 December 2020 the contractual amount outstanding on loans written off during the year due to there being no reasonable expectation of recovery, but which remain subject to enforcement activity, is £0.8m (2019: £1.5m) for the Group and £0.2m (2019: £0.5m) for the Society.

ii) Commercial mortgages

The commercial mortgage portfolio (also known as loans fully secured on land) is currently closed to new business.

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

	2020 Group and Society				2019 Group and Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Not past due	35.9	141.3	5.8	183.0	204.6	22.5	4.1	231.2
Up to 30 days	0.1	4.2	-	4.3	-	3.0	-	3.0
31 to 60 days	-	13.8	0.3	14.1	-	0.8	0.1	0.9
61 to 90 days	-	2.6	0.8	3.4	-	0.2	-	0.2
Over 90 days	-	-	14.2	14.2	-	-	1.4	1.4
	36.0	161.9	21.1	219.0	204.6	26.5	5.6	236.7

The table below provides information on movements in the gross carrying amount of commercial loans during the year.

	2020 Group and Society				2019 Group and Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount as at 1 January	204.6	26.5	5.6	236.7	236.3	25.9	5.4	267.6
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(119.6)	114.3	-	(5.3)	(4.3)	4.1	-	(0.2)
From stage 1 to stage 3	(1.2)	-	1.2	-	(2.4)	-	2.4	-
From stage 2 to stage 1	0.1	(0.1)	-	-	0.4	(0.4)	-	-
From stage 2 to stage 3	-	-	-	-	-	(0.2)	0.2	-
From stage 3 to stage 2	-	-	-	-	-	0.3	(0.3)	-
Modification of contractual cashflows	(39.9)	21.4	16.3	(2.2)	1.3	(1.0)	(0.7)	(0.4)
Decrease due to derecognition and repayments	(8.0)	(0.2)	(2.0)	(10.2)	(26.1)	(2.2)	(1.4)	(29.7)
Other movements	-	-	-	-	(0.6)	-	-	(0.6)
Gross carrying amount as at 31 December	36.0	161.9	21.1	219.0	204.6	26.5	5.6	236.7

The amounts included in the table above represent the movement in the gross carrying amount between each reporting period end and not the balance as at the date of the movement.

Gains and losses arising during the year from loan modifications that did not result in derecognition were not significant. Amounts written off are in accordance with the Group's accounting policy for write-offs (see note 1g)).

The table below provides information on movements in the impairment loss allowance for commercial loans during the year.

	2020 Group and Society				2019 Group and Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance as at 1 January	0.2	5.2	1.1	6.5	0.2	5.8	1.9	7.9
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(0.1)	7.2	-	7.1	-	-	-	-
From stage 1 to stage 3	-	-	-	-	-	-	0.2	0.2
Remeasurements within existing stage	-	0.4	-	0.4	-	(0.4)	(0.1)	(0.5)
Decrease due to derecognition and repayments	(0.1)	-	(0.2)	(0.3)	-	(0.7)	(0.6)	(1.3)
Changes due to modification without derecognition	-	0.7	3.4	4.1	-	0.5	(0.3)	0.2
Loss allowance as at 31 December	-	13.5	4.3	17.8	0.2	5.2	1.1	6.5
ECL coverage (%)	0.00%	8.34%	20.38%	8.13%	0.10%	19.62%	19.64%	2.75%

Given the size and nature of the Group's commercial portfolio, it is not meaningful to manage credit risk by reference to behavioural scores or PD percentages. Credit risk is predominantly managed by individual review of loans in accordance with certain criteria and includes the use of 'watchlists'. To aid an understanding of significant credit risk concentrations for the Group's commercial portfolio, the tables below provide analyses of loans by industry type, by geography and by loan-to-value percentage.

Industry analysis	2020 Group and Society				2019 Group and Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Leisure and hotels	-	12.2	7.3	19.5	14.8	5.6	0.4	20.8
Retail	0.3	4.7	0.4	5.4	5.5	-	0.8	6.3
Nursing / residential homes	10.2	1.0	0.4	11.6	12.2	-	-	12.2
Offices	-	2.5	-	2.5	2.7	-	-	2.7
Commercial and industrial units	23.8	140.1	12.7	176.6	167.5	19.2	4.2	190.9
Miscellaneous	1.7	1.4	0.3	3.4	1.9	1.7	0.2	3.8
	36.0	161.9	21.1	219.0	204.6	26.5	5.6	236.7

40. Credit risk *(continued)*

Geographical analysis	2020 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	2019 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
North	3.1	5.2	2.2	**10.5**	9.3	2.3	0.3	11.9
Yorkshire	2.4	12.0	6.8	**21.2**	16.7	5.3	0.1	22.1
East Midlands	2.2	13.0	2.7	**17.9**	10.7	8.2	-	18.9
East Anglia	0.9	3.3	0.1	**4.3**	4.7	-	0.2	4.9
London	2.1	43.2	3.9	**49.2**	49.6	2.7	1.4	53.7
South East	9.9	32.4	2.5	**44.8**	46.0	1.4	0.7	48.1
South West	3.3	18.9	0.1	**22.3**	23.4	0.3	0.6	24.3
West Midlands	8.3	7.6	0.1	**16.0**	16.9	0.6	-	17.5
North West	2.3	19.1	2.4	**23.8**	19.0	4.4	2.2	25.6
Wales	0.6	4.4	0.3	**5.3**	5.0	0.7	0.1	5.8
Scotland	0.9	2.8	-	**3.7**	3.3	0.6	-	3.9
	36.0	**161.9**	**21.1**	**219.0**	204.6	26.5	5.6	236.7

Loan-to-value	2020 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	2019 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<40%	7.4	32.2	1.0	**40.6**	45.2	0.6	0.3	46.1
40% - 50%	4.6	22.2	6.5	**33.3**	27.9	1.3	2.4	31.6
50% - 60%	6.9	32.0	0.7	**39.6**	43.3	2.4	0.2	45.9
60% - 70%	8.8	23.9	0.7	**33.4**	35.8	1.6	0.1	37.5
70% - 80%	2.7	15.6	1.1	**19.4**	21.9	-	0.1	22.0
80% - 90%	4.0	11.4	-	**15.4**	11.6	4.1	-	15.7
90% - 100%	0.4	5.0	0.3	**5.7**	9.6	1.2	0.5	11.3
>100%	1.2	19.6	10.8	**31.6**	9.3	15.3	2.0	26.6
	36.0	**161.9**	**21.1**	**219.0**	204.6	26.5	5.6	236.7

At 31 December 2020 the average loan-to-value of commercial mortgages on a valuation weighted basis (calculated as the total outstanding balance divided by the total value of collateral held) was 48.7% (2019: 49.1%). The average loan-to-value is based on the latest external valuation of the properties within the portfolio.

Forbearance

The Group's policy on forbearance for commercial mortgages is the same as the policy for residential mortgages, which is found in note 40a)i). The Society is providing support to those customers who have been financially affected by COVID-19 through concessionary arrangements, particularly within the retail, leisure and the hospitality sectors, which has led to an increase in overall impairment.

At 31 December 2020 the balance of commercial mortgages where the property has been taken into possession was £nil for the Group and Society (2019: £nil). Possessions balances are classified as stage 3.

The tables below provide further information on commercial mortgages regarded as being in forbearance as at 31 December 2020, showing the type of account renegotiations applied. The tables below are presented on the same basis as the corresponding tables for residential mortgages, the basis for which is described on page 209.

Group and Society 2020	Total £m	Reduced payment £m	Transfer to interest only £m	Total renegotiations £m	Total renegotiations %
Stage 1					
Not past due	35.9	1.8	-	1.8	5.0
Past due up to 30 days	0.1	0.1	-	0.1	100.0
	36.0	**1.9**	**-**	**1.9**	**5.3**
Stage 2					
Not past due	141.3	14.2	0.7	14.9	10.5
Past due up to 30 days	4.2	4.2	-	4.2	100.0
Over 30 days past due	16.4	16.1	-	16.1	98.2
	161.9	**34.5**	**0.7**	**35.2**	**21.7**
Stage 3					
Not past due	5.8	1.5	-	1.5	25.9
Past due up to 90 days	1.1	1.1	-	1.1	100.0
Over 90 days past due	14.2	13.8	-	13.8	97.2
	21.1	**16.4**	**-**	**16.4**	**77.7**
Gross carrying amount	**219.0**	**52.8**	**0.7**	**53.5**	24.4
Loss allowance	(17.8)	(6.7)	-	(6.7)	**37.6**
	201.2	**46.1**	**0.7**	**46.8**	**23.3**

Group and Society 2019	Total £m	Reduced payment £m	Transfer to interest only £m	Total renegotiations £m	Total renegotiations %
Stage 1					
Not past due	204.6	5.7	0.6	6.3	3.1
	204.6	5.7	0.6	6.3	3.1
Stage 2					
Not past due	22.5	-	7.0	7.0	31.1
Past due up to 30 days	3.0	-	-	-	-
Over 30 days past due	1.0	0.2	0.7	0.9	90.0
	26.5	0.2	7.7	7.9	29.8
Stage 3					
Not past due	4.1	-	-	-	-
Past due up to 90 days	0.1	-	-	-	-
Over 90 days past due	1.4	0.2	-	0.2	14.3
	5.6	0.2	-	0.2	3.6
Gross carrying amount	236.7	6.1	8.3	14.4	6.1
Loss allowance	(6.5)	(0.1)	(2.4)	(2.5)	38.5
	230.2	6.0	5.9	11.9	5.2

Collateral

The collateral held consists of properties held within the categories previously outlined. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

40. Credit risk *(continued)*

Fair value of capped collateral held

An analysis of capped collateral, where the collateral is capped to the lower of the value of the property and the amount outstanding on an individual loan basis, is shown below.

	Group and Society 2020 £m	Group and Society 2019 £m
Stage 1	36.0	202.6
Stage 2	157.2	22.6
Stage 3	18.8	4.5
	212.0	229.7
Gross loan balances	219.0	236.7
Negative equity	7.0	7.0
Capped collateral held in respect of possessions (included within stage 3 above)	-	-

The fair value of commercial property used to derive the figures in the table above is determined by reference to the latest external valuation of the properties in question. The total fair value of collateral held in respect of commercial loans for the Group and the Society at 31 December 2020 is £450.1m (2019: £482.5m).

At 31 December 2020 the contractual amount outstanding on loans written off during the year due to there being no reasonable expectation of recovery, but which remain subject to enforcement activity, is £nil (2019: £nil) for the Group and the Society.

iii) Other lending

Other lending comprises the following:

	Group					
	2020			2019		
	Gross carrying amount £m	ECL allowance £m	Net carrying amount £m	Gross carrying amount £m	ECL allowance £m	Net carrying amount £m
Debt factoring advances	86.0	(1.0)	85.0	97.9	(0.8)	97.1
Other loans	70.9	-	70.9	67.8	-	67.8
	156.9	(1.0)	155.9	165.7	(0.8)	164.9

The table below provides information on movements in the gross carrying amount of other loans and advances during the year.

	Group							
	2020				2019			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount as at 1 January	162.5	3.2	-	165.7	156.5	4.2	-	160.7
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(3.1)	3.1	-	-	(2.5)	2.5	-	-
From stage 2 to stage 1	1.7	(1.7)	-	-	2.7	(2.7)	-	-
From stage 2 to stage 3	-	(0.2)	0.2	-	-	(0.2)	0.2	-
Increases due to origination	48.5	0.2	-	48.7	47.7	-	-	47.7
Decrease due to derecognition and repayments	(57.2)	(0.1)	-	(57.3)	(41.9)	(0.6)	-	(42.5)
Write-offs	-	-	(0.2)	(0.2)	-	-	(0.2)	(0.2)
Gross carrying amount as at 31 December	152.4	4.5	-	156.9	162.5	3.2	-	165.7

The amounts included in the table above represent the movement in the gross carrying amount between each reporting period end and not the balance as at the date of the movement.

The table below provides information on movements in the impairment loss allowance for other loans and advances during the year.

	Group							
	2020				2019			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance as at 1 January	-	0.8	-	0.8	-	0.8	-	0.8
Transfers due to changes in credit risk:								
From stage 1 to stage 2	-	1.0	-	1.0	-	0.6	-	0.6
From stage 2 to stage 1	-	(0.5)	-	(0.5)	-	(0.4)	-	(0.4)
From stage 2 to stage 3	-	(0.2)	0.2	-	-	(0.2)	0.2	-
Changes due to update in the methodology for estimation	-	(0.1)	-	(0.1)	-	-	-	-
Write-offs	-	-	(0.2)	(0.2)	-	-	(0.2)	(0.2)
Loss allowance as at 31 December	-	1.0	-	1.0	-	0.8	-	0.8

Debt factoring advances

Debt factoring advances relate to amounts advanced to clients by Skipton Business Finance Limited (SBF), the Group's debt factoring and invoice discounting business.

Credit risk is predominantly managed by rigorous due diligence controls and regular monitoring of client accounts, and includes the use of concentration limits, credit reference checks and 'watchlists' on clients' debtors. Advances are typically made to clients only against notified invoices that are less than 90 days past due.

Debt factoring and invoice discounting advances are typically secured via a legal charge against the relevant client's sales ledger. Additional security may also be taken in the form of an all assets debenture that may incorporate other unencumbered assets as well as personal guarantees. At 31 December 2020 and 31 December 2019, the fair value of the total collateral held by the Group against debt factoring and invoice discounting advances was in excess of the value of the total advances outstanding.

Other loans

The table below provides information on the gross carrying amount of other loans by payment due status.

	Group					
	2020			2019		
	Stage 1 £m	Stage 2 £m	Total £m	Stage 1 £m	Stage 2 £m	Total £m
Not past due	70.6	0.3	70.9	67.8	-	67.8
	70.6	0.3	70.9	67.8	-	67.8

The other loans of £70.9m (2019: £67.8m) were advanced by Skipton International Limited to customers in respect of residential properties owned by a property management holding company. The loans are secured on shares in that property management holding company and the fair value of the total collateral held is £121.6m (2019: £113.8m).

b) Credit risk – balances with the Bank of England, debt securities and loans and advances to credit institutions

The Group holds treasury investments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group.

Collateral held for treasury assets is determined by the nature of the instrument. Loans and debt securities are generally unsecured with the exception of asset backed securities and covered bonds which are secured by pools of financial assets. For details of collateral held against debt securities see note 11. For details of collateral held against loans and advances to credit institutions see note 10. No collateral is held against balances with the Bank of England.

40. Credit risk *(continued)*

At 31 December 2020 none of the Group or the Society's treasury assets were past due (2019: none past due). At 31 December 2020 the ECLs on the Group and the Society's treasury assets were all held as stage 1 (2019: all stage 1).

At 31 December 2020 all the Group and the Society's treasury investments were assessed to have a probability of default (PD) of less than 0.15% (2019: all less than 0.15%).

The Group's accounting policies on impairment losses on treasury assets and how the Group assesses ECLs and PDs on treasury assets are detailed in note 1g).

At 31 December 2020, 99.9% (2019: 98.1%) of the Group's treasury investment assets (including cash in hand and with the Bank of England and excluding exposures to a central clearing house used to clear derivatives to manage interest rate risk in line with regulation) were rated A3 or better, and for the Society 100.0% (2019: 98.0%) were rated A3 or better. The table below provides further details of the credit ratings for both the Group and the Society's treasury investment portfolios:

Rating	Group 2020 £m	%	Group 2019 £m	%	Society 2020 £m	%	Society 2019 £m	%
Aaa	993.9	18.2	930.4	20.6	1,209.1	21.7	988.0	23.0
Aa1	197.8	3.6	153.1	3.4	197.8	3.6	153.1	3.6
Aa2	-	-	2,890.6	63.8	-	-	2,682.5	62.5
Aa3	3,599.3	65.9	197.3	4.4	3,540.2	63.6	144.1	3.4
A1	209.2	3.8	8.9	0.2	149.0	2.7	6.2	0.1
A2	0.5	-	25.7	0.6	-	-	0.9	-
A3	69.6	1.3	25.0	0.6	69.6	1.3	25.0	0.6
Baa2	2.4	-	83.0	1.8	-	-	83.0	1.9
Unrated:								
Other	394.8	7.2	208.6	4.6	394.8	7.1	208.6	4.9
	5,467.5	100.0	4,522.6	100.0	5,560.5	100.0	4,291.4	100.0

'Other' in the above analysis comprises an exposure to a central clearing house used to clear derivatives to manage interest rate risk, as required by regulation.

The Group also monitors exposure concentrations against a variety of criteria including industry sector / asset class and country of risk.

Industry sector / asset class	Group 2020 £m	%	Group 2019 £m	%	Society 2020 £m	%	Society 2019 £m	%
Cash in hand and balances with the Bank of England	3,237.8	59.2	1,793.1	39.6	3,237.8	58.1	1,793.1	41.7
Loans and advances to banks and building societies	724.7	13.3	546.6	12.1	615.0	11.1	465.8	10.9
Gilts	303.2	5.5	291.9	6.5	303.2	5.5	291.9	6.8
Certificates of deposit	-	-	31.0	0.7	-	-	31.0	0.7
Fixed rate bonds	599.2	11.0	446.1	9.9	599.2	10.8	446.1	10.4
Floating rate notes	229.6	4.2	204.2	4.5	204.6	3.7	204.2	4.8
Treasury bills	12.5	0.2	779.8	17.2	-	-	571.8	13.3
Covered bonds	202.8	3.7	286.4	6.3	202.8	3.6	286.4	6.7
Residential mortgage backed securities	157.7	2.9	143.5	3.2	397.9	7.2	201.1	4.7
	5,467.5	100.0	4,522.6	100.0	5,560.5	100.0	4,291.4	100.0

Geographical exposure	Group 2020 £m	%	Group 2019 £m	%	Society 2020 £m	%	Society 2019 £m	%
UK	4,587.8	83.9	3,834.8	84.9	4,755.2	85.5	3,638.4	84.8
Rest of Europe	167.9	3.1	123.1	2.7	167.9	3.0	123.1	2.9
Supranationals:								
Europe	187.0	3.4	172.5	3.8	187.0	3.4	172.5	4.0
Global	292.5	5.3	227.8	5.0	292.5	5.3	227.8	5.3
Asia	114.8	2.1	64.5	1.4	89.7	1.6	64.5	1.5
South America	46.6	0.9	25.3	0.6	46.6	0.8	25.3	0.6
North America	65.8	1.2	68.5	1.5	20.2	0.4	38.0	0.9
Rest of World	5.1	0.1	6.1	0.1	1.4	-	1.8	-
	5,467.5	100.0	4,522.6	100.0	5,560.5	100.0	4,291.4	100.0

c) Credit risk – trade receivables

The tables below provide information on movements in trade receivables during the year.

As outlined in note 1g), the Group's accounting policy for trade receivables is to always recognise lifetime ECLs in accordance with the simplified approach in IFRS 9. Trade receivables are therefore not allocated to ECL stages.

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Gross carrying amount	30.5	33.0	2.0	1.5
Loss allowance	(2.7)	(2.3)	(0.2)	(0.1)
Net carrying amount	27.8	30.7	1.8	1.4

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Loss allowance as at 1 January	2.3	2.5	0.1	0.1
Net allowances made during the year	0.9	(0.1)	0.1	-
Write-offs	(0.5)	(0.1)	-	-
Loss allowance as at 31 December	2.7	2.3	0.2	0.1

The table below provides information on the gross carrying amount of trade receivables by payment due status.

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Not past due	11.4	12.4	0.5	-
Up to 30 days past due	12.0	13.2	0.4	0.3
31 to 120 days past due	4.3	4.5	0.3	0.6
Over 120 days past due	2.8	2.9	0.8	0.6
	30.5	33.0	2.0	1.5

No collateral is held against trade receivables. At 31 December 2020 the contractual amount outstanding on trade receivables written off during the year due to there being no reasonable expectation of recovery, but which remain subject to enforcement activity, is £nil (2019: £nil) for the Group and £nil (2019: £nil) for the Society.

40. Credit risk *(continued)*

d) Credit risk – derivative financial instruments

A credit exposure could arise in respect of derivative contracts entered into by the Group if the counterparty was unable to fulfil its contractual obligations. The Group addresses the risks associated with these activities by monitoring counterparty credit exposure and requiring additional collateral to be posted or returned as necessary. For all but two derivatives, the only form of collateral accepted by the Group in respect of derivatives is cash. Derivatives are either transacted under International Swaps and Derivatives Association (ISDA) Master Agreements or Cleared Derivatives Execution Agreements. For swaps that are cash collateralised, no Credit (CVA) or Debit (DVA) Value Adjustments have been made in respect of credit risk in determining the fair value of these derivatives as the risk is significantly mitigated. Credit Support Annexes executed with certain counterparties in conjunction with the ISDA Master Agreement require collateral to be posted regularly, as required by specific terms and conditions of the arrangements. Due to the frequency of the posting of collateral, there is no material exposure from these minimal timing differences that would require CVA or DVA adjustments. At 31 December 2020 the Group held two derivatives (2019: two) that are not fully collateralised for cash; CVA and DVA adjustments are made to the valuation of these derivatives.

Netting arrangements do not necessarily result in an offset of Statement of Financial Position (SOFP) assets and liabilities, as transactions are usually settled on a gross basis. The Group's legal documentation for derivative transactions does grant legal rights of set-off for those transactions with the same counterparty. Accordingly the credit risk associated with such contracts is reduced to the extent that negative mark to market valuations on derivatives will offset positive mark to market values on derivatives. The tables below provide further detail on the net exposure to derivative transaction counterparties.

Group	2020				2019			
	As reported within SOFP £m	Netting agreements £m	Cash collateral £m	Net amounts after offsetting £m	As reported within SOFP £m	Netting agreements £m	Cash collateral £m	Net amounts after offsetting £m
Financial assets								
Derivative financial instruments	64.1	(47.7)	(5.3)	11.1	38.5	(38.3)	-	0.2
Financial liabilities								
Derivative financial instruments	445.9	(47.7)	(388.1)	10.1	361.1	(38.3)	(284.7)	38.1

Society	2020				2019			
	As reported within SOFP £m	Netting agreements £m	Cash collateral £m	Net amounts after offsetting £m	As reported within SOFP £m	Netting agreements £m	Cash collateral £m	Net amounts after offsetting £m
Financial assets								
Derivative financial instruments	75.9	(48.8)	(27.7)	(0.6)	46.6	(40.6)	(5.0)	1.0
Financial liabilities								
Derivative financial instruments	442.5	(48.8)	(388.1)	5.6	321.7	(40.6)	(284.7)	(3.6)

With regards to the Group's derivative assets, there is a net amount after offsetting of £11.1m (2019: £0.2m) between the value of the derivatives and the cash collateral held; this relates mostly to the collateral arrangements for two of the Group's derivatives where the counterparty is not required to post collateral up to a threshold.

With regards to the Group's derivative liabilities, there is a net amount after offsetting of £10.1m (2019: £38.1m) between the value of the derivatives and the cash collateral pledged. This relates partly to net amounts relating to two of the derivatives the Society holds to hedge its equity release portfolio. These derivatives are long dated and bespoke in nature. They contain optionality relating to the pool balance they are linked to and an RPI cap and floor. As a result, their valuation can vary significantly depending on the assumptions and modelling techniques used. Both swap counterparties arrive at valuations that are different to the Society's, resulting in this difference between the valuation and the collateral pledged. It also relates to the collateral arrangements for two of the Group's derivatives where the Group is not required to post collateral up to a threshold.

41. Fair values

a) Classification and measurement

The tables below summarise the classification of the carrying amounts of the Group's and Society's financial assets and liabilities:

Group	2020				2019			
	Amortised cost £m	FVOCI £m	FVTPL £m	Total £m	Amortised cost £m	FVOCI £m	FVTPL £m	Total £m
Cash in hand and balances with the Bank of England	3,237.8	-	-	3,237.8	1,793.1	-	-	1,793.1
Loans and advances to credit institutions	724.7	-	-	724.7	546.6	-	-	546.6
Debt securities	-	1,505.0	-	1,505.0	-	2,182.9	-	2,182.9
Derivative financial instruments	-	-	64.1	64.1	-	-	38.5	38.5
Loans and advances to customers	21,865.0	-	1.3	21,866.3	20,065.6	-	1.5	20,067.1
Equity release portfolio	-	-	433.8	433.8	-	-	410.0	410.0
Equity share investments	-	-	1.7	1.7	-	-	1.5	1.5
Trade receivables	27.8	-	-	27.8	30.7	-	-	30.7
Contingent consideration	-	-	12.3	12.3	-	-	17.9	17.9
Share warrants	-	-	6.5	6.5	-	-	3.2	3.2
Other assets	-	-	1.4	1.4	-	-	3.2	3.2
Total financial assets	**25,855.3**	**1,505.0**	**521.1**	**27,881.4**	22,436.0	2,182.9	475.8	25,094.7
Other non-financial assets				382.0				394.7
Total assets				**28,263.4**				25,489.4
Shares	18,709.4	-	-	18,709.4	17,364.1	-	-	17,364.1
Amounts owed to credit institutions and other customers	4,279.5	-	-	4,279.5	3,495.2	-	-	3,495.2
Debt securities in issue	2,452.5	-	-	2,452.5	2,302.6	-	-	2,302.6
Derivative financial instruments	-	-	445.9	445.9	-	-	361.1	361.1
Lease liabilities	62.5	-	-	62.5	66.6	-	-	66.6
Trade payables	4.7	-	-	4.7	6.7	-	-	6.7
Fair value of put option obligation	-	-	6.9	6.9	-	-	7.5	7.5
Subordinated liabilities	349.7	-	-	349.7	-	-	-	-
Subscribed capital	41.6	-	-	41.6	41.6	-	-	41.6
Total financial liabilities	**25,899.9**	-	**452.8**	**26,352.7**	23,276.8	-	368.6	23,645.4
Other non-financial liabilities				205.0				211.8
Total liabilities				**26,557.7**				23,857.2

All financial assets and liabilities in the table above that are held as at FVTPL are mandatorily held as such.

41. Fair values *(continued)*

Society	2020				2019			
	Amortised cost £m	FVOCI £m	FVTPL £m	Total £m	Amortised cost £m	FVOCI £m	FVTPL £m	Total £m
Cash in hand and balances with the Bank of England	3,237.8	-	-	3,237.8	1,793.1	-	-	1,793.1
Loans and advances to credit institutions	615.0	-	-	615.0	465.8	-	-	465.8
Debt securities	-	1,609.9	97.8	1,707.7	-	1,996.5	36.0	2,032.5
Derivative financial instruments	-	-	75.9	75.9	-	-	46.6	46.6
Loans and advances to customers	19,629.5	-	1.3	19,630.8	17,891.6	-	1.5	17,893.1
Equity release portfolio	-	-	433.8	433.8	-	-	410.0	410.0
Loans to subsidiary undertakings	731.3	-	-	731.3	777.9	-	-	777.9
Trade receivables	1.8	-	-	1.8	1.4	-	-	1.4
Total financial assets	**24,215.4**	**1,609.9**	**608.8**	**26,434.1**	20,929.8	1,996.5	494.1	23,420.4
Other non-financial assets				223.9				227.4
Total assets				**26,658.0**				23,647.8
Shares	18,725.2	-	-	18,725.2	17,362.3	-	-	17,362.3
Amounts owed to credit institutions and other customers (note 1)	3,418.0	-	117.8	3,535.8	2,008.9	-	150.1	2,159.0
Debt securities in issue	1,976.7	-	-	1,976.7	2,194.9	-	-	2,194.9
Derivative financial instruments	-	-	442.5	442.5	-	-	321.7	321.7
Lease liabilities	12.2	-	-	12.2	12.5	-	-	12.5
Trade payables	2.1	-	-	2.1	2.5	-	-	2.5
Subordinated liabilities	349.7	-	-	349.7	-	-	-	-
Subscribed capital	41.6	-	-	41.6	41.6	-	-	41.6
Total financial liabilities	**24,525.5**	**-**	**560.3**	**25,085.8**	21,622.7	-	471.8	22,094.5
Other non-financial liabilities				76.1				84.9
Total liabilities				**25,161.9**				22,179.4

Note

1. 'Amounts owed to credit institutions and other customers at FVTPL' of £117.8m (2019: £150.1m) relates to a deemed loan repayable to the Group's SPV Darrowby No. 4 plc which, under IFRS 9, has been voluntarily designated as FVTPL (see note 1f)). All other financial assets and liabilities shown above as FVTPL are mandatorily held as such.

b) Valuation of financial instruments carried at fair value

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

Valuation techniques

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

Level 1

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

Level 2

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

Level 3

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

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

Transfers between levels

The Group 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. Any such transfer between different levels of the fair value hierarchy is made at the date the event in question that results in a change in circumstances occurs. There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2020 or the year ended 31 December 2019.

The following tables provide an analysis of financial assets and liabilities held within the Statement of Financial Position at fair value, grouped into Levels 1 to 3 of the fair value hierarchy.

Group	2020				2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Financial assets held at FVOCI								
Debt securities	1,505.0	-	-	1,505.0	2,151.9	31.0	-	2,182.9
Financial assets at FVTPL:								
Equity share investments	0.3	-	1.4	1.7	0.2	-	1.3	1.5
Derivative financial instruments	-	59.6	4.5	64.1	-	38.4	0.1	38.5
Equity release portfolio	-	-	433.8	433.8	-	-	410.0	410.0
Loans and advances to customers	-	-	1.3	1.3	-	-	1.5	1.5
Contingent consideration	-	-	12.3	12.3	-	-	17.9	17.9
Share warrants	-	-	6.5	6.5	-	-	3.2	3.2
Other assets	-	-	1.4	1.4	-	-	3.2	3.2
	1,505.3	**59.6**	**461.2**	**2,026.1**	2,152.1	69.4	437.2	2,658.7
Financial liabilities								
Financial liabilities at FVTPL:								
Derivative financial instruments	-	260.1	185.8	445.9	-	150.4	210.7	361.1
Fair value of put option obligation	-	-	6.9	6.9	-	-	7.5	7.5
	-	**260.1**	**192.7**	**452.8**	-	150.4	218.2	368.6
	1,505.3	**(200.5)**	**268.5**	**1,573.3**	2,152.1	(81.0)	219.0	2,290.1

41. Fair values *(continued)*

Society	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m	2019 Level 1 £m	2019 Level 2 £m	2019 Level 3 £m	2019 Total £m
Financial assets								
Financial assets held at FVOCI:								
Debt securities	1,609.9	-	-	1,609.9	1,965.5	31.0	-	1,996.5
Financial assets at FVTPL:								
Derivative financial instruments	-	71.4	4.5	75.9	-	46.6	-	46.6
Debt securities	97.8	-	-	97.8	36.0	-	-	36.0
Equity release portfolio	-	-	433.8	433.8	-	-	410.0	410.0
Loans and advances to customers	-	-	1.3	1.3	-	-	1.5	1.5
	1,707.7	**71.4**	**439.6**	**2,218.7**	2,001.5	77.6	411.5	2,490.6
Financial liabilities								
Financial liabilities at FVTPL:								
Derivative financial instruments	-	261.2	181.3	442.5	-	111.0	210.7	321.7
Amounts owed to credit institutions and other customers	-	-	117.8	117.8	-	-	150.1	150.1
	-	**261.2**	**299.1**	**560.3**	-	111.0	360.8	471.8
	1,707.7	**(189.8)**	**140.5**	**1,658.4**	2,001.5	(33.4)	50.7	2,018.8

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

Group 2020	Equity share investments £m	Equity release portfolio £m	Loans and advances to customers £m	Derivative financial instruments £m	Fair value of put option obligation £m	Contingent consideration £m	Share warrants £m	Other assets £m	Total £m
At 1 January	1.3	410.0	1.5	(210.6)	(7.5)	17.9	3.2	3.2	**219.0**
Gain / (loss) recognised in Income Statement	0.1[1]	19.7[2]	-	(22.4)[3]	-	0.8[4]	0.1[5]	-	**(1.7)**
Contingent consideration received	-	-	-	-	-	(6.4)	-	-	**(6.4)**
Revaluation of market values	-	-	-	-	0.6[6]	-	-	-	**0.6**
Accrued interest	-	7.8[7]	0.1[7]	0.4[7]	-	-	-	-	**8.3**
Cash paid on partial or full cancellation	-	-	-	51.3[8]	-	-	-	-	**51.3**
Repayments	-	(3.7)	(0.3)	-	-	-	-	-	**(4.0)**
Realised losses	-	(0.1)[9]	-	-	-	-	-	-	**(0.1)**
Additions / other	-	0.1	-	-	-	-	3.2	(1.8)	**1.5**
At 31 December	**1.4**	**433.8**	**1.3**	**(181.3)**	**(6.9)**	**12.3**	**6.5**	**1.4**	**268.5**

Notes

1. These are unrealised gains and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity share investments' line in the Income Statement.
2. These are unrealised gains and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement.
3. These are unrealised losses and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Other derivatives' line in the Income Statement.
4. Included in the 'Profit on disposal of subsidiary undertakings' line in the Income Statement.
5. Included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Share warrants' line in the Income Statement.
6. £0.9m is included in 'Intangible assets' (goodwill) within the Statement of Financial Position and £(0.3)m is included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Put options held by minority shareholders' line in the Income Statement and arises from changes to assumptions regarding the market value of the put options.
7. Included in the 'Interest receivable and similar income' line in the Income Statement.
8. Cash paid on cancellation of derivatives relating to two transactions during the year; the first being a partial cancellation of a derivative financial instrument held to economically hedge part of the equity release portfolio to reduce a hedging mismatch. The other transaction is in relation to the cancellation of a LIBOR-linked derivative financial instrument also held to economically hedge part of the equity release portfolio; the cancelled swap was replaced with a SONIA linked swap. The cash paid was equal to the fair value of the liability extinguished on cancellation or partial cancellation.
9. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.

Group 2019	Equity share investments £m	Equity release portfolio £m	Loans and advances to customers £m	Derivative financial instruments £m	Fair value of put option obligation £m	Contingent consideration £m	Share warrants £m	Other assets £m	Total £m
At 1 January	0.7	410.9	1.9	(214.4)	(8.3)	23.0	-	-	213.8
(Loss) / gain recognised in Income Statement	-	(6.0)[1]	-	2.6[2]	-	1.1[3]	-	-	(2.3)
Contingent consideration received	-	-	-	-	-	(6.2)	-	-	(6.2)
Revaluation of market values	-	-	-	-	0.2[4]	-	-	-	0.2
Accrued interest	-	9.3[5]	0.1[5]	1.2[5]	-	-	-	-	10.6
Repayments	-	(3.9)	(0.5)	-	-	-	-	-	(4.4)
Realised losses	-	(0.5)[6]	-	-	-	-	-	-	(0.5)
Exercise of put options by non-controlling shareholders	-	-	-	-	0.6	-	-	-	0.6
Additions / further advances	0.6	0.2	-	-	-	-	3.2	3.2	7.2
At 31 December	1.3	410.0	1.5	(210.6)	(7.5)	17.9	3.2	3.2	219.0

Notes

1. These are unrealised losses and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement.
2. These are unrealised gains and are included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Other derivatives' line in the Income Statement.
3. Included in the 'Profit on disposal of subsidiary undertakings' line in the Income Statement.
4. Included in the 'Interest payable and similar charges' line in the Income Statement and arises from changes to assumptions regarding the market value of the put options.
5. Included in the 'Interest receivable and similar income' line in the Income Statement.
6. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.

Society 2020	Equity release portfolio £m	Loans and advances to customers £m	Derivative financial instruments £m	Amounts owed to credit institutions and other customers £m	Total £m
At 1 January	410.0	1.5	(210.7)	(150.1)	**50.7**
Gain / (loss) recognised in Income Statement	19.7[1]	-	(17.8)[2]	0.1[3]	**2.0**
Accrued interest	7.8[4]	0.1[4]	0.4[4]	-	**8.3**
Cash paid on partial cancelation	-	-	51.3[5]	-	**51.3**
Repayments	(3.7)	(0.3)	-	32.2	**28.2**
Realised losses	(0.1)[6]	-	-	-	**(0.1)**
Additions / further advances	0.1	-	-	-	**0.1**
At 31 December	**433.8**	**1.3**	**(176.8)**	**(117.8)**	**140.5**

Notes

1. Included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement.
2. £(22.4)m of this figure is included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Other derivatives' line in the Income Statement; the remaining £4.6m is included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Hedging instruments and hedged items' line in the Income Statement.
3. Included in the 'Fair value gains / (losses) on deemed loans from subsidiary undertakings designated at FVTPL' line in the Income Statement and relates to fair value movements in the deemed loan repayable to the Group's securitisation entity Darrowby No. 4 plc, as outlined in note 1c).
4. Included in the 'Interest receivable and similar income' line in the Income Statement.
5. Cash paid on cancellation of derivatives relating to two transactions during the year; the first being a partial cancellation of a derivative financial instrument held to economically hedge part of the equity release portfolio to reduce a hedging mismatch. The other transaction is in relation to the cancellation of a LIBOR-linked derivative financial instrument also held to economically hedge part of the equity release portfolio; the cancelled swap was replaced with a SONIA linked swap. The cash paid was equal to the fair value of the liability extinguished on cancellation or partial cancellation.
6. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.

Notes to the Accounts *(continued)*

41. Fair values *(continued)*

Society 2019	Equity release portfolio £m	Loans and advances to customers £m	Derivative financial instruments £m	Amounts owed to credit institutions and other customers £m	Total £m
At 1 January	410.9	1.9	(215.3)	(324.9)	(127.4)
(Loss) / gain recognised in Income Statement	(6.0)[1]	-	3.4[2]	(1.0)[3]	(3.6)
Accrued interest	9.3[4]	0.1[4]	1.2[4]	-	10.6
Repayments	(3.9)	(0.5)	-	175.8	171.4
Realised losses	(0.5)[5]	-	-	-	(0.5)
Additions / further advances	0.2	-	-	-	0.2
At 31 December	410.0	1.5	(210.7)	(150.1)	50.7

Notes
1. Included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement.
2. £2.6m of this figure is included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Other derivatives' line in the Income Statement; the remaining £0.8m is included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Hedging instruments and hedged items' line in the Income Statement.
3. Included in the 'Fair value gains / (losses) on deemed loans from subsidiary undertakings designated at FVTPL' line in the Income Statement and relates to fair value movements in the deemed loan repayable to the Group's securitisation entity Darrowby No. 4 plc, as outlined in note 1c).
4. Included in the 'Interest receivable and similar income' line in the Income Statement.
5. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.

Equity share investments

The valuation of unlisted investments is regarded as a Level 3 valuation technique as certain inputs are not market observable. Further details are found in note 17e).

Equity release portfolio

The valuation of the equity release portfolio is regarded as a Level 3 valuation technique as certain inputs into the valuation are not market observable. Further details on the valuation techniques used are found in note 1e). Further details on the inputs into the valuation and the impact of reasonably possible alternative assumptions of certain inputs into the valuation of the portfolio are found in note 1u).

Derivative financial instruments

The Level 3 derivative financial instruments included in the tables on pages 224 to 226 mostly comprise derivatives which are used to hedge the Group's interest rate risk and inflation risk arising from the equity release portfolio. The valuation of these derivatives is regarded as a Level 3 valuation technique as certain inputs into the valuation are not market observable. Further details on the inputs into the valuation and the impact of reasonably possible alternative assumptions of certain inputs into the valuation of these derivatives are found in note 1u).

Any change in fair value of the derivative liabilities is offset to some extent by a corresponding but opposite change in the value of the equity release portfolio. The characteristics and the valuation requirements differ slightly between the derivatives and the equity release portfolio resulting in the changes in fair value not offsetting completely. During the year the net impact to the Income Statement was a £2.7m charge (2019: £3.4m charge).

Loans and advances to customers

The valuation of these loans and advances to customers is regarded as a Level 3 valuation technique as certain inputs are not market observable. Further details are found in note 1e).

Contingent consideration

The valuation of the contingent consideration asset is regarded as a Level 3 valuation technique as certain inputs into the valuation are not market observable. Further details are found in note 1e).

Share warrants and other assets

These assets relate to share warrants held in an unlisted entity and amounts recognised, where appropriate, for additional share warrants yet to be received. The valuation of these assets is regarded as a Level 3 valuation technique as certain inputs into the valuation are not market observable. Further details are found in note 1e).

Fair value of put option obligation

A key input into the calculation of the fair value of the put option obligation is the estimate of the market value of the non-controlling shareholding. As this input is based on the judgement of senior management, the valuation of the put option obligation is considered to be a Level 3 valuation technique.

Amounts owed to credit institutions and other customers

These balances relate to the deemed loan payable by the Society to one of the Group's SPVs, Darrowby No. 4 plc. The amount represents the proceeds received by the Society for assets transferred to Darrowby No. 4 plc less repayments to date. The valuation is regarded as a Level 3 valuation technique as certain inputs are not market observable. Further details are found in note 13.

c) Fair values of financial instruments not carried at fair value

The tables below summarise the carrying values and fair values of those financial assets and liabilities not presented within the Statement of Financial Position at fair value.

	Group 2020 Carrying value £m	Group 2020 Fair value £m	Society 2020 Carrying value £m	Society 2020 Fair value £m
Financial assets				
Cash in hand and balances with the Bank of England	3,237.8	3,237.8	3,237.8	3,237.8
Loans and advances to credit institutions	724.7	724.7	615.0	615.0
Loans and advances to customers	21,865.0	22,034.3	19,629.5	19,763.2
Trade receivables	27.8	27.8	1.8	1.8
Loans to subsidiary undertakings	-	-	731.3	731.3
	25,855.3	**26,024.6**	**24,215.4**	**24,349.1**
Financial liabilities				
Shares	18,709.4	18,828.4	18,725.2	18,828.4
Amounts owed to credit institutions	2,149.2	2,149.2	2,538.8	2,538.8
Amounts owed to other customers	2,130.3	2,137.2	879.2	882.6
Debt securities in issue	2,452.5	2,471.5	1,976.7	2,002.9
Lease liabilities	62.5	62.5	12.2	12.2
Trade payables	4.7	4.7	2.1	2.1
Subordinated liabilities	349.7	363.2	349.7	363.2
Subscribed capital	41.6	72.8	41.6	72.8
	25,899.9	**26,089.5**	**24,525.5**	**24,703.0**

	Group 2019 Carrying value £m	Group 2019 Fair value £m	Society 2019 Carrying value £m	Society 2019 Fair value £m
Financial assets				
Cash in hand and balances with the Bank of England	1,793.1	1,793.1	1,793.1	1,793.1
Loans and advances to credit institutions	546.6	546.6	465.8	465.8
Loans and advances to customers	20,065.6	20,248.6	17,891.6	18,048.3
Trade receivables	30.7	30.7	1.4	1.4
Loans to subsidiary undertakings	-	-	777.9	777.9
	22,436.0	22,619.0	20,929.8	21,086.5
Financial liabilities				
Shares	17,364.1	17,470.4	17,362.3	17,470.4
Amounts owed to credit institutions	1,678.3	1,678.3	1,743.6	1,743.6
Amounts owed to other customers	1,816.9	1,819.6	265.3	263.4
Debt securities in issue	2,302.6	2,310.8	2,194.9	2,209.1
Lease liabilities	66.6	66.6	12.5	12.5
Trade payables	6.7	6.7	2.5	2.5
Subscribed capital	41.6	73.4	41.6	73.4
	23,276.8	23,425.8	21,622.7	21,774.9

41. Fair values *(continued)*

Key considerations in the calculation of fair values of those financial assets and liabilities not presented within the Statement of Financial Position at fair value are set out below unless there is no significant difference between carrying value and fair value.

Loans and advances to customers

For fixed rate and tracker mortgage products, the Group has estimated the fair value of these products using discounted cash flows and has applied relevant current market product rates as discount rates in order to also incorporate an element of future expected credit losses. Incurred losses have also been included. Fixed rate and tracker mortgages have been discounted using current market product rates that are specific to the particular market to which they relate.

Market prices will generally have moved since the fixed or tracker rate was taken out, therefore the valuation of these products will change reflecting upwards or downwards movements in market rates. The valuation includes information and expectations regarding estimated redemption profiles which are regularly reviewed and updated in light of experience.

As these redemption profiles are not considered to be observable by the market, the fair value of loans and advances to customers is considered to be derived by using Level 3 valuation techniques.

For standard variable rate mortgage products, the interest rate on such products is equivalent to a current market product rate and as such the Group considers the fair value of these mortgages to be equal to their carrying value.

Shares

Savings products at variable rates are at current market rates and therefore the Group regards the fair value to be equal to the carrying value.

The fair value of fixed rate savings products has been determined using discounted cash flows, discounted using a combined yield curve of cash and swap term rates.

Changes in market prices since the product was taken out will result in increases or decreases in the fair value of the fixed rate savings products. Penalties for early withdrawal on notice accounts are such as to suggest a negligible early withdrawal rate and none has therefore been applied; as a result the valuation of shares is considered to be a Level 2 valuation technique.

Amounts owed to credit institutions and other customers

Balances in these categories are valued using discounted cash flows which use only observable market inputs consisting of the combined yield curve of cash and swap term rates. All inputs to this valuation technique are market observable and as such they are categorised within Level 2 of the fair value hierarchy.

Debt securities in issue

Where securities are actively traded in a recognised market, with readily available and quoted prices, these have been used to value the securities. These securities are therefore regarded as having Level 1 fair values. Where such prices are not available, discounted cash flows are used, again using only market observable inputs consisting of a combined yield curve of cash and swap term rates. As such, these securities are categorised as having Level 2 fair values.

Subordinated liabilities and subscribed capital

Prices are quoted for these instruments in actively traded markets and, as a result, these instruments are categorised as having Level 1 fair values.

d) Fair values of non-financial assets and liabilities not carried at fair value

The fair value of investment property, which is a non-financial asset, is disclosed in these financial statements. Note 20 contains details of the valuation techniques used in estimating this fair value, together with the resulting categorisation of these valuation techniques within the fair value hierarchy.

42. Group segmental reporting

The Group's structure and reportable segments are outlined in the Strategic Report on pages 16 and 17.

Transactions between the segments are on normal commercial terms and conditions. The accounting policies of the reportable segments are consistent with the Group's accounting policies. The Group has not aggregated any of its operating segments for the purposes of financial reporting.

No geographical analysis is presented because substantially all of the Group's activities are conducted within the UK. Of the total external income, £34.5m (2019: £33.6m) was generated outside the UK.

A breakdown of the allocation of goodwill to each segmental area is included within note 21.

	2020				
	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Net interest income	228.7	(0.4)	2.1	7.5	**237.9**
Net non-interest income	24.5	375.7	24.8	(10.5)	**414.5**
Fair value losses on hedged items and derivatives	(22.5)	-	-	-	**(22.5)**
Fair value gains on equity release portfolio	19.7	-	-	-	**19.7**
Fair value losses on other financial instruments at FVTPL	-	(0.1)	-	-	**(0.1)**
Realised profits on treasury assets held at FVOCI	0.6	-	-	-	**0.6**
Profit on disposal of Group undertakings	-	-	-	0.8	**0.8**
Share of profits from joint ventures	-	3.4	-	-	**3.4**
Total income	**251.0**	**378.6**	**26.9**	**(2.2)**	**654.3**
Administrative expenses	(160.5)	(324.0)	(22.8)	1.0	**(506.3)**
Realised losses on equity release portfolio	(0.1)	-	-	-	**(0.1)**
Impairment and provisions for liabilities	(25.8)	(2.8)	(0.5)	-	**(29.1)**
Profit / (loss) before tax	**64.6**	**51.8**	**3.6**	**(1.2)**	**118.8**
Taxation	(11.2)	(10.9)	(0.8)	1.1	**(21.8)**
Profit / (loss) after tax	**53.4**	**40.9**	**2.8**	**(0.1)**	**97.0**
Total assets	**28,012.4**	**348.2**	**108.6**	**(205.8)**	**28,263.4**
Total liabilities	**26,458.3**	**175.6**	**100.1**	**(176.3)**	**26,557.7**

Total income can be analysed as follows:

	2020				
	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
External income	250.1	368.9	27.1	8.2	**654.3**
Income from other segments	0.9	9.7	(0.2)	(10.4)	**-**
Total income	**251.0**	**378.6**	**26.9**	**(2.2)**	**654.3**

42. Group segmental reporting *(continued)*

2019 Re-presented*	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Net interest income	226.9	0.1	2.1	9.0	238.1
Net non-interest income	29.7	425.9	26.9	(12.7)	469.8
Fair value gains on hedged items and derivatives	3.8	-	-	-	3.8
Fair value losses on equity release portfolio	(6.0)	-	-	-	(6.0)
Realised profits on treasury assets held at FVOCI	2.4	-	-	-	2.4
Profit on disposal of Group undertakings	-	-	-	1.1	1.1
Share of profits from joint ventures	-	1.7	-	-	1.7
Total income	256.8	427.7	29.0	(2.6)	710.9
Administrative expenses	(156.6)	(373.4)	(24.9)	0.9	(554.0)
Realised losses on equity release portfolio	(0.5)	-	-	-	(0.5)
Impairment and provisions for liabilities	1.1	(4.2)	(0.1)	-	(3.2)
Profit / (loss) before tax	100.8	50.1	4.0	(1.7)	153.2
Taxation	(20.2)	(11.3)	(0.4)	1.1	(30.8)
Profit / (loss) after tax	80.6	38.8	3.6	(0.6)	122.4
Total assets	25,242.5	332.0	120.7	(205.8)	25,489.4
Total liabilities	23,785.5	174.2	113.5	(216.0)	23,857.2

* The Estate Agency division comparatives are re-presented as outlined in note 4), resulting in a £15.2m reduction to 'Net non-interest income' and a corresponding £15.2m reduction to the charge for 'Impairment and provisions for liabilities'.

Total income can be analysed as follows:

2019 Re-presented*	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
External income	255.0	415.1	30.4	10.4	710.9
Income from other segments	1.8	12.6	(1.4)	(13.0)	-
Total income	256.8	427.7	29.0	(2.6)	710.9

* The Estate Agency division comparatives are re-presented as outlined in note 4), resulting in a £15.2m decrease to 'External income' within Estate Agency.

43. Capital management

The components of the prudential group's capital and the associated regulatory framework are set out in the Strategic Report on pages 38 and 39, and this is followed by quantitative disclosure of the components of capital resources and capital requirements. The Group's capital management processes are set out in the Strategic Report on page 38. Throughout both the current year and the prior year, the Group complied with and maintained surplus capital above all externally imposed capital requirements.

44. Adoption of new and revised International Financial Reporting Standards

The Group has early adopted in the year *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*, further details of which are also provided in note 1b).

The Group also adopted during the year the following new interpretations and amendments to existing accounting standards, none of which had a material impact on these financial statements:

- *Amendments to References to the Conceptual Framework in IFRS Standards;*
- *Definition of a Business (Amendments to IFRS 3);*
- *Definition of Material (Amendments to IAS 1 and IAS 8); and*
- *COVID-19 Related Rent Concessions (Amendment to IFRS 16)*

Standards issued but not yet effective

A number of new and amended accounting standards and interpretations will be effective for future reporting periods, none of which has been early adopted by the Group in preparing these consolidated financial statements. These new and amended standards and interpretations, details of which are set out below, are not expected to have a material impact on the Group's consolidated financial statements:

- IFRS 17 *Insurance Contracts;*
- *Classification of liabilities as current or non-current (Amendments to* IAS 1*);*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to* IFRS 10 *and* IAS 28*); and*
- IFRS 14 *Regulatory Deferral Accounts.*

45. Subsequent events

On 31 December 2020, Connells Limited announced that it had reached agreement with the board of Countrywide plc to acquire the entire share capital and voting rights of Countrywide for cash consideration of £134.3m by means of a scheme of arrangement. Countrywide is a property services group with over 600 branches across the UK. In line with scheme of arrangement and UK Takeover Code rules, a shareholder vote took place on 15 February 2021 which voted in favour of the transaction and therefore completion now requires the sanction of the scheme of arrangement by the Court and approval by the FCA. Completion is expected to occur by the end of the first quarter of 2021.

In order to fund the transaction, enable Connells to repay existing borrowings in Countrywide and provide working capital, the Society has agreed to provide a loan to Connells Limited of £253.0m on completion of the acquisition.

The Society believes that the enlarged scale of its estate agency operations, together with its increased management strength, should deliver materially enhanced returns for the Society, and hence its members, over the medium and long term.

The fair value of the net assets acquired and any resulting goodwill to be recognised as a result of the acquisition will be determined in due course and, subject to completion occurring, more detailed disclosures will be provided in the Group's 2021 Half Yearly Accounts and 2021 Annual Report & Accounts, which will include detailed disclosures required by IFRS 3 in relation to each major class of assets and liabilities acquired. There will be no impact on the Group Income Statement at the date of completion (other than in relation to the costs of acquisition), and the results of Countrywide will be consolidated into the Group's Accounts from this date.

Furthermore, in January 2021 Connells purchased 8.6%, in aggregate, of the share capital of Countrywide plc for a total cash consideration of £11.1m.

There have been no other material subsequent events between 31 December 2020 and the date of approval of this Annual Report and Accounts by the Board.

4 Other Information

Country by Country Reporting

Nature of the Group's activities

The Skipton Building Society Group holds an investment in a number of subsidiary undertakings. The Society and the majority of its subsidiary undertakings are incorporated in the UK, with the exception of the entities listed below. For a full list of the principal trading subsidiaries in the Group and the nature of their activities, see note 17a) of the financial statements.

Name of subsidiary undertaking	Principal business activity	Country of incorporation	% ownership interest 31.12.20
Jade Software Corporation Limited	Provider of software development services	New Zealand	99.98
Northwest Investments NZ Limited	Provider of software development services	New Zealand	100.0
Skipton International Limited	Offshore deposit taker and lender	Guernsey	100.0

Jade Software Corporation Limited also holds a 100% ownership in the following trading subsidiary undertakings, all of which carry out the principal business activity of the Jade group of businesses.

Name of subsidiary undertaking	Country of incorporation
Jade Software Corporation (NZ) Limited	New Zealand
Jade Software Corporation Pty Limited	Australia
Jade Software Corporation UK Limited	UK
Jade Software Corporation USA	USA

In addition, the Group holds a non-controlling interest of 17.7% in Wynyard Group Limited, which entered liquidation in February 2017 and which is incorporated in New Zealand.

Country by country disclosures

An analysis of turnover, which is regarded as total income as defined below (and which excludes dividend income from subsidiaries), profit before tax, the current tax charge, corporation taxes paid, public subsidies received and the average number of employees on a full-time equivalent basis is set out below. The information presented is at a full Group level of consolidation. Total income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable), together with all other components of operating income. Total gross income and total gross profit before tax, for each country, represents consolidated income or profit before tax for that country.

2020 £m	UK	Australia	Guernsey	New Zealand	Jersey	USA	Total
Total income by country	612.1	3.0	28.6	10.9	-	0.2	**654.8**
Inter-country adjustments	(0.7)	-	0.7	(0.5)	-	-	**(0.5)**
Consolidated income	**611.4**	**3.0**	**29.3**	**10.4**	**-**	**0.2**	**654.3**
Profit before tax by country	99.0	0.2	19.9	(0.3)	-	-	**118.8**
Inter-country adjustments	0.3	0.9	1.3	(2.7)	-	0.2	**-**
Consolidated profit before tax	**99.3**	**1.1**	**21.2**	**(3.0)**	**-**	**0.2**	**118.8**

£m	UK	Australia	Guernsey	New Zealand	Jersey	USA	Total
Current tax expense	20.0	-	2.1	-	-	-	**22.1**
Corporation taxes paid	30.9	-	0.8	-	-	-	**31.7**
Public subsidies received^	22.0	-	-	0.1	-	-	**22.1**
Average number of employees	8,400	17	62	183	4	-	**8,666**

2019 Re-presented* £m	UK	Australia	Guernsey	New Zealand	Jersey	USA	Total
Total income by country	666.2	3.6	28.9	12.2	-	0.5	711.4
Inter-country adjustments	(0.1)	-	0.1	(0.5)	-	-	(0.5)
Consolidated income	666.1	3.6	29.0	11.7	-	0.5	710.9
Profit before tax by country	132.0	0.4	21.2	(0.4)	-	-	153.2
Inter-country adjustments	0.3	0.7	0.7	(1.8)	-	0.1	-
Consolidated profit before tax	132.3	1.1	21.9	(2.2)	-	0.1	153.2

£m	UK	Australia	Guernsey	New Zealand	Jersey	USA	Total
Current tax expense	29.4	0.1	2.1	-	-	-	31.6
Corporation taxes paid	29.6	0.1	3.0	-	-	-	32.7
Public subsidies received^	-	-	-	0.2	-	-	0.2
Average number of employees	8,438	21	57	186	4	1	8,707

^ Public subsidies received relate to cash payments received from governments in the form of grants. In the UK total grants received in the year of £22.0m (2019: £nil) relate to Government assistance claimed by Connells of £21.2m under the Coronavirus Job Retention Scheme and £0.8m under the Government's Retail Cash Grant Scheme.

* The UK comparatives are re-presented as outlined in note 4a), resulting in a £15.2m decrease in 'Total income by country'.

Other Information

Annual Business Statement

1. Statutory percentages

	As at 31 December 2020 %	Statutory Limit %
Lending limit	4.05	25.00
Funding limit	21.02	50.00

These percentages form part of the audited Accounts.

Explanation

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets are defined as the total assets of the Group plus provisions for impairment losses on loans and receivables, less liquid assets, intangible assets, property, plant and equipment, right-of-use assets and investment property as shown within the Group Statement of Financial Position.

The funding limit measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals. We have taken advantage of the relief set out in SI 2007/No 860, effective from April 2007, to exclude retail offshore deposits from the total of wholesale funds.

The statutory limits are as laid down under the Building Societies Act 1986 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

	2020 %	2019 %
As a percentage of shares and borrowings:		
(i) Gross capital	8.24	7.23
(ii) Free capital	7.07	5.87
(iii) Liquid assets	21.49	19.53
As a percentage of mean total assets:		
(i) Group profit after taxation	0.36	0.50
(ii) Group management expenses	1.88	2.28
(iii) Society management expenses	0.59	0.65
As a percentage of closing total assets:		
(i) Group profit after tax	0.34	0.48

These percentages form part of the audited Accounts.

Explanation

The above percentages have been calculated from the Group and Society Income Statements and Statements of Financial Position.

Shares, deposits and borrowings represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest and the fair value adjustments for hedged risk.

Gross capital represents the general reserve together with the fair value reserve, cash flow hedging reserve, cost of hedging reserve, translation reserve, subordinated liabilities and subscribed capital, as shown within the Group Statement of Financial Position.

Free capital represents gross capital plus provisions for collective impairment losses on loans and advances to customers, less property, plant and equipment, right-of-use assets, investment property and intangible assets as shown within the Group Statement of Financial Position.

Liquid assets represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities. Mean total assets are the average of the 2020 and 2019 total assets. Management expenses represent administrative expenses.

3. Information relating to Directors at 31 December 2020

The Board of Directors at 31 December 2020, their dates of birth and dates of appointment as a Director are as follows:

	Date of birth	Date of appointment
A P Bottomley*	12 July 1965	1 January 2016
A J Burton	3 January 1959	3 May 2016
J R Coates	26 September 1951	27 March 2017
D P Cockrem	15 November 1962	1 September 2015
I M Cornelius*	11 February 1969	11 June 2012
D J Cutter*	1 January 1962	1 January 2000
R D East	18 March 1960	29 November 2011
D A Hall	9 November 1955	27 March 2017
H L Jackson	23 August 1965	24 October 2018
M J Lund	1 July 1957	25 April 2016
R S D M Ndawula*	24 February 1974	23 February 2015
H C Stevenson	10 November 1960	1 March 2013

* Executive Directors

Documents may be served on any of the above named Directors at the following address: Addleshaw Goddard, 3 Sovereign Square, Sovereign Street, Leeds, LS1 4ER.

The Directors' business occupations and other directorships at 31 December 2020 were as follows:

A P Bottomley	Building Society Customer Director	Skipton Financial Services Limited Skipton Group Holdings Limited
A J Burton	Non-Executive Director	Connells Limited Countryside Properties PLC HSS Hire Group plc Skipton Group Holdings Limited
J R Coates	Non-Executive Director	Skipton Group Holdings Limited TPT Retirement Solutions Limited The Veterinary Defence Society Limited
D P Cockrem	Non-Executive Director	Ecclesiastical Group Healthcare Trustees Limited Ecclesiastical Insurance Group plc Ecclesiastical Insurance Office plc Ecclesiastical Underwriting Management Limited Edentree Asset Management Limited Edentree Investment Management Limited Lycett, Browne-Swinburne & Douglass Limited Lycetts Holdings Limited Macintyre Acadamies Trust Skipton Group Holdings Limited
I M Cornelius	Building Society Commercial and Strategy Director	BCHT Development Company Ltd Giggleswick School Incommunities Commercial Limited Incommunities Group Limited Incommunities Treasury Plc Lumia Homes Limited Jade Software Corporation Limited Skipton Group Holdings Limited Skipton International Limited Skipton Trustees Limited

D J Cutter	Building Society Group Chief Executive	Bailey Computer Services Limited Connells Limited Leeds Share Shop Limited Moorlands Learning Trust Northwest Investments NZ Limited Skipton Group Holdings Limited Skipton Group Limited Skipton Investments Limited Skipton Limited Skipton Mortgage Corporation Limited Skipton Mortgages Limited Skipton Premier Mortgages Limited Skipton Premises Limited Skipton Share Dealing Services Limited Skipton Trustees Limited
R D East	Non-Executive Director & Chair	Hampshire Trust Bank Plc Provident Financial PLC RCWJ Limited Skipton Group Holdings Limited Vanquis Bank Limited
D A Hall	Non-Executive Director	Auxmoney Europe Holding Limited Cembra Money Bank Moneta Money Bank Skipton Group Holdings Limited
H L Jackson	Non-Executive Director	Ikano Bank AB JD Sports Fashion Plc Lookers Motor Group Limited Lookers PLC Skipton Group Holdings Limited
M J Lund	Non-Executive Director	Coutts & Company Equiniti Financial Services Limited MyCSP Limited MyCSP Trustee Company Limited Skipton Group Holdings Limited
R S D M Ndawula	Building Society Group Finance Director	Connells Limited Leeds Share Shop Limited Skipton Financial Services Limited Skipton Group Holdings Limited Skipton Group Limited Skipton Limited Skipton Mortgage Corporation Limited Skipton Mortgages Limited Skipton Premier Mortgages Limited Skipton Premises Limited Skipton Share Dealing Services Limited Yorkshire Cancer Research
H C Stevenson	Non-Executive Director	Henley Business School Limited IG Group Holdings Plc Kin and Carta PLC NHW Consultancy Ltd Reach plc Skipton Group Holdings Limited The Wellington College International Limited XYZXYZ Ltd

Messrs Bottomley, Cornelius, Cutter and Ndawula have service contracts entered into on 1 January 2016, 7 December 2012, 1 January 2000 and 25 February 2015 respectively which may be terminated by either party giving one year's notice.

4. Principal office

Skipton Building Society is a building society incorporated and domiciled in the United Kingdom. The address of the principal office is The Bailey, Skipton, North Yorkshire, BD23 1DN.

Glossary

Set out below are the definitions of terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears	A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is overdue.
Asset backed securities (ABS)	An asset backed security is a security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. Typically these assets are pools of residential or commercial mortgages.
Buy-to-let mortgages	Mortgages offered to customers purchasing residential property to be rented to others to generate a rental income.
Common Equity Tier 1 capital	Common Equity Tier 1 (CET 1) capital primarily comprises internally generated capital from retained profits. An adjustment is made to deduct intangible assets and goodwill. CET 1 capital is fully loss absorbing.
Contractual maturity	The final payment date of a loan or other financial instrument, at which point the entire remaining outstanding principal and interest is due to be repaid.
Covered bonds	Debt securities backed by a portfolio of mortgages that are segregated from the issuer's other assets to be solely for the benefit of the holders of the covered bonds. The Group has established covered bonds as part of its funding activities. Covered bonds use retail / residential mortgages as the asset pool.
CRD IV	CRD IV is made up of the Capital Requirements Regulation (CRR), which is directly applicable to firms across the EU, and the Capital Requirements Directive (CRD), which were implemented through national law. CRD IV became effective in the UK from 1 January 2014.
CRD V	CRD V is an update to CRD IV and is made up of the Capital Requirements Regulation (CRR), as amended by the onshored provisions within CRR II regulation (EU) 2019/876 and the CRR 'Quick Fix' package.
Debt securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings.
Debt securities in issue	Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit.
Derivative financial instruments	A derivative financial instrument is a type of financial instrument (or an agreement between two parties) that has a value based on the underlying asset, index or reference rate it is linked to. The Group uses derivative financial instruments to hedge its exposures to market risks such as interest rate risk and currency risk.
Effective interest rate (EIR) method	The method used to measure the carrying value of a financial asset or liability measured at amortised cost and to allocate associated interest income or expense over the relevant period.
Expected Credit Loss (ECL)	The present value of all cash shortfalls over the expected life of the financial instrument to determine impairment loss allowances under IFRS 9.
Exposure at default (EAD)	The expected outstanding balance of an asset at the time of default.
Fair value	Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.
Financial Services Compensation Scheme (FSCS)	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry.
Forbearance strategies	Strategies to assist borrowers in financial difficulty, such as arrears capitalisation, a reduction in the monthly payment, a conversion to interest only or a mortgage term extension. Forbearance strategies aim, if possible, to avoid foreclosure or repossession.
Free capital	The aggregate of gross capital plus provisions for collective impairment losses on loans and advances to customers less property, plant and equipment, right-of-use assets, investment property and intangible assets.

Glossary *(continued)*

Funding limit	Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals. The calculation of the funding limit is explained in the Annual Business Statement.
Goodwill	Goodwill arises on the acquisition of subsidiary undertakings, joint ventures, associates or other businesses and represents the excess of the fair value of consideration over the fair value of separately identifiable net assets acquired at the date of acquisition.
Gross capital	The aggregate of the general reserve, translation reserve, fair value reserve, cash flow hedging reserve, cost of hedging reserve, subordinated liabilities, subscribed capital and non-controlling interests.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's own assessment, as part of regulatory requirements, of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Group's own assessment that current and projected levels of liquidity are sufficient and appropriate for the Group's plans, under a variety of stress scenarios. It also details the Group's compliance with the PRA's regulatory requirements.
Internal Ratings Based approach (IRB)	An advanced approach to measuring capital requirements in respect of credit risk. The IRB approach may only be used with permission from the PRA.
International Swaps and Derivatives Association (ISDA) Master Agreement	A standardised contract developed by ISDA and used to enter into bilateral derivatives transactions.
Investment grade	The range of credit ratings from Aaa to Baa3, as measured by external credit rating agencies.
Lending limit	Measures the proportion of business assets not in the form of loans fully secured on residential property. The calculation of the lending limit is explained in the Annual Business Statement.
Leverage ratio	The ratio of Tier 1 capital divided by total exposure, which includes on and off balance sheet assets, after netting derivatives.
Liquid assets	The total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.
Liquidity Coverage Ratio	A measure designed to ensure that financial institutions have sufficient high quality assets available to meet their liquidity needs for a 30 day liquidity stress scenario.
Liquidity ratio	Liquid assets as a percentage of shares, deposits and borrowings.
Loan-to-value ratio (LTV)	A ratio which expresses the balance of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTVs on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in a house price index).
Loans past due / past due loans	Loans on which payments are overdue including those on which partial payments are being made.
Loss given default (LGD)	An estimate of the loss that would be incurred should a borrower default on their credit obligations.
Management expenses	Management expenses represent administrative expenses. The management expense ratio is management expenses expressed as a percentage of mean total assets.
Material Risk Takers (MRTs)	A group of employees to which the FCA's Remuneration Code applies. MRTs consist of Executive Directors, Non-Executive Directors and certain senior managers who could have a material impact on the firm's risk profile.
Mean total assets	Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
Medium term notes (MTN)	Corporate notes continuously offered by an entity to investors through a dealer.

Member	A person who has a share investment or a mortgage loan with the Society, or is the holder of a Permanent Interest Bearing Share in the Society.
Mortgage backed securities (MBS)	Assets which are backed by underlying mortgage collateral.
Net interest income	The difference between interest received on assets and interest paid on liabilities.
Net interest margin	Net interest income as a percentage of mean total assets.
Permanent Interest Bearing Shares (PIBS) or subscribed capital	Unsecured, deferred shares that are a form of Tier 1 capital. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing members of Skipton Building Society.
Prime	Prime mortgages are those granted to the most credit worthy category of borrower.
Probability of Default (PD)	An estimate of the probability that a borrower will default on their credit obligations.
Put option	Where the Group acquires a majority shareholding in a subsidiary undertaking, but grants the non-controlling shareholders an option to sell their shares to the Group at some future date(s), a put option obligation exists.
Renegotiated loans	Loans are classed as renegotiated, with the customer's consent, when their terms have changed during the year. Loans and advances may be renegotiated whether or not the customer is experiencing financial difficulty in repaying their loan with the Group.
Repo / reverse repo	Short to medium term funding agreements which allow a borrower to sell a financial asset, such as an ABS or government bond, as security for cash. As part of the agreement the borrower agrees to repurchase the security at some later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo, which can typically be resold or repledged if desired.
Residential loans	Mortgage lending secured against residential property.
Residential mortgage backed securities (RMBS)	A category of ABS that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and / or principal).
Risk appetite	The articulation of the level of risk that the Group is willing to take in order to safeguard the interests of the Society's members whilst achieving business objectives.
Risk weighted asset (RWA)	The value of assets, after adjustment, under CRD V rules to reflect the degree of risk they represent.
Securitisation	A process by which a group of assets, usually loans, are aggregated into a pool which is used to back the issuance of new securities. A firm transfers these assets to a special purpose vehicle which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities. These securitisation structures use retail / residential mortgages as the asset pool.
Shares	Money deposited by non-corporate depositors in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.
Shares, deposits and borrowings	The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest and fair value adjustments for hedged risk.
Significant increase in credit risk	A significant increase in credit risk on a financial asset is judged to have occurred when an assessment using quantitative and qualitative factors identifies that the credit risk has increased significantly since the asset was originally recognised.
SPPI test	An assessment of whether the contractual terms of the financial asset give rise to cash flows that are in substance solely payments of principal and interest.
Stage 1 financial assets	Stage 1 financial assets are those which have not experienced a significant increase in credit risk since origination. 12 month ECLs are recognised and interest revenue is determined by the EIR on the gross carrying amount.

Glossary *(continued)*

Stage 2 financial assets	Stage 2 financial assets have experienced a significant increase in credit risk since initial recognition. Lifetime ECLs are recognised and interest revenue is determined by the EIR on the gross carrying amount.
Stage 3 financial assets	Stage 3 financial assets are identified as in default and considered credit-impaired. Lifetime ECLs are recognised and interest revenue is determined by the EIR on the net carrying amount.
Subordinated debt / liabilities	A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors and investing members (other than holders of PIBS).
Sub-prime	Loans to borrowers typically having weakened credit histories that include payment delinquencies and in some cases potentially more severe problems such as court judgments and discharged bankruptcies.
Term Funding Scheme (TFS)	A scheme launched by the Bank of England in 2016 which allows qualifying financial institutions to borrow central Bank of England reserves in exchange for eligible collateral to provide access to cost effective funding to support lending to customers.
Term Funding Scheme with additional incentives for SMEs (TFSME)	A scheme allowing eligible banks and building societies to access four-year funding at rates very close to Bank Base Rate, designed to incentivise eligible participants to provide credit to businesses and households to bridge through the current period of economic disruption caused by COVID-19 - the scheme includes additional incentives to provide credit to SMEs.
Tier 1 capital	A measure of financial strength. Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital comprises general reserves from retained profits. The book values of goodwill and other intangible assets are deducted from Common Equity Tier 1 capital and other regulatory adjustments may be made for the purposes of capital adequacy. Qualifying capital instruments such as PIBS are included in other Tier 1 capital (i.e. not Common Equity Tier 1).
Tier 2 capital	Tier 2 capital comprises PIBS that have been transitioned out of additional Tier 1 capital – under CRD V all of the Society's PIBS will be phased out of Tier 1 capital as they fail to satisfy the CRD V requirements. However the Society's PIBS will continue to satisfy the criteria for Tier 2 capital and will therefore be phased into Tier 2.
Wholesale funding	Amounts owed to credit institutions, amounts owed to other customers and debt securities in issue excluding balances deposited by offshore customers.

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