Annual Report & Accounts 2023

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Performance & Strategy

2023 Group Highlights

Financial strength

£333.4m
Total Group profit before tax (PBT)
2022: £298.8m

£950.9m
Connells group total income
2022: £1,030.3m

1.53%
Group net interest margin
2022: 1.35%

26.3%
Common Equity Tier 1 (CET1) ratio
2022: 25.8%

Homes

12.1%
Group mortgage book growth rate
2022: 9.6%

19,120
First-time buyers provided with home financing
2022: 13,803

£30.9bn
Total value of lending generated by Connells group for UK mortgage providers
2022: £36.9bn

Money

15.4%
Society savings balance growth rate
2022: 13.6%

0.65%
Above the market average paid to our savers
2022: 0.52%

6,000
Customers provided with financial advice in the year
2022: 7,835

Members

8.1%
Membership increased to 1,229,888 Society members
2022: by 5.0% to 1,137,560

£148m
Given to members through above market average savings rates

9,559
Free EPC Plus surveys conducted to date providing over £710k of benefit to members

2023 Awards

Home Financing

Your Mortgage
Best First Time Buyer Mortgage Lender

Which?
Recommended Mortgage Provider

What Mortgage Awards
Best National Building Society

Money

Moneyfacts Awards 2023
Winner - Best Building Society Savings Provider

Moneyfacts Consumer Awards 2023
Highly commended (2nd place)
- High Street Savings Provider of the Year

Fairer Finance 2023
Awarded our savings accounts 'Gold' in their latest customer experience ratings

Skipton International

Moneyfacts Awards 2023
Winner - Offshore Account Provider of the Year

Mortgage Introducer
Mortgage Employer of the Year

Platinum Trusted Service Provider Award by Feefo

Chair's Statement

2023 saw Skipton Building Society enter its 171st year during a time of challenging economic circumstances, geopolitical turbulence and humanitarian crises including those seen in Ukraine and Gaza. In the UK, the cost of living crisis continues. Although inflation in 2023 fell from more than 10% to 4% by the year end, interest rates remain high by recent historical standards. In the face of these continuing financial challenges, the impacts on our members, customers and colleagues remain at the forefront.

We have navigated numerous challenges throughout our history, making prudent decisions and safeguarding the Skipton Group's long-term stability. This commitment to sound, future-orientated decision-making remained steadfast in 2023; and the Group's strong performance is testament to our dedicated colleagues who have excelled in serving our members and customers. It reflects our unwavering dedication to our mutual values and the trust our members have placed in us, reinforcing our enduring legacy.

Our Group

The diversity of our Group provides a unique strength.

- **Skipton Building Society** has continued to innovate as we deliver on our purpose to help more people have a home, help people save for life ahead and support long-term financial wellbeing.

  In 2023 we enabled 46,991 customers to remortgage or buy a new home, including supporting 19,120 first-time buyers. We provided financial advice to 6,000 customers and helped 14,221 young people to save through a Lifetime ISA for buying their first house or future retirement. We also continued to invest in competitive rates for both our mortgage and savings members, which I believe reflects the different approach that we can take as a mutual to share our success with our members.

  We are making significant investments in our systems and IT infrastructure. In 2023 the Society launched a two-year transformation programme to develop and launch a digitally led, seamless experience for savings customers to give them choice around how they want to open and manage their accounts.
- **Connells group,** our estate agency business, remained profitable during a difficult UK housing market in 2023, maintaining its market share during the year; whilst the land and new homes division remains the leading agent in new homes sales.
- **Skipton International,** our Guernsey-based savings and mortgage bank, increased pre-tax profits in the year. The bank's mortgage book grew by 10%, driven by robust growth in its UK buy-to-let proposition for overseas residents. There was also similar growth seen in their savings book, up 11%.
- **Skipton Business Finance,** our invoice financing business, saw record profits driven by robust performance across all sales channels, with money advanced increasing amidst inflationary pressures, which increased demand for working capital across UK businesses.
- **Jade,** our software business based in New Zealand, also achieved revenue and PBT growth in the year. Jade's anti-money laundering Software as a Service (SaaS) product grew 37% year-on-year, resulting in 40% compound annual growth over four years.

Our strategy

Throughout the year, the Society's board of directors (the Board) met with the Group Executive Committee, culminating in December when we agreed our next five-year strategy to maximise the unique opportunities of the Skipton Group. Our priorities remain to help more people have a home, make money work harder and make membership matter. Further details are set out in the Strategic Report.

I am proud of the strength of our Board and executive team and am excited about the opportunities that we have as a Group over the coming years to deliver real value for our members.

Our colleagues

The success of our Group can be attributed to the quality, dedication and enthusiasm of our colleagues in all of our businesses. I continue to be impressed and humbled by the ways in which our colleagues go the extra mile to serve our members and customers. We remain committed to foster an engaged, valued and well-trained workforce.

During 2023 we have established a structure to embed inclusion at each point of the colleague journey for all colleagues working for the Society. We are working to collect more diversity data to improve our understanding of our colleagues, to develop evidence-based methods to make further improvements around diversity and inclusion, and to reflect increasing regulatory obligations.

The gender pay gap within the Society is currently at 21.7%, down from 24.6% in 2022, and our Women in Finance Charter submission in 2023 showed female senior leaders in the Society currently at 46.1% - ahead of our 45% target set at the end of 2022. We will continue to support women who wish to progress within the Society and across the Group.

Sustainability

Over the year we saw the launch of new sustainability initiatives built around Group-wide collaboration. After we measured the impact of the Society's and Skipton International's financed emissions, which are indirectly generated from our lending activities in our mortgage portfolios, we have started to take action to grow a clearer understanding of the challenges faced in decarbonising homes.

I was proud to see the launch of a retrofit research project in partnership with Leeds Beckett and Leeds universities, drawing on expertise from the Group's surveying and valuation businesses, as well as our home energy report assessors. The project sets out to understand the cost and experience of retrofit activity so that we can support our members who want to upgrade their homes to reduce their environmental impact and save money on their energy bills.

We are in the process of reviewing our overall Group approach to sustainability. All of us are impacted by climate change and the Group is continuing to assess what impact our own businesses may have on the climate, and how we can minimise it. We look forward to sharing more details in our 2023 Skipton Group Sustainability Report.

As a Group, built around the Society's ethos of mutuality, we have also continued our commitment of giving back to our communities. In 2022 we committed to donate 1% of our annual Group profit before tax to charitable causes every year that align closely with our values and purpose. We are building enhanced governance and administration into this process so that members can vote on future strategic charity partnerships over the coming years, unlocking money to help those charities and communities in need.

Board changes

In 2023 we continued to strengthen the Society's Board.

In April I was delighted to welcome Steven Davis to the Board as a non-executive director. Steven has over 35 years' experience in retail and financial services and has held senior executive roles in HR, retail operations and change management, including with Sainsbury's and Sainsbury's Bank. He brings a wealth of experience in strategy, change leadership and building strong customer and colleague propositions. Steven has also been appointed as the Board's Consumer Duty champion and in September became Chair of the Board Remuneration Committee, replacing Heather Jackson, who assumed the Chair position on the newly-created Board Change Committee.

Richard Coates retired from the Board at April's AGM after many years of dedicated and selfless service. Iain Cummings took over Richard's role as Chair of the Board Audit Committee and is applying his considerable experience to the role.

In May we also welcomed Sarah Whitney to the Board as a non-executive director and in September Sarah was also appointed as chair of the board of Connells group. Sarah decided to step down from both boards at the end of February 2024 and we wish her all the very best for the future.

Bobby Ndawula announced he will be leaving the Society in Spring 2024 after 20 years at Skipton. He has provided remarkable financial management of our growing business and leaves with our very best wishes and gratitude for his service.

I am delighted that Paul Chambers has joined in early 2024 as Group CFO from Standard Chartered Group. Paul was previously CFO of Europe and America and Financial Controller of the group. Paul has deep financial expertise and a strong track record with excellent knowledge of both the mortgage and advice markets. We very much look forward to Paul's participation in this new phase of our Group.

Outlook

My focus for 2024 and beyond will be to ensure that the Group remains strong and able to weather the inevitable economic, geopolitical and environmental challenges that we will face. We will be there for our members and customers in meeting their changing needs and supporting them to secure their financial futures. Membership will continue to matter.

Gwyn Burr
Chair

27 February 2024

Group Chief Executive's Report

It has been a transformative year for Skipton Building Society. Following the refresh of our strategy we have established a Group structure (as opposed to a building society plus subsidiaries) which is aligned to our members' needs; namely, financing their homes (Home Financing), making their money work harder (Money) and helping them buy and sell homes (Estate Agency, Connells' group). We have also seen a greater involvement in our strategy and execution from our Jade Software business in New Zealand and ongoing strong performance from our International (Skipton International) and Commercial Finance (Skipton Business Finance) businesses.

Nevertheless, our purpose is the same as it has been since our Building Society was founded in 1853; and our new Group structure provides us with a diversified range of capabilities and enhanced financial strength. We have three compelling strategic priorities, centred on leveraging Skipton Group's unique business mix, in order to help more people have a home, help people save for life ahead and support long-term financial wellbeing.

In 2023 we have been braver and bolder for our customers and members, with our well regarded Track Record mortgage for rental prisoners (which is already helping hundreds of people), and our income booster product (Joint Borrower, Sole Proprietor) where friends and family can pool their finances to get a mortgage and a home. We have also protected borrowing members by having the lowest Standard Variable Rate / Mortgage Variable Rate amongst our peers, having passed on less than a third of the Bank of England base rate changes - these steps are designed to recognise the challenging economic times for our members.

For savings members, we have passed on over 75% of 2023's base rate changes, significantly more than competitors. We have launched highly-competitive savings offers, including our member exclusive up to 7.5% regular saver. We have also offered free advice for members, and free pension health checks, to enable our members to make more of their money now, and in the future.

This has been achieved while maintaining our award-winning customer service, consistently ranking toward the top of cross industry customer service league tables; all thanks to the skills, care and empathy with which our customer facing colleagues engage our members.

Through our focus on helping people into homes and helping money work harder, we have significantly grown market share in deposits and mortgages; whilst maintaining our healthy share of the Estate Agency market and further growing our invoice finance and international mortgage businesses. Our lending now goes to more first-time buyers than ever (c.33%) and our savers are rewarded too, with our lowest rate on an instant access account beating the market average by some considerable distance. All this while further building out our enviable capital and funding positions and upgrading our risk management skills and framework.

This has not come by chance. This is down to the hard work, resilience and focus of colleagues, who I want to thank for the incredible work they do all day, every day; together with our unique position in the market afforded by our mutual ownership model, where we only answer to our members and customers and not to shareholders. It is also thanks to our coverage and leadership position in the UK housing market.

Group performance highlights

Skipton Group, in our 171st year, has again performed strongly in 2023. Group profit before tax (PBT) is up 12% to £333.4m; with underlying Group PBT (as defined in the Strategic Report) of £308.6m. Group net interest margin increased to 1.53% (from 1.35%) reflecting the rising interest rate environment which created opportunities for the Society and Skipton International to generate higher net income which we are re-investing to deliver further benefits for our members.

Our Group financial performance is underpinned by our strong asset quality, capitalisation, liquidity and funding profiles and these firm, sustainable foundations have most notably enabled us to deliver:

- Group mortgage balances growth of 12% to £28.6bn with mortgage advances of £6.7bn, up 6% year-on-year, helping over 19,000 first time buyers. Additionally, £30.9bn of lending has been generated by Connells group for UK mortgage providers in 2023. Group UK residential mortgages in arrears by three months or more represent only 0.23% of mortgage accounts at the end of December 2023, well below the industry average.
- Savings balances in our Money business have grown by 15% to £26.0bn, and we have paid 0.65% above the market average to our savers; whilst financial advice customers were up, with funds under management totalling £4.3bn.
- We are only answerable to our members and not to shareholders. Membership growth in the year was 8.1% to over 1.2 million, bringing the benefit of membership to an ever increasing number of people.
- Liquidity levels have remained well above regulatory limits throughout the year, with a liquidity coverage ratio (LCR) of 173% at December 2023; and we have maintained our strong capital position with Common Equity Tier 1 (CET1) and leverage ratios of 26.3% and 6.7% respectively.

Individual business performance

Skipton Building Society's PBT increased by £122.8m to £283.7m. Performance is split between our Home Financing business, which is designed to provide finance in order to access the housing market and 'Help More People Have a Home'; and our Money business which helps our members' 'Money Work Harder' and combines our savings and financial advice offerings with our online, branch and contact centre capabilities.

Consumer confidence in the housing market weakened in the year amidst higher borrowing costs. As a result, our estate agency business entered 2023 with a materially lower sales pipeline. The tougher economic environment impacted upon Connells group results, with revenue in the year down 8% to £951.0m. Consequently, Connells group realised a reduced PBT of £13.8m in 2023. Earnings before interest, tax, depreciation and amortisation (EBITDA), a common measure of estate agency performance, as defined in the Strategic Report, was £63.7m.

Our Channel Islands business, Skipton International (SIL), has a UK mortgage proposition specifically for UK buy-to-let investors resident overseas, whilst they also offer some of the best offshore interest rates and are committed to providing personal service - a winning combination which helps SIL continue to make a strong contribution to the Group, with pre-tax profits of £47.3m in the year.

Further details of our performance in 2023 can be found in the Strategic Report.

Group Chief Executive's Report (continued)

Delivering on our key strategic priorities in 2023

Help More People Have a Home

Growing our mortgage members has been achieved by maintaining high standards of customer service, valuable relationships with our broker network, and delivering competitively priced products for our customers. We want to drive collaborative change across the Group to tackle the key issues impacting our members and the UK housing sector, to enable more first-time buyers get on to the property ladder than ever before. In May 2023 we launched a new option for aspiring first-time buyers - our Track Record mortgage which enables people trapped in rental cycles to realise their home ownership aspirations, via the only available deposit-free mortgage without the need of a guarantor. The value of this product has been clearly demonstrated, with applications totalling £62.4m already received since its launch, and £29.7m completions. With the criteria now extended to also include tenants that were previous homeowners, we're enabling even more renters to access the property ladder.

In addition, we support one in ten individuals looking to buy and sell homes in the UK through our estate agency network; whilst lending in 2023 by our Home Financing business now goes to more first-time buyers than ever (c. 33% of all loans advanced).

Make Money Work Harder

We will ensure we are even more relevant for our customers; that we fully understand their needs, and provide greater solutions in savings as well as long-term investing, through our branches, on the phone or online. As part of our commitment to paying a competitive savings rate we have passed on an average of 1.33% of the 1.75% change in Bank of England base rate in 2023; meaning our minimum variable savings rate has increased from 1.75% to 3.25% at the year end.

Furthering our commitment, in June we launched a new highly competitive member benefit product in the form of a regular saver that pays an interest rate of up to 7.5%, enabling members to make the most of their hard-earned money. This provided over 68,000 new accounts for our members, and when these accounts mature after 12 months, we expect to pay more than £8.2m in interest, giving real value to our members.

As part of our money model, as well as savings products, we provide financial advice to our members. This year we have focused on how we make that easier and more accessible, by providing free advice to our members that choose to take it, helping with their savings and investment goals, in order to make their money work harder.

Make Membership Matter

Our members will see and feel the value of Skipton membership and ownership. In November 2022 we launched our Energy Performance Certificate (EPC) Plus proposition. Partnering with Vibrant Energy, a Skipton Group company, to offer a free EPC assessment, with advice on how to improve the energy efficiency of homes (EPC Plus), which was extended to all Skipton savings and mortgage members in January. Since launching the proposition, around 10,000 surveys have been conducted providing over £700k of benefit to our members.

In the year, the Home Financing and Money businesses were awarded the Customer Contact Association (CCA) Global Accreditation for Customer Experience recognising our commitment to driving service excellence; whilst Skipton International has been awarded the Platinum Trusted Service Provider Award by Feefo. Our commitment to our members through our products and services has also been recognised by independent third parties, being awarded Top Rated Lender in the Mortgage Finance Gazette & Mortgage Solutions Rated for Service Awards 2023.

Skipton Group has continued to deliver on our core values to support a better society today, for a better future tomorrow; factoring Environmental, Social and Governance (ESG), including climate resilience, into our decision-making. In 2023 we have strengthened the wider Group's engagement with our standards. We are adapting our services in order to become more accessible and inclusive. Amongst many initiatives, we have added British Sign Language (BSL) interpretation to the disclosure videos in branch and started to introduce service counters that now have a lowered central section, making them more accessible; whilst in June we joined the Hidden Disabilities scheme. The Skipton Group is committed to donating 1% of its pre-tax profit to charity, which for 2023 is £2.9m in support for good causes.

Further details of our strategic priorities can be found in the Strategic Report.

Enablers to deliver our strategy

It has been a transformative year for the Skipton Group:

- **Aligning our structure with our purpose:** Where appropriate we have developed new strategies for our businesses and appointed new leadership, whilst refining our operating model to support even greater accountability, performance and agility. We have welcomed new faces, who bring fresh ideas, whilst also promoting our existing talent into leadership positions throughout the organisation, including to the Group Executive Committee. We are building an increasingly diverse pipeline of talent and investing in our places of work, both branches and the main support centres.
- **Investments and outcomes in digital and data:** We have begun retooling the businesses through our digital transformation programme and our financial advice reengineering in Money, our Dancerace implementation in Skipton Business Finance and an early test of a new Salesforce CRM system in Hamptons Estate Agency. We are also re-platforming our entire business from on-premise infrastructure to the cloud. These technology-enabled changes are blending great integration of third-party software with high quality internally built platforms. We are changing the way we 'do change' and becoming more ambitious and agile.

I believe these changes will enable us to deliver better outcomes for our members than ever before; being closer to our members and customers and more accountable for our purpose to help more people have a home, help people save for life ahead and support long-term financial wellbeing.

Our role in helping more people onto the property ladder, enabling existing homeowners to improve energy efficiency, and providing opportunities for people to save and plan for the future is needed now more than ever.

Conclusion and outlook

Looking ahead, we will continue to step-up our support to members and customers through challenging times. Our ambition is to make a positive impact in order to tackle the UK's housing crisis by enabling more first-time buyers to realise their homeownership aspirations. By responsibly utilising our incredible data assets, we have a unique insight across the UK housing market - it is our Group platform that allows us to support members and customers in every stage of the home-owning process - saving, buying, protecting, retrofitting, selling and investing.

We have an opportunity to add even more value through first-to-market products and excellent customer service that responds to real and changing societal needs. Our focus will continue on our three key strategic priorities as we drive further value for our members and customers. We will develop new capability to support more people into homeownership and improve the customer journey for buying and selling homes, whilst continuing to grow our lettings business. We will also continue to invest more to ensure our members receive above-market interest rates for their savings and have access to free advice to help them plan their financial futures.

I believe the Skipton Group has great potential to drive transformative change in the UK housing market and financial services industry, leveraging our collective Group capability. Our Group brand will give us an elevated position to drive change, influence decision-makers and a platform to campaign on the issues that matter to our members, our communities and wider society. We will do this by evolving our ambitious performance culture, investing in colleagues to enable them to succeed.

Stuart Haire
Group Chief Executive

27 February 2024

Strategic Report

Skipton Building Society's purpose is rooted in serving the needs of our members - to help more people have a home, help people save for life ahead and support long-term financial wellbeing. This has been at the heart of all the actions we've taken this year.

The business model

The Skipton Group is headed by the UK's fourth largest building society, and includes the UK's largest estate agency, with consolidated total assets of £37.2bn, 1,229,888 members and a 10% share of the estate agency market (based on available properties); helping one in ten individuals buy and sell homes in the UK.

In our 171st year, we remain true to our founding purpose from 1853; to help more people have a home, help people save for life ahead and support long-term financial wellbeing - it's what we do and why we're here.

The Skipton Group primarily comprises our Home Financing and Money businesses within the Society, mortgage lending and deposit taking by Skipton International and buying & selling homes through our estate agency business, Connells group. Sitting alongside our primary businesses and supporting a thriving business model, the Group also comprises Skipton Business Finance and Jade Software Corporation. These Skipton Group businesses are collectively how we achieve our purpose.

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

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

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

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

Our mutual status means we do not pay dividends, since we do not have external shareholders. Our profits are therefore reinvested for both the short-term and long-term benefit of our members and customers, to support sustainable growth, to modernise and remain relevant with new capabilities and propositions, and to preserve a strong capital position that supports and protects our members, customers and creditors. By doing this, we are building a stronger, more purposeful, and impactful Group. The Group's business model can be illustrated as follows:

Where the money comes from

- Members' and customers' deposits with the Society's Money business and Skipton International
- Wholesale markets
- Retained earnings from previous profits and dividends from our Group businesses

What we do with it

Provide mortgages through the Society's Home Financing business and Skipton International, to help more people have a home:

- Residential mortgages
- Buy-to-let mortgages

Provide working capital facilities to SMEs through Skipton Business Finance

How we generate income

Net interest income in the Society and Skipton International

- The difference between the interest receivable from our borrowers and on our liquid assets, and the interest payable to our savers and on wholesale funding

Other income

- Provision of full financial advice and other financial products and services

Fees and commissions receivable

- Through the process of buying, selling and renting homes, and other related services by Connells group

What we incur costs on

- Paying and developing our colleagues
- 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 Group, including digital capability with assistance from Jade; whilst doubling down on human interaction
- Maintaining capital strength - we have financial strength, a strong track record and are growing
- Leveraging Group assets to drive additional value for members in order to make membership matter

Strategic Report (continued)

The Group's operating results are reviewed regularly by the Society Board (the Board) for the following key business lines - these reportable segments, which have been revised with effect from 1 January 2023 (see Note 42 for details), are now assessed and presented at the operating entity level:

The Society

As the UK's fourth largest building society, Skipton offers mortgages, savings and financial advice - split between our Home Financing and Money businesses; with a national presence represented by our network of 82 branches. Skipton Building Society is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

Skipton International (SIL)

SIL carries out mortgage lending in the Channel Islands and buy-to-let lending in the UK, and accepts deposits in Guernsey from an international customer base. SIL is licensed under the Banking Supervision (Bailiwick of Guernsey) Law 2020, as amended, and regulated by the Guernsey Financial Services Commission.

Connells group

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

Other

Interests in a small number of other business lines that are not separately reportable are combined within the 'Other' category, together with the impact of Group consolidation adjustments. These include:

- **Skipton Business Finance (SBF)** – our invoice financing provider of working capital facilities to small and medium-sized enterprises (SMEs); and
- **Jade Software Corporation** – a software solutions provider based in New Zealand that specialises in digital and large IT enterprise solutions, as well as being the provider of our core database and software development language.

This segment also includes Northwest Investments, the intermediate holding company Skipton Group Holdings and the Group's special purpose vehicles, formed to acquire funds from the wholesale markets.

Promoting long-term success

The Board's approach

Policies and practices

The business model set out on pages 14 and 15 details how the Group generates long-term value and preserves a strong capital position to protect our members and customers. In order to achieve our purpose, in 2023 the Board set defined long-term objectives built around three strategic priorities. Throughout the year, the Board monitor 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 the 2023 strategic priorities and how we delivered against these see pages 20 to 25.

The Board and senior management are committed to maintaining an inclusive culture where we continue to invest in our colleagues' skills, personal and career development and well-being. Our colleagues are critical to our success; by maintaining a strong culture and empowering decision-making close to our members and customers, 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.

Corporate governance

The Board is responsible for determining the Group 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 in the Corporate Governance Report.

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 in line with the Society's 'Principles of Governance', as set out in the Corporate Governance Report.

Decision-making

Achieving the right balance of risk and reward is essential to ensuring the long-term sustainability of the Group 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 in the Risk Management Report.

The Group's Corporate Plan is delivered in line with the risk management framework and was approved by the Board following a review of our strategic priorities. In setting our strategic priorities we engage with our customers to find out what is important to them and how we can best meet their needs. We use this knowledge and insight to inform and shape everything we do. These strategic priorities together with a number of key performance indicators, are key to the Board's management of the business and to its decision-making process.

Strategy, priorities and objectives

Our purpose is to help more people have a home, help people save for life ahead and support long-term financial wellbeing.

Our purpose has remained the same since our building society was formed in 1853, and we have three key strategic priorities which will also remain the same as we look ahead to 2024; Help more people have a home, Make money work harder and Make membership matter.

Leveraging our Group structure will enable us to keep focused on purpose delivery; building a stronger, more sustainable, and more powerful Group. This will be supported by the development of our Group brand to give us an elevated position to drive change, influence decision-makers and provide a platform to campaign on the issues that matter to our members, our communities and wider society.

Our Group gives us a greater opportunity to give more to our members, where they need it most. It provides us with a diversified range of capabilities and enhanced financial strength.

We're member-owned, and we have a responsibility to our members to remain financially sustainable, generating profit to invest back into our businesses for the future benefit of members.

Our strategic priorities build on our 2023 foundations, creating new business structures for our Home Financing, Money and Estate Agency businesses, delivering core capabilities for our customers and building our membership proposition, in order to give back even more value when and where it matters.

For the year ended 31 December 2023, our strategy is about leveraging the power of the Skipton Group; we have measured our performance against the three strategic priorities we set for 2023 - details of our performance against these priorities can be found on pages 20 to 25.

We have three key strategic priorities to deliver our purpose

Help More People Have a Home

Members, and brokers on behalf of members, want us to provide finance to help them buy homes. We will invest to create innovative products to help those trying to get onto the housing ladder, specifically focusing on first-time buyers where no such solutions exist today. More information on how we have started to deliver this in 2023 can be found on page 20.

Make Money Work Harder

Helping people save is a founding purpose of our Society and the centre piece of our mutual status, and the Skipton Group has the ability to offer savings and financial advice. Our aim is to help customers make sure their money is in the best place to meet their long-term financial wellbeing, identifying opportunities to make their money work 'harder'.

Make Membership Matter

We want to make membership matter by delivering value to our members and customers through great products and propositions that serve real needs, alongside top-quality customer service.

Strategic Report (continued)

Enabling Capability

It has been a transformative period for the Skipton Group as we have implemented a new Group structure which is aligned to our members' needs; namely, financing their homes (Home Financing), making their money work harder (Money) and helping them buy and sell homes (Estate Agency, Connells group). As part of this we have appointed new leadership, whilst refining our operating model to support even greater accountability, performance and agility. We have welcomed new faces, who bring fresh ideas, whilst also promoting our existing talent into leadership positions throughout the organisation, including to the Group Executive Committee. We are building an increasingly diverse pipeline of talent and investing in our places of work, both branches and the main support centres.

In support of this, the Society signed the Armed Forces Covenant, committing to being a recognised employer and supporter of Armed Forces personnel, as well as partnering with WISE (Women in Science and Engineering), to ensure gender parity across the Society by attracting, retaining, and developing the best talent.

As we set ourselves up for further success, we have refreshed our behaviours framework for our colleagues, gaining their input and participation on what they value as well as the target behaviours that they should role model - being brave, being accountable, being curious and being collaborative. This sits alongside our "cultural clarity" work, renovating our culture to foster growth mindsets and building on the great people attributes we hold today. Throughout 2024 we will continue to build on our culture and talent across our Group, bringing together our people and processes to drive value for all. The Society's Workday solution to support both our people and finance functions has delivered new improved processes, ensuring we have high performing platforms that can be used for administration and reporting activity. Across our finance teams, this has seen the completion of finance transformation delivery, supporting more intelligent tracking and forecasting for our planning cycles.

Further integration of the solution modules will continue through 2024 and beyond as we build on the capability we have embedded and roll out further across our Group, particularly supporting talent management, colleague engagement and people metrics.

Our Group technology and infrastructure has continued to transform and enable our businesses throughout 2023 and we have a clear roadmap of activity as we move into 2024 with our Corporate Plan. Our commitment to service for our members, brokers and colleagues is driving significant activity across our digital transformation programme, re-platforming our businesses with a cloud first approach and integrating third party software with high quality internally built software.

In leveraging the power of our Group, we are starting the journey to responsibly utilise our incredible data assets which give us unique insights across the UK housing market, where we can drive tangible and purposeful difference and play a key role in societal challenges.

We are changing the way we conduct our change activity as we embark on a new year, becoming increasingly ambitious and agile in our ways of working and operating model to deliver more value and at pace to support our members and communities. Aligned to our cultural renovation, we will increase our agile maturity level as we embed organisational agility.

Economic and market background

Throughout 2023 and into 2024, we face significant uncertainty as the UK sees stubbornly higher prices and a weakened growth outlook; placing real pressure on household finances - we are fully aware of the impact this is having on all our members. In order to curb inflation, the Bank of England has repeatedly raised interest rates since the end of 2021, increasing during 2022 from 0.25% to 3.5% and in 2023 from 3.5% to 5.25%. Although inflation is falling, and interest rates appear to be stabilising, the cost of living challenges remain.

The housing market in 2023 saw demand reduce as consumer confidence weakened amidst higher borrowing costs. The sharp increase to interest rates in 2022, exacerbated in September 2022 by adverse market reaction to the UK government's 'mini-budget', led to prolonged mortgage market volatility as we entered 2023.

House prices have softened over the year, though not to the extent some had forecasted. The outlook for 2024 remains subdued, but mortgage rates have now started to reduce, with the Base Rate expected to have peaked, and at a lower level than first predicted. However, it is expected that interest rates will remain higher for longer. With demand continuing to outstrip supply, the extent of further reductions in house prices is uncertain.

Whilst unemployment remains relatively low with some sectors struggling to fill vacancies, there has been growing unrest amongst workers as wages fail to keep pace with inflation; industrial action spread during the year amongst both public and private sector workforces.

The Group's future performance will be impacted by the performance of the UK economy as events and conditions evolve. However, the Group remains robust, with strong capital and liquidity ratios, healthy and sustainable growth seen in both mortgage and savings balances, good underlying profitability and a diversified business model.

Performance in the year 2023

We monitor our progress against our strategic objectives that are set at the start of the year, 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.

The Group's performance in 2023 is discussed on the pages that follow.

Help more people have a home

We will continue to develop new capability to support more people into homeownership and improve the customer journey for buying and selling homes, whilst continuing to grow our lettings business.

We want to help make societal change by facing into the UK's housing crisis and enable more first-time buyers get on to the property ladder for the first time. In May 2023 we launched a new option for aspiring first-time buyers - our Track Record mortgage which enables people trapped in rental cycles to realise their homeownership aspirations, via the only deposit-free mortgage. The value of this product has been clearly demonstrated, with applications totalling £62.4m already received since its launch. With the criteria now extended to also include tenants that were previous homeowners, we're enabling even more renters to access the property ladder.

We support one in ten individuals looking to buy and sell homes in the UK through our estate agency network; whilst in 2023, the Home Financing business has supported 39% more first-time buyers, providing specific financing for 19,120 first-time buyers in the year (including a record 1,925 completions in November). In 2023 around 33% of our new lending was to first-time buyers; meaning we are well placed to achieve our aim of completing 50% of our new lending to first-time buyers by 2028.

SIL (based in Guernsey) has a UK mortgage proposition specifically for UK buy-to-let investors resident overseas. The offering is simple and hassle-free, available online, by phone or video with a personal point of contact throughout the whole process. Following a risk assessment visit by the Guernsey Financial Services Commission (GFSC) in the year, recommended enhancements were identified, which SIL are in the process of addressing to strengthen its control environment.

Mortgage advances grew by 6.3% and our Group mortgage portfolio by 12.1% (2022: 9.6%), whilst maintaining our prudent credit risk appetite. Despite the UK mortgage market being stagnant for the majority of the year, Skipton Group has increased its market share of balances to 1.69% (2022: 1.49%) (Source: Bank of England statistics, 'Lending secured on dwellings').

The Group's UK residential mortgages in arrears by three months or more remained low, representing only 0.23% of mortgage accounts (2022: 0.16%). This compares to the industry average of 0.91% (Source: UK Finance industry arrears data (residential mortgages in arrears by more than three months)). This is testament to our strong up-front lending controls and proactive credit management, whereby we closely monitor and manage mortgages that have fallen into arrears, working with borrowers to find solutions that are appropriate for their individual circumstances.

Furthermore, the Society were a founding signatory to the Mortgage Charter, which outlines the standards lenders have agreed to uphold for customers affected by the increase in mortgage rates and the elevated cost of living, albeit this is only being used by a small proportion of our borrowing members.

During the year, the Home Financing business has shielded our variable rate mortgage customers from interest rate rises, having the lowest Standard Variable Rate (SVR)/ Mortgage Variable Rate (MVR) amongst our peers at 6.50% and 6.79% respectively (as at 31 December 2023); passing on less than a third of the Bank of England base rate changes - only 0.5% of the 1.25% rise in the year was passed on to our borrowers. These steps are designed to recognise the challenging economic time for our members.

In the year, we have also launched a small range of products with a low rate of interest, made possible with a 5% completion fee, available to existing customers who have an upcoming maturity, intended for those who may struggle to afford their monthly payments. This is just another way that we're looking to support our customers and continue to make membership matter to them.

The Home Financing business has enhanced its focus on how we monitor our success to ensure we are always providing outstanding experience to our members and customers. This is reflected in the Home Financing business' strong net customer satisfaction score of 93% (2022: 93%) (being the percentage of members and customers surveyed that scored satisfaction as 5, 6 or 7 minus those scoring 1, 2 or 3 on a scale of 1-7). Our service remained strong despite large application volumes, with average time from application to offer of just 9.0 days.

Our commitment to listening to our borrowers and brokers continues to be recognised, with Skipton being named the What Mortgage Awards 2023 – Best National Building Society for the 10th year in a row.

We will continue to invest in enhancing our service in 2024 through the optimisation of more self-service functionality and streamlined processes for our borrowers.

The Connells group mortgage services proposition continues to deliver for our customers and the number of mortgages arranged by the group decreased by only 7%, despite the prevailing challenging market conditions. The number of properties on which Connells group exchanged contracts during the year was 70,971 (2022: 87,395). Total lending generated for UK mortgage providers during 2023 was £30.9bn (2022: £36.9bn).

The Connells group lettings business manages properties on behalf of landlords, with the number of properties under management at 31 December 2023 increasing to 125,666 (31 December 2022: 122,614).

As we move into 2024, we continue to explore further ways to support new and existing borrowers with their lending needs, primarily focusing on affordability challenges and transitioning to a higher rate environment, helping first-time buyers to achieve their home ownership ambitions and mitigating against risks using technology and data. We will use the power of our Group to test and learn, developing opportunities to play our part in greening homes across the industry.

Key Performance Indicator	Strategic Goal		
Help more people have a home			
Group gross mortgage advances	To help more people have a home through prudent and controlled lending	2023	£6,700m
		2022	£6,304m
		2021	£5,426m
Group net mortgage growth	To help more people have a home through prudent and controlled lending	2023	£3,089m
		2022	£2,226m
		2021	£1,481m
Number of first-time buyers the Home Financing business has supported (note 1)	To help more people on to the housing ladder	2023	19,120
		2022	13,803
		2021	7,893
Home Financing net customer satisfaction score (note 2)	To put our members and customers at the heart of our business	2023	93%
		2022	93%
Group residential mortgages in arrears by three months or more	To manage and monitor our arrears and credit risk management, to ensure appropriate solutions for our borrowers	2023	0.23%
		2022	0.16%
		2021	0.22%
Number of properties Connells group exchanged contracts on	To help more people through the customer journey of buying and selling homes	2023	70,971
		2022	87,395
		2021	106,803
Letting properties under management by Connells group	To help more people access the rental market and have a home	2023	125,666
		2022	122,614
		2021	122,518

Notes

1. Reporting of first-time buyers comprised of products (i.e. mortgages), totalling 7,893 in 2021; we have since adapted our monitoring to focus on customer numbers, whereby more than one person can be party to the mortgage.
2. As measured from an in-house relationship survey of c.4,000 Home Financing and c.4,000 Money members and c.1,000 financial advice customers (with an annual response rate of c.5,000). The customer satisfaction scores are calculated as the percentage of customers who are satisfied (those scoring satisfaction as 5, 6 or 7 minus those scoring 1, 2 or 3 on a scale of 1-7). Since 2022, we have enhanced our focus on how we monitor our success by considering each customer journey separately - this helps ensure we are always providing outstanding experience to our customers, tailoring this between our Home Financing and Money propositions; as a result, comparative data for 2021 is not available (instead a combined Society net customer satisfaction score was reported in 2021 of 86%).

Strategic Report (continued)

Make money work harder

We will continue to invest more to ensure our members receive above-market interest rates for their savings and have access to free advice to help them plan their financial futures.

As part of our commitment to paying a competitive savings rate we have passed on 76% of the Bank of England base rate changes in the year to our members, that equates to an average of 1.33% of the 1.75% change in base rate increases seen in 2023; meaning our minimum variable savings rate has increased from 1.75% to 3.25% at the year end. Furthering our commitment, in June we launched a new highly competitive member benefit product in the form of a regular saver that pays an interest rate of up to 7.5%, enabling members to make the most of their hard-earned money. This provided over 68,000 new accounts for our members, increasing their product holdings within the Money business; and when these accounts mature after 12 months, we will pay more than £8.2m in interest, giving real value to our members.

In addition, we have strengthened our proposition during the year with the launch of a variety of limited offer savings products, including a five-year fixed rate bond locking in the current higher interest rates for longer, a competitively priced single access saver allowing one withdrawal per year, as well as tracker individual savings accounts (ISAs) and bonus saver accounts which pay bonus interest over and above our already favourable rates.

This has helped achieve record net monthly growth in savings balances in November of £578m as people look to maximise the return on their savings, spearheaded by our marketing campaign 'The Abandoned Billions' which is raising awareness of the c.£250bn held in UK current accounts earning little to no interest, which could and should be earning higher rates.

On average, we paid 0.65% higher interest (2022: 0.52% higher interest) than the Rest of Market average for banks and building societies (Source: CACI Current Account & Savings Database, Stock , Jan - Dec 2023) - this equates to an extra £148m in our members' pockets.

The Money business' competitive savings rates resulted in total balances growing in the period by 15.4% to £26.0bn (2022: 13.6% to £22.5bn), compared to the UK savings market where net savings grew by only 1.9% (Source: Bank of England Statistics).

We have achieved this growth without compromising on service - our Money business achieved a net customer satisfaction rating of 86% (2022: 88%) (being the percentage of members and customers surveyed that scored satisfaction as 5, 6 or 7 minus those scoring 1, 2 or 3 on a scale of 1-7).

Reflecting our continued efforts to service the needs of our members, we have maintained our award-winning customer service, consistently ranking towards the top of cross industry customer service league tables.

This was evidenced by Fairer Finance who awarded our Money business' savings accounts 'Gold' in their latest customer experience ratings; this is down to the skills, care and empathy with which our customer facing colleagues engage our members through the human touch.

Being the UK's first and one of the biggest providers of the cash Lifetime ISA (LISA), we now hold balances of £1.2bn (2022: £1.1bn) for LISA customers saving hard for their first home or for later life; these customers benefited from Government bonuses in the period of £49.5m (2022: £59.3m).

Forming part of our Group, SIL offers some of the best offshore interest rates whilst being committed to providing personal service - a winning combination when depositing money in an offshore savings account. SIL offers Sterling and US Dollar savings in fixed rate bonds, notice and easy access accounts.

As part of our broad advice offering, we also provide financial advice to our members. This year we have focused on how we make that more accessible, by providing free advice to our members, helping with their savings and investment goals, in order to make their money work harder. As part of this, we have moved the vast majority of our customer assets to a cheaper and more flexible proposition offering, providing better value for their funds, and closing our Monitored Informed Investing (MII) service. In 2023, we supported 6,000 customers with financial advice (2022:7,835). Funds under management, as part of our financial advice offering, totalled £4.3bn as at 31 December 2023 (31 December 2022: £3.9bn).

In August 2023, we also launched a free pension health check to enable our members to make more of their money now, and in the future, to have the retirement they deserve.

From 2024, we will continue to broaden access to advice, through education, tools and our expert colleagues, enabling simplification of our advice journeys and raising awareness of our propositions for our members. We aim to increase advice cases by 200% over the life of our Corporate Plan by making our advice accessible to all, delivering real value back to our members through our commitments.

Our high quality and innovative products will continue to be at the forefront of providing members with more value, including delivering these through more digital first interactions, supported by our expert colleagues and the human touch.

Key Performance Indicator	Strategic Goal	
Make money work harder		
Rate of interest paid above market average (Money business only) (note 1)	To ensure we are paying a fair and competitive savings rate to our members and customers	2023: 0.65% 2022: 0.52% 2021: 0.37%
Growth in member savings balances (Money business only)	To help more members save for their future	2023: £3,471m 2022: £2,690m 2021: £1,087m
Money net customer satisfaction score (note 2)	To put our members and customers at the heart of our business	2023: 86% 2022: 88%
Increase in offshore funding balances (in SIL)	To help more customers save for their future	2023: £251m 2022: £145m 2021: £114m
Number of financial advice customers	To help more customers plan their financial futures	2023: 47,126 2022: 46,715 2021: 46,977
Funds under management (FUM)	To help our members and customers' money work harder	2023: £4,272m 2022: £3,950m 2021: £4,108m

Notes

1. Calculated as the average rate of interest we have paid over and above that paid by the Rest of Market average for banks and building societies in the twelve months to 31 December 2023 (Source: CACI Current Account & Savings Database, Stock, Jan - Dec 2023).
2. As measured from an in-house relationship survey of c.4,000 Home Financing and c.4,000 Money members and c.1,000 financial advice customers (with an annual response rate of c.5,000). The customer satisfaction scores are calculated as the percentage of customers who are satisfied (those scoring satisfaction as 5, 6 or 7 minus those scoring 1, 2 or 3 on a scale of 1-7). Since 2022, we have enhanced our focus on how we monitor our success by considering each customer journey separately - this helps ensure we are always providing outstanding experience to our customers, tailoring this between our Home Financing and Money propositions; as a result, comparative data for 2021 is not available (instead a combined Society net customer satisfaction score was reported in 2021 of 86%).

Make membership matter

Our members will see and feel the value of Skipton membership.

Key to our purpose and sitting at the heart of our collective Group businesses is membership. Success comes from growing membership in a sustainable manner, bringing the benefits of membership to an increasing number of people. In the year, membership numbers grew by 92,328, taking our total membership base to 1,229,888 (2022: 1,137,560).

The branch network continues to play a key role in the Group's future plans. The Society currently has 82 branches (with the wider Group totalling over 1,300 branches including those of Connells group). In September, five of the Society's branches closed following a review of member usage, nearby alternatives and associated costs to maintain presence at these locations; we concluded this did not represent good value to members in these areas. However, we will continue to invest in our network to ensure our branches remain relevant now and in future, as well as helping our members and customers in the different ways they choose to interact with us, such as by telephone, video, webchat and through our digital assets.

In 2022 we launched our Energy Performance Certificate (EPC) Plus proposition, partnering with Vibrant Energy, a Skipton Group company, to offer a free EPC Plus report which includes advice on how to improve the energy efficiency and carbon footprint of homes. This offer of a free EPC Plus was extended to all Society savings and mortgage members in January 2023, as we look to scale and develop this proposition. Since launch in November 2022, 9,559 surveys have been conducted providing over £710k of benefit to our members, with a further 117 scheduled (as of December 2023).

As part of our continued focus on maintaining very high service standards for our members and customers, we have increased headcount in customer facing areas which has allowed us to increase contact volumes, meeting the needs of our customers without compromising on service standards, and providing additional capacity for colleagues to truly 'add value'. Time taken to answer mortgage-related calls and webchats is 79 seconds, whilst for savings-related calls and webchats it is 156 seconds, despite increased call volumes seen over ISA season. This has enabled us to maintain a strong Trustpilot rating of 4.3 stars out of 5 (31 December 2022: 4.4 stars).

In the year, the Society was awarded the CCA Global Accreditation for Customer Experience recognising our commitment to driving service excellence; whilst Skipton International has been awarded the Platinum Trusted Service Provider Award by Feefo. Our commitment to our members through our products and services has also been recognised by independent third parties across both mortgages and savings, being awarded Top Rated lender status in every category of the Mortgage Finance Gazette & Mortgage Solutions Rated for Service Awards 2023, and the winner of the Best Fixed Rate Mortgage and Best Overall Mortgage Lender at the 2023/2024 Personal Finance Awards; our Cash ISA product also won highly commended alongside best personal finance brand as we continue to focus on providing real member benefit.

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 percentage of Society complaints referred to the Financial Ombudsman Service (FOS) that have their outcomes changed. The Society's change in outcome rate for the first six months of 2023 was 21% (full year 2022: 26%). This compared favourably with the financial services industry average of 37% for the first six months of 2023, being the latest available comparable market data (Source: FOS complaints data (resolved cases)).

We continue to enhance our service capabilities and improve the customer experience. Through our digital transformation programme we are further upgrading our Home Financing and Money businesses' digital capability which sits alongside our human touch and member centric service. Focus this year has been on the foundations to support our transformation, including confirmation of payee; a new digital way for authentication; increasing the use of digital customer communications; and new Skipton App capability, including functionality for customers to open new ISA accounts and do electronic ISA transfers at a time and a place convenient to them on the App.

As part of enhancing our digital and human service, we are also adapting our services to become more accessible and inclusive. Amongst many initiatives, for Society members and customers we have added British Sign Language (BSL) interpretation to the disclosure videos in branch and started to introduce service counters that now have a lowered central section, making them more accessible; whilst in June we joined the Hidden Disabilities scheme.

The Skipton Group is committed to donating 1% of its pre-tax profit to charity each year. For 2023 this means donating over £2.9m to good causes and for 2024 we are introducing a strategic charity partner vote to ensure members have their say over how we donate a proportion of our profits. We will deliver these funds through purposeful and aligned charity partnerships, one of which is the Skipton Building Society Charitable Foundation (which has now donated over £3m since its launch in 2000) and through colleague and community schemes.

Looking ahead we will proactively and consistently demonstrate the value of membership, making it tangible, accessible and engaging for all. We want our members to have a more prominent voice in our future, and aim to increase our member participation within our Annual General Meeting (AGM) and further participative activity by increasing our number of members on panel to 25,000 by 2025.

Our roadmap continues to build on our member proposition today, providing member exclusives, and personalised experiences, and empowering our colleagues to recognise members for their loyalty.

Key Performance Indicator	Strategic Goal	
Make membership matter		
Total member numbers (Society only)	To ensure we are attracting and retaining members	2023: 1,229,888 2022: 1,137,560 2021: 1,082,997
Growth in membership numbers (Society only) (note 1)	To ensure we are attracting and retaining members	2023: 92,328 2022: 54,563 2021: 21,859
Free EPC Plus reviews carried out (note 2)	To help members understand how to make homes more energy efficient	2023: 8,456 2022: 1,103
Society Financial Ombudsman Service (FOS) complaints - change in outcome rate (note 3)	To ensure we are treating customers fairly	2023: 21% 2022: 26% 2021: 26%
Society Trustpilot rating (out of 5 stars)	To put our members and customers at the heart of our business	2023: 4.3 2022: 4.4 2021: 4.6

Notes

1. Included as a key measure in the executive directors' remuneration policy calculations. For further details see the Directors' Remuneration Report.
2. The free EPC Plus assessment and bespoke report offer was first announced in November 2022, hence comparative data as at 31 December 2021 is not applicable.
3. As published by FOS in September 2023 in respect of the six-month period to 30 June 2023 (being the latest available data - published every six months); comparatives have been updated to reflect the final position for the twelve months to 31 December 2022 - this information was not available at the time of publication for the respective period. The Society rate of 21% compares favourably to the industry average of 37%.

Strategic Report (continued)

Responsible and sustainable

It is essential that businesses take action to help tackle the profound environmental and social challenges our country and our planet face. This is a responsibility we place significant importance on. As a member-owned business, the long-term best interests of members and customers are the priority, rather than profit maximisation for shareholders.

The Skipton Group is united by a common purpose to help more people have a home, help people save for life ahead and support long-term financial wellbeing. We believe this is the most significant contribution we can make to building a better, more sustainable society fit for the future. Our strategy for making positive change aligns with the United Nations (UN) Sustainable Development Goals. The Group's approach is also underpinned by an alignment with the UN Principles for Responsible Banking to which our banking businesses, the Society and SIL, are signatories.

We are at the start of our journey to establish a Group-wide approach to sustainability and are working to further embed maturity and alignment of our processes across our core businesses in the years to come. In September 2023, we commenced a process to update our Materiality Assessment, to better understand the common sustainability issues, from which we will look to set our future priorities and strategy. Our next Group Sustainability Report, to be published on our website later in 2024, will further outline our approach.

Greener homes

In 2023 we observed significant economic challenges for our members, our colleagues and wider stakeholders. Ongoing higher energy costs combined with the UK's poorly insulated housing stock put a significant strain on the finances of many households, hitting those on the lowest incomes the hardest. That's why we will play our part to support customers with retrofitting and making homes more energy efficient, in line with national net zero targets. Our ability, and the ability of our customers, to achieve net zero are heavily reliant on external factors. These include the actions of the UK Government and clear, early policy intervention, specifically those linked to upskilling and suitable home retrofit funding schemes.

In November 2023, we announced our plans to conduct a residential property retrofit study, together with academic partners Leeds Beckett University and Leeds University. The study will help the Group to develop a deeper understanding of the costs, behaviours and experiences faced when undertaking a retrofit and to identify ways to support and promote access to a wider cross-section of customers.

We continue to work with our Group company, Vibrant Energy, to offer Society members and colleagues a free home energy performance certificate assessment, with an additional report including recommendations for improvement opportunities and funding options where available (EPC Plus). The private rental sector plays a significant role in the UK housing mix, so we have extended this free offer to our Society buy-to-let landlord customers, available for up to 10 properties in a portfolio. In addition, our green additional borrowing products are available for any existing members who are looking to make energy efficient home improvements.

Access to finance

Getting on the property ladder has become increasingly challenging, and we recognise that financial assistance is often essential for aspiring homeowners. In May 2023, we launched our Track Record product, a unique 100% loan-to-value (LTV) mortgage where no deposit is required, designed as a route to home ownership for customers in rented accommodation, who may otherwise struggle to save a deposit.

In an increasingly complex landscape of mortgage terms and product names, first-time buyers can often overlook mortgage options that could potentially help them. This year we ran a programme to reduce jargon and support first-time buyers to be aware of all the options available to them. For example, we renamed our Joint Borrower, Sole Proprietor product as the Income Booster scheme, which can increase the borrowing amount through assessing the main applicant's income along with the income of up to three friends or family.

This year we have focused on improving access to financial guidance in branches, especially for members with lower savings balances. We offer free reviews to our members to help with their savings and investment goals and to support long-term financial wellbeing. In August 2023, we also launched a free pension health check for our members.

We also recognise that many financial advice customers want the option to invest in ways that are aligned to their values, and we have a set of investment options which integrate environmental, social and governance criteria, to screen out certain products or industries, such as those which produce tobacco, controversial weapons, and thermal coal.

Charitable giving

Through our commitment to donate 1% of Group pre-tax profits each year, we are helping tackle significant societal challenges on behalf of members and colleagues, aligned to our purpose and Group strategic priorities. We will be introducing a strategic charity partner vote at the 2024 AGM to enable members to have their say in how we donate a proportion of this money to charity. This is part of our commitment to make membership matter.

Our charitable giving will help members and wider society overcome barriers preventing people from having a home, accessing financial advice and education, and driving an increase in awareness and action to support the greener homes agenda.

Responsible supply chain

The Society works in partnership, and closely monitors relationships with key suppliers. On an ongoing basis we assess any risk of adverse impact, on our customers, colleagues or the environment, as a result of these relationships. Suppliers' service-delivery is tracked against key performance indicators to ensure the service provided is of an acceptable standard.

We are also working with EcoVadis, a sustainability ratings provider, to assess the sustainability standards within our supply chain. The platform enables us to monitor our suppliers' approach to sustainability across a set of indicators, covering environment, labour and human rights, ethics and sustainable procurement. The data and expertise provided by EcoVadis enables us to develop a greater understanding of our supply chain. We plan to continue reviewing this data for the purposes of assessing and, where practicable, decarbonising our supply chain.

Ethical and transparent

The Group is committed to a zero-tolerance approach to instances of bribery or corruption across any area of our business. We have anti-corruption and anti-bribery policies in place in each business line, which prohibit the offering, giving, solicitation or the acceptance of any bribe to or from any person or company by any individual colleague, agent or other person or body acting on behalf of the Skipton Group. The policies are readily available to view on our intranet and we require our colleagues and employees to complete annual training to refresh their knowledge.

The Society's Board fully supports the objectives of the Modern Slavery Act 2015, further details of which can be found at skipton.co.uk/about-us/governance.

The Group 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.

Diversity and inclusion

Our aim remains to further build on progress made to ensure our colleagues 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 has seen a higher representation of women amongst its senior leaders, which is 50% at present (2022: 45%). 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 in April.

The Society's latest Gender Pay report, published in April 2023, highlights actions we've taken to increase the number of female applicants for senior roles. We are strengthening our Employee Resource Groups, and focussing on data to understand our workforce so we can develop evidenced based and data driven initiatives. Our partnership with WISE (Women in Science and Engineering) helps us to further embed our commitment to ensuring gender parity across the Society and we will be working closely with WISE to ensure we attract, retain, and develop the best talent across the organisation.

Furthermore, we are continually reviewing and improving our People Policies, with current work on developing a Colleague Transition policy which will outline the support and assistance that can be provided to colleagues who are undergoing gender reassignment.

Strategic Report (continued)

The number of employees of each gender employed in the Group and the Society as at 31 December 2023 is outlined below:

Society	Male	Female	Total	Percentage male	Percentage female
Executive directors	3	-	3	100.0%	0.0%
Other Society senior leaders	32	35	67	47.8%	52.2%
Senior leaders	**35**	**35**	**70**	**50.0%**	**50.0%**
Non-executive directors	5	3	8	62.5%	37.5%
Other employees	945	1,366	2,311	40.9%	59.1%
	985	**1,404**	**2,389**	**41.2%**	**58.8%**

Group	Male	Female	Total	Percentage male	Percentage female
Executive directors (note 1)	3	-	3	100.0%	0.0%
Senior managers (note 2)	42	35	77	54.5%	45.5%
	45	**35**	**80**	**56.3%**	**43.7%**
Non-executive directors (note 1)	5	3	8	62.5%	37.5%
Other employees (note 3)	7,843	10,219	18.062	43.4%	56.6%
	7,893	**10,257**	**18,150**	**43.5%**	**56.5%**

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.

Climate-related disclosures

Climate change is happening right now, and the stakes couldn't be higher at this defining moment for society. We recognise our important role to act and have committed to play a vital part in encouraging and enabling at-scale decarbonisation of UK homes, whilst continuing to reduce the impact of our own operations.

As a Group we continue to embed climate resilience in our decision-making. We support the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) and present information against the TCFD reporting framework, under the four pillars: Governance, Strategy, Risk management and Metrics and targets, as set out below.

Further details on how we manage climate-related risk can be found in the Skipton Climate-related Disclosures Report published on our website skipton.co.uk.

Governance

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

Board oversight of climate-related risks and opportunities

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

Board Risk Committee (BRC)

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

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

The Board Remuneration Committee

ESG performance is linked to remuneration through the Single Variable Pay Arrangement (SVPA), the incentive scheme in which the executive team participates. The measures used to calculate outcomes under this scheme are selected because they directly support our ESG purpose, strategic priorities and goals. For further disclosure on performance objectives please refer to the Directors' Remuneration Report.

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

The Group Executive Committee and the boards of subsidiary firms are responsible for the proactive management of the financial and operational risks arising from climate change and the strategy to mitigate these risks. The Group monitors and manages climate risk and the Society has embedded capabilities to meet the requirements of the PRA's Supervisory Statement 3/19 (SS3/19) 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change'.

Senior Management Function responsibility for the identification and management of the financial risks from climate change in 2023 was the Group Chief Risk Officer.

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

During 2023, the CCRF reviewed:

- the key physical and transition risks to which the Group and the Society are exposed; and
- the climate risk scenario analysis.

The Stress Testing Steering Group is responsible for review and challenge of the design of the climate risk scenarios, the assumptions applied and the outputs with final approval provided by the BRC.

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

Strategy

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

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

During 2023, the Climate Change Risk Forum completed a review of our key climate-related risks that are likely to impact the Group over the short, medium and long-term and assessed any new or evolving risks. Further details on the potential risks identified can be found in the Skipton Climate-related Disclosures Report published on our website skipton.co.uk.

The risks have been split into transitional risk and physical risk and a time horizon has been assigned to each risk:

- **Short-term:** 1<5 years, aligned with the Group financial planning horizon
- **Medium term:** 5-10 years, covering the main horizon for key transition risks
- **Long-term:** 10+ years, covering the future position including key physical risks

Climate change also presents potential opportunities, for example to build business resilience and develop new products, for our customers.

Impact of climate-related risks and opportunities on organisational business, strategy and financial planning:

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

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

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

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

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

Resilience of the strategy, taking into consideration different climate-related scenarios, including a below 2°C rise in global temperature scenario

To help inform our strategic planning and determine the impact of the financial risks from climate change on our overall risk profile and business strategy, in 2023 we performed detailed quantitative analysis, with qualitative assessments for less material exposures. In each case, through the combination of existing risk management practices and existing climate-related actions, no areas of concern were identified.

The most significant risks are primarily focused on the impact of climate change on our residential mortgage portfolio. Dedicated quantitative climate risk stress testing on the Group's credit risk management was conducted across five climate risk scenarios, including a below 2°C scenario, informed by the Bank of England Climate Biennial Exploratory Scenarios (CBES).

This included assessing the residential lending portfolio at property level to determine the potential impact of key climate-related physical and transitional risks. A quantitative assessment of IFRS 9 Expected Credit Losses (ECL) for the credit risk in the residential mortgage portfolio (excluding equity release) was also performed.

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

Further details of our scenario analysis can be found in the Climate-related Disclosures Report published on our website skipton.co.uk.

Risk management

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

Processes for identifying and assessing climate-related risk

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

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

Processes for managing climate-related risks

Consideration of climate risk is incorporated into relevant first line processes, risk appetites and control frameworks. With respect to mortgage credit risk, identified as our key climate-related risk, our current controls for managing new lending include conducting a physical inspection of the property for higher loan to values, where any known flood risk or risk of coastal erosion will be reflected in the valuation.

Any postcode identified as potentially at risk of future coastal erosion requires a desktop or physical survey to capture local knowledge of the risks to each property. The Society's loan conditions require insurance at the point of completion which provides assurance that the property is insurable at that point in time. Our concentration risk rules have also been enhanced to consider flood risk.

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

Our ongoing approach to credit risk management is carefully considered, based on experience from our stress scenario analysis. Regular monitoring provides oversight of any emerging concentration risks on the mortgage portfolio.

We continue to be prudent and proportionate in our approach; balancing the risks with any adverse impacts on our members and the wider UK housing market.

Risk management framework

Our climate-related risk management processes are aligned and integrated into the Group's risk management processes. 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 three lines of defence risk management model with risks rated on magnitude and likelihood.

Climate risk is managed in other risk areas through various mechanisms including consideration as part of the Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP and ILAAP) and the inclusion of climate-related risks within our Operational Risk Framework.

Further details on climate risk are included in the principal risks and uncertainties section of the Risk Management Report.

Metrics and targets

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

Metrics and targets the Group uses to assess and manage relevant climate-related risks and opportunities

The metrics used to monitor climate-related risks are:

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

The Society continues to monitor and manage physical and transition risk impacts across our mortgage portfolio and has quantitative portfolio credit risk appetite limits to directly manage physical risks.

Please refer to the Directors' Remuneration Report for further details on the integration of climate-related performance indicators through the Single Variable Pay Arrangement (SVPA).

Skipton's Scope 1, Scope 2 and Scope 3 GHG emissions

Across the Skipton Group we continue to collect data to provide information on energy used and emissions we generate across our operations. This year we have reported our emissions on a Group-wide basis.

Our Scope 1 and 2 GHG emissions relate to the energy we use to operate our branches and offices, and transport for our employees. Most of our operations are based in the UK, with smaller facilities in Guernsey, Jersey and New Zealand. Our Scope 1 and 2 location-based emissions have reduced slightly in 2023.

We aim to purchase 100% renewable electricity tariffs, with a renewable energy guarantee of origin (REGO) for our own operations. We also sourced a green gas tariff, with renewable gas certification, across the Society offices and branches in 2023. Operational energy reduction actions over this last year have included switching to more energy-efficient lighting across the branch network. We have also been investigating improved building insulation options.

We report Scope 3 data covering financed emissions from our lending for our residential, buy-to-let and commercial mortgage portfolio (Society and SIL). Despite the increase in scope 3 emissions - due to a higher number of mortgages in 2023 – there are signs of a very minor shift in the mortgage book towards a higher average EPC rating.

GHG emissions and energy data			
Scope 1 and 2 (note 1)		**2023**	**2022**
Scope 1	Emissions from operating offices, branches and company vehicles (tCO_2e)	**4,395**	4,848
Scope 2 (location-based)	Emissions from the purchase of electricity (tCO_2e)	**5,737**	5,462
Total Scope 1 & 2 energy usage including company vehicles (kWh)		**46,114,596**	50,350,561
Total Scope 1 & 2 emissions (location-based)		**10,132**	10,310
	% from UK operations	**99.5%**	99.3%
Scope 1 & 2 location-based emissions intensity ratio (tCO_2e / £m turnover)		**6.52**	6.84
Scope 3 (note 2)		**2023**	**2022**
Financed emissions – mortgage lending	Category 15 emissions from residential, buy-to-let and commercial mortgage portfolio (t/CO_2e)	**288,033**	267,903

Notes

1. For Scope 1 and 2 data, where actuals data was not available, consumption was either estimated from the average consumption or proxy data used.
2. The Scope 3 financed emissions have been calculated in line with the Partnership for Carbon Accounting Financials (PCAF) methodology and using some of PCAF's emission factors.

We recognise that there are certain limitations in the collection of such data which will affect both the metrics and our targets, and the usefulness of this data for our strategic decision-making.

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

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

We recognise, to reach our net zero target, there are many factors and uncertainties beyond our control and require the involvement of others including policy makers, governments, suppliers, and customers. We appreciate that these may impact on our ability to meet our climate-related targets, or make them more challenging, and there is a risk that all or some of them will not be achieved.

Financial strength

Our financial strength is based on creating mutual value for members, customers, colleagues and communities for generations to come. To do that, we maintain our strong capital and liquidity positions so we can invest to improve the Society and remain resilient in challenging conditions.

Financial strength is monitored through the following KPIs:

Strategic Report (continued)

Key Performance Indicator	Strategic Goal		Discussed further
Financial Strength			
Total Group profit before tax	To ensure we generate the necessary capital to grow the business	2023 £333.4m 2022 £298.8m 2021 £271.8m	Pages 36 to 41
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	2023 £308.6m 2022 £297.7m 2021 £233.4m	Pages 36 to 41
Group net interest margin (% of mean assets)	To manage the earnings of our business	2023 1.53% 2022 1.35% 2021 1.03%	Page 37
Society cost income ratio * (note 1)	To maintain a manageable cost base to ensure our core business remains efficient	2023 47.0% 2022 50.5% 2021 56.6%	Pages 39 and 40
Society cost to mean asset ratio ^	To maintain a manageable cost base to ensure our core business remains efficient	2023 0.72% 2022 0.66% 2021 0.60%	Pages 39 and 40
Group retail funding as a percentage of total funding	To ensure we fund the majority of our mortgages through retail savings, in line with our customer proposition	2023 83.2% 2022 78.9% 2021 80.2%	Pages 42 and 43
Liquidity Coverage Ratio (LCR)	To ensure we hold sufficient levels and quality of liquidity	2023 173% 2022 175% 2021 173%	Pages 41 and 42
Prudential Group Common Equity Tier 1 (CET1) ratio (note 2)	To ensure the Group remains financially strong by having a strong (risk weighted) capital base	2023 26.3% 2022 25.8% 2021 44.6%	Pages 43 and 44
Prudential Group Leverage ratio (note 2)	To ensure the Group remains financially strong by having a strong (non-risk weighted) capital base	2023 6.7% 2022 6.8% 2021 6.8%	Pages 43 and 44

Notes

* Included as a key measure in the executive directors' remuneration policy calculations. For further details see the Directors' Remuneration Report.

^ The comparative figures are restated for 2022 and 2021 to show the Society only position (previously the Mortgage and Savings division position) following a revision of the Group's reportable segments with effect from 1 January 2023, as set out in Note 42.

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 35).
2. These ratios apply International Financial Reporting Standard 9 (IFRS 9) transitional arrangements.

Despite the heightened economic uncertainty, the Group achieved a profit before tax (PBT) in 2023 of £333.4m (2022: £298.8m). The Society has had a strong year, generating profits of £283.7m (2022: £160.9m), principally due to opportunities arising from improved net interest income and margins, whilst providing sustainable value to our members, which have benefited from further increases in the Bank of England base rate. In contrast, high inflation and rising interest rates have dampened consumer confidence in the housing market impacting the results of the Connells group. Revenue in the period of £950.9m was 7.7% below last year (2022: £1,030.3m). Consequently, Connells group realised a reduced PBT of £13.8m (2022: £67.5m profit).

We continue to grow our mortgage and savings balances strongly. Our mortgage balances remain mostly funded by retail deposits, in line with our mutual ethos, whilst we also make use of longer-term funding from the wholesale markets and have also retained some funding previously drawn down through the Bank of England's now closed 'Term Funding Scheme with additional incentives for SMEs' (TFSME) scheme. This balanced approach helps us align the duration of our funding with the longer-term mortgages many of our members want, whilst also continuing to offer competitive savings rates for members. It remains imperative that our funding costs are sustainable, so we can generate the profits needed to maintain our capital strength, for 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.

Managing our cost base remains a key component of our strategy. For the Group, administrative expenses increased in 2023 by £36.3m to £1,224.8m (2022: £1,188.5m). Spend in the period reflects £40.0m of further investment in the Society's service and people, including colleague pay awards and restructure costs, and investment in the Society's principal office and branch network, with further inflationary rises incurred, but offset by cost savings seen across Connells group. Further details can be seen on pages 37 and 38.

Proactive management of credit risk arising from our mortgage portfolios remains a key priority. The Group adopts a responsible approach to mortgage lending. Our Lending Policy ensures that we only lend where the level of risk is acceptable and where customers are assessed as being able to afford to repay the loan. In addition, we closely monitor and manage mortgages that have fallen into arrears and, where required, aim always to find solutions that are appropriate for our borrowers and minimise the risk of the Group incurring financial loss.

Capital resources are in excess of regulatory requirements, with substantial buffers across risk-based and leverage frameworks. Skipton's Common Equity Tier 1 (CET1) ratio increased to 26.3% (2022: 25.8%), driven by increased total regulatory capital. Skipton's leverage ratio remained stable at 6.7% (2022: 6.8%).

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 to give greater transparency of the performance of the Group's ongoing trading activities. As per the Group's policy on alternative performance measures agreed by the Board Audit Committee, we also report earnings before interest, tax, depreciation and amortisation (EBITDA) for Connells' group results:

Underlying Group PBT - 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. 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, and fair value movements in respect of share warrants, equity share investments and Group undertakings.

This reflects the Group's current strategy and business model, the majority of these items being generated from the Group's investments in other entities not considered to be part of the Group's core strategy and 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 (except for certain investments where the Group has elected for such gains or losses to be recognised through other comprehensive income). 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 Group's policy is to not adjust for amortisation charges or acquisition costs when calculating underlying profits. Details of amortisation charges arising from the acquisition of Countrywide by Connells group in March 2021 are discussed on page 38; these charges will not recur in the medium term.

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

Strategic Report (continued)

The Society reports a cost income ratio, as shown in the table on page 34. 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 Society's ongoing trading activities and improves the comparability of information between reporting periods.

Connells group EBITDA - This is a common performance measure used in the estate agency industry, and which is calculated by excluding interest charged on debt financing, interest received, taxes paid, depreciation and amortisation, gains / losses on investments, impairment and fair value movements of group undertakings, profits or losses from joint ventures and dividends paid to non-controlling interests.

Financial performance

A summary Group Income Statement is set out below:

Group	2023 £m	2022 £m
Net interest income	542.8	424.4
Fees and commissions receivable	985.4	1,077.9
Fair value gains on financial instruments mandatorily held at FVTPL	23.5	1.3
Other income	2.9	4.0
Total income	1,554.6	1,507.6
Administrative expenses	(1,224.8)	(1,188.5)
Operating profit before impairment losses and provisions	329.8	319.1
Impairment and provisions	3.6	(20.3)
Total Group profit before tax	333.4	298.8
Tax expense	(78.8)	(67.8)
Profit after tax	254.6	231.0

Underlying Group profit before tax for the year was £308.6m (2022: £297.7m) as shown below. Underlying PBT by segment is shown on page 39.

Group	2023 £m	2022 £m
Total Group profit before tax	333.4	298.8
Less profit on disposal of subsidiary undertakings	-	(0.1)
Less fair value (gains) / add back fair value losses in relation to the equity release portfolio (note 1)	(11.0)	9.8
Add back impairment of goodwill	-	0.8
Less fair value gains on share warrants and equity share investments	(13.8)	(11.6)
Underlying Group profit before tax	308.6	297.7

Notes

1. The £11.0m gain (2022: £9.8m loss) is comprised of fair value gains of £9.2m (2022: £132.3m losses) and fair value gains of £1.8m (2022: £122.5m gains) on the associated derivatives held to economically hedge these fair value movements, as shown in Note 5a).

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 Society and SIL, was £542.8m (2022: £424.4m). The Group net interest margin, a key performance indicator that measures net interest income as a percentage of mean total assets, increased to 1.53% (2022: 1.35%).

Following a prolonged period of record-low interest rates, in response to stubbornly high inflation, the Bank of England raised Bank Base Rate to 5.25% in August, its highest level for 15 years; an unprecedented fourteen consecutive rate rises since December 2021. This rising interest rate environment created opportunities for the Society and SIL to generate higher net income, whilst delivering competitive mortgage products to our customers. However, savings margins were impacted by the base rate changes, resulting in higher cost of funds, in a highly competitive savings market, whereby we've passed on higher interest rates to existing customers. Taken together, these factors led to an overall increase in net interest margin for 2023.

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 the year, the Society raised funding by a series of issuances through the wholesale markets, further details of which are noted on pages 42 and 43.

Net non-interest income

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

Group	2023 £m	2022 £m Restated*
Society	39.9	42.6
SIL	0.3	0.3
Connells group	933.7	1,021.1
Other^	13.2	16.4
	987.1	1,080.4

Notes

* The comparative analyses are restated following a revision of the Group's reportable segments with effect from 1 January 2023. The Group's reportable segments are now assessed and presented at the operating entity level; information is no longer presented on a divisional basis. The impacts of this change are presentational only and there is no impact on total Group amounts reported. See Note 42 for further details.

^ Information regarding segments that are not separately reportable is combined within the 'Other' category, together with the impact of Group consolidation adjustments.

The majority of the Group's other income is generated by Connells group. Details of Connells group performance can be found on page 40.

The Society's net non-interest income relates mainly to financial advice activities (£31.5m; 2022: £31.6m), with funds under management at 31 December 2023 of £4.3bn (2022: £3.9bn).

Net non-interest income in the Other segment was £13.2m (2022: £16.4m). Jade Software Corporation saw an increase of £2.2m due to significant new projects, whilst Skipton Business Finance also saw an increase of £1.2m. This segment also includes charges relating mainly to the elimination of intra-Group fees received by Connells group for services provided to the Society and SIL.

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 cannot be designated under IFRS 9 as being in a hedge relationship for accounting purposes, fair value movements in the derivatives do not precisely offset the fair value movements in the portfolio; income statement volatility therefore arises. For the year there was a fair value gain of £9.2m on the portfolio and a £1.8m gain on the associated derivatives, resulting in a net fair value gain of £11.0m. 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 gain of £11.0m is excluded from underlying profit, as shown in the table on page 36.

Administrative expenses

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

Group	2023 £m	2022 £m Restated*
Society	239.1	191.6
SIL	11.9	10.3
Connells group	938.6	960.8
Other^	35.2	25.8
	1,224.8	1.188.5

Notes

* The comparative analyses are restated following a revision of the Group's reportable segments with effect from 1 January 2023. The Group's reportable segments are now assessed and presented at the operating entity level; information is no longer presented on a divisional basis. The impacts of this change are presentational only and there is no impact on total Group amounts reported. See Note 42 for further details.

^ Information regarding segments that are not separately reportable is combined within the 'Other' category, together with the impact of Group consolidation adjustments.

Strategic Report (continued)

Administrative expenses across the Group increased by £36.3m to £1,224.8m (2022: £1,188.5m).

For the Society, administrative expenses in the year increased by £47.5m (24.8%) to £239.1m (2022: £191.6m). Spend in the period reflects further investment in our service and in our people, including colleague pay awards and restructure costs as we transition our business to become fit for the future, enabling us to deliver better outcomes for members than ever before, together with investment in our principal office and branch network, creating a positive atmosphere through exciting new spaces that give colleagues more flexibility following our move to a hybrid working model; as well as inflationary increases seen more generally.

Connells group administrative expenses decreased in 2023 by £22.2m to £938.6m (2022: £960.8m). Excluding the impact of amortisation charges relating to the acquisition in March 2021 of Countrywide (2023: £15.7m; 2022: £20.7m), costs reduced by £17.2m on a like-for-like basis. Despite the impact of inflation, Connells group continues to maintain tight cost controls which have driven the reduction in administrative expenses.

The Other segment includes the impact of the long-term management incentive scheme in place for Connells group senior management, being a £0.3m credit for the year (2022: £3.2m credit). The management incentive scheme was put in place to reward and retain the high performing management team of Connells group, in order to safeguard the financial contribution this business makes to the Group, and the scheme expense is based on a number of assumptions relating to the future performance of the Estate Agency businesses, as well as the assumed dates of exercise of the options held within the scheme. The Income Statement charge in 2023 reflects the latest forecasts of the Connells group, where one manager left the scheme during the year, resulting in a release of the associated liability held. For further details of the incentive scheme calculation and assumptions, see Note 1u) to the Accounts. The Other segment also includes adjustments to eliminate the impact of intra-Group transactions.

Impairment on loans and advances to customers

During the year the Group recognised impairment gains on loans and advances to customers of £3.1m (2022: £17.1m loss), as set out below:

Group	2023 £m	2022 £m Restated*
Residential mortgages	3.0	(21.8)
Commercial mortgages^	0.9	5.0
Other loans	(0.8)	(0.3)
	3.1	(17.1)

Note

^ Also known as loans fully secured on land.

Ongoing management of our credit risk exposure is a key focus area, in order to minimise losses to the Group and to help our customers through financial difficulties wherever possible.

The impairment on residential loans and advances to customers was a £3.0m credit (2021: £21.8m charge). The key driver for this credit to profit for the year is revisions to the Group's forward-looking economic assumptions, and associated scenario weightings, which have been updated during the year to reflect changes in the external environment; full details can be found in Note 1u) to the Accounts. This caused probability of default (PD) to reduce and, as a result, a number of accounts which were previously held in stage 2 no longer meet the 'significant increase in credit risk' criteria and have returned to stage 1. Overall impairment coverage for the residential portfolio at 31 December 2023 was 0.10% (2022: 0.13%) (see Note 40a)(i)).

The commercial lending portfolio has been closed to new business since 2008 and stands at £135.2m (2022: £159.3m). Arrears levels within the portfolio remain low. Movements in the commercial loan impairment allowance during the year resulted in a credit to the Income Statement of £0.9m (2022: £5.0m credit). During the height of the COVID-19 pandemic we agreed significant forbearance in the commercial portfolio, as these loans were not available for COVID-19 payment deferrals. We now have evidence that these loans have been out of forbearance and performing for a long enough period to exit the forborne state. Furthermore, the level of allowance required is reducing over time as this closed book continues to run-off. Overall impairment coverage for the commercial portfolio at 31 December 2023 was 6.66% (2022: 6.21%).

Taxation

The effective tax rate for the Group is 23.7% (2022: 22.8%). For the Society it is 24.7% (2022: 19.7%).

In addition to UK corporation tax payable on its profits, with effect from 1 April 2023, the Society's taxable profits above £100m (previously £25m) are subject to a 3% banking companies surcharge (previously 8% surcharge) which increases the tax charge for 2023 by £9.1m for both the Group and Society (2022: £10.6m); the impact of this surcharge is less significant in 2023 due to the increased surcharge allowance, as well as the reduction in the surcharge rate. The Society's effective rate of tax is also impacted by non-taxable dividend income of £27.0m (2022: £62.0m). The table below shows the total UK tax contribution borne by the Group in the year.

Group	2023 £m	2022 £m
Corporation tax	74.1	51.4
Taxes on property	16.1	16.5
Employment taxes	73.0	75.8
Irrecoverable VAT	19.7	13.2
	182.9	156.9

More detailed tax disclosures are provided in Notes 9 and 30 to the Accounts and in the Country by Country Reporting section. 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 £26.2m through other comprehensive income (net of tax) (2022: net expense of £2.3m). The 2023 figure includes a £4.5m loss (before tax) (2021: £6.7m loss) from the re-measurement of retirement benefit obligations, with further details provided in Note 31 to the Accounts.

Gains / losses (before tax) on equity share investments designated at fair value through other comprehensive income were £0.2m for the year (2022: £8.5m loss). The 2022 figure comprises a loss of £8.5m in respect of the Group's equity share investment in a start-up challenger bank, Commercial and Northern Limited (formerly Bank North Limited) ('Bank North'). In the second half of 2022, amidst the worsening economic and market conditions, Bank North was unable to raise the further funds required to obtain its full banking licence; as a result, Bank North commenced wind-down of its operations and subsequently entered liquidation in early 2023; in December 2023 the Group received £0.2m as a first and final distribution from the liquidation. The fair value of the Group's equity investment in Bank North was reduced during 2022 to £nil. Further details are provided in Note 17e) to the Accounts.

Various other movements in the Group's fair value, translation and cash flow hedging reserves account for the remainder of the overall movement in other comprehensive income.

Performance by segment

The Group's total profit before tax by key business line was as follows:

Group	2023 £m	2022 £m Reinstated*
Society	283.7	160.9
SIL	47.3	39.9
Connells group	13.8	67.5
Other^	(11.4)	30.5
Profit before tax	333.4	298.8

Notes

* The comparative analyses are restated following a revision of the Group's reportable segments with effect from 1 January 2023. The Group's reportable segments are now assessed and presented at the operating entity level; information is no longer presented on a divisional basis. The impacts of this change are presentational only and there is no impact on total Group amounts reported. See Note 42 for further details.

^ Information regarding segments that are not separately reportable is combined within the 'Other' category, together with the impact of Group consolidation adjustments.

Statutory profit before tax in the year was £333.4m, compared to £298.8m in 2022, driven principally by the increase in underlying profits outlined below.

The Group's underlying profit before tax by segment, determined in the same way as underlying Group PBT (as defined on page 35), was as follows:

Group	2023 £m	2022 £m Reinstated*
Society	272.7	170.7
SIL	47.3	39.9
Connells group	2.5	56.7
Other^	(13.9)	30.4
Underlying Group profit before tax	308.6	297.7

Notes

* The comparative analyses are restated following a revision of the Group's reportable segments with effect from 1 January 2023. The Group's reportable segments are now assessed and presented at the operating entity level; information is no longer presented on a divisional basis. The impacts of this change are presentational only and there is no impact on total Group amounts reported. See Note 42 for further details.

^ Information regarding segments that are not separately reportable is combined within the 'Other' category, together with the impact of Group consolidation adjustments.

The Group's underlying profit before tax in the year was £308.6m (2022: £297.7m). Segmental information is set out below.

Society

The Society reported underlying pre-tax profits of £272.7m for the year (2022: £170.7m).

Net interest income, which is the main source of income for the Society, is the amount earned on assets (principally mortgages, other loans and advances, and liquidity), less that paid on liabilities (principally retail savings, wholesale funding, subscribed capital and subordinated debt). The Society's net interest income amounted to £458.7m (2022: £356.9m).

The Society's net interest margin, one of our key measures of performance, measures net interest income as a percentage of mean total assets and was 1.39% for 2023 (2022: 1.22%). The rising interest rate environment created opportunities in the period to generate higher net income, which we shall invest to deliver future benefits for our members.

As noted on page 38, administrative expenses for the Society increased to £239.1m for the year (2022: £191.6m). This has led to our ratio of costs to mean assets, a traditional building society measure of efficiency, to increase in the year to 0.72% (2022: 0.66%). However, the ratio of costs to income improved in 2023 to 47.0% (2022: 50.5%); this improvement reflects our strong income growth without a commensurate increase in cost base.

Strategic Report (continued)

- **Home Financing** – *Our Home Financing business is designed to provide finance in order to access the housing market and 'help more people have a home'.*

Gross mortgage advances in our Home Financing business were £6,326m (2022: £5,836m), whilst net lending was £2,883m (2022: £1,808m). Despite the uncertain economic environment, the Home Financing business achieved strong net mortgage book growth in the period of 12.3% (2022: 8.4%), without compromising the quality of our mortgage assets.

Residential mortgages in arrears by three months or more totalled 419 cases representing only 0.23% of mortgage accounts (31 December 2022: 285 cases, representing 0.17%), and is testament to our aforementioned proactive credit management in what is a difficult time for mortgage holders. At the year end the Home Financing business's residential impairment loss allowance was £27.9m (2022: £31.9m), with a related credit to the Income Statement of £3.5m (2022: £21.3m charge). These movements reflect the impact of changes to the Group's forward-looking economic assumptions, which have been updated during the year to reflect changes in the external environment, and the impact of revisions to certain judgemental adjustments (as discussed in Note 1u) of Notes to the Accounts).

The commercial lending portfolio, which has been closed to new business since 2008, stands at £135.2m as at the year end (2022: £159.3m) with an average loan size of £242.7k. Arrears levels within the portfolio remain low. At 31 December 2023 the commercial impairment loss allowance stood at £9.0m (2022: £9.9m), with a related credit to the Income Statement of £0.9m (2022: £5.0m credit). The reduction in the impairment allowance is principally due to changes in portfolio quality, with the level of allowance required reducing over time as this closed book continues to run-off.

Home Financing holds an equity release mortgage book which is closed to new business. We have seen a net fair value gain on our equity release portfolio and associated derivatives of £11.0m (2022: net loss of £9.8m). This net fair value gain is driven by changes in market expectations of long-term interest rates, inflation and house price growth.

- **Money** – *Our Money business helps our members' 'money work harder' and combines our savings and financial advice businesses with our online, branch and contact centre capabilities.*

Savings balances increased by £3,471m in the year, which represents growth of 15.4% (2022: 13.6%). LISA customers continue to be well represented in our customer base and as at 31 December 2023 we had 164,956 LISA customers (2022: 159,638) with total balances of £1,153m (2022: £1,100m).

The Society's net non-interest income, which is predominantly made up of financial advice fees and commissions receivable, was £39.9m (2022: £42.6m). Funds under management, as part of our financial advice offering, totalled £4.3bn as at 31 December 2023 (31 December 2022: £3.9bn).

SIL

SIL's performance continues to be strong, with pre-tax profits in the year of £47.3m (2022: £39.9m). The strong increase in profits reflects the benefits to income and margin from the rising interest rate environment, whereby SIL's net interest margin has increased to 2.37% (2022: 2.20%) whilst the ratio of administrative expenses to income remained stable at 19.9% (2022: 20.3%).

SIL's savings book grew 11.4% in the year to £2,446m (2022: £2,196m). SIL also reported growth in its mortgage book, which increased by 9.6% to £2,151m (2022: £1,962m). The quality of the mortgage book remains good, with only four cases in arrears by three months or more (31 December 2022: nil on the same basis).

Connells group

The UK housing market stalled in Q4 2022 and Connells group entered 2023 with a materially lower sales pipeline. Nevertheless, Connells group remained profitable, and achieved a PBT of £13.8m (2022: £67.5m). EBITDA, a more commonly used performance measure in the estate agency industry, was £63.7m (2022: £124.9m).

The number of properties that the business exchanged contracts on during the year was 19% lower than for the same period in 2022 reflecting the more challenging market conditions. However, the group's lettings business has continued to grow its properties under management increasing to 125,666 at the year end (31 December 2022: 122,614). Connells group financial services proposition continues to perform well. The number of mortgages arranged decreased by only 7% despite the reduction in the number of housing transactions. The total value of lending generated for UK mortgage providers during 2023 was £30.9bn (2022: £36.9bn).

Connells group administrative expenses totalled £938.6m (2022: £960.8m), a reduction of £22.2m on last year. Despite the impact of inflation, Connells group continues to maintain tight cost controls which have driven the reduction in administrative expenses.

Despite housing market activity being the lowest since 2009, Connells group has maintained its dominant position in the market; and with a more positive outlook as we enter 2024, with an uptick in activity driven by recent falls in mortgages rates, Connells group, with a strong balance sheet and substantial cash reserves, remains well equipped to succeed through whatever market conditions prevail in the coming months.

Other

SBF generated a pre-tax profit for the year of £9.6m (2022: £7.3m). Following removal of Covid-related Government support schemes, and in light of UK inflationary pressures across the UK, SBF has been able to help more SMEs amidst increasing demand for working capital support, with a total portfolio comprising 872 clients (2022: 838) and total drawn funds of £171.2m at 31 December 2023 (31 December 2022: £150.6m). The quality of SBF's lending during these turbulent times continues to be good, with impairment as a percentage of drawn funds remaining low at 0.94% (2022: 0.78%).

Jade reported a profit of £1.3m for the year (2022: £0.6m). The total of the other remaining business lines, including the impact of Group consolidation adjustments and the Connells group management incentive scheme charge, decreased overall Group profit by £22.3m (2022: increase to profits of £22.6m). The movement year-on-year is attributable in the main due to a swing in fair value gains / (losses) on financial instruments, whereby the yield curve has materiality shifted on swaps in light of the latest economic data.

The Income Statement impact of the Connells group long-term management incentive scheme is based on a number of assumptions relating to the future performance of the Connells group, as well as the assumed dates of exercise of the options held within the scheme. The credit in the year was £0.3m (2022: £3.2m credit) which reflects the latest view of the expected future performance of the Connells group. During the period two senior managers in the scheme exercised a proportion of their options in line with the scheme rules which resulted in total payments of £2.5m being made, whilst one senior manager subsequently left the scheme resulting in a release of the associated liability held. Further details of the scheme, including the calculation of the liability and the assumptions used, can be found in Note 28.

Financial position

A summary Statement of Financial Position is set out below:

Group	2023 £m	2022 £m
Assets		
Liquid assets	**7,092.7**	6,792.7
Loans and advances to customers held at amortised cost	**28,161.4**	24,452.3
Loans and advances to customers held at FVTPL	**0.9**	1.0
Equity release portfolio held at FVTPL	**293.3**	278.7
Derivatives	**1,000.8**	1,355.1
Fixed and other assets	**672.8**	691.5
Total assets	**37,221.9**	33,571.3

Group	2023 £m	2022 £m
Liabilities		
Shares	**25,949.8**	22,349.6
Borrowings	**7,316.9**	7,894.1
Derivatives	**452.2**	415.6
Other liabilities	**354.8**	365.5
Subordinated liabilities	**685.3**	311.8
Subscribed capital	**41.6**	41.6
Reserves	**2,421.5**	2,192.9
Non-controlling interests	**(0.2)**	0.2
Total liabilities and equity	**37,221.9**	33,571.3

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

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 uncertainties. 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 173% at 31 December 2023 (2022: 175%).

The Group's liquidity levels are closely managed by senior management and have remained above internal and regulatory limits throughout the year. Liquid assets at 31 December 2023 were £7.1bn (31 December 2022: £6.8bn), providing the Group flexibility in an unpredictable market.

At 31 December 2023, the Society held £5.9bn (2022: £5.3bn) of High Quality Liquid Assets (HQLA) as analysed below:

Group	2023 £m	2022 £m
Balances with the Bank of England	**3,155.5**	3,420.4
Gilts	**369.4**	234.8
Treasury bills	**493.6**	104.6
Fixed rate bonds	**580.0**	554.4
Floating rate notes	**169.6**	169.5
Residential mortgage backed securities	**408.2**	292.7
Covered bonds	**758.6**	561.1
	5,934.9	5,337.5

Strategic Report (continued)

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

Group	2023 £m	2022 £m
Certificates of deposit	97.9	282.5
Cash with other institutions	0.5	-
	98.4	282.5

The above tables showing HQLA and non-HQLA held by the Society are different to the total amount of liquid assets shown within the Society's Statement of Financial Position (£7.1bn; 2022: £6.8bn) 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% (2022: 100%) 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 (137.1% at 31 December 2023; 138.6% at 31 December 2022) is well in excess of the regulatory requirement of 100%, confirming that the Group holds sufficient stable funding to meet this requirement.

When measured as a percentage of shares, deposits and borrowings, the liquidity ratio remained strong at 21.3% compared with 22.5% at 31 December 2022. 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

The Group continues to grow its mortgage assets in a controlled manner, lending within clearly defined risk appetites through both the Home Financing business and SIL. The Group achieved strong net mortgage growth of 12.1% (2022: 9.6%) with mortgage balances increasing in the year from £25.5bn at the end of 2022 to £28.6bn. The Group has continued to lend to a broad spectrum of borrowers, within our credit risk appetite, throughout the year. New lending, delivered through both mortgage intermediaries and our own distribution channels, amounted to £6.7bn (2022: £6.3bn). Net mortgage lending totalled £3.1bn (excluding impairment and fair value adjustments for hedged risk) (2022: £2.2bn). Of the new lending in the year, more than ever was in relation to first-time buyers, which represented c.33% of all new lending.

The average residential loan-to-value (LTV) ratio (calculated on a valuation-weighted basis) on new lending has increased slightly to 63.0% (2022: 57.5%). We consider our new lending to remain prudent and the mortgage book to be well diversified by geographical location. As at 31 December 2023, the average valuation-weighted LTV of the total residential mortgage book (excluding equity release) was 44.5% (2022: 40.9%).

Our well-managed spread of risk ensures that the quality of the Group's lending remains high, such we are well placed to deal with uncertainty ahead. This is evidenced by our low proportion of residential mortgage accounts in arrears by three months or more which remained low at 0.23% (2022: 0.16%) excluding non-UK lending; this compares favourably with the industry average of 0.91% (2022: 0.71%) of UK mortgages in arrears by more than three months (Source: UK Finance).

The Group's commercial mortgage portfolio reduced in the year by 15.1% to £135.2m. The average LTV of this portfolio reduced from 44.9% to 42.5% and the proportion of accounts in arrears by three months or more in this portfolio was 1.62% (2022: 0.92%).

At 31 December 2023, the fair value of the Group's equity release portfolio was £293.3m (2022: £278.7m). The increase in fair value of equity release mortgages is primarily due to movements in external market rates which form the basis of the rate at which the portfolios cash flows are discounted to (see Note 15 for further details).

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, further details of which can be found in Note 40 of the Notes to the Accounts. As a signatory to the Mortgage Charter, which outlines the standards lenders have agreed to uphold for customers affected by the increase in mortgage rates and the elevated cost of living, further demonstrates our commitment to our customers and members.

Funding

The Group 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. As at 31 December 2023, 83.2% of our funding comes from retail savings (2022: 78.9%).

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 15.4% increase in retail savings balances during the year, as detailed on page 22.

In addition to our UK retail funding, the Group also accepts deposits through SIL (our Channel Islands based subsidiary). SIL increased its funding base to £2.4bn (2022: £2.2bn); these balances are included in 'Amounts owed to other customers' within the Group Statement of Financial Position.

Wholesale funding

At 31 December 2023, £4.9bn (2022: £5.7bn) of our funding came from the wholesale markets, as analysed below:

Group	2023 £m	2022 £m
Repo and other secured agreements	1,472.0	1,914.1
Deposits	984.2	1,192.9
Covered bonds	2,251.5	2,396.1
Securitisation	186.0	239.8
Fair value adjustments	(22.8)	(44.3)
	4,870.9	5,698.6

Group	2023 £m	2022 £m
Amounts owed to credit institutions	2,093.4	2,963.3
Amounts owed to other customers	362.8	143.7
Debt securities in issues	2,414.7	2,591.6
	4,870.9	5,698.6

The Group's wholesale funding balances shown above exclude £2,446.0m (2022: £2,195.5m) of offshore funding in our Channel Islands based subsidiary, SIL.

During the year, we have successfully issued a £500m 5-year covered bond in both June and October. At 31 December 2023 the Society had £1.35bn outstanding under the Bank of England's 'Term Funding Scheme with additional incentives for SMEs' (TFSME) (2022: £1.9bn of TFSME outstanding), having repaid £0.55bn during the year. The TFSME scheme closed in October 2021.

The credit ratings of the Society are assigned by two major credit rating agencies, Fitch and Moody's. In October 2023 Fitch affirmed the Society's Long-Term Issuer Default Rating (IDR) at 'A-' with a Stable Outlook, Short-term IDR at 'F1' and Viability Rating (VR) at 'a-'. In September 2023 Fitch also affirmed the Society's mortgage covered bonds at 'AAA' with a Stable Outlook. In June 2023 Moody's affirmed the Society's 'A2' long-term deposit and senior debt ratings with a Stable Outlook and Short-term IDR at 'P-1'. Moody's also assigns 'Aaa' to the Society's Mortgage Covered Bonds. The ratings reflect the continued financial strength of the Society, which compares favourably to other large building societies. The Society's current credit ratings, which have not changed since 2021, are summarised in the table below:

	Fitch	Moody's
Covered Bonds	AAA	Aaa
Senior Preferred	A	A2
Baseline Credit Assessment (BCA)	N/A	A3
Issuer Default Rating (IDR)	A-	N/A
Short Term	F1	P-1
Senior Non Preferred	A-	Baa1
Outlook	Stable	Stable
Last change of rating	August 2021	July 2021

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

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 (comprising the entire Group except Connells group and a small number of other businesses whose activities are not closely aligned with the core business) and at a Society only level by applying the Capital Requirements Directive V (CRD V), and the UK Capital Requirements Regulation (UK CRR).

The capital requirements under the prudential consolidation group are higher than for the Society and the same risk management framework is applied to both. Therefore, the analysis throughout this Capital section has been disclosed at a prudential consolidation group level only.

Total regulatory capital has increased by £242.3m from 31 December 2022 to £2,235.2m as at 31 December 2023 (31 December 2022: £1,992.9m). This is mainly due to the retained profits accumulated during the year and dividend income received from the Connells group.

Strategic Report (continued)

Risk weighted exposure amounts (RWAs) have increased by £767.7m in the period to £8,343.3m (31 December 2022: £7,575.6m - restated). This increase is principally driven by strong residential mortgage book growth in the year and an increase in operational risk (as calculated under the standardised approach as per article 317 of UK CRR) due to rising average income in the past three years. This is partially offset by a change in the composition of the liquid assets portfolio, resulting in lower overall risk weights for liquid assets at 31 December 2023.

The Society has PRA permission to apply the IRB approach to certain credit risk exposures. From 1 January 2022, new regulation, applicable to internal ratings-based (IRB) models, resulted in the Society applying a temporary model adjustment (TMA) to the Society's regulator-approved IRB model output for Society residential mortgage exposures. Until the updated IRB models are approved by the PRA, the TMA remains subject to change and may cause variations in the capital metrics. There have not been, and we do not expect there to be, any material changes to the risk profile or strategy of the Society as a result of changes to the TMA.

The CET1 ratio has increased to 26.3% from 25.8% at 31 December 2022, driven by the increase in total regulatory capital, partially offset by the growth in RWAs. The leverage ratio has remained stable at 6.7% (31 December 2022: 6.8%), showing that the growth in mortgage lending has been offset by the profits accumulated during the period.

The following table shows the composition of the prudential group's regulatory capital as at 31 December 2023. IFRS 9 *Financial Instruments* transitional arrangements are applied throughout.

Unaudited	2023 £m	2022 £m Restated*
Capital resources		
Common Equity Tier 1 capital	**2,195.2**	1,952.9
Total Tier 1 capital	**2,195.2**	1,952.9
Total Tier 2 capital	**40.0**	40.0
Total regulatory capital	**2,235.2**	1,992.9
Risk weighted assets	**8,343.3**	7,575.6*
Capital and leverage ratios (note 1)		
Common Equity Tier 1 (CET1) ratio	**26.3%**	25.8%
Tier 1 ratio	**26.3%**	25.8%
Total capital ratio	**26.8%**	26.3%
Leverage ratio (note 2)	**6.7%**	6.8%

Notes

* The comparative analyses are restated following a review of the interpretations and capital calculations in relation to the treasury exposures. The impact of the restatements is an increase to RWAs at 31 December 2022 of £2.0m. There were no reportable changes to the capital and leverage ratios at 31 December 2022.

1. The capital ratios are calculated as relevant capital divided by RWAs. The leverage ratio is calculated as Tier 1 capital of the prudential consolidation group divided by total exposure, less deposits with central banks and regulatory adjustments.
2. The 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 UK CRR.

The Group completes an Internal Capital Adequacy Assessment Process (ICAAP) at least annually to assess current and projected capital requirements to support the current risks in the business and future risks arising from the Corporate Plan. The ICAAP considers all the Group's material risks and includes Board-approved stress scenarios which are intended, as a minimum, to meet regulatory requirements.

Minimum Requirement for Own Funds and Eligible Liabilities

The 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. The amount of MREL that institutions need to have is linked to the resolution strategy chosen for each firm. The Bank of England's preferred resolution strategy for Skipton Building Society is a single point of entry bail-in under Part 1 of the Banking Act 2009. From 1 January 2023, our MREL requirement is 2x (pillar 1 plus pillar 2A capital requirements) plus the applicable capital requirement buffers issued by the Bank of England, which is 20.1% of RWAs plus capital buffers.

At 31 December 2023, total MREL resources, including MREL eligible senior non-preferred debt, were 35.2% of RWAs (31 December 2022: 30.9% - restated). The increase in the year is mainly due to the issuance in April of £350m of senior non-preferred notes due 25 April 2029 (senior non-preferred notes contribute to meeting our MREL requirements) and retained profits accumulated during the year, partially offset by the increase in RWAs described above. 35.2% exceeds the 2023 MREL requirement of 20.1% of RWAs plus capital buffers issued by the Bank of England.

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, 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

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 2023 this was £171.2m (31 December 2022: £159.1m).

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

Further information on the Society's financial strength can be found in the Group's Pillar 3 Disclosures, which are published on the Society's website skipton.co.uk.

Pension funds

The Group manages three funded defined benefit schemes as described in Note 31 to the Accounts. Using the methodology set out in IAS 19 *Employee Benefits*, the aggregate valuation of the three schemes at 31 December 2023 was a combined deficit of £26.2m (2022: £29.6m). The decrease in deficit in 2023 is largely due to the increase in the fair value of plan assets.

We continue to take steps to manage the deficit and all 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 a schedule of deficit contributions has been agreed between the Trustees and the Group. As detailed in Note 31 to the Accounts, the Group made a one-off payment of £23.0m to the Skipton (2015) Scheme on 2 January 2024. This payment has reduced the expected ongoing contributions into this scheme to nil.

In 2020, estimated costs of £1.5m in relation to Guaranteed Minimum Pension (GMP) equalisation were expensed to administrative expenses, under past service costs. During the year these estimates have been revised to £0.2m. The difference between the previous estimates (after being updated for changes in market conditions at 31 December 2023) and the revised estimates has been treated as a negative past service cost. The refinement to the liability has given rise to a benefit of £0.8m through the Income Statement in 2023.

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.

The Group also operates 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 voluntarily comply with elements of s414CB of the Act by including certain non-financial information within our Annual Report & 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	Pages 14 and 15
Key performance indicators	Pages 21, 23 and 25
Key risks	Pages 78 to 85
Climate matters	Pages 29 to 33
Environmental matters	Pages 29 to 33
Colleagues	Pages 54 and 55
Social matters	Pages 26 to 33
Respect for human rights	Pages 26, 27, 54 and 55
Anti-corruption and anti-bribery matters	Page 27

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 and in Notes 38 to 40 to the Accounts.

This Strategic Report was approved by the Board of Directors on 27 February 2024 and signed on behalf of the Board by:

Bobby Ndawula

Bobby Ndawula
Group Chief Financial Officer

27 February 2024

Governance

The Board of Directors

Gwyn Burr

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

Appointed to board: 2022

"My role is to lead the Board's focus on the development and delivery of the corporate plan. I also remain focused on making membership matter. As members' behaviour in dealing with their financial affairs continues to evolve, I'm continuing to work with the team to serve the needs of our members both now and in the future. This includes championing change to deliver increased support for our members – which can be seen in the initiatives we've launched already and those we plan to introduce in the future. I'm proud to lead a board that's tireless in its efforts to support our members and colleagues and have a positive impact on their lives."

Gwyn brings wide-ranging executive experience in retail, thanks to her director-level roles at Asda and Sainsbury's. She also has significant financial services experience, having previously held non-executive director positions with Principality Building Society, Sainsbury's Bank plc and the Financial Ombudsman Service. She is currently a non-executive director at Metro AG and is on the board for Ingleby Farm.

Stuart Haire

Group Chief Executive and a member of the Non-Executive Remuneration Committee and Chair of the Group Executive Committee.

Appointed to the board: 2022

"I am fully focused on creating a strong franchise now and in the future by careful stewardship of the Group. This will ensure that it matters more now and in the future to our members and customers. The Skipton Group is an incredible set of businesses. It's well placed to address challenges such as access to your first home, financial education and quality impartial advice, as well as improving access to the housing market and energy efficiency in UK homes. We've made a start, but there's so much more we can and should do to support people in these crucial areas. My job is to continue this work, to make our organisation even more relevant for both existing and new members as they consider their long-term financial needs and aspirations."

Stuart has over 20 years of business leadership experience across financial services. He brings a unique blend of technical and customer facing skills and experiences which will support delivering value to our members and the modernisation of the Group. Stuart is driven by the purpose of serving members' interests both now and preparing the business, to continue to serve those interests in future. He's previously held senior executive roles at NatWest and HSBC and was CEO of Wealth and Personal Banking at HSBC UK.

Andrew Bottomley

Chief Executive Officer - Money and a member of the Group Executive Committee and the Non-Executive Remuneration Committee.

Appointed to board: 2016

"My priority has been to define a clear member focused strategy for the new 'Money' business, as well as mobilising our two-year project investing in technology to build a seamless digital experience for members. My focus is to broaden the access members have to advice on their money, along with high quality products and services. I'm most passionate about helping members achieve their financial goals, whether that's saving for their first home or planning for retirement. I want our members to be able to speak to our experts in our branches, over the phone or through our digital teams, so that they can be confident their money is working hard for them."

Andrew has extensive experience in financial services having previously worked in Lloyds Banking Group, Halifax and Bank of Scotland. He has served in a variety of senior roles across mortgages, savings and financial advice as well as leading large retail customer teams. He is the Chief Executive Officer for our 'Money' business, which helps members make the most of their savings and investments.

Iain Cummings

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

Appointed to board: 2022

"I was attracted to an organisation that takes a long-term view and focuses on delivering value to its members. From supporting them with their mortgages – often the largest financial commitment of their lives – to helping them save for their future. In what's been a year of change for the Society, my main priority has been maintaining the integrity of our reporting to protect the interests of the Society and its members. This year, I'll be supporting the smooth transition to our new Group Chief Financial Officer – making sure we maintain our high standards and support the future development of the Society."

Iain is a Fellow of the Institute of Chartered Accountants in England and Wales with over 35 years of experience working in the financial sector. He was a partner at KPMG for over 24 years, working with banks and other major financial services firms in both audit and advisory roles, including three years leading KPMG's banking audit practice. He is a non-executive director of Rathbones Group plc (a listed wealth manager), where he is Chair of the Board Audit Committee.

The Board of Directors (continued)

Steven Davis

Chair of the Board Remuneration Committee and a member of the Board Nominations Committee.

Appointed to board: 2023

"As our Consumer Duty Board Champion, I've spent time with colleagues to make sure we're delivering good customer outcomes and meeting our regulatory requirements. This year I'm keen to understand the key frustrations for our members and to support the business in delivering its strategic plan. Throughout my career, my main motivation has always been to make a difference for both customers and colleagues. Skipton Group has amazing colleagues who are very focused on doing the right thing for our members and the Group as a whole. I see part of my role as ensuring there is both a member and colleague voice at board."

Steven has over 35 years' experience in retail, FMCG and financial services, both in the UK and abroad. Over the past 20 years he's held senior executive roles in HR, retail operations and change management, always with a strong focus on the colleague and customer experience. His last role was with Sainsbury's Bank, where he sat on the Sainsbury's Group HR Executive. Steven is a non-executive director of Peter Vardy Group. He brings a wealth of experience in strategy, change leadership and building strong customer and colleague propositions.

Denis Hall

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

Appointed to board: 2017

"My priority has always been on making sure the interests of our members are safeguarded. Whatever happens in the world, it's important that we service their needs effectively. I'm a big advocate of Skipton's core principle in putting members first. And it's been great to see our member-driven values and purpose grow even further over the years. As well as the Society, I also serve on the boards of other financial institutions in Europe. This keeps me informed on current issues, so I can contribute to the Society by weighing up different approaches to common challenges."

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 team on risk management issues. Denis is a non-executive director of Germany's Aareal Bank and Moneta Bank in the Czech Republic and sits on the Audit and Risk Committees for both these organisations. He is also non-executive director and Chair of the Risk and Audit Committee for Auxmoney Holding in Ireland.

Heather Jackson

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

Appointed to board: 2018

"My focus is on fairness and always considering situations from a members' viewpoint. I want to make sure the change initiatives we're planning make the lives of our members and customers better and easier. Having always lived in Yorkshire, I'm focused on value for money! Making sure we have a positive impact on our members is what drives me personally. I am hugely motivated by the Society's colleagues' desire to serve all members' best interests and by our strong purpose."

Heather brings her strong business operations, technology, strategy and change background which is vital as the Society focuses on improving our customer journeys through all channels and on our use of data to support better decision making. She has 25 years' experience in senior executive roles at Lloyds plc, Capital One, Boots the Chemist, Asda and Burton Group plc. She's a non-executive director for Ikano Bank Europe and at Rothesay (the UK's largest pensions insurance specialist) as well as a trustee director of Yorkshire Cancer Research.

Mark Lund

Deputy Chair of the Board, Senior Independent Director and a member of the Board Audit, Nominations and Remuneration Committees. He is also an independent non-executive director of Connells.

Appointed to board: 2016

"I'm a huge fan of the Society's mutual business model. I'm as excited as I've ever been about the opportunities it brings – especially for our membership, which is my priority. I'm delighted the Society has now introduced our member-only benefits. I want to make sure we have a strong and resilient business – with a clear plan that continues to develop the Society for the benefit of our members."

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 40 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 a non-executive director of Coutts & Co.

The Board of Directors (continued)

Philip Moore

Member of the Board Audit, Nominations and Risk Committees. He is also a non-executive director of Connells and Chair of Connells' Audit and Risk Committee.

Appointed to board: 2021

"I want all members to feel proud they're part of the Society. And over the past year, my priority has been on making sure we deliver even more value for our members. I joined the Board because of the Society's strong mutual values and clear purpose. These attributes have created a financially strong, member-focused organisation. And, by drawing on my wide financial experience, I hope to contribute to its continued success."

Philip has over 40 years' experience in international financial services, spending nearly 20 years as a CFO, including of a FTSE 100 company, followed by consulting partner roles in the UK and South East Asia building his commercial, strategic and regulatory expertise. He has experience of chairing audit, risk and remuneration committees for a number of companies, including Bank of Ireland (UK) plc and Wesleyan Assurance Society. He is also a trustee of homelessness charity St Mungo's and a Governor of North Herts College.

Bobby Ndawula

Group Chief Financial Officer, Chair of the Asset & Liability Committee, member of the Executive, Retail Credit and Non-Executive Remuneration Committees. He is also Non-Executive Chair of Skipton International Limited and a Non-Executive Director of Connells Limited.

Appointed to board: 2015

"Being part of a values-led, customer centred organisation is important to me. I enjoy leading and developing high performing teams that embrace change and continuously improve the financial strength of the Society and the wider Skipton Group for the long-term benefit of our members. My ambition is for Skipton to continue to grow sustainably, so we can help more people achieve their financial goals."

Bobby is an experienced finance professional and leads the Society's finance and treasury functions, amongst other areas, which are essential to the ongoing 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, capital and risk, he is responsible for ensuring that the Society's treasury, accounting and finance practices remain at a high standard. Bobby's also a Trustee of Yorkshire Cancer Research.

Directors' Report

The Directors have pleasure in presenting their Annual Report & Accounts for the year ended 31 December 2023.

The financial information included in this Directors' Report is taken from the statutory Accounts on pages 114 to 237 prepared in accordance with UK-adopted International Accounting Standards in accordance 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. Further unaudited information which allows comparison between 2023 and 2022 is set out in the Strategic Report.

Business objectives

The business objectives of the Group are set out in 'The business model' and 'Promoting long-term success' sections of the Strategic Report.

Business review and future developments

The Chair's Statement, the Group Chief Executive's Report and the Strategic Report set out the performance of the business and its future objectives.

Profits and capital

Group profit before tax was £333.4m (2022: £298.8m). Total profit after tax (attributable to the Society) transferred to the general reserve was £254.6m (2022: £231.2m).

Total Group reserves at 31 December 2023 (excluding non-controlling interests) were £2,421.5m (2022: £2,192.9m) including the fair value reserve of £(9.5)m (2022: £(16.9)m), the cash flow hedging reserve of £4.9m (2022: £29.6m), the cost of hedging reserve of £(0.5)m (2022: £(1.1)m), and the translation reserve of £4.6m (2022: £4.9m).

Gross capital at 31 December 2023 was £3,148.2m (2022: £2,546.1m) including £685.3m (2022: £311.8m) of subordinated liabilities and £41.6m (2022: £41.6m) of subscribed capital. The ratio of gross capital as a percentage of shares, deposits and borrowings at 31 December 2023 was 9.46% (2022: 8.42%) and the free capital ratio was 7.98% (2022: 6.74%). The Annual Business Statement gives an explanation of these ratios.

Mortgage arrears

Group mortgage balances at 31 December 2023 included 57 cases (2022: 52) either in possession or where payments were 12 months or more in arrears. The capital balances of these loans were £5.4m (2022: £7.9m). The total amount of arrears on these loans was £0.7m (2022: £0.6m).

Charitable donations

In the year, the Group made charitable donations of £0.8m (2022: £1.3m). £0.4m was paid in 2022 toward our commitment of donating £2.9m (being 1% of pre-tax Group profits for 2022), with additional funds of c.£1.8m pledged at the year end. No contributions were made for political purposes (2022: £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 2023 for the Group was 11 days (2022: 9 days).

Principal risks and uncertainties

The principal risks and uncertainties are set out in the 'Principal risks and uncertainties' section 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 in the 'Principal risks and uncertainties' section of the Risk Management Report and in Notes 38 to 40 of the Notes to the Accounts.

Colleagues

The Group remains committed to its policy of treating all colleagues and job applicants fairly, ensuring equal opportunities. Our policy is that no colleague, or potential colleague, is treated less favourably on any grounds including 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 colleague 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 colleagues, which enables them to achieve their full potential and helps the Group meet its corporate objectives.

The Board is briefed regularly on key colleague matters as they arise. There is a comprehensive internal communications structure to cascade relevant business information to colleagues 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 trade union (Aegis) with which management meets regularly to consult and negotiate on a wide variety of matters and to which colleagues 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 their 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 the value-in-use, together with 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 2023, £0.2m of impairment was charged against a particular property; this was driven by valuation calculations that take into account the discounted rent receivable until the expiry date of the current tenancy arrangement and post-cost expected consideration should the property be subsequently sold for alternative use. 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, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Report & 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 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 UK-adopted international accounting standards 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 UK-adopted International Accounting Standards, in accordance 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, 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 UK-adopted international accounting standards.

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 UK-adopted International Accounting Standards in accordance 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, 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 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 in the Strategic Report, and a description of the principal risks and uncertainties facing the Group which is set out in the 'Principal risks and uncertainties' section 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

Directors' Report (continued)

Transparency Rules of the Financial Conduct Authority in relation to those matters. This is set out in the Corporate Governance Report.

A copy of these Annual Report & 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.

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, including the impact of climate risks are set out in the Strategic Report and the 'Principal risks and uncertainties' section 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.

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 in the 'Principal risks and uncertainties' section of the Risk Management Report), 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, political and regulatory environments and climate change.

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 2028. 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 2024 – 2028 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 34%, unemployment reaching 12% and the Bank Base Rate decreasing to 0.1%, each of which would adversely impact upon 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.
- The potential impact of climate-related financial risks across a range of forecast scenarios. This includes consideration of the potential impact of both orderly and disorderly transitions to a low carbon economy by 2050 and the impact of a scenario in which no such transition occurs.
- 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 significant economic and political uncertainties, including a potential change in the UK government, on-going geopolitical conflicts, supply chain disruptions and external pressures on oil prices. Furthermore, the UK cost of living challenges and interest rates that remain high by recent historical standards.
- 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, social, economic, political, regulatory and climate 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. For example, the external environment remains uncertain and although inflationary pressures are easing and the peak in bank base rate appears to have been reached, we expect competitive pressures to return in the mortgage and savings markets. 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 at 31 December 2023, along with their roles and membership of board committees, are set out in the Corporate Governance Report. During the year the composition of the Board was refreshed to ensure it continues to have an effective balance of skills, knowledge, experience and diversity to deliver on Skipton's strategic priorities. Details of changes to the executive and non-executive directors of the Society in the year are set out in the 'Board changes' section of the Chair's Statement.

Details of Directors' service contracts are disclosed in the Corporate Governance Report. No Director of the Society had any interest in the shares of any Group undertaking as at 31 December 2023.

In accordance with the UK Corporate Governance Code, all executive and non-executive directors offer themselves for election or re-election by the members at the 2024 AGM

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 & 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 UK-adopted International Accounting Standards in accordance 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, 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 & 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

Gwyn. V. Burr

Gwyn Burr
Chair

27 February 2024

Corporate Governance Report

Dear Member,

I am pleased to present the Group's Corporate Governance Report, which details how the Group's governance framework operated in 2023.

As Chair of the Skipton Group, I am very aware of the particular importance of good governance in being accountable to members of the Society. I view good governance as being at the heart of a well-run business and am committed to meeting prevailing best practice standards.

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 present 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 philosophy of the Society's board of directors (the Board) 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, it inevitably contains sections with which the Society cannot comply. The areas of non-compliance during the year were:

- Provision 3, which 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 therefore this specific requirement is not relevant to the Society);
- Provision 36, which requires remuneration schemes to promote long-term shareholdings by executive directors is not possible for the Society due to its mutual status; and
- Provision 38, which 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 is one historical arrangement in place which does not.

During 2023, other than the points listed above, the Board believes that the Society complied with all other aspects of the Code.

Governance framework

The 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 Group's governance arrangements are designed to ensure that it meets the requirements and expectations of its members, colleagues and regulators.

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

Each Group subsidiary is governed by a board. The board of Connells Limited (Connells) and Skipton International Limited (SIL), normally contain at least one Society director as a shareholder non-executive director (appointed by the Society or the direct parent company) as well as the business' own executive management. Each subsidiary board is responsible for the prudent management of the subsidiary's businesses, operating within the Board's appetite for risk and delegated authorities from the Board, to deliver agreed corporate plan objectives.

Sarah Whitney (a non-executive director of the Society) is also the Chair of the Connells board, from 1 March 2024 Sarah will step down from the boards of the Society and Connells and be replaced as Connells chair by Mark Lund (the Group's deputy chair and senior independent director of the Society), who is currently a non-executive director of Connells. Philip Moore (a non-executive director of the Society) is a non-executive director of Connells and chair of the Connells Board Audit and Risk Committee.

Bobby Ndawula (an executive director of the Society) is the Chair of SIL.

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 Group'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 the Group and the Society's 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.*

  The governance 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 and the Group 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.

  The Board 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, behaviours 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.* To help deliver this it is important that culturally we 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 and utilised.

The Board monitors culture in a number of ways such as through customer feedback, employee surveys (internally and externally facilitated) and independent assurance reviews. The Group Chief People Officer formally reports to the Board on the conclusions of all work carried out in this area and how our culture might evolve to remain as effective as it might.

Corporate Governance Report (continued)

Board meetings

The Board met 11 times during 2023 (nine scheduled meetings and two ad-hoc meetings). In line with good governance, the non-executive directors also meet, without the executive directors present, after each Board meeting. The attendance record of each director at each Board and Board committee meetings is set out in the 'Board and Committee membership attendance record' section of this report.

In addition, the Board held three strategy meetings in the year, in June, September and December, where the Group's strategic objectives were discussed. These strategic objectives were formally approved by the Board in December 2023.

To enable the Board to use its time effectively, a forward looking meeting planner and rolling Board agenda is maintained by the Group Secretary and General Counsel. There is sufficient flexibility in the Board's agenda to ensure that the Board can address emerging matters in a timely manner.

Each Board meeting receives:

- reports from the Chair, Group Chief Executive and the Group Chief Financial Officer;
- a detailed management report on the Society and the Group, containing financial and non-financial data; and
- updates on all Board committee meetings held since the previous meeting of the Board.

Below is a sample of some of the matters considered by the Board during the year.

Responsibility	Key activity
Strategy	• Considered and approved the Group's five-year Strategic Plan, assessing the strategic actions identified to achieve the Group's strategy. • Reviewed progress on the delivery of each of the Society's key strategic change projects, particularly focusing on the development of the Society's digital offer.
Risk Management & Regulatory Matters	• Approved the Society's risk appetite and monitoring ongoing adherence. • Approved the Board Risk Appetite Statement, the Society's Internal Liquidity Adequacy Assessment Process (ILAAP) and the Society's Internal Capital Adequacy Assessment Process (ICAAP). • Approved the Society's Recovery Plan and Resolvability Assessment Framework (RAF) to ensure that adequate provisions and processes are in place to protect the Society's business and its members. • Reviewed and approved the Society's Health and Safety Policy.
Performance and Financial Reporting	• Reviewed and approved the Society's interim and full year financial results. • Reviewed and approved the Society's Annual Report & Accounts and Summary Financial Statements. • Approved the Society's costs budget for 2024. • Approved the Society's Long-term Viability Statement. • Approved the Letter of Representation to the Auditors. • Reviewed and approved the Quarterly Performance Reviews and reforecasts.
People and Culture	• Approved the Society's new organisational design. • Considered the outcome of the 2023 Colleague Membership Survey. • Considered the annual report on Gender Pay Gap within the Society.
Environmental, Social and Corporate Governance (ESG)	• Completed the annual review and approved the terms of reference of the Board Risk Committee and Board Audit Committee (with terms of reference for the remaining Board committees and the Board to be reviewed and approved early in 2024). • Approved the establishment of a new Board Committee – the Board Change Committee. • Received reports on the outcome of the internal board effectiveness review and associated action plan. • Approved arrangements connected with the Society's 2024 annual general meeting. • Approved the Society's Modern Slavery and Human Trafficking Statement. • Reviewed and approved the Society's Speak Out (Whistleblowing) Policy and received the Whistleblowing Annual Report. • Approved conflicts of interest and directors' outside interests, as necessary.

For the Board to be effective, the relationship between the executive directors and non-executive directors must be constructive and one of openness and respect. The boardroom environment is collegiate and all are encouraged to contribute. The role of the non-executive directors is not only to challenge but to support the Group Executive Committee and bring their experience to bear. To this end, the non-executive directors are welcomed to meetings outside the formal Board and committee structure, which develops their understanding of the business and allows the management teams to benefit from their experience and fully understand the non-executive perspective on particular issues.

Board Structure

Chair: Gwyn Burr

Responsible for setting the Board's agenda, leading the Board and ensuring the Board's effectiveness.

Board: 10 Directors

Responsible for the overall conduct of the Society's businesses, setting Group strategy and exercising oversight over the Group

Non-executive directors: Gwyn Burr, Iain Cummings, Steven Davis, Denis Hall, Heather Jackson, Mark Lund, Philip Moore, Sarah Whitney**

Executive directors: Stuart Haire, Andrew Bottomley, Bobby Ndawula

Board Audit Committee	Board Change Committee	Board Nominations Committee	Board Remuneration Committee	Non-Executive Remuneration Committee	Board Risk Committee
Members: Non-executive directors					
Iain Cummings* Denis Hall Mark Lund Philip Moore	**Heather Jackson*** Iain Cummings	**Gwyn Burr*** All non-executive directors	**Steven Davis*** Mark Lund Heather Jackson	**Gwyn Burr***	**Denis Hall*** Heather Jackson Iain Cummings Philip Moore
Members: Executive directors					
				Stuart Haire Andrew Bottomley Bobby Ndawula	

** Denotes chair of the Committee*
*** Until 29 February 2024*

Board Committees

The Board has delegated certain matters to its committees (comprised only of non-executive directors, except in the case of the Non-Executive Remuneration Committee) in order that these can be considered in more detail. The Board committee structure comprises:

- The Board Audit Committee – further details are set out in the Board Audit Committee Report;
- The Board Change Committee – further details are set out in the Board Change Committee Report;
- The Board Nominations Committee – further details are set out in the section below headed 'Appointments to the Board and its committees';
- The Board Remuneration Committee and Non-Executive Remuneration Committee – further details are set out in the Directors' Remuneration Report; and
- The Board Risk Committee – further details are set out in the Risk Management Report.

The terms of reference of all Board committees are available on the Society's website (www.skipton.co.uk) or from the Group Secretary and General Counsel, on request.

Board composition

Under the Society's Rules, the Board must comprise no more than 15 and no less than six directors and, under the Code, at least half of the Board should comprise non-executive directors. At 31 December 2023, the Board comprised the Chair, seven independent non-executive directors and three executive directors. This composition is designed to be able to meet the needs of the Group and allow for appropriate and efficient operation of the Board's committees. Details of the Society's directors at 31 December 2023 are set out in the Board of Directors report.

Corporate Governance Report (continued)

The diagrams below set out the composition of the Board as at 31 December 2023 in respect of tenure, age, gender and the number of executive and non-executive directors.

- Male
- Female

- Less than 1 year
- 1 to 3 years
- 3 to 6 years
- More than 6 years

- Executive directors
- Non-executive directors

- 40-49
- 50-59
- 60+

The Davies Report recommends that at least 33% of the composition of boards will be female. At 31 December 2023, three members (27%) of the Board were female. Improving this ratio and harnessing the benefits of diversity will be a key consideration in all new recruitment to the Board. The Society is a signatory to the Women in Finance Charter, which underlines the Board's commitment to gender equality.

As Chair, I will continue to regularly review the size and composition of the Board and its committees, in conjunction with the Board Nominations Committee, to ensure that they are optimally resourced and refreshed at appropriate intervals. Our Board Composition Policy is available on the Society's website at skipton.co.uk/about-us/governance/board-composition-policy.

Appointments to the Board and its committees and at executive level

The Board Nominations Committee (NomCo), which comprises all the Society's non-executive directors, is chaired by me and leads the process for Board and Group Executive Committee appointments and succession planning.

NomCo has succession planning as a key area of focus and conducts an annual review of 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. This review assesses what is required both in the short-term and the longer-term to deliver the Group's strategy in light of its priorities and changing customer behaviours. The next formal review will be undertaken by NomCo by the end of Q1 2024, following receipt of the external Board evaluation undertaken by Clare Chalmers Ltd in late 2023.

Succession requirements must cater for both planned and unplanned events. To this end, NomCo will also be undertaking a review of succession planning for senior executives by the end of 2024. Succession plans are designed to ensure that those identified as having potential at these levels and in the talent pool below are provided with relevant development opportunities and, where appropriate, that effective contingency arrangements are in place.

Appointments to the Board, its committees and to the Group Executive Committee are made by the Board on the recommendation of NomCo, in consultation with relevant committees' chairs, where appropriate. All appointments are made on merit. In making appointments, the Board considers all aspects of diversity, including age, experience and gender when reviewing the composition of the Board, its committees and the Group Executive Committee.

Tenure, election and re-election of Directors

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 all directors stand for re-election every year. Non-executive directors are generally appointed for an initial period of three years and, whilst expected to serve for six years, this may be extended to nine years in total.

All of our directors are subject to election following their appointment and annual re-election by our members at the AGM based on the best practice set out in the Code. Details of each individual director's contribution are set out in the booklet accompanying the Notice of AGM sent to all qualifying members.

Independence

No directors 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.

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.

As Chair, I can confirm that I am independent and have no conflicting relationships or circumstances that might affect my judgement on Group or Society matters.

Division of responsibilities

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

Individual	Responsibilities
Board Chair (Gwyn Burr)	• Managing and providing leadership to the Board and Group, safeguarding and promoting the long-term success and sustainability of the Society in the interests of current and future members. • Establishing agendas for Board meetings, ensuring they are appropriately focused on strategy, performance, culture and risk management matters, and proactively manage the annual calendar of business to ensure the most appropriate use of the Board's time. • Fostering a culture where Board members are able to challenge issues openly and encourage and manage strong debate whilst achieving decisions on issues considered by the Board. • Demonstrating ethical leadership and uphold the highest standards of integrity and probity, setting clear expectations concerning the Society's and Group's culture and behaviour. • Building an effective and diverse Board reflecting an appropriate balance of skills and experience given the Group's current and future activities. • Leading the development of and monitor the effective implementation of policies and procedures for the training and professional development of all of the non-executive directors. • Ensuring effective communication with all stakeholder groups and communicating with the Society's members on behalf of the Board. • Supporting the Group Chief Executive and leading the annual appraisal of the Group Chief Executive.
Group Chief Executive (Stuart Haire)	• Delivering the strategy for the Group as set by the Board. • Ensuring the prudent day-to-day management of all Group businesses. • Providing leadership and direction to and developing the vision and strategy of the Group. • Communicating the purpose, vision, strategy and performance of the Skipton Group to members, colleagues, regulators and other stakeholders. • Building and leading an effective Group executive team to manage Group businesses in the longer-term interests of the Society's members. • Ensuring that effective succession and development plans are in place and implemented for all key executive roles. • Leading the Group Executive Committee to successfully deliver agreed plans, objectives and targets within the Board agreed appetite for risk. • Monitoring the effective implementation of policies and procedures for the induction, training and on-going development of all individuals performing designated senior management functions on behalf of the Group.

Corporate Governance Report (continued)

Time commitment

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 Chair 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.

Role	Expected Time Commitment
Chair	80 – 100 days per annum
Senior Independent Director and Deputy Chair	As required to fulfil the role
Non-executive directors	On average between 30 and 36 days per annum
Committee chairs	Board Audit Committee – on average between 2 and 2.5 days per month on top of the time commitment of non-executive directors
	Board Change Committee - on average between 1.5 and 2 days per month on top of the time commitment of non-executive directors
	Board Remuneration Committee - on average 2 days a month on top of the time commitment of non-executive directors
	Board Risk Committee - on average between 3 and 3.5 days per month on top of the time commitment of non-executive directors

Copies of the letter of appointment for each of the non-executive directors are available for inspection on request from the Group Secretary and General Counsel.

Conflicts of interest

The Society's directors are required to comply with the Board Conflicts of Interest Policy. The policy gives effect to various legal and regulatory requirements on the Society in relation to conflicts of interest and aims to ensure that directors of the Society do not assume roles which would conflict with their obligations as a director of the Society. Prior to appointment, all potential directors are required to disclose any actual or potential conflicts of interest that may prevent them from taking on an appointment with the Society.

In addition, all directors must seek approval from the Chair and the Group Secretary and General Counsel before committing to any additional external appointment. Where such approval is sought, the director must confirm the existence of any potential or actual conflicts and that the role will not exceed the maximum number of directorships permitted (in accordance with regulatory requirements). Such a director is required to provide assurance that the appointment will not adversely impact that individual's ability to continue to fulfil their role as a director.

In accordance with their duties as directors, each director is also obliged to notify the Board of any actual or potential interest that they have in a matter to be considered at a meeting. If any potential conflict does arise, the Board Conflicts of Interest Policy permits the Board to authorise a conflict, subject to any conditions or limitations as it may deem appropriate. Such instances are recorded in the minutes of the relevant meeting. The Board maintains a register of conflicts of interest which is maintained by the Group Secretary and General Counsel.

Induction and professional development

On appointment, new directors receive a comprehensive and tailored induction programme covering the Group's businesses 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 liaise with individual members of the Group Executive Committee 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 Group Secretary and General Counsel, who is responsible for advising the Board on all corporate governance matters and for ensuring that Board procedures are followed. The appointment of the Group Secretary and General Counsel is a matter reserved to the Board.

All directors also have access to independent professional advice, if required, at the expense of the business 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, the Board engaged Praesta Partners LLP to undertake the annual performance evaluation of the Board and its committees. In line with this framework, the 2022 review should have been externally facilitated. However, in light of the level of changes that took place at Board level in 2022 and in H1 2023, I felt that it would be more beneficial to delay the external review until the planned new appointments had been made.

In terms of continuous improvement, the areas of focus arising from the 2022 internal Board and Board committee evaluation process were as follows:

- The Board has recognised and agreed the need to foster a more modern, ambitious performance focused culture within the business, investing in colleagues to enable them to succeed.
- The Board has agreed to take tangible steps 'to make membership matter' for members and colleagues. This will involve giving members more opportunities to get more involved with the Society. Making membership matter is a particular focus of the Strategic Plan signed off by the Board in December 2023.
- The Board recognises the need to foster greater diversity at all levels within the Group to better reflect the make-up of the communities in which it operates and which it serves. The Board will continue to monitor and promote diversity within the Group throughout the coming year.

Following the completion of a competitive tendering process, the Board engaged Clare Chalmers Ltd to undertake the 2023 annual performance evaluation of the Board and its committees. This review was completed in Q4 2023. The outcomes of that review were discussed at the Board meeting in February 2024, with feedback regarding the effectiveness of each Board committee to be discussed by the relevant committee.

The findings and key themes of this review will be used to inform a new Board Effectiveness Action Plan for 2024, the progress of which will be monitored during 2024 and beyond by the Board itself.

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 and Senior Independent Director leads the Board evaluation of the Chair's performance. All such reviews are conducted at least annually and documented accordingly.

Remuneration

Details relating to directors' remuneration are contained in the Directors' Remuneration Report.

Directors' service contracts and notice periods

The executive directors are engaged 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.

All non-executive directors are provided with a letter of appointment on joining the Board and 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 & 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 in the Board 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 in the Directors' Report.

Risk management and internal control

The Board is responsible for determining the Group'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 Group's business objectives. The principal categories of risk confronting the Group are described in greater detail in the Risk Management Report, together with an explanation of the Three Lines of Defence 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 Board Audit Committee, from the Group Internal Audit function in respect of its independent audits of risk management processes and effectiveness of internal controls across the Group (the Group Chief Internal Auditor reports to the Chair of the Board Audit Committee and attends Board Audit Committee meetings). The Board also takes into account Group Internal Audit's overall view on the adequacy of the Group's internal controls based on their work; and
- regular reports to the Board, through the Board Risk Committee, from the Risk function on the principal conduct, operational, credit, market and liquidity risks facing the Group and the strength of the controls in place to mitigate these.

Corporate Governance Report (continued)

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

The Group 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 Group Internal Audit function.

The Group 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 Board Audit Committee, the Group Internal Audit function is able to provide assurance on control effectiveness.

To ensure sufficient focus is devoted to risk oversight, the Group Chief Risk Officer role is a senior executive position and member of the Group Executive Committee. The Board Risk Committee and the Board receive regular reports from the Group Chief Risk Officer throughout the year and he attends meetings of the Board. The Board is satisfied that it understands the risks confronting the Group and that senior management are taking appropriate action to mitigate these. More detail is provided on these in the Risk Management Report.

During the year work has continued to strengthen Group oversight of the risk management and control frameworks in place within subsidiary businesses and to further improve risk reporting from those businesses including Skipton International Limited. The Board is satisfied that the Group maintained an adequate system of internal control during 2023, with a clear focus on risk management. This was carried out in a manner that met the requirements of the Code and good business practice generally.

Board and Committee membership attendance record

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

	Scheduled Board	Board Audit Committee	Board Change Committee	Board Nominations Committee	Board Remuneration Committee	NED Remuneration Committee	Board Risk Committee
Gwyn Burr	9 of 9			1 of 1		1 of 1	
Andrew Bottomley	9 of 9					1 of 1	
Richard Coates (note 2)	3 of 3	2 of 2					3 of 3
Iain Cummings	9 of 9	6 of 6	2 of 2	1 of 1			5 of 5
Steven Davis (note 3)	6 of 6			1 of 1	7 of 7		
Stuart Haire	9 of 9					1 of 1	
Denis Hall	9 of 9	6 of 6		1 of 1			9 of 9
Heather Jackson	9 of 9		2 of 2	1 of 1	9 of 9		9 of 9
Mark Lund	9 of 9	6 of 6		1 of 1	8 of 9		
Bobby Ndawula	9 of 9					1 of 1	
Philip Moore	8 of 9	6 of 6		1 of 1			7 of 9
Sarah Whitney (note 4)	5 of 5						

Notes:

1. Where Directors are not available to attend meetings, they nonetheless receive all papers and provide feedback as appropriate.
2. Richard Coates retired from the Board on 24 April 2023.
3. Steven Davis was appointed as a non-executive director effective from 3 April 2023.
4. Sarah Whitney was appointed as a non-executive director on 1 May 2023.

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. This 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.

Against a backdrop of significant economic and political uncertainty, it is of the utmost importance that we understand our customers and listen to their feedback. During 2023, to ensure we were providing products and services that meet our customers ever changing needs and expectations we conducted a comprehensive range of large-scale market research which included:

- getting an up-to-date view of customers lives, their goals and priorities and how these have changed since the COVID-19 pandemic;
- launching a customer closeness programme that allows us to monitor how customers are feeling about prominent topics such as the cost-of-living crisis and any impact on financial behaviours and needs; and
- evaluating customers experience of dealing with the Society and how satisfied they are with their relationship with us; consisting of both in the moment feedback following an interaction, and a more holistic view of how well the Society is meeting their expectations.

Beyond the above, we continue to use direct customer feedback and research to inform strategic planning, campaign development, product and customer journey design. All research is conducted by Market Research Society registered practitioners, both in-house and with carefully selected partners, including award-winning research agencies.

Utilising this research, we were able to make improvements in 2023 that have benefited our customers;

- We understand that now more than ever, our members want to make the most of their money.
  - During ISA season we launched market leading ISA products.
  - Throughout the year we have continued to release competitive savings products and as at the 31 December 2023 we paid 0.65% above market average on all our savings rates.
- We developed new product and functionality to suit our customer needs.
  - A limited access bond which allowed customers a better rate but unlike a fixed product customers can still access up to 50% of their money if they needed to.
  - Accounts to give customers more choice and control of how they manage their money via different channels regardless of how they opened it.
- For our mortgage customers we mitigated the impact of base rate increases on reversion rates.
- By extending the switch window at the end of Fixed Rate mortgage periods, customers can secure a follow-on rate up to 6 months in advance which provides more certainty and peace of mind.
- With energy prices being front of mind for many of our customers alongside sustainability more generally, we felt customers would value understanding the energy efficiency rating of their homes and how to improve them. As a result, we have launched our free EPC Plus report which is available to all mortgage customers.

In 2023 the Society has continued to achieve extremely high levels of net customer satisfaction, scoring 85%.

As a mutual organisation it's important for us to be transparent in sharing our customer feedback. This has been demonstrated by our continued pursuit to gain public reviews from customers via our partnership with Trustpilot. Since integrating this with our existing ongoing research programme towards the end of 2020, we have maintained a strong rating of 4.3 stars out of 5 as at 31 December 2023.

Our people

It is important to us that we have a thorough understanding of our people's views regarding their experience of working at the Society and we do this in a number of ways – through team meetings, surveys, employer review websites, listening sessions and independent assessments. We have evolved our approach to colleague listening and involvement during 2023, focusing more on co-creation and colleague participation in developing our culture and ways of working. This has proved invaluable participation informing the design of all our work relating to colleagues. For example, the co-created Behaviours Framework has been incorporated into our strategic communications, leadership definition, performance management and approach to colleague recognition.

Colleagues were also closely involved in the cultural diagnostic work undertaken during the year, through quantitative and qualitative research methods such as a survey, focus groups and interviews. A key outcome from

Corporate Governance Report (continued)

that work is a clear definition for our target culture, as part of our cultural renovation. Our target culture recognises our cultural strengths, our colleagues' desire for change and a focus on delivering the best for our members today and in the future. The principles and actions behind how we communicated during recent changes to the organisational design were informed by the insights gained from the cultural diagnostic work.

Part of our evolving approach to colleague listening and participation is the desire to influence the large and small details that form part of the everyday colleague experience. In terms of the large details, we have a programme to transform our technology, customer and colleague journeys where we are directly engaging with colleagues on how we build our systems and processes. As part of our digital transformation programme, we actively involve colleagues in testing the customer engagement platform, asking them to be critical and find what worked and what we'd missed so far – key points of feedback were received from this and are being incorporated into the design of the system that will go live.

In terms of the smaller but important details, additional emphasis has been placed on leaders listening to their teams for feedback and to act upon this locally, empowering both leaders and colleagues. Recent changes to the Society's organisational structure were designed with outcomes such as better decision-making, communication and engagement in mind, by having more empowered colleagues closer to senior leaders to influence how we work. We feel it is important that the experience of colleagues and utilisation of feedback should be active locally through all leaders and teams, rather than centrally and we will continue to use colleague feedback to inform our work.

In line with the Code's requirements, the Board has appointed non-executive director Philip Moore to be the director responsible for providing a further avenue for the voice of our people to be heard at the Board table. He has conducted a series of 'listening sessions' where up to 20 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. A summary of the feedback from each session has been presented to the Board. Together with regular personal communications from members of the Group Executive Committee in the form of videos, we have also continued to hold quarterly Strategic Updates where colleagues can ask questions of the Group Chief Executive and the Group Executive Committee regarding our direction of travel.

Suppliers

The Group closely monitors all its business relationships with suppliers, on an ongoing basis, assessing any risk of an adverse impact on our members, customers, our people and the environment in which we operate as a result of these relationships, or as a result of our policies. There is a continuing focus on the development of the supplier management framework with the aim of strengthening the oversight and relationships we have with our suppliers.

As part of this framework we issue an annual, online, anonymous questionnaire for completion by suppliers to assess our performance as a customer. The topics covered included how timely and accurate we are when paying invoices, if our corporate responsibility values are clear and views on whether we live these, strength of relationships and comparison of our approach to other clients.

Previous feedback has been very positive and the latest survey was issued to suppliers in Q4 2023 with an update to the Board planned for Q1 2024.

As part of our focus on sustainability, the Group is clear regarding the selection of new firms aligning to our expectations. We are now looking at ways in which we can help support our existing supply chain to achieve better ESG (Environmental, Social and Governance practices) outcomes, using data from our ESG assessment platform.

Regulators

Fostering a positive relationship with our regulators is a key priority for the Board and senior management team, supported by continuous dialogue as appropriate. This involves not only the 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 regulatory bodies are kept up to date with strategic and operational developments within the Group and that they maintain ongoing confidence in the Board and management team.

Banking counterparties

Senior executives and our Treasury team hold meetings with banks and debt investors, where appropriate, to update them on the Group's performance and respond to any questions. This is a long-established arrangement which is seen to work well.

Whistleblowing (speaking out)

The Society has in place arrangements to ensure that those who work for us speak up about concerns so that colleagues can raise concerns in confidence and anonymously, and that these can be investigated and properly dealt with.

The Society is committed to ensuring that no-one will be at risk of detrimental treatment from the Society or its employees as a result of raising a concern.

The Society provides training on whistleblowing annually to all colleagues and during the year established a new channel which enables colleagues and others to report concerns via Safecall, an independent third party.

Each major business within the Group maintains its own Whistleblowing Policy. The Board's commitment to whistleblowing is supported by the appointment of a non-executive director as Board champion for this important area. During the year, following Board approval, this responsibility moved from myself to Iain Cummings, who also chairs the Board Audit Committee.

The Board Speak Out Champion has overall responsibility for ensuring and overseeing the integrity, independence and effectiveness of the Society's and the Group's whistleblowing policies and procedures, including arrangements for protecting whistleblowers against detrimental treatment. The Speak Out Champion also ensures that a report is presented to the Board annually regarding the effectiveness of whistleblowing systems and controls across the Group.

The Annual General Meeting (AGM)

Each year the Society gives all eligible members at least 21 clear days' notice of its AGM. At the meeting, the Chair, the Group Chief Executive and the Group Chief Financial Officer report back to members on the previous year's performance and the main developments across the Group. 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 (either personally or by appointing a representative), although the voting form includes a 'vote withheld' option. Members can vote either at the AGM, 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 & Accounts, election or re-election of all directors, appointment or re-appointment of the external auditor and the Report on Directors' Remuneration.

I am pleased to report that no resolution received less than 91% support from members at the 2023 AGM.

Board priorities in 2024

Together with the senior leadership team, the Board will continue to focus on the delivery of the Group's strategy in 2024 through our Strategic Plan. Other priorities for the Board in 2024 include:

- continuing to enhance Group oversight and governance arrangements;
- continuing its oversight of Consumer Duty following on from training and updates received during 2023;
- agreeing and overseeing the actions arising from the 2023 externally facilitated review of the Board's own effectiveness;
- fostering an open and inclusive culture which supports and promotes individual personal development through the performance and accountability evaluation mechanism;
- maintaining a focus on geopolitical risks and the potential impact of those risks on members and the communities served by the Group;
- continuing its oversight of the Society's change programme; and
- maintaining oversight of legal and regulatory changes which affect the operation of the Group.

Conclusion

In summary, I believe that, except for the matters explained at the beginning of this report, the governance arrangements operated by the Group align with the Code's requirements and have enabled the Board to exercise effective oversight of business performance, regulatory requirements and delivery of our customer proposition.

Signed on behalf of the Board

Gwyn Burr
Chair

27 February 2024

Board Audit Committee Report

Dear Member,

On behalf of the Committee, I am pleased to present this year's Board 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 Board Audit Committee during the year were:

Iain Cummings
Non-executive director
(appointed to Committee Chair 25 April 2023)

Denis Hall
Non-executive director

Mark Lund
Non-executive director

Philip Moore
Non-executive director

Richard Coates
Non-executive director
(retired as Committee Chair 24 April 2023)

The Committee held six scheduled meetings during 2023 and the attendance of its members at these meetings is set out in the Corporate Governance Report.

The Committee held private discussions during the year with the external auditor Ernst & Young LLP (EY), the Group Chief Financial Officer, the Group Chief Risk Officer and the Group Chief Internal Auditor, to provide an opportunity for any relevant issues to be raised directly with Committee members.

In addition to Committee members, others who regularly attend meetings (by invitation) include the Group Chief Executive, the Chair, the Group Chief Financial Officer, the Group Secretary and General Counsel, the Group Chief Risk Officer, the Head of Compliance, the Group Chief Internal Auditor and external audit representatives.

The Committee is currently comprised of four members, all of whom are independent non-executive directors. Consideration is given towards ensuring that the Board Audit Committee as a whole has competence relevant to the financial services sector.

The Board is satisfied that the composition of the Board Audit Committee includes non-executive directors with recent, relevant financial experience to provide appropriate challenge to management. The relevant experience of the members of the Board Audit Committee is set out in the Board of Directors Report.

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

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 & 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 Group 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 Board Audit Committee are distributed to the members 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.

New guidance

In May 2023 the Financial Reporting Council (FRC) published Audit Committees and the External Audit: Minimum Standard ('Minimum Standard'). The FRC developed the Minimum Standard in direct response to the UK Government's consultation on Restoring Trust in Audit and Corporate Governance, which included an intention to grant statutory powers to ARGA (the new Audit, Reporting and Governance Authority that will take over from the FRC) for mandating minimum standards for audit committees in their role on external audits.

The primary objective of the Minimum Standard, which will apply to FTSE350 companies, is to enhance performance and ensure a consistent approach across audit committees. By setting out clear expectations and guidelines, the FRC aims to support the delivery of high-quality audits and reinforce public trust in the financial reporting process. Whilst Skipton is not in-scope for mandatory compliance with the Minimum Standard, the Group will consider a gap analysis between our current practices and the minimum standards. Any changes required will be made to ensure that we can demonstrate that we consistently achieve at least the minimum standards in all areas.

Activities of the Committee during the year

During 2023 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

Board Audit Committee Report (continued)

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.

Through the Committee, the Group 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 2023 provided assurance that there were no significant control failings that would lead to a material impact on the Group's financial statements.

Group Internal Audit is supported, as required, by external co-source partners who are able to provide specialist technical support when required. The Group Chief Internal Auditor reports to me and as a Committee we are responsible for ensuring that Group Internal Audit has adequate skills and resource levels that are sufficient to provide the level of assurance required. The Committee is satisfied that, throughout 2023, Group Internal Audit had an appropriate level of resources in order to carry out its responsibilities effectively and that it continues to do so.

The Board Audit Committee is also responsible for approving the annual budget of Group Internal Audit and approved its plans of audit work for 2023. This is prepared on a risk-based approach by Group Internal Audit, reflecting input from management and the Committee.

We review reports produced by Group Internal Audit and, through Group Internal Audit, track management actions to completion; Group Internal Audit then verifies these periodically, using a risk-based approach, after management has reported them as complete. Group 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 Group Internal Audit function in the overall context of the Group's risk management systems. The Committee assesses the effectiveness and independence of Group 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 and key controls around significant prudential and financial risk areas, including capital and liquidity;
- key controls around information technology, cyber security, data protection and operational resilience risks;
- key project management controls for material projects in place to support business strategy;
- the Society's credit risk management framework as well as compliance with the new lending policy; and
- a number of specific areas of internal control in the Group's subsidiaries, including significant change projects.

Following a risk assessment visit to Skipton International (SIL) by the Guernsey Financial Services Commission (GFSC) in the year, recommended enhancements were identified, which SIL are in the process of addressing to strengthen its control environment. The Board Audit Committee will be monitoring closely the delivery of the internal control enhancements that have been identified as necessary.

The Committee also has oversight responsibility for the Society's Compliance Monitoring function that provides second line assurance over conduct risk on activities regulated by the FCA, as well as assurance over financial crime and data protection. The Compliance Monitoring Plan includes control reviews, shorter focused reviews and customer outcomes testing which includes, but is not limited to, investment, pension, mortgage and protection advice, credit management, complaint handling and post-sale customer outcomes. Consideration is given to Consumer Duty as part of all relevant reviews and consumer duty-specific reviews will also be included in the plan where relevant. The Compliance Monitoring function's six-monthly plans of work were approved by the Committee and the outputs are reported to the Committee, together with progress updates on management's implementation of actions to address the findings.

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 colleague induction and ongoing development. The Committee also receives biannual updates from the Director of Group Finance on tax matters impacting the Group.

As part of the external audit process, the Society's auditor provides us with reports on the results of their testing of the effectiveness of internal controls.

Other matters considered by the Committee during the year include the following:

- government proposals for significant reforms to UK audit and corporate governance;
- impacts of changes in the economic environment; and
- impacts on the Group from fraud risks and related preventative and detective controls

In line with good practice, the Committee requires an external effectiveness review of the Group Internal Audit function at least every five years, which considers the quality, experience and expertise of the function. The most recent such review took place in 2019 and concluded that the Group Internal Audit function was operating effectively. The next review will take place in the first half of 2024. The Committee led on the selection process to appoint a third party to conduct this review.

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 & Accounts. At the request of the Board, we considered whether the 2023 Annual Report & 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 FRC and leading audit firms, were reviewed and analysed against the Annual Report & Accounts, and enhancements implemented as a result of this analysis where necessary;
- the Group Executive Committee and the Board have been involved in reviewing and commenting on various drafts of the Annual Report & Accounts, to help ensure that the final version is fair, balanced and understandable;
- the Committee reviewed and was satisfied that the alternative performance measure of underlying profit before tax (defined 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 & Accounts.

The Committee is satisfied that, taken as a whole, the 2023 Annual Report & 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 in 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 2023 Annual Report & 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 Group's principal risks. Risks considered include those arising from business activities (for example credit risk, liquidity risk, operational risk and conduct risk), from market changes, from social, economic and political factors (such as continuing global inflationary pressures and the Russia-Ukraine and Israel-Hamas conflicts)) and from climate change. Potential stress scenarios were also considered. 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, 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, from market changes, from social, economic and political factors, from climate change and from stress scenarios. The stress scenarios considered included scenarios that could cause the Group to fail; the Committee concluded that the likelihood of any such scenario materialising in a way that would threaten the Group's longer-term viability is sufficiently low. Based on this analysis, the longer-term viability statement 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. The Group has during the year updated its economic scenarios and the weightings attached to each scenario; this includes revisions to reflect increased political and economic uncertainty (due to factors including global inflationary pressures and the events in Ukraine and the Middle East). We note that, in particular, revision of the Group's view of future interest rates has resulted in a decrease in the Group's loan impairment provisions; this is reflected both in the modelled impairment amounts and in the post model adjustments. With respect to climate-related risks, the results of scenario analysis performed by management during the year has not materially impacted the Group's loan impairment provisions. We recognise that the future impact of climate-related risks on credit risk is uncertain and we will continue to monitor developments in future periods. Against the backdrop of volatile economic conditions, we have examined and challenged the assumptions adopted and have scrutinised reports produced by management. In December 2023, we gave due consideration to loan impairment provisions; in light of the economic conditions, we paid particular attention to any model limitations and held detailed review and discussion of post model adjustments.

Board Audit Committee Report (continued)

Significant matter	Committee action taken
Impairment of financial assets (continued)	We are satisfied with the models used during the year to calculate loan impairment provisions for both the residential and commercial mortgage portfolios, together with the post model adjustments that have been applied. 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. The Group has 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. As the valuation technique uses some inputs that are not based on observable market data, judgement is required in determining appropriate assumptions. 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 2023 Annual Report & 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 is satisfied that these are fairly presented in Note 1u) to the Accounts.
Revenue recognition relating to 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. The Committee reviewed the reports prepared by management, to support these estimates and is satisfied with the conclusions reached in this respect.
Appropriateness of provisioning for legal or regulatory matters	The Committee examined reports received from management regarding the recognition and amounts of provisions and considered the existence of any contingent liabilities. Taking account of known issues, including the Group's principal and emerging risks, we concluded that all such provisions were appropriately accounted for and disclosed in these Accounts and we agreed with management's conclusion on the existence or otherwise of any contingent liabilities.
Defined benefit pension liability	The Group manages three funded defined benefit pension schemes, as presented in Note 31 to the Accounts. The Committee has examined and challenged the pension scheme assumptions adopted in these Accounts and is satisfied that these are reasonable and appropriate; this includes consideration in particular of scheme asset valuations, given volatility of market pricing during the year.
Revenue recognition within the Estate Agency division	The Committee has considered the risk relating to the recognition of revenue within the Estate Agency division, as described by the external auditor within the Independent Auditor's Report. The Committee reviewed reports prepared by management and by EY regarding the effectiveness of key controls over the revenue recognition process. The Committee also considered the results of external audit testing performed in this area, including testing performed in previous years, which has not identified any evidence of material misstatement or management override in this respect. The Committee is comfortable that this matter has been appropriately considered and disclosed within these Accounts.
Impairment of estate agency right-of-use assets	The Committee has considered the risk relating to the impairment of estate agency right-of-use assets, as described by the external auditor within the Independent Auditor's Report. The Committee reviewed assessments prepared by management and the results of impairment testing performed where indicators of impairment exist. The Committee is satisfied that the level of provision held against right-of-use assets is appropriate.

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.

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 FRC's 'Guidance on Audit Committees', which details what is expected of the Board Audit Committee to ensure that the annual external audit cycle is effective. The assessment covers the external audit of the previous Annual Report & 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 FRC'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 audit performed by EY in respect of the 2022 Annual Report & Accounts. We concluded that the external auditor had performed an audit of good quality and we were satisfied with their independence; both parties were keen to streamline processes in the future to enhance effectiveness and ensure value for money. Separately, the Committee also considered the proposed approach to the 2023 audit and we were satisfied in this respect. Following the audit of the 2023 Annual Report & Accounts an updated report, as detailed above, will be presented to the Committee in 2024 for scrutiny and to conclude on the effectiveness of the 2023 audit performed by EY.

The Committee considered the FRC's July 2022 Audit Quality Inspection Report on EY, which did not identify from its sample reviews any audits which required significant improvement. The results of this FRC report have been discussed by the Committee with EY.

The Committee regularly monitors the Group's relationship with the external auditor and applies 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 2023. 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 for audit and non-audit services are set out in Note 5 of the notes to the Accounts; non-audit fees during the year represented 10.0% of total EY audit fees for the Group (2022: 5.8%). The Group continues to monitor the non-audit services ratio which, in accordance with the FRC's Revised Ethical Standard 2019, 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 Board Audit Committee

The effectiveness of the Committee is assessed annually as part of the annual Board effectiveness review, further details of which are set out in the Corporate Governance Report. The internal 2023 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.

I Cummings

Iain Cummings
Chair of the Board Audit Committee

27 February 2024

Board Change Committee Report

Dear Member,

On behalf of the Board Change Committee, I am pleased to present the Committee's first report covering the role of this new Committee and how it has discharged its responsibilities since being established in September 2023.

Members of the Board Change Committee

The Committee is currently comprised of two members, myself and Iain Cummings, both of whom are independent non-executive directors with significant change management experience. In addition to serving on this Committee, I serve as a member of the Board Risk and Board Remuneration Committees and Iain serves as Chair of the Board Audit Committee and as a member of the Board Risk Committee. These arrangements ensure good interaction between the various committees of the Board.

Having recognised the increasing scale and complexity of the Group's on-going change programme, the Society's board of directors established a new committee of the board to improve board-level oversight and governance of this important aspect of the Society's and Group's strategy delivery.

The Committee held two meetings during 2023. Attendance of its members at those meetings is set out in the Corporate Governance Report.

In addition to Committee members, other attendees (by invitation) included the Group Chief Executive, the Chief Technology and Transformation Officer, the Group Chief Financial Officer, the CEO Money and the Group Secretary and General Counsel. The Committee has received regular reports directly from members of the senior management team responsible for delivering the Change Programme including the Transformation Programme Director, Head of Engineering Systems Development and Head of Transformation.

Role and Responsibilities of the Committee

In March the Society announced plans for additional technology investment to enhance its existing technology programme, and it has invested £18m to date to deliver this ambition. That investment is helping the Society deliver increased resilience, stronger security, better member outcomes through improved digital capabilities, better use of data and improved ways of working for colleagues. Simply put, all these changes enable us to better serve our members and customers. Other Group companies will undertake change programmes over the next few years.

The Committee's role is to challenge and help shape how change is delivered across the Group. It provides oversight of the executive's strategic prioritisation of technology change, taking into account the need to meet new regulatory requirements, improve resilience and deliver improvements for members and customers.

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. The Committee's primary responsibilities are:

- To provide guidance, challenge and advice on the vision, strategy for change and the implementation of change across the Skipton Group;
- To oversee the alignment of the Group's Change Programme with the technology and people strategies and be satisfied that the Change Programme supports the Group's wider strategic vision;
- To provide oversight of the Group's Change Programme agenda and oversee management's plans for the governance and use of data across the Group;
- To provide oversight of the adequacy, performance and management of suppliers/third party partners chosen by the Society or its subsidiaries to support its chosen technologies and to support the delivery of any aspect of the Change Programme;
- To consider horizon scanning of future industry trends and opportunities in technology that could affect or benefit the Group or the implementation of its strategy; and
- To ensure change is delivered in an as efficient and effective manner as possible.

Activities of the Committee

Since being established the Committee has focused on:

- developing an understanding of the breadth of, and risks associated with, the overall change portfolio and the management and mitigation of those risks;
- promoting the standardisation in approaches to change delivery and reviewing the effectiveness of these;
- understanding the progress being made to deliver the Society's digital transformation programme and the benefits of that programme of work from a member perspective; and
- fostering enhanced monitoring and evaluation of change programmes including timely delivery of the intended benefits.

Looking forward

In the course of 2024, the work of the Committee will continue to evolve and will include:

- undertaking a deep dive review of the resourcing of change;
- considering the key areas of change/technology required to support the aims contained in the Group's Corporate Plan (including looking at how data is used, cyber and cyber security, and how we might use Artificial Intelligence (AI) in the future);
- reviewing the third party and supplier management associated with the Change Programme;
- reviewing the extent and appropriateness of the information supplied to the Board in relation to the management, delivery and implementation of change across the Group; and
- keeping up to date with new industry and technology developments relevant to the work of the Committee and understanding how those developments can assist how we better serve our members in the future.

Conclusion

On behalf of the Committee, I hope this report gives you a flavour of the work of the Committee and the importance of its future role.

Heather Jackson
Chair of the Board Change Committee

27 February 2024

Risk Management Report

Dear Member,

As the Chair of the Board Risk Committee, I am pleased to present the 2023 Risk Management Report. This report explains the risk management arrangements we operate at Skipton, and what we believe to be the principal risks facing the Society and its Group businesses (collectively referred to as the Group).

During 2023 many of the challenges seen in 2022 have persisted, and some have worsened, as a result of the war in Ukraine, the cost-of-living crisis, and a sharp rise in inflation. Our focus has been, and continues to be, on supporting our members, customers and colleagues, whilst growing our business in a sustainable way.

From the Board Risk Committee's perspective, we have a comprehensive risk management framework to ensure we remain focused on identifying, measuring, managing, and controlling risks.

The economic uncertainty created by the war in Ukraine, and more recently in the Middle East, coupled with high inflation, is impacting the cost of food and fuel. We are acutely aware of the additional strain this could cause to our members' finances and are ready to support any of our members who may encounter financial difficulty.

In addition to the specific challenges mentioned above, the Group businesses have maintained focus on the full range of risks we face.

We continue to make progress in embedding how the impact of climate change on our members and business is managed and mitigated. Through our Stress Testing Steering Committee, we assess the risks posed by climate change and develop action plans to mitigate these risks. This is an area where we will continue to refine and enhance our approach as new data and best practice emerges.

Committee focus

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

- **Liquidity risk,** to ensure that the Group maintains a prudent liquidity position and is well placed to respond to the uncertain environment, whilst maintaining our longer-term funding strategy to diversify our funding base;
- **Capital risk,** to ensure that the Group maintains and forecasts sufficient capital resources to support our corporate plan, and potentially respond to a severe economic stress. We continue to enhance our capital management framework in line with industry standards;
- **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 as previously mentioned;
- **Climate risk,** to ensure that the Society is developing an appropriate strategy and framework to enable it and its Group businesses to respond to the risks arising and ensure that these are effectively governed;
- **Model risk,** to ensure that statistical models used to support business decision-making continue to be compliant with existing and upcoming regulations, accurate and relevant;
- **Operational resilience,** to ensure that the Society and its Group businesses remain able to provide a reliable and resilient service in all areas to members and customers and can 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 and continuous improvement plan in place to reduce the likelihood of a successful attack. We remain alert to the risk arising from remote working and geopolitical tensions and continue to develop our monitoring regime and defence systems; and
- **Conduct risk,** to ensure training and competence standards are appropriate, customers receive good outcomes at fair value and that documentation standards substantiate this. The new Consumer Duty regulation came into effect in July 2023 for which we were fully prepared and this will strengthen the management of conduct risk across the industry.

To assist the Committee's deliberations, it receives regular reports from the Group Chief 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 Officer believes 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 the Group in the normal course of business, the Board has established a risk appetite which it reviews, at least annually, in the context of the prevailing environment in which the Group is operating in.

The risk appetite covers several areas such as liquidity, capital, interest rate risk and operational risk. In terms of credit risk appetite, the Society and Skipton International Limited (SIL) only lend with a mortgage on residential properties, either to owner occupiers or buy-to-let investors. 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 which receives regular reporting to support its oversight of risk.

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 appropriately, managed, and reported on.

The Board Risk Committee is supported by an Executive Risk Committee which is chaired by the Group Chief Risk Officer. This is the primary Executive body which meets regularly to oversee and monitor the key risks across the Group.

In addition, whilst not a direct Board Committee, Connells Limited operates an Audit & Risk Committee which reports directly to the Connells board. As our Skipton International (SIL) business has grown in recent years, and to strengthen the local risk management framework, an Audit & Risk Committee has also been established at SIL. The Group Chief Risk Officer maintains oversight of all subsidiary firms in relation to risk management and control.

Membership and attendees

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

Denis Hall
Non-executive director

Richard Coates
Non-executive director
(retired as Committee Chair 24 April 2023)

Iain Cummings
Non-executive director
(appointed to Committee 24 April 2023)

Heather Jackson
Non-executive director

Philip Moore
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.

Risk Management Report (continued)

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:

1 **First line of defence**, being line management within the businesses who, through the implementation of the organisation's risk framework, identify, assess, and manage risk.

2 **Second line of defence**, being our Group Risk function, which includes specific teams dedicated to Operational risk, Compliance/Conduct risk, Financial Crime risk, Credit risk, Prudential & Financial risk (including financial risk arising from climate change and model risk) and Market, Interest rate & Liquidity risk. These teams challenge, monitor, guide and support the business in managing its risk exposure. 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 management.

3 **Third line of defence**, provided by Group 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 Board Risk Committee, in conjunction with the Board Audit Committee, oversees the effective operation of our 'three lines of defence' model. 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 the Group include:

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

Alongside these prudential risk drivers, as a business with a prominent 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. Many of our existing processes were reviewed in light of the new Consumer Duty regulation to ensure we continue to provide customers with fair outcomes at fair value. At point of delivery, the competency and oversight of our colleagues to ensure we provide good outcomes for our customers is then essential to maintain the confidence and trust upon which our brand is based.

Given the uncertainty and challenges arising from the current economic environment, including elevated inflation and interest rates, we are closely monitoring our key risk management metrics to assess for any signs of stress, so that proactive action can be taken should this be required. In 2023, the Society's and SIL's mortgage books remained resilient and are not showing any material signs of stress. However, we remain vigilant for any credit deterioration in the year ahead and are ready to support any member who may be concerned about facing financial difficulty. We have increased our resources in our collections & recoveries team and partner with external agencies including the Citizens Advice Bureau and Payplan who provide free debt advice to the public. We were amongst the first Banks and Building Societies to sign up to the new Mortgage Charter when the Government introduced this in June 2023 and have provided new forbearance solutions to many customers since then.

Following the annual rate of inflation reaching a 41-year high of 11.1% in October 2022, it reduced gradually during 2023 and fell to 4.0% by the year end. The Bank of England increased bank base rate, from 3.50% in December 2022 to 5.25% in August 2023 and market analysts believe bank base rate is now at its peak. However, bank base rate is expected to remain at this level for much of 2024 which will continue to create financial difficulties for some.

Despite elevated inflation and increases in bank base rate during most of 2023, unemployment has not risen as dramatically as might have been expected a year ago. Unemployment rose in the first half of the year before falling back to 3.8% in November 2023, consistent with the level of unemployment prevailing at the end of 2022 (Source: Labour Market Statistics – Unemployment rate (seasonally adjusted)). Our latest projections forecast that unemployment will rise slowly through 2024 and 2025 before peaking in 2026, which has been reflected in our forward-looking loan impairment provisions held in our balance sheet.

The housing market in 2023 slowed as mortgage interest rates increased. Key House Price Indices report that house prices have declined marginally during the year. Through our Estate Agency division, we are carefully monitoring the housing market and we expect 2024 to be another subdued year before the market re-sets itself and stabilises.

Notwithstanding the significant increase in interest rates and inflation, as previously mentioned mortgage arrears levels remained low throughout 2023, reflective of stable unemployment. We monitor our credit risk metrics monthly, and thus far have not seen any material distress emerging for our mortgage members. We remain alive, however, to the impact of increased interest rates taking time to flow through to arrears and do expect to see some members encounter difficulties with mortgage affordability, and arrears volumes to increase during 2024.

A key driver of profit for the Society and SIL is the margin earned on mortgages offered to customers. During 2023 there was significant competition in the mortgage market. Despite this, our margin remained strong. We anticipate a highly competitive mortgage market throughout 2024.

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 group income levels but the Estate Agency business is partially protected against the performance of its core business through its own diversification into complementary businesses such as property asset management and lettings. Despite the economic backdrop the Estate Agency division delivered a modest profit for the year.

Principal risks and uncertainties

The principal risks and uncertainties presented on the following pages 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 Group Chief Risk Officer, discussed at the Executive and Board Risk Committees, and then presented to the Board for further consideration and agreement, as appropriate.

The Risk Committees are also alive to the need to be alert to new, emerging risks and new, emerging regulations or corporate governance standards. These are considered at each meeting of the Committee and by the Group Chief Risk Officer on a day-to-day basis and in his regular report to the Committee. 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 across the Group 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.

Business Risk	
Risk Definition: The risk of failing to formulate and deliver the strategy and/or a lack of response to changes in the external environment affecting the sustainability of the business.	
Risk Mitigation and Management	The Group Executive Committee and the Boards of subsidiary businesses 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 and geopolitical conditions, inflexible cost bases, structural inefficiencies or new market entrants with lower cost structures. Delay or inability to respond to changing customer behaviours is a risk, as customers' preferred means of accessing financial services evolves in a rapidly changing digital environment. The Group 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 Group of a stressed business environment such as a severe economic downturn. This enables the Committee to monitor the risk impact to business strategies and to determine whether changes to these may be required to protect the sustainability of the Group. In line with regulatory requirements the Group maintains recovery plans detailing the steps it would take to sustain itself through such severe business stresses.

Capital and MREL risk	
Risk Definition: The risk of not maintaining sufficient capital and MREL (minimum requirement for own funds and eligible liabilities) levels to support day to day operations, withstand stressed economic conditions and meet regulatory requirements.	
Risk Mitigation and Management	The Internal Capital Adequacy Assessment Process (ICAAP) is conducted to assess the Society's and the Prudential Group's current and projected capital and MREL requirements to mitigate the current risks in the business and any 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 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 retail mortgage exposures in the Society; • 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 and market risk. MREL is the minimum amount of own funds (capital resources) and eligible liabilities that must be satisfied to provide for the recapitalisation of the Prudential Group under a gone concern scenario. The ICAAP sets out our expectations of MREL requirements over the Corporate Plan horizon, and how we expect to meet those requirements. Within the ICAAP we consider the impact of emerging capital regulation over the corporate planning horizon, including the reforms to the Basel III regulation, and how we expect to meet those new requirements. The capital and MREL requirements are reported to the Board on a monthly basis.

Risk Management Report (continued)

Climate risk	
Risk Definition: Climate change risk refers to the commercial impact that climate and environmental changes present to our business model.	
Risk Mitigation and Management	Climate change, considered as the combination of extreme weather events and longer-term climate modifications, presents both risks and opportunities for the Group and our customers. Climate risks arise from both the potential impacts of climate change ('physical risks') as well as societal responses to climate change ('transition risks'). Climate risk can therefore manifest in various ways including the impact on traditional risk categories such as credit risk, operational risk and market risk. The Group's Executive Committee and the Boards of subsidiary firms are responsible for the proactive management of the financial and operational risks arising from climate change and the strategy to mitigate these risks. Our approach to managing the risks from climate change is summarised as follows: • *Identifying and assessing the risks from climate change:* We regularly review climate-related risks to which the Group is exposed; The most significant risks are assessed further as part of our annual climate risk stress and scenario testing. The analysis is primarily focused on a quantitative assessment of the impact of climate change on our residential mortgage portfolio; • *Managing and monitoring the risks from climate change:* The responsibilities for the management of climate risk are defined within our Climate Change Risk Management Framework. The Framework is integrated within our wider governance processes and the three lines of defence approach to risk management; and The Group has continued to embed the management of climate risk across the businesses during 2023. This includes developing our management information to provide regular monitoring of climate risk exposures across a range of business areas and enhancing our mortgage new lending controls with respect to flood risk and coastal erosion.

Conduct risk	
Risk Definition: Conduct risk is the risk of delivering poor or inappropriate outcomes for customers.	
Risk Mitigation and Management	Any failure to develop appropriate internal processes and controls to deliver suitable mortgage, pensions and investment advice to customers to meet their financial needs, could lead to poor customer outcomes, customer dissatisfaction and potential regulatory censure. Ensuring fair value and good customer outcomes across our channels and products remains a priority in line with the requirements of Consumer Duty. We have an Executive sponsored programme in place which ensured we met the first Consumer Duty implementation timeline for existing products and services of July 2023. The programme remains in place to ensure we meet the requirements of the final implementation date for closed products and services of July 2024. Our three lines of defence provide ongoing monitoring and assurance over processes and controls and the delivery of good customer outcomes to our customers.

Credit risk	
Risk Definition: The risk that a borrower or counterparty fails to meet its obligations in accordance with agreed terms.	
Risk Mitigation and Management	The Group faces credit risks 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. Retail and commercial credit exposures are managed by a team of experienced professionals, with oversight provided by the Retail Credit Committee. 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 our mortgage lending activity must adhere. The credit decisioning process applies credit scoring, affordability assessment and lending policy criteria which is supported by manual underwriting. All aspects of the automated credit decisioning process are subject to regular development, as well as model governance. The lending quality and controls are managed within risk framework requirements and all lending is 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.

Credit risk continued	
Risk Definition: The risk that a borrower or counterparty fails to meet its obligations in accordance with agreed terms.	
Risk Mitigation and Management	The legacy commercial mortgage portfolio which is UK-based, was closed to new lending in November 2008. Skipton International has a residential and buy-to-let mortgage portfolio, secured against property in the Channel Islands and a buy-to-let portfolio in the UK. Credit risk on these portfolios is managed locally, supported by oversight from the Retail Credit Committee. These portfolios are managed tightly against a low risk appetite, with consequent low levels of arrears and losses.

Interest rate risk	
Risk Definition: The exposure of the Group's financial condition to adverse movements in market interest rates.	
Risk Mitigation and Management	Interest rate risk arises from 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), and net margin duration risk (the risk that the cost of funding increases before we are able to re-price our mortgages) are regularly reported to ALCO, the Board Risk Committee and the Board. These risks are also managed within established risk limits and other control procedures. 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.

Liquidity risk	
Risk Definition: The risk of being unable to meet current and future financial obligations as they fall due or only able to do so at excessive cost.	
Risk Mitigation and Management	The liquidity strategy is to ensure liquidity is held in sufficient quantity and diversity to support the Corporate Plan and to meet the Board's Liquidity Risk Appetite and regulatory requirements. There is flexibility within the plan, supported by the strong governance around liquidity management, to adapt to changing circumstances. The Group also has access to adequate levels of contingent liquidity. The Internal Liquidity Adequacy Assessment Process (ILAAP) is conducted at least annually, to assess the Group's current and projected liquidity requirements to mitigate the current risks in the business and any future risks arising from the Corporate Plan. The ILAAP confirms that we are forecast to maintain adequate liquidity above our Liquidity Risk Appetite. There are risks to future funding conditions given the market-wide refinancing of the government established TFSME (Term Funding Scheme), geopolitical risks and the impact of the higher cost of living. Early warning indicators are therefore regularly assessed to ensure liquidity is maintained at appropriate levels and reported to ALCO and the Board on a monthly basis. Over the life of the Corporate Plan, there are increasingly larger retail and wholesale maturities, resulting in a more dynamic liquidity requirement and heightened risk. To mitigate this, we may carry excess liquidity at times as the Group pre-funds ahead of large maturities.

Model risk	
Risk Definition: The risk of financial loss or a poor strategic or business decision as a result of errors, weaknesses or failures in the design or use of a model.	
Risk Mitigation and Management	The Model Governance Committee (MGC) provides a formal forum for monitoring and managing model risk in the Group. 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 provides regular updates on model governance compliance to the Executive Risk Committee and Board Risk Committee. The use of models for informing important business and strategic decisions has grown significantly in recent years, and the Group continues to invest in Model Risk Management. Across the financial services sector there is significant regulatory change to improve model risk sensitivity and coverage, including changes to IRB modelling approaches. These changes require significant investment in model development, monitoring and oversight with the ensuant risks associated with such a wide and technical programme. Work continues to update certain IRB models to take into account these new regulatory requirements which came into effect on 1 January 2022. In the interim period, a temporary model adjustment (TMA) has been used to uplift the expected loss and risk weighted assets (RWAs) produced by the incumbent regulator approved IRB models to the level expected once the models are finalised to meet the new regulation.

Risk Management Report (continued)

Operational risk

Risk Definition: The risk of poor customer outcome or loss, resulting from inadequate or failed internal processes, systems, people, culture and/or from external factors.

Risk Mitigation and Management

We have a robust risk management approach across the Group, to ensure the identification, assessment, management and reporting of risks in a timely and accurate manner. A quarterly disclosure of all current material risks faced by the Group is provided to the Executive Risk Committee and Board Risk Committee to ensure appropriate action is taken where required. The framework to control operational risk is maintained and overseen by the Board Risk Committee. The key operational risks the Group face include:

- **Information Security – Cyber Threat**

  We remain vigilant to the continued Cyber threat across the globe and perform continuous improvement activity to mature our control environment and protect our customers and colleagues.

- **Change Demand & Delivery**

  The volume and pace of change across the Group remains significant both from a strategic, organisational and regulatory perspective. Ensuring the right level of resources and oversight supports the successful delivery of these initiatives, whilst also ensuring associated risks are mitigated and well managed.

  The requirements and expectations of future regulations are a key input to inform strategic decisions around products, channels, services and to ensure positive customer journeys.

- **Financial Crime & Fraud**

  Our well established financial crime, fraud monitoring and management processes continue to be enhanced in recognition of both the economic backdrop and the ever changing and complex financial crime landscape.

- **Service Delivery**

  Maintaining focus on delivering high quality service and a competitive product offering, supported by an operationally resilient business, will ensure we can continue to provide critical business services to our customers at all times.

- **People Risk - Attract & Retain Talent**

  Attracting and retaining talent in a competitive market is a key focus across the Group. Minimising the potential for any detrimental impact to colleague wellbeing remains a key area of management focus and includes offering a competitive remuneration and benefits package. The importance of robust succession plans across the Group remains a focus, in light of growth plans and the material benefit of subsidiary dividends to the Corporate Plan.

- **Operational Resilience**

  A strong focus remains on the Group's operational resilience which is the ability to prevent, adapt, respond to, recover and learn from operational disruptions, to ensure we can continue to provide important and critical business services to our customers at all times.

- **Outsourcing and Third Party**

  We have effective 'outsourcing and third party management' processes to onboard new material suppliers and work together with existing material suppliers to ensure they are capable of maintaining their services to us, even in a stressed environment.

- **Legal & Regulatory Risk**

  All Group businesses maintain an open relationship with regulators and ensure there is a significant focus on meeting new and existing legal and regulatory requirements.

- **Data**

  All Group businesses are committed to protecting customer data which is achieved by having robust frameworks, processes and governance in place.

Reputational risk

Risk Definition: Reputational risk is the risk to earnings, liquidity or capital arising from negative market or public opinion.

Risk Mitigation and Management

Reputational damage is a key element present in all other risk types and is considered alongside all decision-making.

The Group Executive Committee and the Boards of Group subsidiary firms are responsible for ensuring that reputational risk is effectively managed. Such risk can arise through the poor management of risks and could have a detrimental impact on the Groups brand and reputation. The consequences could adversely impact the future prospects of the Group and could expose it to litigation and financial loss.

This risk is managed by:

- Continuing to invest in our control environment;
- Continuing to focus on customer outcomes and delivering high quality service and competitive product offerings;
- Working within our risk management framework which has reputational risk as a key consideration;
- Promoting the Group through marketing and external communications; and
- Closely monitoring external references to the Group given the pace and use of social media channels and the widespread brand damage this can cause.

Wholesale Credit risk

Risk Definition: The risk of unexpected credit losses resulting from a counterparty default.

Risk Mitigation and Management

The Group Wholesale Credit Committee manages treasury credit exposures, with oversight provided by the Asset & Liability Committee (ALCO).

Wholesale credit risk is the counterparty credit risk resulting for transactions undertaken by Group Treasury, which is primarily from the high quality liquidity held by the Group to mitigate liquidity risk. It also arises from counterparty exposures where the Group has transacted derivatives to hedge interest rate risk as well as secured funding transaction.

Counterparty credit risk is managed across the Group within limits, on size and duration of exposure, defined within the Treasury Policy, which is approved at least annually by ALCO and the Board Risk Committee. The posting of collateral is also used to mitigate counterparty credit risk in respect of derivatives.

To meet the 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 geopolitical and economic events that shaped 2023 remain key challenges for the Group. There remains significant uncertainty to 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 a culture which views risk management not as an additional activity but as embedded in how the business is run.

Denis Hall
Chair of Board Risk Committee

27 February 2024

Directors' Remuneration Report

Annual statement from the Chair of the Board Remuneration Committee

Dear Member,

On behalf of the Board Remuneration Committee, I am pleased to share the Directors' Remuneration Report, and my first report as Chair of the Committee. I wish to express my thanks to my predecessor, Heather Jackson, for her support in ensuring a smooth handover and her continued contribution to the work of the Committee. This report sets out the details of the directors' pay, incentives and benefits for the year ending 31 December 2023.

The Committee

The focus of the Committee is to set the Remuneration Policy, including base pay, variable remuneration and other benefits for executive directors and Material Risk Takers (MRTs). The Committee also has oversight of reward for the broader colleague population.

The members of the Board Remuneration Committee are all independent non-executive directors of the Society and include members of the Board Risk and Board Audit Committees.

The members of the Committee during the year were:

Steven Davis
Non-executive director (Chair)*

Heather Jackson
Non-executive director

Mark Lund
Non-executive director

* Replaced Heather Jackson as Chair in September 2023

Remuneration Report

We have set out this Directors' Remuneration Report in the following four key sections:

1. This annual statement explaining the priorities of the Committee across reward for all colleagues and summarising the remuneration policy for executive directors.
2. An 'At a glance summary' of the key performance measures which inform our remuneration awards and the outcomes for the executive directors for 2023.
3. The Remuneration Policy in respect of the executive directors.
4. The Annual Report on Remuneration in 2023, which explains how we applied our remuneration policy in 2023 and how we intend to apply it in 2024.

The Board Remuneration Committee's review of 2023

Key considerations and decisions made by the Committee in 2023 included:

Remuneration component	Action Taken
2023 Pay Review	Approved the 2023 salary awards for the Group Executive Committee, senior managers and MRTs, in line with the all colleague pay review.
2023 SVPA[1] measures & targets	Determined key performance measures and targets across the following areas: • Financial • Customer and colleague • Environmental, Social and Corporate Governance (ESG) • Strategic team and personal performance objective targets
2022 SVPA[1] outturns & payments	Approved awards in respect of the 2022 SVPA, considering the Group Chief Risk Officer's risk report, the Group Chief Financial Officer's sustainability review, performance outcomes versus scheme measures, strategic team and personal performance objectives.
Group Executive Committee remuneration decisions	Approved remuneration decisions for executive level appointments, including internal promotions, new hires and leavers throughout the year, plus joining arrangements for the new Group Chief Financial Officer (details of which are below), Group Chief Information Officer and the Connells executive team.
Annual Review of the Board Remuneration Committee Terms of Reference, Skipton Building Society Remuneration Policy & Principles, Risk Adjustment Policy and MRT Policy	Annual review of the Skipton Building Society Remuneration Policy & Principles, Risk Adjustment Policy and MRT Policy were carried out, with no material changes required. A review of the Board Remuneration Committee Terms of Reference is ongoing.

Notes

1. The SVPA stands for Single Variable Pay Arrangement and is the bonus plan in which the executive directors and Group Executive Committee participate.

Joining arrangements for the new Group Chief Financial Officer

Paul Chambers has been appointed, subject to regulatory approval, as the new Group Chief Financial Officer, joining us in February 2024 from Standard Chartered Group on a salary of £430,000. This salary reflects the breadth of the role, as Group Chief Financial Officer for the Skipton Group, the extensive experience he brings, fully benchmarked market comparators for individuals in similar roles, and the level of compensation at his previous employer.

The proposed bonus arrangements are in line with our Directors' Remuneration Policy. Paul will participate in the SVPA with an annual maximum incentive of 50% of base salary.

As a result of his resignation from Standard Chartered Group, Paul has forfeited the opportunity to earn a bonus for 2023. In line with standard practice in the financial sector, the Society has granted a replacement award of £250,000 which will be made to Paul in March 2024 to compensate for his forfeited 2023 bonus award. In line with regulations, this will be subject to deferral.

All other benefits, including pension, are in line with the Directors' Remuneration Policy.

Variable remuneration in respect of performance for 2023

A key objective for the Committee is to ensure the remuneration of the executive directors is both aligned with and drives business performance across a range of measures taken from our Corporate Plan. Each year we review the design and focus of our annual bonus schemes to ensure alignment with strategy and culture.

Financial and Customer Performance

Financial performance in 2023 has been strong, supported by an increase in interest rates and underpinned by our strong asset quality, capitalisation, liquidity, and funding profiles. Adjusted Group profit results and adjusted Society profit results decreased from last year, with these metrics paying out 55.7% of maximum (2022: 100%) and 78.3% of maximum (2022: 100%) respectively for bonus. As mentioned in the Group Chief Executive's Report, Group profit has primarily been impacted by Connells group results.

We have maintained a focus on cost discipline, investing in talent by implementing a new target operating model to structurally set up the Society for future success, and investment in technology whilst realising cost efficiencies such as reduction in marketing spend and improvement of our procurement model. As a result, the Cost Reduction bonus metric is paying out on target, at 6 out of 10.

Planned efficiencies within Financial Advice have progressed well. This has been realised in a significant year on year increase, with this bonus metric paying out 52.0% of maximum (2022: 0%).

Our Group mortgage balance growth and savings balance growth have both exceeded targets set for 2023, reflecting our 8.1% membership growth year on year. Both measures have exceeded target, with bonus achievement at 100% of maximum for this metric (2022: 100%).

Directors' Remuneration Report (continued)

The Society continues to provide excellent customer service with customer satisfaction scores achieving our target of 89% resulting in an on-target outturn, paying out 60.0% of maximum for this bonus metric (2022: 55.5%).

Non-financial performance

In 2023, we decided to take a broader approach to our Environmental, Social and Governance (ESG) metrics, with a challenging ESG dashboard implemented to measurably increase our positive impact on the environment, to drive positive social impact for colleagues, customers, and communities and to lead the Society to higher sustainability governance standards. This has set us on the path towards achieving our overall goal and whilst we were delighted to achieve above target results for our Women in Finance Charter, recycling target, EPC+ target, first time buyer target and procurement target, we realise we still have ground to make up on our carbon footprint target and our aim to establish science-based reduction targets and reduction transition plans. Overall, our ESG dashboard achieved a threshold pay out of 5 out of 10 for this bonus metric.

During 2023, our Executive Team were focused on two key strategic team objectives:

- to create a growth culture, and
- to transform for the future.

A new target operating model was successfully implemented at the beginning of November 2023. In addition, a new behaviour framework was introduced across the Society during 2023, with all objectives now measured on how objectives are delivered. The Group has begun a transformation journey aiming to deliver an efficient, agile and customer centric operating model. Overall, the strategic team objectives set and approved by Board have achieved a bonus outturn of 8 out of 10.

Performance awards for 2023

The key measures and targets featured in the SVPA are cascaded across the incentive schemes covering all colleagues within the Society. This common structure helps build a shared commitment to our purpose, vision and strategy and provides all colleagues in the Society with an opportunity to be rewarded in a way that recognises our collective success.

With the close of the year, the Committee reviewed the performance of all 2023 bonus metrics and outcomes, assessing whether the incentive outcomes for 2023 clearly reflect performance outcome in terms of financial and non-financial contributions, as well as strategic team objectives. A colleague's individual performance against personal objectives will be taken into consideration separately, in addition to bonus metrics.

The Committee reflected on the outcomes under the SVPA scheme, considering financial performance, customer metrics and the measures of the ESG dashboard, in addition to team and personal performance. Incentive payments awarded were between 34% and 36% of salary, where the maximum potential bonus under the scheme is 50% of salary.

In arriving at the decision on SVPA awards, a risk assessment process was undertaken, during which the Committee considered a range of factors and input from the Board Risk Committee. The Committee decided that no adjustments were appropriate at the point in time.

2024 look forward

The Society seeks to offer an overall reward package that is market competitive, compelling to new hires and fair and equitable to existing colleagues. The buoyant UK market has brought about recruitment and retention challenges in certain areas, for example technology, finance, legal and audit.

Looking forward to 2024, to continue supporting colleagues in challenging economic times we have agreed a one-off additional payment of £500 be paid to the lowest earners across our Society.

In line with the regulatory requirements for listed companies, we choose to put the Directors' Remuneration Policy to a member vote at least every three years. A full review of the policy will take place during 2024 and this will be put to an advisory vote at our AGM in 2025.

Conclusion

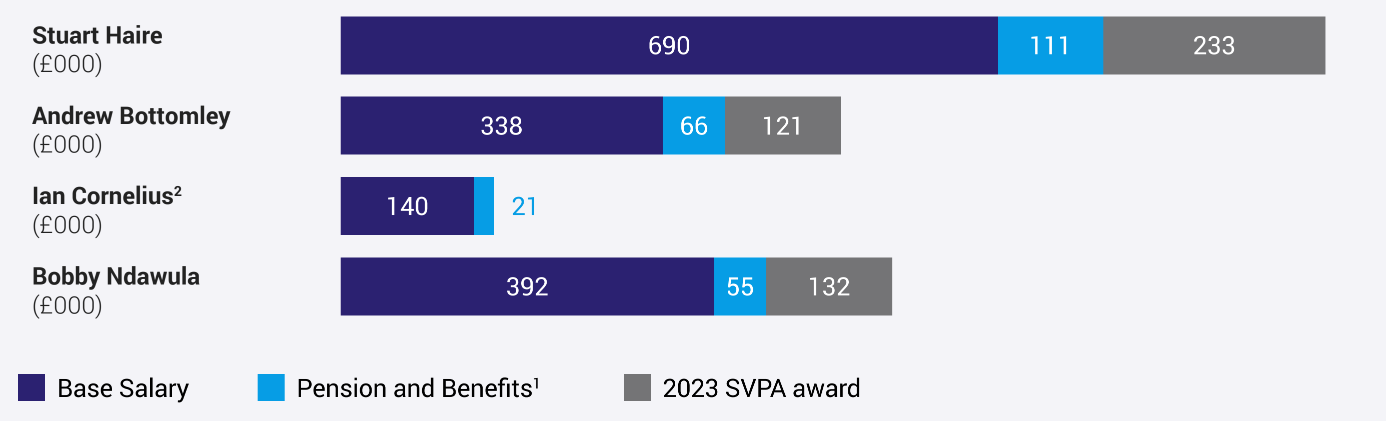
On behalf of the Committee, I hope this report gives you a clear view of how we have implemented the remuneration policy in 2023 and how we are investing to support the Group's ambitions and strategic priorities set out in our Corporate Plan. The Committee recommends that the members vote in favour of the advisory resolution to approve the 2023 Director's Remuneration Report at the AGM.

Steven Davis
Chair of the Board Remuneration Committee
27 February 2024

At a Glance Summary

Payments made to Executive Directors 2023

The table below summarises the total payments made to executive directors in respect of the 2023 financial year. The figures shown in the graph are included in the single figure table on page 93. Further details on the variable pay awards, the performance measures, and the extent to which they are achieved are on pages 87 to 95.



Notes:

1. Includes all taxable benefits (private medical insurance, car allowance, health assessment, life assurance, group income protection and GCE travel and accommodation).
2. Ian Cornelius stepped down from the role of Interim Group Chief Executive on 30 December 2022, but he remained a director. His employment with the Society ended on 31 May 2023. The table above does not include payments for loss of office included on page 96.

Remuneration in the Society

Whilst the key focus of the Board Remuneration Committee is remuneration for the Group Executive Committee, it is our responsibility to monitor how executive remuneration aligns with the wider Society colleague population. The table below gives a snapshot of average pay increases and bonus awards by level in 2023.

	Salary Average Pay Increase	Bonus Average Award
Group Chief Executive[1]	-	33.8%
Executive Directors	6.0%	34.7%
Other Group Executive Committee members[2]	15.0%	32.3%
Senior Leaders	6.5%	20.5%
All other colleagues	6.0%	9.6%

Notes:

1. Stuart Haire joined on 31 December 2022 and was not eligible for an increase.
2. Some members of the Group Executive Committee took on extended responsibilities across the Group in 2023, therefore receiving higher than average pay increases.

Key Metrics for Remuneration in the SVPA for 2023

The Strategic Report provides a comprehensive explanation of the Group's purpose and strategy. To keep us focused on delivering our strategy we have three key priorities: Help more people have a home, Make money work harder and Make membership matter. These ensure we're driving the Group forwards and working together to deliver more for the Society's members. In addition, the Strategic Report explains how sustainability and Environmental, Social and Governance (ESG) are woven through the strategy.

Directors' Remuneration Report (continued)

The table below highlights how the measures in the SVPA have aligned with strategic priorities, sustainability and ESG in 2023.

	Weighting		Strategic Priorities			
	Group Chief Executive	Other Executive Directors	Make Membership Matter	Help more people have a home	Make money work harder	ESG and Sustainability Goals
SVPA measures						
Group PBT (adjusted)*	32%	12%	✓			
Society PBT (adjusted)*	0%	20%	✓			
Cost Reduction	10%	10%	✓			
Society Mortgage Year End Balances	5%	5%	✓	✓		
Society Savings Year End Balances	5%	5%	✓		✓	
Financial Advice Direct Income	5%	5%	✓		✓	
Net customer satisfaction	5%	5%	✓			
ESG Measures - the ESG Dashboard	10%	10%				✓
Non-Financial Strategic Team Objectives	14%	14%	✓	✓	✓	✓
Personal Objectives	14%	14%	✓	✓	✓	✓
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 and Society 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, fair value gains or losses in relation to investment in Group undertakings, Connells group management incentive scheme costs and profits or losses on disposal of Group undertakings.

Directors' Remuneration policy

Summary of Remuneration Policy for Executive Directors in the Society

The complete policy is available in our Annual Report & Accounts 2021 on the Society's website. The current Directors' Remuneration Policy was approved at the AGM on 25 April 2022 and, in line with corporate governance standards, is expected to apply until the 2025 AGM, when members will be asked to approve a revised Policy.

The Committee is comfortable that the current policy is operating as intended and that the overall 2023 remuneration paid to executive directors, as set out in the Annual Report on Remuneration, is appropriate.

This section summarises the current Directors' Remuneration Policy and how it aligns with the Group's strategy. The table below outlines the key elements of remuneration for executive directors and how each element supports our strategy, and how it works in practice.

Base salary	
How element supports our strategy	Supports the recruitment and retention of executive directors, reflecting their individual roles, skills, and contribution. 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.
Operation	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 considers 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. When appointing an acting or interim executive director, the Committee may decide to pay a temporary allowance (as opposed to a permanent uplift to salary). The amount will be approved by the Committee and may be included for the purposes of calculating benefits, pensions, and the annual incentive award.
Maximum potential value	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
Performance conditions and assessment	Not applicable, however individual performance is taken into account when considering base pay increases.

Pension and Benefits	
How element supports our strategy	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. 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.
Operation	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 fully align to the pension arrangements available to all other colleagues. A selection of core benefits is provided to executive directors, including a car allowance, private medical insurance, health assessment, life insurance and group income protection 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.
Maximum potential value	The maximum employer pension contribution for new executive directors is 10% of base salary. This is in line with the policy for all colleagues. Current executive directors receive 10% of base salary paid into the pension scheme up to the tax approved pension limits with any balance paid to them, with the exception of Andrew Bottomley who receives 15%.
Performance conditions and assessment	Not applicable.

Directors' Remuneration Report (continued)

Single Variable Pay Arrangement (SVPA)	
How element supports our strategy	Supports the attraction and retention of executive directors and the development of a high-performance culture. Rewards performance within the context of achieving corporate goals and objectives as set out in our Corporate Plan, encouraging the right behaviours in respect of sustainable performance to support the achievement of strategic goals.
Operation	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. Targets are set and assessed against these criteria each year relative to the Society's strategic aims. Current regulations also require that for those who are an executive director or whose variable remuneration exceeds £500,000, 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 CET1 ratio falls below a prescribed level. 40% of earned incentive is normally paid in cash shortly after performance has been assessed. The remaining 60% of earned incentive is deferred over a period of seven years as required by regulation and is normally paid in cash subject to performance adjustment. 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 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.
Maximum potential value	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.
Performance conditions and assessment	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) • Society profit (adjusted) • Mortgages and Savings balance growth • Cost reduction and efficiency measures • Customers (growth and satisfaction) • ESG measures • Personal objectives (includes an element for strategy development and implementation) • Risk and governance 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. 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.

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 Group 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 those in the SVPA) 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

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.

Annual Report on Remuneration in 2023

Executive Directors' Remuneration

The total remuneration of each executive director in 2023 and 2022 is set out in the single figure tables below:

2023 Audited

Executive Director	Role	Salary £000	Benefits [1] £000	Pension £000	Total fixed remuneration £000	SVPA £000	Total remuneration £000
Stuart Haire	Group Chief Executive	690	42	69	**801**	233	**1,034**
Andrew Bottomley	CEO, Money	338	15	51	**404**	121	**525**
Ian Cornelius[2]	Commercial Director	140	7	14	**161**	-	**161**
Bobby Ndawula	Group Chief Financial Officer	392	16	39	**447**	132	**579**
Total remuneration		**1,560**	**80**	**173**	**1,813**	**486**	**2,299**

Notes:

1. Includes all taxable benefits (private medical insurance, car allowance, health assessment, life assurance, group income protection and GCE travel and accommodation).
2. Ian Cornelius stepped down from the role of Interim Group Chief Executive on 30 December 2022, but he remained a director. His employment with the Society ended on 31 May 2023. The table above does not include payments for loss of office included on page 96.

2022 Audited

Executive Director	Role	Salary £000	Benefits [4] £000	Pension £000	Total fixed remuneration £000	SVPA £000	Post risk adjustment SVPA[5] £000	Other £000	Total remuneration £000
Stuart Haire [1]	Group Chief Executive	3	-	-	3	-	-	1,148	1,151
David Cutter [2]	Group Chief Executive	197	5	20	222	-	-	-	222
Andrew Bottomley	CEO, Money	317	12	48	377	132	132	-	509
Ian Cornelius[3]	Commercial & Strategy Director	446	12	33	491	188	166	-	657
Bobby Ndawula	Group Chief Financial Officer	367	12	37	416	155	116	-	532
Total remuneration		**1,330**	**41**	**138**	**1,509**	**475**	**414**	**1,148**	**3,071**

Directors' Remuneration Report (continued)

Notes to the tables on page 93:

1. The remuneration shown for Stuart Haire covers the period from his joining date of 31 December 2022. As a result of his resignation from HSBC, Stuart had forfeited deferred awards made to him in respect of financial years prior to 2022, as well as the opportunity to earn a bonus for 2022. The figure in the table therefore includes an award of £345,000 to replace the forfeited bonus opportunity and this will be subject to deferral, malus and clawback in accordance with the SVPA scheme. It also includes £802,686 of replacement deferred awards which reflect the value of the HSBC deferred cash and share awards forfeited. The replacement deferred awards, which will be made in the form of cash and instruments, will be subject to the same conditions that applied to his HSBC deferred awards and will mirror the vesting schedule over the period from March 2023 to March 2030.
2. The remuneration shown for David Cutter covers the period from 1 January to 26 April 2022.
3. The 2022 salary figure for Ian Cornelius includes an interim Group Chief Executive allowance of £163,320 p.a. paid pro-rata from 26 April 2022 until 31 December 2022.
4. Includes all taxable benefits.
5. As set out in the model risk section of the 2022 Risk Management Report, there has been significant regulatory change to improve model risk sensitivity and coverage, including changes to internal ratings-based (IRB) modelling approaches. Within the Society, work was undertaken to update certain IRB models to take into account these new regulatory requirements which came into effect on 1 January 2022. In the interim period, a temporary model adjustment (TMA) was used to uplift the expected minimum requirements for loss and risk weighted assets (RWAs) produced by the incumbent regulator-approved IRB models to the level expected once the models are finalised to meet the new regulation.

   The TMA set in the first half of 2022 materially increased in the second half of 2022 following feedback from the regulator in H1 2022 and this material increase was not fully anticipated by the Society.

   An investigation was commissioned by the Board at the end of 2022 regarding this material increase in the TMA and a full risk assessment process was undertaken by the non-executive directors of the Society in April 2023 in accordance with the Society's Risk Adjustment Policy and in consideration of the Society's Remuneration Principles. As a result, the Society's non-executive directors, acting on behalf of the Board Remuneration Committee, exercised their discretion to reduce payments due under the 2022 SVPA to certain senior individuals within the Society. The 2022 SVPA payment due to Ian Cornelius was reduced by 15% and the 2022 SVPA payment due to Bobby Ndawula was reduced by 25%.

Base Salary

Pay awards for the executive directors were made in line with the colleague population, effective from January 2023.

Executive Director	Role	% increase	January 2023	April 2022
Stuart Haire [1]	Groupt Chief Executive	-	£690,000	-
Andrew Bottomley	CEO, Money	6.00%	£338,405	£319,250
Bobby Ndawula	Group Chief Financial Officer	6.00%	£391,893	£369,710

Notes:

1. Stuart Haire joined on 31 December 2022 and was not eligible for an increase.

Variable Pay

Single Variable Pay Arrangement (SVPA)

The SVPA is designed as a discretionary variable incentive plan and supports the attraction and retention of high-quality colleagues and the development of a high-performance culture. The plan is designed to link the performance of participants to sustainable business performance. Participation in the plan relating to any financial year shall be at the discretion of the Board Remuneration Committee.

The Strategic Report provides a comprehensive explanation of the Group's purpose and strategy. We deliver this through our three strategic priorities: Help more people have a home, Make money work harder, Make membership matter. In addition, the Group Responsible Business Report explains how sustainability and ESG is woven through every part of our strategy.

The strategic team objectives are a set of objectives aligned to the Strategic Priorities. For the 2023 SVPA the focus was on two of the Strategic Priorities: Create a Growth Culture and Transform for the Future.

The table below summarises the measures, performance targets, outcomes and weighting underlying the 2023 SVPA.

2023 Performance Measures	Performance Target Range: Threshold - Maximum	Performance relative to Targets	Outcome	Weighting Group Chief Executive	Weighting Executive Directors
Adjusted Group PBT (£m)[1]	293.4 – 414.3	At or above Threshold / Below Target	320.6	32%	12%
Adjusted Society PBT (£m)[1]	213.2 – 301.1	Above Target / Below Maximum	273.9	-	20%
Cost Reduction (£m)	5/10 - 10/10	At Target	6/10	10%	10%
Society Mortgage Year-End Balances (£m)	24,330.7 - 25,323.9	At or above Maximum	26,250.1	5%	5%
Society Savings Year End Balances (£m)	23,683.4 - 24,650.2	At or above Maximum	25,953.0	5%	5%
Financial Advice direct income (£m)	9.78 - 13.80	At or above Threshold / below Target	9.97	5%	5%
Society net customer satisfaction (%)	87% - 92%	At Target	89%	5%	5%
ESG Measures - the ESG Dashboard	5/10 - 10/10	At or above Threshold / below Target	5/10	10%	10%
Strategic Team Objectives - a set of objectives aligned to the Society's 2023-2027 Corporate Plan. For 2023 these objectives align to two of the Strategic Priorities: Create a Growth Culture and Transform for the Future.				14%	14%
Personal Objective - performance has been assessed against both the delivery of the Society performance scorecard as well as individuals' goals, values and behaviours.				14%	14%

Notes:

1. For bonus purposes, the Group and Society PBT figures are adjusted as outlined in the Board Audit Committee Report.

At the end of the year, the Committee reviewed the annual performance under the SVPA for all the executive directors and Group Executive Committee members. The incentive outcomes for 2023 are based on the performance relative to target for the SVPA measures. They also reflect the Committee's assessment of performance achieved against the strategic team and personal objectives, taking into consideration the views of the non-executive members of the Board.

Based on this overall assessment, the outcomes for the executive directors were between 34% and 36% of salary reflecting the healthy performance of the Group over the year.

Risk considerations

To ensure that rewards are based on sustainable performance, set in a multi-year period, the Board Remuneration Committee conducts a sustainability review 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 2024 for the 2022 SVPA and senior leaders' schemes demonstrated that 2022 performance levels had been maintained in 2023. The Board Remuneration Committee therefore concluded that no adjustment to the 2022 awards was required at the point in time.

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 Society's non-executive directors, acting on behalf of the Board Remuneration Committee, exercised their discretion to reduce payments due under the 2022 SVPA to certain senior individuals within the Society, following the outcome in April 2023 of an investigation commissioned by the Board regarding the material increase in the temporary model adjustment. The details of these adjustments applicable to the executive directors are included in the executive directors' remuneration tables on page 93.

Directors' Remuneration Report (continued)

Deferral arrangements

In line with relevant remuneration regulations, which include the Remuneration part of the PRA rulebook and the FCA's Dual Regulated Firms Remuneration Code, variable pay awards may be subject to deferral.

For executive directors whose remuneration is over the 'de-minimis' limit, variable pay awards are required to have a deferral period of 7 years, with 60% percent deferred.

Regulations also require 50% of total variable pay award to be delivered as an 'instrument' and subject to a holding period of 12 months. The Society uses contingent cash to fulfil the 50% instruments requirement. All payments are subject to malus and clawback.

The table below sets out the percentage of the executive directors' 2023 SVPA awards which will be paid per year, made up of payments in cash and instruments (contingent cash payments).

	Mar-24	Mar-25	Mar-26	Mar-27	Mar-28	Mar-29	Mar-30	Mar-31	Mar-32
	Non-deferred			Deferred					
Cash	20%	-	-	6%	6%	6%	6%	6%	
Instrument	-	20%	-	-	6%	6%	6%	6%	6%

Payments to former directors

A payment of £219,810.24 was made to David Cutter in March 2023 in respect of vested deferred payments in 2023 from the 2016, 2017, 2018, 2019 and 2021 SVPA schemes and the non-deferred contingent amount from his termination payment. A further payment of £9,674.68 was made in September 2023 in respect of vested deferred payment from the 2016 SVPA scheme.

Payments for loss of office

In agreement with the Board, Ian Cornelius stepped down from the role of Interim Group Chief Executive on 30 December 2022 and his employment with the Society ended on 31 May 2023. The Committee determined that he should receive his salary and contractual benefits in respect of his notice period, together with discretionary payments relating to loss of statutory rights, legal advice, and accrued but untaken leave. The total sum received was £327,774. He will retain his entitlement to existing deferred bonuses, which will continue to be released in the usual way. He is not eligible for any bonus in respect of 2023.

The Group Chief Financial Officer, Bobby Ndawula, has announced he will be leaving the Society at the end of June 2024. The Board Remuneration Committee has determined that a pro-rata SVPA bonus award is to be considered for the period in office for performance year 2024.

Non-Executive Directors' remuneration

The role of the Non-Executive Remuneration Committee is to set and review non-executive director (NED) fees (other than the Chair of the Board) ensuring that these are appropriate to attract and retain high quality individuals.

In May 2023 the Non-Executive Remuneration Committee asked PwC to conduct a market benchmarking exercise to review the Society's NED fees, including fees for chairing and membership of board committees. The last review carried out was in 2021.

This benchmarking exercise highlighted that NED fee levels were far below market levels. After due consideration by the Non-Executive Remuneration Committee, a proposal was submitted to Board to align fees to market median level. The Senior Independent Director (SID) fee remains below market median. It is important that NED fees be set at a level that will enable the Group to continue to attract high calibre individuals to serve on its boards who have the necessary capabilities, skills and experience required to promote the long-term success of a large and complex group such as the Skipton Group.

Separately, PwC were also asked to review the Chair's fee and this was found to be significantly below benchmark. A proposal to increase the Chair fee was made by the Senior Independent Director, Mark Lund, and approved by the Board. This fee remains below market median.

As a result, the annual fees payable for all non-executive director roles increased for 2023, as per the table below. The non-executive directors did not receive a cost of living increase for 2023.

	2023 (£)	2022 (£)
Chair	260,000	205,000
Non-Executive Directors base fee	70,000	54,700
Senior Independent Director ("SID") fee	78,613	61,900
Chair of Board Audit and Board Risk Committees fee	25,000	15,300
Chair of Board Remuneration Committee fee	20,000	15,300
Chair of Board Nominations Committee fee[1]	-	-
Chair of Board Change Committee fee[2]	20,000	-
Board Audit, Board Risk, Board Change and Board Remuneration Committee membership fees	10,000	-
Chair of Connells board	50,000	35,000
Chair of Connells Audit & Risk Committee	15,000	-

Notes:

1. There is no separate Nominations Committee chair fee as the Board Chair assumes this role.
2. Board Change Committee is a new Committee formed in 2023

The actual total fees and benefits for the non-executive directors in 2023 and 2022 are set out in the tables below.

Non-Executive Director	Note	2023 Basic fee £000	Committee Chair fee £000	Committee Membership fee £000	Taxable expenses[1] £000	Total £000
Gwyn Burr (Chair)	2	260	-	-	-	260
Mark Lund (Deputy Chair)	3	129	-	20	3	152
Richard Coates	5	18	5	-	-	23
Iain Cummings	6	70	17	14	2	103
Steven Davis	7	54	12	-	2	68
Denis Hall	9	70	25	10	3	108
Heather Jackson	10	70	20	14	-	104
Philip Moore	11	105	8	20	1	134
Sarah Whitney	12	47	33	-	1	81
		823	120	78	12	1,033

Non-Executive Director	Note	2022 Basic fee £000	Committee Chair fee £000	Taxable expenses[1] £000	Total £000
Gwyn Burr (Chair)	2	139	-	-	139
Mark Lund (Deputy Chair)	3	97	-	1	98
Amanda Burton	4	30	-	-	30
Richard Coates	5	55	15	-	70
Iain Cummings	6	27	-	-	27
Robert East	8	63	-	4	67
Denis Hall	9	55	15	1	71
Heather Jackson	10	55	10	-	65
Philip Moore	11	78	-	1	79
Helen Stevenson	13	55	10	1	66
		654	50	8	712

Notes:

1. Expenses relate to reimbursement of travel and subsistence between home and the Skipton head office, including for attendance at Board and Committee meetings. In addition to reimbursement for expenses, any tax that arises is settled by the Society on behalf of the non-executive directors.
2. Gwyn Burr was appointed to the Board as Chair effective from 27 April 2022 on an annual fee of £205,000.
3. Mark Lund was interim Chair of Connells from 1 January 2023 to 31 August 2023, is a member of the Board Remuneration Committee and the Board Audit Committee. Mark is also a non-executive director of Connells Limited, for which he receives an annual fee of £35,000, included in the table above.
4. Amanda Burton retired from the Board on 26 April 2022.
5. Richard Coates retired from the Board on 24 April 2023. Richard was Chair of the Board Audit Committee and a member of the Board Risk Committee.
6. Iain Cummings became Chair of the Board Audit Committee upon Richard Coates' retirement on 25 April 2023 and is a member of the Board Change Committee, and the Board Risk Committee.
7. Steven Davis was appointed as a non-executive director effective from 3 April 2023 and became Chair of the Board Remuneration Committee on 21 September 2023.
8. Robert East retired from the Board on 26 April 2022.
9. Denis Hall is Chair of the Board Risk Committee and a member of the Board Audit Committee.
10. Heather Jackson was Chair of the Board Remuneration Committee from 1 January 2023 to 21 September 2023, and became Chair of the Board Change Committee on 21 September 2023. Heather is also a member of the Board Remuneration Committee and the Board Risk Committee.
11. Philip Moore is Chair of Connells Audit & Risk Committee and a member of the Board Audit Committee and the Board Risk Committee. Philip is also a non-executive director of Connells Limited, for which he receives an annual fee of £35,000, included in the table above.
12. Sarah Whitney was appointed as a non-executive director on 1 May 2023 and became Chair of Connells board on 1 September 2023.
13. Helen Stevenson retired from the Board on 31 December 2022.

Directors' Remuneration Report (continued)

Remuneration in the Society

Our Reward principles and aims

The Committee does not consult colleagues on remuneration policy for Directors, but it does take into consideration remuneration arrangements for the wider population in the Society when determining executive remuneration.

A set of fair pay principles has been developed taking into consideration the views of colleagues from across the Society and these underpin the Society's current and future reward strategies.

The Society has wellbeing at the forefront of its culture and continues to support colleagues physically, mentally and financially. Our reward platform, 'Select', which is used by all colleagues, 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 understand the full value when all elements of remuneration are included.

Cascade of remuneration in the Society

The table below summarises colleague participation by seniority in the Society's range of remuneration programmes. A review of benefits was carried out in 2023, resulting in a change to the Society's core benefits offering. All colleagues are now eligible to receive Pension, Life Cover, Group Income Protection and Private Medical Insurance, funded by the Society.

	Executive	Leaders	Colleagues
Base Salary	✓	✓	✓
Annual Bonus	✓	✓	✓
Pension	✓	✓	✓
Life Cover	✓	✓	✓
Group Income Protection	✓	✓	✓
Private Medical Insurance	✓	✓	✓
Company Sick Pay	✓	✓	✓
Annual Health Check	✓	✗	✗
Other Benefits	✓	✓	✓

How does executive remuneration for 2023 align with the wider workforce?

	2023 Salary	Bonus Award		Maximum achievable	
	Average Pay Increase	2023	2022	2023	2022
Group Chief Executive	-	33.8%	41.9%	50%	50%
Executive Directors	6.0%	34.7%	41.7%	50%	50%
Other Executive Committee Members	15.0%	32.3%	40.2%	50%	50%
Senior Leaders	6.5%	20.5%	21.6%	25-50%	25-50%
Other colleagues	6.0%	9.6%	9.8%	14%	14%

CEO Pay Ratio

In line with the regulatory requirements of 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 is deemed to be more appropriate as it provides a more meaningful comparison with our peers in financial services.

For the purposes of this year's disclosure, the pay ratio calculation uses the Society's April 2023 gender pay gap data to identify the three appropriate colleagues for comparison with the CEO. This methodology is referred to as 'Option B'. This 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 2023 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 sets out the total remuneration of the Group Chief Executive and the total remuneration of employees who sit at the 25th, 50th and 75th percentiles for the Society.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	Option B [1]	54:1	38:1	22:1
2022 Ratio 1[2]	Option B	74:1	55:1	39:1
2022 Ratio 2[3]	Option B	29:1	21:1	15:1
2023 [4]	Option B	35:1	27:1	19:1

Notes:

1. As recognised by the BEIS, those companies with multiple subsidiaries and payrolls can opt to use Option B.
2. Ratio 1 includes a buy-out awarded to the incoming GCE.
3. Ratio 2 excludes a buy-out awarded to the incoming GCE.
4. Employee data includes full time equivalent total remuneration for Society employees as at 31 December 2023.

The total remuneration and salary values for the 25th, 50th (median) and 75th percentile employees in 2023 are:

Gender pay data	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Salary (£)	26,138	33,374	48,523
Total remuneration (£)	28,588	36,502	53,070

Statement of implementation of Remuneration Policy in 2024

Base Salary

In line with the approach taken across the Society, the annual pay review was brought forward three months for the executive directors. The Committee approved a pay award of 4% for the executive directors which will be effective from 1 January 2024.

Single Variable Pay Arrangement (SVPA)

With the agreement of the new Corporate Plan in December 2023, the SVPA scheme has been reviewed for 2024 to maintain a clear link between the bonus plan and how it supports and re-enforces business strategy. The 2024 SVPA will have metrics and weightings across four groups of performance measures:

- Financial
- Customer and Colleague
- ESG
- Personal objectives – aligning to the new behaviour framework, assessing both what has been achieved and how

The measures and weightings for 2024 are set out in the table below.

	Performance Measures	Group Chief Executive	Executive Directors
Financial	Group Profit	25%	20%
	Society Profit	20%	25%
Customer & Colleague	Net Customer Satisfaction	15%	15%
	Colleague Engagement & Culture	5%	5%
ESG	2 Metrics (including D&I)	5%	5%
Personal Objectives	Personal objectives / performance – what?	15%	15%
	Personal objectives / performance – how?	15%	15%

The maximum bonus opportunity will remain 50% of base salary, with the target opportunity 30% of base salary.

Directors' Remuneration Report (continued)

Material Risk Takers

Material Risk Takers (MRTs) are those colleagues whose professional activities have a material impact on the Society's risk profile. In accordance with regulations, we have identified MRTs in the Society and in the Group subsidiary companies who are in scope of the PRA and FCA regulations.

The Board 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 2023 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 members of the Board Remuneration Committee are all independent non-executive directors of the Society and include members of the Board Risk and Board Audit Committees:

- Steven Davis, Non-Executive Director (Chair)
- Heather Jackson, Non-Executive Director (member of the Board Risk Committee)
- Mark Lund, Non-Executive Director (member of the Board Audit Committee)

In addition to Committee members, regular attendees at Committee meetings include the Group Chief People Officer, the Group Secretary and General Counsel, and PwC, our independent external consultants. The Group Chair has a standing invitation to all meetings of the Committee. The Group Chief Executive, Group Chief Risk Officer and the Head of Reward and Governance attend meetings by invitation. The Committee met 12 times in 2023.

The purpose of the Board 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.
- 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 Group Chief Risk Officer updates the Committee on risk related matters and provides information and insight as part of the risk adjustment process.

The full terms of reference of the Board Remuneration Committee and the Remuneration Principles are available on request from the Group Secretary and General Counsel. The terms of reference are also available online at skipton.co.uk/about-us/governance/board-committees.

Independent Advisers

PwC were appointed as independent external consultants 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. During the year, PwC have supported the Committee on a range of items advising on regulatory reporting and risk adjustment, carrying out the non-executive directors benchmarking exercise, and advising on executive director remuneration. The Committee is satisfied that the advice received is objective and independent. PwC's fees in respect of remuneration services provided in 2023 were £127,728 (net of VAT).

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 every 3 years and annual Remuneration Report every year, and takes member feedback into account when determining policy and outcomes.

Statement of voting at the 2023 AGM

At the 2023 AGM the Directors' Remuneration Report was subject to an advisory vote of members, the results of which were as follows:

	Votes For	Votes against	Witheld
2022 Remuneration Report	53,525 (91.69%)	4,848	1,297

Steven Davis
Chair of the Board Remuneration Committee
27 February 2024

Financial Statements

Independent Auditor's Report

Independent Auditor's Report to the Members of Skipton Building Society

Opinion

In our opinion:

- the Group financial statements and the 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 2023 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 UK adopted international accounting standards; 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 Skipton Building Society (the 'Society') and its subsidiaries (the 'Group') for the year ended 31 December 2023 which comprise:

Group	Society
Consolidated statement of Financial Position as at 31 December 2023	Statement of Financial Position as at 31 December 2023
Consolidated Income Statement for the year ended 31 December 2023	Income Statement for the year ended 31 December 2023
Consolidated Statement of Comprehensive Income for the year ended 31 December 2024	Statement of Comprehensive Income for the year ended 31 December 2023
Consolidated Statement of Changes in Members' Interests for the year ended 31 December 2024	Statement of Changes in Members' Interests for the year ended 31 December 2023
Consolidated Statement of Cash Flows for the year ended 31 December 2023	Statement of Cash Flows for the year ended 31 December 2023
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 in respect of Country by Country Reporting on pages 240 and 241	
Information identified as "audited" within the Directors' Remuneration Report	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

Conclusions relating to going concern

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 the following procedures:

- We obtained the directors' going concern assessment, including the cash flow forecasts for the going concern period covering the 12 months from the date of signing this audit opinion.
- 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 results of management's stress testing including consideration of principal and emerging risks, on funding, liquidity and regulatory capital.
- 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 over 12 months 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 ability to continue as a going concern.

Overview of our audit approach	
Audit scope	• We performed an audit of the complete financial information of two components and audit procedures on specific balances for a further four components. • The components where we performed full or specific audit procedures accounted for 96.2% of profit before tax (PBT) 97.5% of total income and 99.7% of total assets.
Key audit matters	• Measurement of loan impairment relating to retail and commercial mortgages • Fair value of the equity release portfolio • Revenue recognition in respect of estate agency income • Impairment of estate agency right of use assets
Materiality	• Overall Group materiality of £17.0m which represents 5% of PBT.

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 company 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 component.

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 15 reporting components of the Group, we selected six components covering entities within the United Kingdom and Guernsey, which represent the principal business units within the Group.

Of the six components selected, we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size or risk characteristics. For the remaining four components ("specific scope components"), we performed audit procedures on specific accounts within those components that we considered had the potential for the

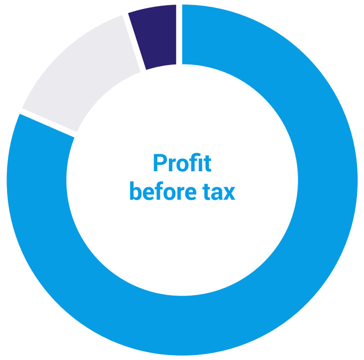
Independent Auditor's Report (continued)

greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

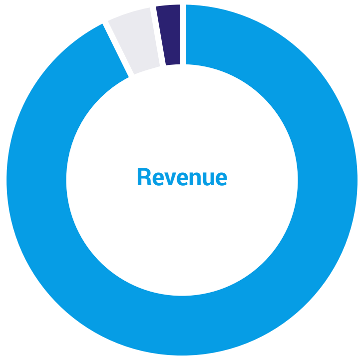
The reporting components where we performed audit procedures accounted for 96.2% of the Group's PBT measure used to calculate materiality (2022: 99.7%), 97.5% (2022: 98.6%) of the Group's total income and 99.7% (2022: 99.9%) of the Group's total assets. For the current year, the full scope components contributed 83.1% of the Group's PBT measure used to calculate materiality (2022: 73.5%), 92.4% (2022: 90.7%) of the Group's total income and 86.5% (2022: 85.3%) of the Group's total assets. The specific scope components contributed 13.1% of the Group's PBT measure used to calculate materiality (2022: 26.2%), 5.1% (2022: 7.9%) of the Group's total income and 13.2% (2022: 14.6%) 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 of significant accounts tested for the Group.

Of the remaining nine components, that together represent 3.8% of the Group's profit before tax, none are individually greater than 3.3% of the Group's profit before tax. For these components, we performed other procedures, including analytical reviews, to respond to any potential risks of material misstatement to the Group financial statements.

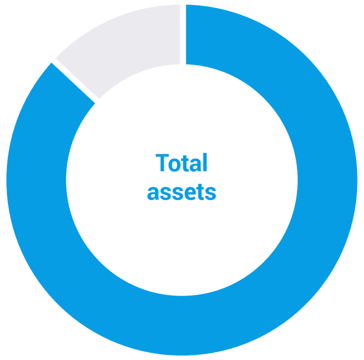
The charts below illustrate the coverage obtained from the work performed by our audit teams.



- 83.1% Full scope components
- 13.1% Specific scope components
- 3.8% Other procedures



- 92.4% Full scope components
- 5.1% Specific scope components
- 2.5% Other procedures



- 86.5% Full scope components
- 13.2% Specific scope components
- 0.3% Other procedures

Changes from the prior year

There has been a reduction of components classified as specific scope, from five to four. One component that was previously classified as specific scope for the 31 December 2022 audit is now subject to other procedures due to our determination of the lower size and risk of material misstatement from the component relative to Group materiality.

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 two full scope components, audit procedures were performed on one of these directly by the primary audit team. For one full scope component and 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 audit team undertook a programme of planned visits and held meetings with the component teams to discuss the audit approach, any issues arising from their work, as well as meeting with local management. 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 reviewed component auditors' key audit working papers in relation to risk areas.

The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed relevant 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.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact Skipton Building Society. The Group and the Society has determined that the most significant future impacts from climate change on their operations will be from physical and transitional risks. These are explained on pages 29 to 33 in the Strategic Report. The Group has also explained its climate commitments on page 30 of that report. All of these disclosures form part of the "Other information", rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

In planning and performing our audit we assessed the potential impacts of climate change on the Group and Society's business and any consequential material impact on its financial statements.

The Group and Society have explained in note 1 to the Annual Report & Accounts how they have reflected the impact of climate change in their financial statements including how this aligns with their commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050. Significant judgements and estimates relating to climate change are included in note 1 and note 40. These disclosures also explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards. We also challenged the directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transitional, the Group's climate commitments, the effects of material climate risks and the significant judgements and estimates disclosed in note 1 and whether these have been appropriately reflected in asset values where these are impacted by future cash flows, and in the timing and nature of liabilities recognised, following the requirements of UK adopted international accounting standards. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit. We concluded that there were no material valuation adjustments in respect of climate change which should be recognised under UK adopted international accounting standards.

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 Board Audit Committee
Measurement of loan impairments relating to retail and commercial mortgages **(Group – 31 December 2023 £39.6m, 31 December 2022 £43.6m;** **Society – 31 December 2023 £36.9m, 31 December 2022 £41.8m)** 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 incur within the retail and commercial mortgage books. This calculation is complex and subjective, particularly in the current economic environment of heightened uncertainty as a result of the ongoing UK cost of living pressures. Key judgements and estimates include: • Completeness and valuation of post-model adjustments.	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 (SICR) 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 the involvement of our internal credit modelling specialists. This included assessing the appropriateness of the model design, model performance and ECL replication testing. 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.	We communicated that we were satisfied that loan impairment provisions were reasonably stated and in compliance with the requirements of IFRS 9. We communicated to the Board Audit Committee that the models and underlying modelling assumptions were appropriately designed and applied with conservatism as at the year end. We considered the multiple economic scenarios incorporated in the IFRS 9 models and post model adjustments to be balanced. We concluded that the impact of climate risk on the Society's loan impairment was aligned to industry peers and was appropriately considered within the Society's credit provisioning. We also concluded that disclosures relating to loan impairments were in compliance with the requirements of applicable accounting standards.

Independent Auditor's Report (continued)

Risk	Our response to the risk	Key observations communicated to the Board Audit Committee
• Identifying assets that have experienced a significant increase in credit risk (SICR) since origination (stage 2) and those that are credit impaired (stage 3). • Accounting interpretations and modelling assumptions used to build the models and calculate the ECL. • The application of multiple economic scenarios, including the appropriate weightings for the various scenarios. Furthermore, there is a risk that financial disclosures do not comply with the requirements of UK adopted international accounting standards. Due to the degree of judgement that needs to be exercised by the directors around the key assumptions into the ECL model as well as the complexity of the calculation, this was considered a key audit matter.	With the support from our internal valuation specialists, we independently challenged the valuation of collateral for a sample of loans 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 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 adjustments for reasonableness of estimation with reference to observable market data. Our procedures included a series of "stand back" analyses, including industry benchmarking, internal consistency checks and analytical reviews. We tested 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 and Society – 31 December 2023 £293.3m, 31 December 2022 £278.7m) The Society holds three equity release mortgage portfolios that carry a no negative equity guarantee. This guarantee limits the Society's maximum return to the value of the relevant customer's property on redemption.	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	We communicated to the Board Audit Committee that the models and assumptions informing the fair value of the equity release portfolio and associated swaps as at 31 December 2023 were reasonable.

Risk	Our response to the risk	Key observations communicated to the Board Audit Committee
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 economically manage the interest rate risk and reduce overall income statement volatility that would otherwise result from changes in the fair value of the equity release mortgage portfolio. 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 judgmental assumptions to derive an estimated value. Two of 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.	equity release portfolio. We compared the 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 rate, mortality rates, future changes in house prices and prepayment rates. We compared assumptions applied in the fair value models to the Society's historical experience and benchmarked assumptions to observable market data where applicable. 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.	We also communicated our observations on the key assumptions. 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.
Revenue recognition in respect of estate agency income **(Connells – 31 December 2023 £936.6m, 31 December 2022 £1,023.6m)** There is a risk that management may override controls and post manual journals in order to overstate revenue. This risk is specific to manual revenue journals posted during the financial year within the estate agency revenue streams which are material to the Group. Given the manual nature and volume of revenue transactions in the estate agency division, 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 2023 year end date. We performed data analysis procedures to assess the recognition of revenue throughout the year. We performed testing over significant revenue streams using either data analysis tools or alternative substantive procedures. Where we used data analysis tools, we tested the correlation of revenue to trade receivables and cash receipts to verify the occurrence of revenue. Our alternative substantive procedures included 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 Board Audit Committee that through our data analysis procedures we identified a correlation of transactions between revenue, trade receivables and cash. We did not identify any evidence of material misstatements in the revenue recognised or any instances of management override.

Independent Auditor's Report (continued)

Risk	Our response to the risk	Key observations communicated to the Board Audit Committee
Impairment of estate agency right of use assets **(Total right of use assets: 31 December 2023 £100.9m; 31 December 2022 £106.7m)** Right-of-use assets are assessed for impairment by management at each reporting date. There is a risk that the impairment related to right of use assets is incorrectly measured due to inaccurate assessment of impairment indicators. Due to the lower profitability of the Connells' group in the year we considered that impairment risk is most prevalent in the estate agency business given the significant value of right of use assets held by Connells and its subsidiaries. As a result, we considered this to be an elevated risk and a Key Audit Matter for our 2023 audit.	We understood and evaluated the design effectiveness of key controls over the process for assessment of impairment of estate agency right of use assets and we adopted a substantive audit approach. We challenged and validated the impairment analyses prepared by management on the right of use assets. We reviewed the cash generating units (CGUs) with indicators of impairment and obtained supporting evidence to ascertain whether they should be impaired or not. We challenged and validated where loss-making branches were unimpaired, obtaining and assessing additional evidence to corroborate management's assessments.	We concluded that the valuation of these assets and the impairment charge recognised in the year were reasonably stated. We also concluded that disclosures relating to right of use assets, and impairment in relation to these assets, were in compliance with the requirements of applicable accounting standards.

In the prior year we identified a key audit matter in relation to the appropriateness of estimates used in the accounting for the effective interest rate of loans and advances to customers. We determined this to no longer be a Key Audit Matter because the Group changed their estimates of future customer repayment behaviour during 2022 which thereby reduced the level of sensitivity and estimation uncertainty inherent in the valuation of effective interest rate adjustments to the income statement and balance sheet. The remaining adjustment relates to mortgage fees and is not considered a significant estimate.

Further, in the prior year, we included a key audit matter in relation to control environment of the Countrywide group of companies. As part of our prior period and current year audit procedures we identified improvements in the control environment and no longer include this as a Group key audit matter.

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 £17.0 million (2022: £14.7 million), which is 5% of profit before tax (2022: 5% profit before tax).

We determined materiality for the Society to be £14.2 million (2022: £8.0 million), which is 5% of adjusted profit before tax (2022: 5% of adjusted profit before tax). We adjusted the Society's pre-tax profit by removing dividend income from shares from subsidiary undertakings.

We believe that profit before tax (for Group) and adjusted profit before tax (for Society) provides us with an appropriate basis for materiality given the users of the financial statements (including the Society's members and regulators) principally focus on pre-tax profit in assessing the Group and Society's performance.

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 75% (2022: 75%) of our planning materiality, namely £12.8m (2022: £11.0m). We have set performance materiality at this percentage due to our previous experience as auditors of the Group, from which we concluded that there is a lower expectation of material financial statement inaccuracies due to our assessment of the financial reporting control environment, and only minor audit differences resulting from our prior and current year work. Our approach is consistent with the prior year.

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 £2.5m to £9.9m (2022: £2.2m to £7.1m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Board Audit Committee that we would report to them all uncorrected audit differences in excess of £0.8m (2022: £0.7m), 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 other than the financial statements, information of Country by Country Reporting, information identified as "audited" within the Directors' Remuneration Report, and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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 this gives rise to 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 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.

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 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.

Corporate Governance Statement

We have reviewed 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 voluntary compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

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 pages 56 and 57;
- The directors' explanation as to its assessment of the Society's prospects, the period this assessment covers and why the period is appropriate set out on pages 56 and 57;
- The directors' statement on fair, balanced and understandable set out on page 57;
- The Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 56 and 57;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 65 and 66; and
- The section describing the work of the Board Audit Committee set out on pages 71 to 75.

Independent Auditor's Report (continued)

Directors' Remuneration Report

The Society voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Directors' Remuneration Report 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 pages 55 to 57, 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 of the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Building Societies Act 1986.
- We understood how the Group is complying with those 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. Our procedures involved inquiries of legal counsel, executive management, internal audit, consideration of whistleblowing events and focused testing as referred to in the Key Audit Matters section above. Our inquiries and procedures addressed subsidiaries in the Group including those audited by component teams. The primary audit team had regular communication with component teams to discuss the audit which included if there were any instances of non-compliance with laws and regulations and how these were responded to.
- 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 Board 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 period of total uninterrupted engagement including previous renewals and reappointments is five years, covering the years ending 31 December 2019 to 31 December 2023 .
- The audit opinion is consistent with the additional report to the Board 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

27 February 2024

Income Statements

For the year ended 31 December 2023	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Interest receivable and similar income:					
Accounted for using effective interest rate method	2	**1,746.4**	806.7	**1,740.5**	764.1
Other	2	**33.6**	15.8	**25.1**	14.1
Total interest receivable and similar income		**1,780.0**	822.5	**1,765.6**	778.2
Interest payable and similar charges	3	**(1,237.2)**	(398.1)	**(1,306.9)**	(421.3)
Net interest receivable		**542.8**	424.4	**458.7**	356.9
Fees and commissions receivable	4	**993.7**	1,092.6	**34.6**	35.6
Fees and commissions payable		**(8.3)**	(14.7)	**(3.4)**	(2.7)
Fair value gains / (losses) on financial instruments mandatorily held at FVTPL	5a)	**23.5**	1.3	**20.7**	(29.6)
Income from shares in subsidiary undertakings		**-**	-	**27.0**	62.0
Other income	5b)	**2.9**	4.0	**8.8**	9.7
Total income		**1,554.6**	1,507.6	**546.4**	431.9
Administrative expenses	5c)	**(1,224.8)**	(1,188.5)	**(239.1)**	(191.6)
Operating profit before impairment and provisions		**329.8**	319.1	**307.3**	240.3
Impairment and provisions	5d)	**3.6**	(20.3)	**3.4**	(17.4)
Profit before tax		**333.4**	298.8	**310.7**	222.9
Tax expense	9	**(78.8)**	(67.8)	**(76.8)**	(43.9)
Profit for the year		**254.6**	231.0	**233.9**	179.0
Profit / (loss) for the year attributable to:					
Members of Skipton Building Society		**254.8**	231.2	**233.9**	179.0
Non-controlling interests		**(0.2)**	(0.2)	**-**	-
		254.6	231.0	**233.9**	179.0

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 2023	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Profit for the year		**254.6**	**231.0**	**233.9**	**179.0**
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Remeasurement losses on defined benefit obligations	31	**(4.5)**	**(6.7)**	**(0.2)**	**(1.2)**
Gains / (losses) on equity share investments designated at FVOCI	17e)	**0.2**	**(8.5)**	**-**	**-**
Income tax on items that will not be reclassified to profit or loss	35	**1.1**	**0.4**	**0.1**	**(0.7)**
		(3.2)	**(14.8)**	**(0.1)**	**(1.9)**
Items that may be reclassified subsequently to profit or loss:					
Movement in cash flow hedging reserve:					
(Losses) / gains taken to equity		**(48.4)**	**47.8**	**(25.5)**	**13.2**
Realised losses / (gains) transferred to Income Statement		**14.1**	**(12.8)**	**14.1**	**(12.8)**
Movement in fair value reserve (debt securities):					
Gains / (losses) taken to equity		**1.7**	**(22.3)**	**0.5**	**(21.7)**
Impairment loss allowance on debt securities held at FVOCI	11	**(0.1)**	**-**	**(0.1)**	**-**
Movement in cost of hedging reserve:					
Gains taken to equity		**0.8**	**3.8**	**-**	**-**
Exchange differences on translation of foreign operations		**(0.3)**	**0.4**	**-**	**-**
Income tax on items that may be reclassified to profit or loss	35	**9.2**	**(4.4)**	**3.1**	**6.4**
		(23.0)	**12.5**	**(7.9)**	**(14.9)**
Other comprehensive expense for the year, net of tax		**(26.2)**	**(2.3)**	**(8.0)**	**(16.8)**
Total comprehensive income for the year		**228.4**	**228.7**	**225.9**	**162.2**
Total comprehensive income attributable to:					
Members of Skipton Building Society		**228.6**	**228.9**	**225.9**	**162.2**
Non-controlling interests		**(0.2)**	**(0.2)**	**-**	**-**
		228.4	**228.7**	**225.9**	**162.2**

The accompanying notes form part of these financial statements.

Statements of Financial Position

As at 31 December 2023	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Assets					
Cash in hand and balances with the Bank of England		**3,266.2**	3,520.5	**3,266.2**	3,520.5
Loans and advances to credit institutions	10	**488.8**	631.9	**497.7**	621.6
Debt securities	11	**3,337.7**	2,640.3	**3,206.5**	2,572.7
Derivative financial instruments		**1,000.8**	1,355.1	**1,003.0**	1,342.3
Loans and advances to customers held at amortised cost	12	**28,161.4**	24,452.3	**25,864.9**	22,359.5
Loans and advances to customers held at FVTPL	16	**0.9**	1.0	**0.9**	1.0
Equity release portfolio held at FVTPL	15	**293.3**	278.7	**293.3**	278.7
Current tax asset		**0.9**	18.3	**-**	12.9
Investments in subsidiary undertakings and joint ventures	17	**10.3**	10.1	**478.1**	469.2
Property, plant and equipment	18	**74.5**	71.8	**39.0**	38.1
Right-of-use assets	19	**100.9**	106.7	**10.0**	10.9
Deferred tax asset	30	**20.9**	13.1	**16.7**	16.5
Intangible assets	21	**313.2**	323.4	**0.2**	0.1
Other assets	22	**152.1**	148.1	**24.4**	22.6
Total assets		**37,221.9**	33,571.3	**34,700.9**	31,266.6
Liabilities					
Shares	23	**25,949.8**	22,349.6	**25,922.3**	22,290.5
Amounts owed to credit institutions	24	**2,093.4**	2,963.3	**2,302.7**	3,177.3
Amounts owed to other customers	25	**2,808.8**	2,339.2	**807.7**	628.7
Debt securities in issue	26	**2,414.7**	2,591.6	**2,242.5**	2,392.6
Derivative financial instruments		**452.2**	415.6	**508.7**	476.3
Current tax liability		**2.4**	1.5	**0.6**	-
Lease liabilities	27	**103.0**	113.0	**10.3**	11.1
Other liabilities	28	**85.9**	83.7	**19.2**	9.9
Accruals		**97.5**	93.1	**31.4**	22.9
Deferred income		**10.4**	9.9	**0.4**	0.4
Provisions for liabilities	29	**29.4**	34.7	**0.6**	0.8
Retirement benefit obligations	31b)	**26.2**	29.6	**15.9**	16.9
Subordinated liabilities	32	**685.3**	311.8	**685.3**	311.8
Subscribed capital	33	**41.6**	41.6	**41.6**	41.6
Total liabilities		**34,800.6**	31,378.2	**32,589.2**	29,380.8
Members' interests					
General reserve		**2,422.0**	2,176.4	**2,127.4**	1,893.6
Fair value reserve		**(9.5)**	(16.9)	**(9.3)**	(9.6)
Cash flow hedging reserve		**4.9**	29.6	**(6.4)**	1.8
Cost of hedging reserve		**(0.5)**	(1.1)	**-**	-
Translation reserve		**4.6**	4.9	**-**	-
Attributable to members of Skipton Building Society		**2,421.5**	2,192.9	**2,111.7**	1,885.8
Non-controlling interests		**(0.2)**	0.2	**-**	-
Total members' interests		**2,421.3**	2,193.1	**2,111.7**	1,885.8
Total liabilities and members' interests		**37,221.9**	33,571.3	**34,700.9**	31,266.6

The accompanying notes form part of these financial statements.

These Accounts were approved by the Board of Directors on 27 February 2024 and were signed on its behalf by:

Gwyn Burr **Chair**
Stuart Haire **Group Chief Executive**
Bobby Ndawula **Group Chief Financial Officer**

Statements of Changes in Members' Interests

For the year ended 31 December 2023

Group	General reserve £m	Fair value reserve £m	Cash flow hedging reserve £m	Cost of hedging reserve £m	Translation reserve £m	Sub-total £m	Non-controlling interests £m	Total £m
Balance at 1 January 2023	**2,176.4**	**(16.9)**	**29.6**	**(1.1)**	**4.9**	**2,192.9**	**0.2**	**2,193.1**
Profit / (loss) for the year	254.8	-	-	-	-	**254.8**	(0.2)	**254.6**
Other comprehensive income								
Remeasurement losses on defined benefit obligations	(3.4)	-	-	-	-	**(3.4)**	-	**(3.4)**
Net gains / (losses) from changes in fair value	-	1.7	(34.9)	0.6	-	**(32.6)**	-	**(32.6)**
Debt securities at FVOCI: impairment loss allowance	-	(0.1)	-	-	-	**(0.1)**	-	**(0.1)**
Realised losses transferred to the Income Statement	-	-	10.2	-	-	**10.2**	-	**10.2**
Exchange differences on translation of foreign operations	-	-	-	-	(0.3)	**(0.3)**	-	**(0.3)**
Total other comprehensive (expense) / income (Note 35)	**(3.4)**	**1.6**	**(24.7)**	**0.6**	**(0.3)**	**(26.2)**	**-**	**(26.2)**
Total comprehensive income / (expense) for the year	**251.4**	**1.6**	**(24.7)**	**0.6**	**(0.3)**	**228.6**	**(0.2)**	**228.4**
Acquisition of non-controlling interests without change in control	-	-	-	-	-	**-**	(0.2)	**(0.2)**
Transfer of fair value reserve of equity share investments designated at FVOCI (Note 17e))	(5.8)	5.8	-	-	-	**-**	-	**-**
Balance at 31 December 2023	**2,422.0**	**(9.5)**	**4.9**	**(0.5)**	**4.6**	**2,421.5**	**(0.2)**	**2,421.3**

For the year ended 31 December 2022

Group	General reserve £m	Fair value reserve £m	Cash flow hedging reserve £m	Cost of hedging reserve £m	Translation reserve £m	Sub-total £m	Non-controlling interests £m	Total £m
Balance at 1 January 2022	1,951.5	7.5	4.0	(3.5)	4.5	1,964.0	0.4	1,964.4
Profit for the year	231.2	-	-	-	-	231.2	(0.2)	231.0
Other comprehensive income								
Remeasurement losses on defined benefit obligations	(6.3)	-	-	-	-	(6.3)	-	(6.3)
Net (losses) / gains from changes in fair value	-	(24.4)	36.0	2.4	-	14.0	-	14.0
Realised gains transferred to the Income Statement	-	-	(10.4)	-	-	(10.4)	-	(10.4)
Exchange differences on translation of foreign operations	-	-	-	-	0.4	0.4	-	0.4
Total other comprehensive (expense) / income (Note 35)	(6.3)	(24.4)	25.6	2.4	0.4	(2.3)	-	(2.3)
Total comprehensive income / (expense) for the year	224.9	(24.4)	25.6	2.4	0.4	228.9	(0.2)	228.7
Balance at 31 December 2022	2,176.4	(16.9)	29.6	(1.1)	4.9	2,192.9	0.2	2,193.1

Statements of Changes in Members' Interests (continued)

For the year ended 31 December 2023

Society	**General reserve £m**	**Fair value reserve £m**	**Cash flow hedging reserve £m**	**Total £m**
Balance at 1 January 2023	**1,893.6**	**(9.6)**	**1.8**	**1,885.8**
Profit for the year	233.9	-	-	**233.9**
Other comprehensive income				
Remeasurement losses on defined benefit obligations	(0.1)	-	-	**(0.1)**
Net gains / (losses) from changes in fair value	-	0.4	(18.4)	**(18.0)**
Debt securities at FVOCI: impairment loss allowance	-	(0.1)	-	**(0.1)**
Realised losses transferred to the Income Statement	-	-	10.2	**10.2**
Total other comprehensive (expense) / income (Note 35)	**(0.1)**	**0.3**	**(8.2)**	**(8.0)**
Total comprehensive income / (expense) for the year	**233.8**	**0.3**	**(8.2)**	**225.9**
Balance at 31 December 2023	**2,127.4**	**(9.3)**	**(6.4)**	**2,111.7**

For the year ended 31 December 2022

Society	General reserve £m	Fair value reserve £m	Cash flow hedging reserve £m	Total £m
Balance at 1 January 2022	1,716.5	5.7	1.4	1,723.6
Profit for the year	179.0	-	-	179.0
Other comprehensive income				
Remeasurement losses on defined benefit obligations	(1.9)	-	-	(1.9)
Net (losses) / gains from changes in fair value	-	(15.3)	10.8	(4.5)
Realised gains transferred to the Income Statement	-	-	(10.4)	(10.4)
Total other comprehensive (expense) / income (Note 35)	(1.9)	(15.3)	0.4	(16.8)
Total comprehensive income / (expense) for the year	177.1	(15.3)	0.4	162.2
Balance at 31 December 2022	1,893.6	(9.6)	1.8	1,885.8

The accompanying notes form part of these financial statements.

Statements of Cash Flows

For the year ended 31 December 2023	Notes	**Group 2023 £m**	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Cash flows from operating activities					
Profit before tax		**333.4**	298.8	**310.7**	222.9
Adjustments for:					
Impairment (gains) / losses on financial instruments	34a)(i)	**(2.0)**	18.1	**(4.1)**	16.8
Depreciation and amortisation	18, 19, 20, 21	**74.2**	76.8	**8.1**	8.1
Impairment of property, plant and equipment, right-of-use assets and investment property	18, 19, 20	**2.3**	(0.5)	**0.2**	(1.1)
(Profit) / loss on disposal of property, plant and equipment, investment property and intangible assets		**(0.2)**	0.7	**0.2**	0.2
Fair value (gains) / losses on certain financial instruments held at FVTPL	34a)(ii)	**(23.3)**	120.5	**(9.2)**	132.3
Interest on subordinated liabilities and subscribed capital	3	**27.1**	11.8	**27.1**	11.8
Interest on lease liabilities	3	**2.3**	2.1	**0.3**	0.3
Income from shares in subsidiary undertakings		**-**	-	**(27.0)**	(62.0)
Profit on disposal of subsidiary undertakings	5b)	**-**	(0.1)	**-**	-
Other non-cash movements	34a)(iii)	**(40.4)**	5.8	**(15.3)**	(23.6)
		373.4	534.0	**291.0**	305.7
Changes in operating assets and liabilities:					
Movement in prepayments and accrued income		**(12.2)**	(3.4)	**(2.3)**	(2.7)
Movement in accruals and deferred income		**4.9**	(4.9)	**8.5**	2.7
Movement in provisions for liabilities		**(5.3)**	(1.7)	**(0.2)**	(0.2)
Movement in fair value of derivatives		**390.9**	(1,003.7)	**371.7**	(888.0)
Movement in fair value adjustments for hedged risk		**(444.1)**	664.0	**(435.5)**	609.2
Movements in debt securities		**(56.9)**	93.8	**(60.9)**	98.6
Movement in loans and advances to customers		**(3,085.1)**	(2,223.8)	**(2,878.6)**	(1,965.6)
Movement in shares		**3,470.8**	2,689.7	**3,470.8**	2,689.7
Net movement in amounts owed to credit institutions and other customers		**(400.2)**	849.9	**(695.5)**	649.3
Net movement in debt securities in issue		**(198.4)**	368.4	**(150.1)**	481.3
Net movement in loans and advances to credit institutions		**76.5**	(115.9)	**112.6**	(210.1)
Net movement in other assets		**20.0**	15.0	**(0.4)**	0.2
Net movement in other liabilities		**(2.6)**	(22.7)	**8.1**	(0.8)
Income taxes paid		**(58.3)**	(67.9)	**(60.3)**	(50.7)
Net cash flows from operating activities		**73.4**	1,770.8	**(21.1)**	1,718.6

Statements of Cash Flows (continued)

For the year ended 31 December 2023	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Net cash flows from operating activities		**73.4**	1,770.8	**(21.1)**	1,718.6
Cash flows from investing activities					
Purchase of debt securities	11	**(2,476.7)**	(1,995.5)	**(2,294.0)**	(1,857.5)
Proceeds from maturities and disposals of debt securities		**1,828.5**	1,447.2	**1,713.2**	1,313.0
Dividends received from subsidiary undertakings		**-**	-	**27.0**	62.0
Increase in loans to subsidiary undertakings	17a)	**-**	-	**(8.9)**	(106.8)
Purchase of non-controlling interests	17b)	**(0.2)**	-	**-**	-
Contingent consideration received in respect of prior year disposals of subsidiary undertakings		**-**	6.4	**-**	-
Other investing activities	34b)(i)	**(26.5)**	(18.1)	**(6.2)**	(2.8)
Net cash flows from investing activities		**(674.9)**	(560.0)	**(568.9)**	(592.1)
Cash flows from financing activities					
Exercise of share options in subsidiary management incentive scheme	28	**(2.5)**	(8.9)	**-**	-
Exercise of put options held by non-controlling shareholders		**(0.4)**	(3.0)	**-**	-
Proceeds from issue of subordinated liabilities		**350.0**	-	**350.0**	-
Interest paid on subordinated liabilities and subscribed capital		**(23.0)**	(11.8)	**(23.0)**	(11.8)
Interest paid on lease liabilities	27	**(2.3)**	(2.1)	**(0.2)**	(0.3)
Payment of lease liabilities	27	**(41.2)**	(50.7)	**(2.4)**	(2.4)
Net cash flows from financing activities		**280.6**	(76.5)	**324.4**	(14.5)
Net (decrease) / increase in cash and cash equivalents		**(320.9)**	1,134.3	**(265.6)**	1,112.0
Cash and cash equivalents at 1 January		**3,615.2**	2,481.0	**3,504.7**	2,392.8
Increase in impairment loss allowance on cash and cash equivalents		**-**	(0.1)	**-**	(0.1)
Cash and cash equivalents at 31 December		**3,294.3**	3,615.2	**3,239.1**	3,504.7

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

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Cash in hand and balances with the Bank of England		**3,266.2**	3,520.5	**3,266.2**	3,520.5
Mandatory reserve deposit with the Bank of England		**(106.6)**	(96.7)	**(106.6)**	(96.7)
		3,159.6	3,423.8	**3,159.6**	3,423.8
Loans and advances to credit institutions	10	**134.7**	191.4	**79.5**	80.9
Cash and cash equivalents at 31 December		**3,294.3**	3,615.2	**3,239.1**	3,504.7

The accompanying notes form part of these financial statements.

Notes to the Accounts

1. Accounting policies

The material accounting policy information relevant to these consolidated Annual Accounts is set out below.

a) Basis of preparation

The Annual Accounts of the Group and the Society are prepared on a going concern basis (see Directors' Report). The Annual Accounts are prepared in accordance with UK-adopted International Accounting Standards in accordance 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.

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.

Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of uncertainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of applicable accounting standards. We have considered the impact of transitioning to a low-carbon economy and the physical risks from climate change on key estimates in the financial statements. Consideration was given, in particular, to the impact of climate risks on areas of estimation, and our going concern assessment. Given the uncertainties on the extent and timing of the manifestation of climate-related risks, the Group is currently unable to determine the full future economic impact on our business model, operational plans and our customers, and therefore, the potential future impacts are not fully incorporated in these financial statements.

In accordance with the Group's climate strategy, budgets are in place across the Group to reduce emissions and to support wider ESG initiatives; progress made against emission reduction targets is monitored by management. As set out in the Strategic Report, the Group has during 2023 taken further tangible steps to support the drive for greener homes; this includes expansion of our EPC Plus scheme that offers free home energy reports to Society members and colleagues. The Group's long-term net zero targets are inherently aspirational, given the timelines involved and the major societal shifts needed. Long tail climate risk scenarios have been considered by management and the Board and are factored into the Group's planning.

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 material accounting policies

There have been no changes during the year to material accounting policies; however, the following accounting policy has been implemented in the year:

- Taxation – Pillar Two Model Rules (Amendments to IAS 12) (see Note 1j))

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.

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 International Financial Reporting Standard (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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

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 Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'. 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 through the Income Statement line 'Interest payable and similar charges'.

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. The derivative is designated in a hedge accounting relationship 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 this hedge relationship. 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.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of combination. Each unit or group of units to which the goodwill is so allocated shall a) represent the lowest level at which the goodwill is monitored for internal management purposes and b) not be larger than an operating segment; at Skipton Group level, the allocation of goodwill typically reflects the Group's operating segments.

The impairment test compares the carrying value of the CGU (or group of CGUs), 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 CGU (or group of CGUs) to present value (see Note 21). Future cash flows are ordinarily based upon the corporate plans of the CGUs 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 CGUs 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 CGU.

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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs), and then to reduce the carrying amounts of the other assets in the CGUs 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. Upfront costs that are attributable to a mortgage asset’s fixed interest rate period are amortised over that fixed rate period (or shorter period, if deemed appropriate). 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.

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 as the Society retains substantially all the risks and rewards relating to the loans.

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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

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.

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 to be classified as FVOCI. The FVOCI election can be made on an instrument-by-instrument basis. Equity share investments designated as FVOCI are not subject to impairment assessment.

In 2021 the Group made an equity share investment in Commercial and Northern Limited (formerly Bank North Limited) ('Bank North') and an election was made at initial recognition to designate this investment as FVOCI (see Note 17e)); the remainder of the Group's equity share investments are held at FVTPL (see page 128).

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 interest 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 Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'. Realised losses recognised on redemption of loans within the portfolio are recognised within the Income Statement line 'Impairment and provisions'.

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.

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 Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'.

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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

Where the Group enters into a cross-currency swap, as is the case for the issuance of Euro-denominated covered bonds (see page 123), the Group recognises the movement in the fair value of these derivatives as follows:

- Foreign exchange movements are recognised in the Income Statement line 'Interest payable and similar charges';
- Movements due to interest rate risk are recognised in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; and
- Movements due to foreign currency basis spread are recognised directly in the cost of hedging reserve as permitted by IFRS 9.

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 to be classified as FVOCI (see page 125).

The remainder of the Group's equity share investments are 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 amounts recognised in respect of share warrants held, or vested, in unlisted entities. Amounts are also recognised, where appropriate, for certain put options associated with these share warrants; these put options contain conditional contractual rights for the Group to put the warrants back to the counterparty at a future date in exchange for cash. The Group assessed for these assets 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 of share warrants is determined by reference to information included in independent third party valuations. The fair value of related put options is based on management's assessment of the likelihood that criteria to receive payment will be met and is discounted for the weighted average cost of capital.

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.

Within the Society's Statement of Financial Position, the deemed loan to the Society from Darrowby No. 5 plc is measured at amortised cost; management considers that amortised cost best reflects the economic value of the deemed loan, which is based on the value of the pool of mortgages that is used as collateral for the securitisation transaction (and this pool is 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, details of which are set out in Note 1e) and Note 17e)). 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 Expected Credit Losses (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.

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'.

Notes to the Accounts (continued)

1. Accounting policies (continued)

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 (pages 132);
- the account is in arrears (no minimum);
- the account term has expired; or
- the account has a temporary arrangement in place, arranged through the Mortgage Charter Scheme, to repay interest only.

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.

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.

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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

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.

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 2023 the Group has offset £22.6m (31 December 2022: £2.3m) 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.

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) 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. Current tax assets and current tax liabilities are offset within the Statement of Financial Position if, and only if, the Group has a legally enforceable right to offset the recognised amounts and intends either to settle the taxes in question on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax 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; in making this assessment, consideration is given to the likelihood of recovery within a reasonably foreseeable timeframe, typically the Group's five year corporate planning period. Deferred tax assets and deferred tax liabilities are offset if, and only if, the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and the Group has a legally enforceable right to offset the related current tax assets against the related current tax liabilities.

Notes to the Accounts (continued)

1. Accounting policies (continued)

Pillar Two Model Rules

In December 2021 the Organisation for Economic Co-operation and Development (OECD) published detailed rules to assist in the development of a landmark reform to the international tax system, including 'Pillar Two' tax rules which will apply to multinational enterprises with consolidated annual revenues of more than €750m and which seek to impose a minimum effective tax rate of 15% on each tax jurisdiction in which those enterprises operate.

IAS 12 Income Taxes does not offer specific guidance on accounting for Pillar Two income taxes; it is unclear whether the Pillar Two model rules create additional temporary differences, whether to remeasure deferred taxes for the Pillar Two model rules and which tax rate to use to measure deferred taxes. Further, the tax rate that will apply to an entity's excess profit in future periods depends on a number of factors that are difficult to forecast reliably.

In May 2023 the IASB published *International Tax Reform — Pillar Two Model Rules (Amendments to IAS 12)*. The Amendments introduce a temporary mandatory exception, applicable immediately and retrospectively, from accounting for deferred taxes that arise from the Pillar Two model rules and a requirement to disclose that the exception has been applied. The Amendments were adopted by the UK Endorsement Board on 19 July 2023; the Group adopted the Amendments with immediate effect and has, for the year ended 31 December 2023, applied the aforementioned exception from accounting for deferred taxes that arise from the Pillar Two model rules.

k) 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.

l) 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 currently operates three defined benefit pension schemes (one of which was previously a hybrid scheme prior to closure of the direct contribution element during 2023). Each scheme is administered by a corporate Trustee and the funds of these schemes 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 for the defined benefit schemes 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.

Remeasurements of 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.

m) 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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

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 typically recognised when the cash is received, which reflects the point at which income is earned and contractual obligations have been fulfilled; an element of lettings income has been assessed as transferred over time, in line with the performance obligations in the contract. 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 typically recognised on completion of the mortgage transaction; an element of this income has been assessed as transferred over time, in line with the performance obligations in the contract. 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.

Commercial property services

Income from commercial property services includes consultancy and advisory services, property management and valuation services. Income is recognised either at a point in time when services have been fully provided, or over a period of time as activity progresses and reflecting the satisfaction of performance obligations. Under certain service contracts, the Group manages client expenditure and is obliged to purchase goods and services from suppliers that are recharged to the customer at cost; such items are excluded from the amounts reported by the Group for revenue and for expenses.

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.

n) 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.

o) 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.

The Group's reportable segments have been revised with effect from 1 January 2023. Further details, together with information regarding the results of each reportable segment, are set out in Note 42.

p) 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.

q) 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'.

r) 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.

s) 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.

t) Software as a service (SaaS)

A SaaS arrangement is a type of cloud computing arrangement, in which the supplier provides the customer with access to application software residing on the supplier's cloud infrastructure; this infrastructure typically comprises a collection of hardware and software, including networks, servers, operating systems and storage. SaaS arrangements can include other services, such as technical support, implementation, data migration, business process mapping, training and project management. The customer typically pays an all-inclusive fee on a periodic basis. In addition, implementation costs may be incurred at inception of the arrangement.

Where the Group enters into a SaaS arrangement, the Group recognises a software asset only if such an asset is received at commencement of the arrangement, either in the form of an intangible asset or a software lease, and only from the date on which the Group obtains control of the software; otherwise, the arrangement is accounted for as a service contract.

When accounting for a SaaS arrangement as a service contract, fees paid by the Group are prepaid and amortised on a systematic basis over the period to which they relate. Subject to the terms of the arrangement, implementation costs associated with configuration and customisation of the software may also, where appropriate, be prepaid over the period to which they relate. All other costs associated with implementation, including internal time and resources, are expensed to the Income Statement as incurred.

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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

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).

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'). For IFRS 9 accounting purposes, 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. Further details are found in Note 1g).

Effective interest rate

The carrying value of financial 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.

During the year ended 31 December 2022, the judgements that are applied by the Group for the purposes of effective interest rate accounting were revised. These changes were to reflect management's updated assessment of whether certain interest rates represent 'market rates' or 'bargain rates' for this purpose. The changes were also to reflect management's updated assessment of whether certain pre-completion costs (PCCs) are attributable to solely the fixed interest rate period of related loans.

As a result of the above changes, the Group's effective interest rate adjustment no longer considers a 'blended' interest rate (i.e. it no longer anticipates the impact of variable rate cash flows that arise when a loan re-prices from one market rate to another). From the date of implementing these changes, the adjustment functions solely to defer and amortise PCCs over an appropriate period. PCCs that are attributable to a loan's fixed interest rate period are amortised over that fixed rate period (or shorter period, if deemed appropriate); previously such PCCs were amortised over the expected life (along with those PCCs that are not attributable to a fixed interest rate period). The impact of these changes on the Income Statements for the year ended 31 December 2022 was to reduce Group profit by £6.2m and to reduce Society profit by £5.5m; these changes do not impact the Income Statements (Group or Society) for the year ended 31 December 2023.

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).

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.

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.

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 and they are set with the aim of identifying accounts with significant increase in credit risk (SICR) before the borrower misses a payment. The Group periodically reviews the effectiveness of the SICR criteria in achieving this objective. The multiples applied by the Group, which remain unchanged since the prior year end, are set out below.

Lifetime PD band at initial recognition	Multiple by which remaining lifetime PD has increased compared with initial estimate	
	Applied at 31.12.23	Applied at 31.12.22
Slight risk	**initial estimate x 9**	initial estimate x 9
Low risk	**initial estimate x 5**	initial estimate x 5
Medium risk	**initial estimate x 4**	initial estimate x 4
High risk	**initial estimate x 1**	initial estimate x 1

The Group also applies 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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

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 2023 were determined with due consideration to the significant economic uncertainties arising from current inflationary pressures (domestic and global) and from the ongoing events in Ukraine and the Middle East.

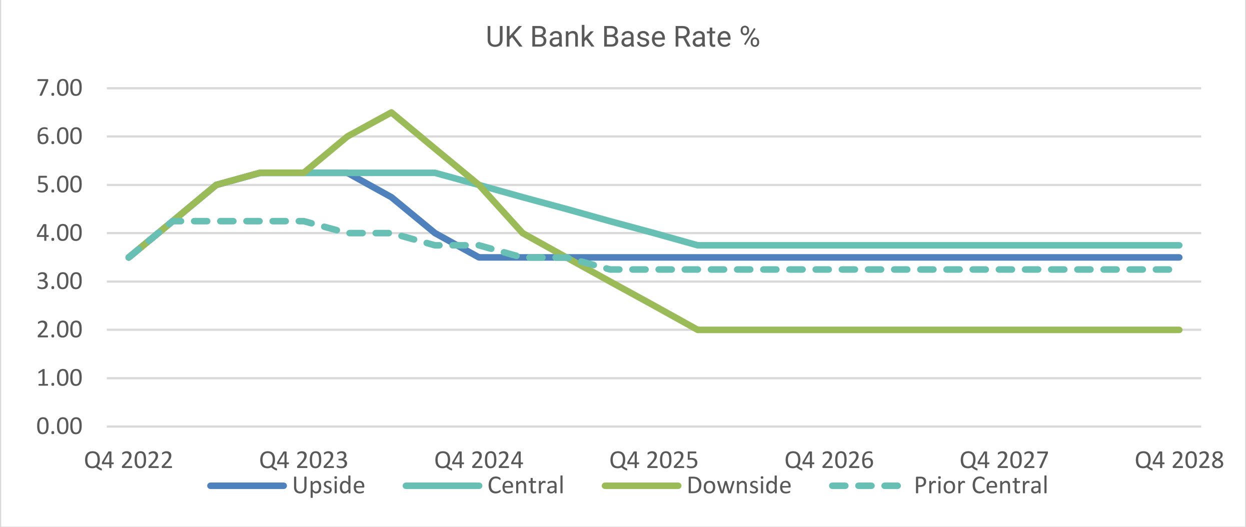
The Group's central scenario as at 31 December 2023 assumes the UK economy sees minimal growth in 2024. Geopolitical tensions continue into 2024, keeping the pressure on gas and oil prices. The cost of living crisis continues, though the impact for households is partly offset by steady wages growth. Businesses feel the impacts from inflation and rising wage bills. Unemployment rises slowly throughout 2024 and 2025, peaking in late 2026. Industrial disputes are managed without causing significant follow-on disruption to business. Inflation, having peaked at the end of 2022, remains above the 2% target until early 2026; in response, the Bank of England holds interest rates flat until commencing steady reductions from November 2024. House prices fall throughout 2024 and the first half of 2025, before a slow return to modest growth.

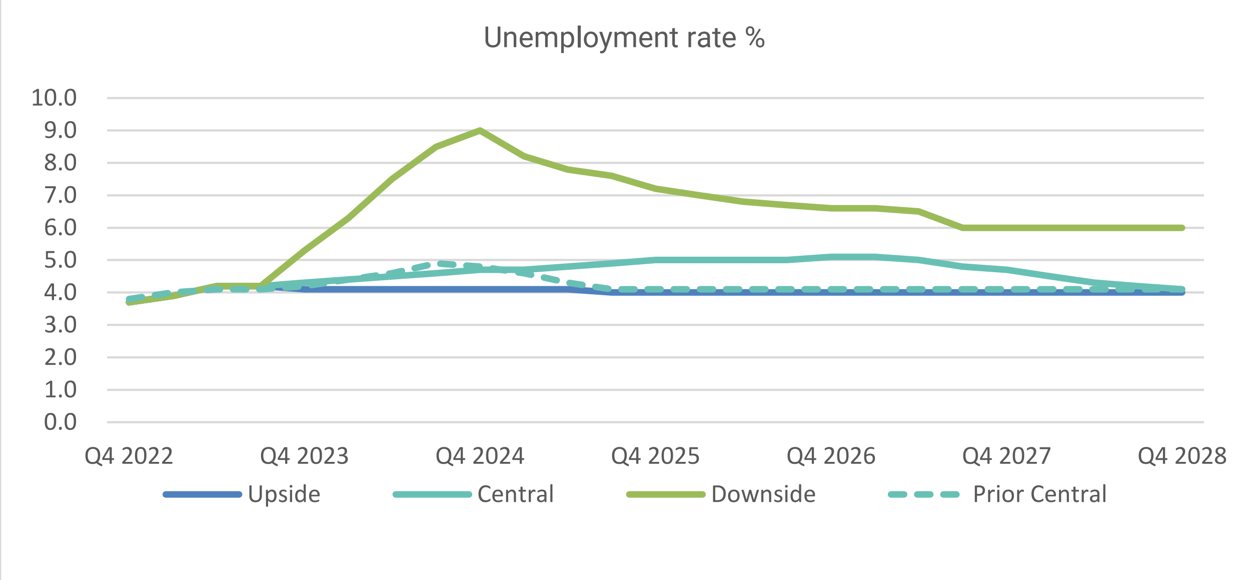
The Group's upside scenario as at 31 December 2023 assumes the economy shows stronger growth in 2024. Inflation eases quickly, achieving the 2% target by the second half of 2024; this allows the Bank of England to start reducing interest rates from mid-2024 in order to stimulate economic growth. Consumer confidence rises and unemployment remains low. House price growth recovers quickly in 2024 and into the medium-term.

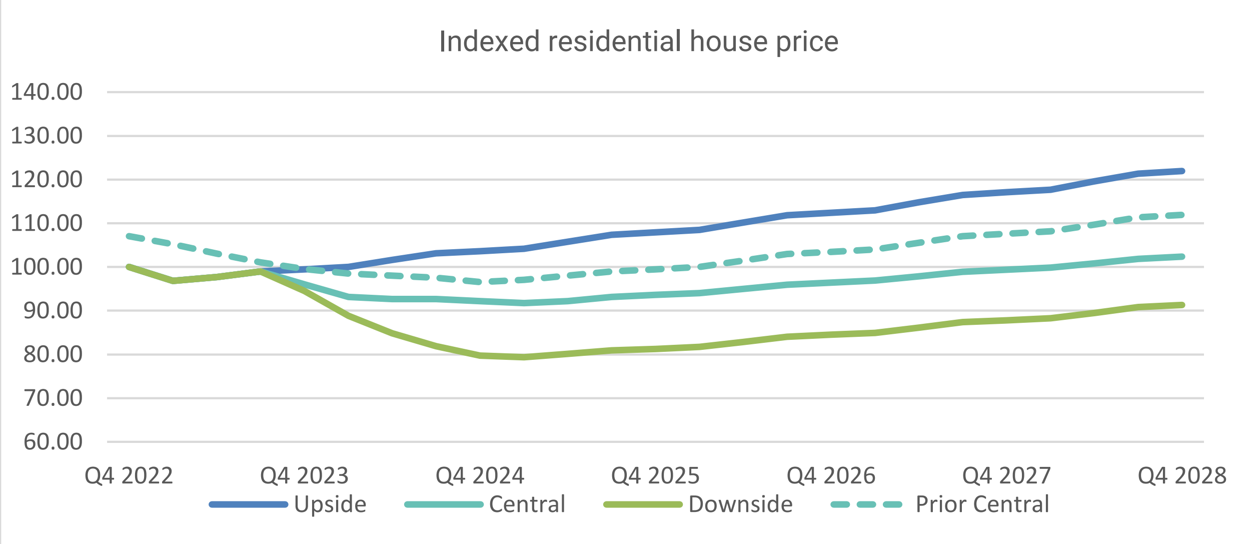
The Group's downside scenario as at 31 December 2023 assumes a period of severe stagflation, with high inflation and low growth. Geopolitical tensions escalate significantly, causing further pressure on oil and gas prices and supply chain difficulties. A climate event in 2024 causes food supply issues, resulting in further food inflation. Inflation remains high until 2026, which forces the Bank of England to resume increasing interest rates. This increases the pressure on hurting households and businesses alike; leading this leads to rising unemployment, house price falls and recessionary conditions. Industrial disputes and strikes become widespread, causing significant disruption to business. Interest rates peak in mid-2024, followed by a period of faster reductions, as the Bank of England attempt to stimulate the economy.

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. For years six to ten the Group applies phased transition assumptions, arriving at a view of long-run averages from year eleven onwards; the Group's view of long-run averages can differ from the historical long-term mean and is derived by reference to both external information, where this is publicly available and appropriate, and internally generated views. As noted above, the assumptions assigned to each scenario have been revised during the year taking account of significant economic uncertainties.

The graphs below show the historical and forecasted UK Bank Base Rate, unemployment rate and indexed residential house prices for the Group's three economic scenarios as at 31 December 2023, 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 2022 for illustrative purposes to show how a property value moves over time when the annual house price inflation (UK) assumptions are applied:







Notes to the Accounts (continued)

1. Accounting policies (continued)

Economic variables (annual rate)	Scenario	As at 31.12.23 2024	2025	2026	2027	2028
Bank of England Base Rate (%) *(note A)*	Upside	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**
	Central	**5.00**	**4.00**	**3.75**	**3.75**	**3.75**
	Downside	**5.00**	**2.50**	**2.00**	**2.00**	**2.00**
Unemployment (%) *(note A)*	Upside	**4.1**	**4.0**	**4.0**	**4.0**	**4.0**
	Central	**4.7**	**5.0**	**5.1**	**4.7**	**4.1**
	Downside	**9.0**	**7.2**	**6.6**	**6.0**	**6.0**
House price inflation (UK) (%) *(note B)*	Upside	**4.2**	**4.2**	**4.2**	**4.2**	**4.2**
	Central	**(4.0)**	**1.5**	**3.0**	**3.0**	**3.0**
	Downside	**(15.6)**	**1.9**	**4.0**	**4.0**	**4.0**
Commercial property price growth (%) *(note B)*	Upside	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
	Central	**(8.7)**	**(4.5)**	**1.0**	**1.0**	**1.0**
	Downside	**(18.6)**	**(3.2)**	**0.0**	**0.0**	**0.0**

	Scenario	As at 31.12.22 2023	2024	2025	2026	2027
Bank of England Base Rate (%) *(note A)*	Upside	3.50	3.50	3.50	3.50	3.50
	Central	4.25	3.75	3.25	3.25	3.25
	Downside	6.25	3.00	2.00	2.00	2.00
Unemployment (%) *(note A)*	Upside	3.9	4.1	3.8	3.8	3.8
	Central	4.2	4.8	4.1	4.1	4.1
	Downside	6.7	8.2	7.0	6.6	6.0
House price inflation (UK) (%) *(note B)*	Upside	2.0	4.2	4.2	4.2	4.2
	Central	(7.0)	(3.0)	3.0	4.0	4.0
	Downside	(15.1)	(11.2)	5.0	4.0	4.0
Commercial property price growth (%) *(note B)*	Upside	2.0	2.0	2.0	2.0	2.0
	Central	(8.7)	(4.5)	1.0	1.0	1.0
	Downside	(18.6)	(3.2)	0.0	0.0	0.0

Notes

A. The Bank of England Base Rates and unemployment rates are the position at 31 December each year.

B. House price inflation and commercial property price growth are the annual growth rate in each year. The Group's views for commercial property price growth are specific to the Group's own commercial portfolio and are not intended to reflect views for the entire UK commercial property market. In addition to house price inflation / commercial property price growth, 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.

Economic variables (peak or trough over 5 year forecast period)	2023 Upside	Central	Downside	2022 Upside	Central	Downside
Bank of England Base Rate (%) *(note A)*	**3.50 / 5.25**	**3.75 / 5.25**	**2.00 / 6.50**	3.50 / 3.50	3.25 / 4.25	2.00 / 6.25
Unemployment (%) *(note B)*	**4.1**	**5.1**	**9.0**	4.1	4.9	9.0
House price inflation (UK) (%) *(note C)*	**22.6 / 0.0**	**6.6 / (4.4)**	**0.0 / (16.0)**	20.1 / 0.0	0.6 / (9.8)	0.0 / (24.6)
Commercial property price growth (%) *(note C)*	**10.4 / 0.0**	**0.0 / (12.8)**	**0.0 / (21.2)**	10.4 / 0.0	0.0 / (12.8)	0.0 / (21.2)

Notes

A. For Bank of England Base Rate is shown the lowest/highest rate that occurs at any time during the 5 year forecast period.

B. For unemployment is shown the highest rate that occurs at any time during the 5 year forecast period.

C. For house price inflation and commercial property price growth is shown the largest cumulative growth/fall from 1 January 2024 (2022: from 1 January 2023) over the 5 year forecast period.

The relative weightings assigned to each scenario have also been revised during the period taking into account the severity of the Group's scenarios, which have been updated to reflect the significant economic uncertainties arising from current inflationary pressures (domestic and global) and from the ongoing events in Ukraine and the Middle East. The Group's scenario weightings as at 31 December 2023 were 55% for the central scenario, 10% for the upside scenario and 35% for the downside scenario (31 December 2022: 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).

Management assesses the performance of the Group's ECL estimation process by comparison of actual and expected model outputs; some component outputs are back-tested for lifetime outcomes and some component outputs are back-tested for 12 month outcomes. 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.

Where necessary, judgmental adjustments are included within ECLs to reflect identified risks not captured in model outputs; these adjustments are made through either:

- Post-model adjustments (PMAs) – adjustments to the ECL model output which are typically calculated, and allocated, at a granular level through modelled analysis; or
- Overlays – adjustments to the ECL model output that have been made outside the detailed ECL calculation and reporting process; overlays are likely not to meet the definition of PMAs (for example, they may not be calculated at a granular level through modelled analysis).

Each material judgmental adjustment is subject to review and challenge by the Society's Loan Impairment Working Group, subject to approval by the Group Chief Financial Officer and subject to oversight by the Board Audit Committee.

With respect to residential mortgages, the Group and the Society held judgmental adjustments as at 31 December 2023 as follows:

	Group 2023	Group 2022	Society 2023	Society 2022
Model risk - downturn scenario *(note A)*	**4.5**	7.3	**4.5**	7.3
Model risk – Base Rate *(note B)*	**5.3**	-	**5.3**	-
Affordability *(note C)*	**2.8**	3.1	**2.4**	2.6
Flats subject to fire safety risks *(note D)*	**1.3**	3.0	**1.3**	3.0
Other	**0.3**	(0.1)	**0.3**	(0.1)
	14.2	13.3	**13.8**	12.8

Notes

A. This PMA is held to address model risk in the downturn scenario where key assumptions are expected to behave differently in a recession; there is currently insufficient data available to establish, and thus to model, robust relationships for these assumptions. The PMA was derived by considering the reduction in redemption rates and reduction in cure rates (following default) as observed during the global financial crisis 2007-2008; these were applied to the model, on a judgement basis, to understand the impact to model outputs.

B. This PMA is held to address model risk where it may take longer than was true historically for borrowers to be impacted by the high Base Rate environment. The PMA was derived by assessing the impact on model outputs of applying a time lag to the inputted Base Rate assumptions.

C. As discussed on page 140, UK economic conditions are currently volatile; even where unemployment is low, the cost of living crisis may impact the ability of the Group's borrowers to meet scheduled loan repayments. This PMA is therefore held to reflect the risks associated with the cost of living crisis as key economic assumptions may behave differently from the recent past, including the historical data used to build the Group's loan impairment models.
With respect to the Society, high risk accounts are identified for this purpose by utilising the Society's new lending affordability assessment; loans are considered high risk if the current mortgage balance exceeds what the revised maximum loan amount would be. For those high risk accounts currently in Stage 1 (12-month ECLs), the PMA is applied such that lifetime losses are held. For those high risk accounts currently in Stage 2 (lifetime ECLs), the PMA is applied to reflect the estimated increase in probability of default (PD).
With respect to other Group entities, high risk accounts for UK buy-to-let are identified for this purpose where the borrower's estimated market rental income does not cover the borrower's forecast mortgage payment and / or mortgage interest calculated based on forecast interest rates. For non-UK mortgage accounts, high risk accounts are identified where the borrower's interest rate is forecast to increase by more than a certain threshold; thresholds are based on the median forecast interest rate increase for the relevant portfolio and / or the interest rate applied within the Group entity's new lending affordability assessment. For accounts identified as high risk, a PMA is held to reflect the impact of applying a Stage 2 PD to the account.

D. This PMA is held to reflect the risks associated with flats subject to fire safety risks such as unsuitable cladding. Due to limited available data to identify affected properties individually, an assumption is made, in line with UK market exposure estimates, regarding the affected proportion of flats in the Group / Society's residential portfolio; assumptions relating to property values have also been applied.

Notes to the Accounts (continued)

1. Accounting policies (continued)

To give an indication of the sensitivity of ECLs to different economic scenarios, the tables below show what the ECL would be if a 100% weighting is applied to each scenario. The tables also show for each scenario what percentage share of gross loan exposures would be held in each of Stage 1 and Stage 2.

2023	Scenario weighting			ECL *(note A)*				Share of gross exposures *(note B)*	
	Upside %	Central %	Downside %	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %
Residential:									
Actual probability weighted ECL	10	55	35	16.2	6.0	6.8	29.0	97.7	2.1
100% upside	100	-	-	4.2	2.3	3.6	10.1	98.2	1.5
100% central	-	100	-	8.3	4.4	5.6	18.3	98.0	1.8
100% downside	-	-	100	17.6	10.4	23.7	51.7	95.7	4.0
Commercial:									
Actual probability weighted ECL	10	55	35	0.6	6.6	1.8	9.0	67.4	28.0
100% upside *(note C)*	100	-	-	0.6	4.4	1.6	6.6	67.4	28.0
100% central *(note C)*	-	100	-	0.6	5.7	1.7	8.0	67.4	28.0
100% downside *(note C)*	-	-	100	0.7	8.6	1.8	11.1	67.4	28.0

2022	Scenario weighting			ECL *(note A)*				Share of gross exposures *(note B)*	
	Upside %	Central %	Downside %	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %
Residential:									
Actual probability weighted ECL	10	50	40	11.2	17.7	3.6	32.5	83.8	16.0
100% upside	100	-	-	1.9	2.2	2.2	6.3	95.8	3.9
100% central	-	100	-	4.1	5.8	3.3	13.2	92.7	7.1
100% downside	-	-	100	10.1	54.6	7.2	71.9	65.5	34.3
Commercial:									
Actual probability weighted ECL	10	50	40	1.3	7.8	0.8	9.9	66.2	29.4
100% upside *(note C)*	100	-	-	1.2	4.2	0.5	5.9	66.2	29.4
100% central *(note C)*	-	100	-	1.2	6.0	0.7	7.9	66.2	29.4
100% downside *(note C)*	-	-	100	1.4	11.1	0.9	13.4	66.2	29.4

Notes

A. For the purposes of calculating each scenario's 100% weighted ECL, each loan is allocated to a stage by considering only that scenario. For the purposes of the actual probability-weighted ECL, each loan's stage allocation is based on a weighted average PD (that takes account of all scenarios) and this stage allocation is held constant across the scenarios; a probability-weighted 12 month or lifetime ECL (which also takes account of all scenarios) is then calculated for each loan based on that stage allocation.

B. For the purposes of this analysis, gross exposures include the off-balance sheet loan commitments for which the Group holds ECLs (see Note 1g)).

C. For the Commercial portfolio, the staging of gross exposures is driven by arrears, watchlist cases and sector factors; the share of gross exposures held in each stage does not therefore vary according to scenario weightings.

The following tables outline the impact on the impairment loss allowance for the residential and commercial loan portfolios of possible alternative assumptions of 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. Similarly, the impacts of each sensitivity should not be extrapolated due to the likely non-linear effects.

Residential

Assumption	Change to current assumption	Group 2023	Group 2022	Society 2023	Society 2022
		Increase / (decrease) in impairment allowance			
		£m	£m	£m	£m
Downside scenario weighting *(note A)*	Absolute increase of 10%	**3.5**	7.2	**3.3**	7.1
Significant increase in credit risk criteria *(note B)*	Relative reduction by 25%	**0.4**	7.0	**0.4**	7.0
Future house price inflation *(note C)*	+ / - 0.5% pa	**(1.2) / 1.3**	(2.0) / 2.3	**(1.1) / 1.3**	(2.0) / 2.3
Unemployment *(note D)*	+ / - 0.5% pa	**2.8 / (2.3)**	5.3 / (4.0)	**2.8 / (2.3)**	5.3 / (4.0)

Notes

A. This sensitivity shows the impact of an increase of 10% to the probability weighting assigned to the downside scenario, from 35% to 45% (2022: from 40% to 50%), with a relative decrease to the probability weighting assigned to each of the central case and upside scenarios.

B. 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%.

C. This sensitivity shows the impact if annual house price inflation in each future year was 0.5% higher / lower than the assumptions applied by the Group or Society.

D. This sensitivity shows the impact if unemployment rates in each future year were 0.5% higher / lower than the assumptions applied by the Group or Society.

Commercial

Assumption	Change to current assumption	Group and Society 2023	2022
		Increase / (decrease) in impairment allowance	
		£m	£m
Downside scenario weighting *(note A)*	Absolute increase of 10%	**0.3**	0.6
Significant increase in credit risk criteria *(note B)*	10% of Stage 1 balances added to watchlist	**1.7**	2.0
Significant increase in credit risk criteria *(note B)*	10% of Stage 2 balances removed from watchlist	**(0.7)**	(0.9)
Future commercial property price growth	+ / - 0.5% pa	**(0.1) / 0.1**	(0.1) / 0.1

Notes

A. This sensitivity shows the impact of an increase of 10% to the probability weighting assigned to the downside scenario, from 35% to 45% (2022: from 40% to 50%), with a relative decrease to the probability weighting assigned to each of the base case and upside scenarios.

B. 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. These sensitivities show the impact of management identifying an additional 10% of Stage 1 gross loan balances to be placed on a watchlist and, separately, the impact of management identifying 10% of Stage 2 gross loan balances to remove from the 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 2023, the relative weightings assigned to each scenario were 95% for the central scenario and 5% for the downside scenario (2022: central scenario 95%; downside scenario 5%).

Notes to the Accounts (continued)

1. Accounting policies (continued)

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 2023	Group 2022	Society 2023	Society 2022
		Increase 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%	**1.2**	1.2	**1.1**	1.1

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, death 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 uncertainties in the current economic environment.

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 page 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 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.

A property volatility assumption of 13% (2022: 13%) is 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.

At 31 December 2023 the equity release portfolio is held in the Statement of Financial Position (Group and Society) at fair value of £293.3m (2022: £278.7m). The table below 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 2023	Group and Society 2022
		(Decrease) / increase in fair value of portfolio	
		£m	£m
Redemption rates	+ / - 1% pa	**(1.3) / 1.5**	(0.5) / 0.8
Illiquidity premia	+ / - 0.2%	**(4.9) / 5.1**	(5.0) / 5.1
HPI forecast	+ / - 0.5% pa	**5.2 / (5.5)**	5.3 / (5.6)
Property volatility	+ / - 1%	**(3.0) / 3.0**	(2.9) / 2.9
RPI volatility	+ / - 0.5% pa	**(0.9) / 0.5**	(1.2) / 1.0

For each of the above sensitivities there would be a corresponding charge / credit to the Income Statement within the line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL', 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.

Analysis has been undertaken to identify the impact of climate-related risks on the Group's equity release portfolio. This includes scenario analysis assessing the potential impact of alternative paths for the key inputs of the HPI forecast and yield curves. It also includes analysis looking at the specific characteristics of the equity release loan book, including modelled data on property specific risks. The results of these assessments did not lead to a change in carrying amounts as at 31 December 2023 or 31 December 2022. The future impact of climate-related risks on the Group's equity release portfolio is uncertain, and the Group will continue to monitor developments in future periods.

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.

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 has died) that are based on historical data (reviewed periodically against actuals) and published mortality tables. These redemption profiles are not market observable; an element of management judgement is therefore 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 2023	Group and Society 2022
		(Decrease) / increase in liability	
		£m	£m
Redemption rates *(note A)*	+ / - 1% pa	**(2.1) / 2.3**	(2.6) / 2.9
RPI volatility *(note A)*	+ / - 0.5% pa	**(2.3) / 1.8**	(3.1) / 2.6

Note

A. There would be a corresponding credit / charge to the Income Statement within the line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL', 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 2019 two members of Connells Limited senior management purchased equity shares in that company. 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 2023	Group 2022
		Increase / (decrease) in liability*	
		£m	£m
Connells group EBITDA	10% increase / decrease *(note A)*	**1.3 / (1.3)**	1.5 / (1.5)

* With a corresponding increase / decrease in the charge to the Income Statement.

Note

A. 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 indicates the increase / decrease to the liability that would result if it was assumed that Connells' group forecast EBITDA was 10% higher / lower each year (from 2024 to the assumed periods of exercise) than that included in its corporate plans.

Notes to the Accounts (continued)

1. Accounting policies (continued)

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 forecasted cash flows of the cash generating units (CGUs) are based on the latest detailed five year corporate plans available and are sensitive to, inter alia, 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 take into account management's most recent view of key economic indicators as well as wider prevailing circumstances. Further details regarding the key drivers of these cash flows, for each reportable segment to which goodwill has been allocated, are included in Note 21.

The discount rate used to discount the future expected cash flows is based on the cost of capital assigned to each reportable segment (see Note 21) and can have a significant effect on the underlying valuation. 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 not within management control; these inputs are therefore determined on the basis of management judgement.

Profit and cash flow forecasts are subject to inherent uncertainties, such as the impacts of physical and transition risks of climate change on the creditworthiness of borrowers, asset values, and other indirect effects including the erosion of the Group's competitiveness, profitability, or reputation.

Sensitivity disclosures are provided in Note 21.

Other intangible assets

Other intangible assets (see Note 21) such as computer software, databases, brands and customer contracts are regularly reviewed for indicators of impairment. Brands, which are regarded to have an indefinite life and are therefore not amortised, are tested for impairment at the end of each reporting period (or when there is an indication of impairment), using a similar methodology as described for goodwill above.

Brands are held by the Estate Agency division (see Note 21) and are judged by management to have an indefinite life. Management considers that the brands held have long and successful histories and have shown their ability to adapt to changing market trends. Further, continued investment in the brands by Connells group helps to protect their value.

Where brands exist, the impairment test compares the carrying amount of the cash generating unit (CGU) (which comprises the CGU's net assets, plus any brands relating to that CGU and any goodwill allocated to that CGU) against its recoverable amount. Recoverable amount is determined as the higher of its fair value less costs to sell and its value in use.

As described above, 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 and further detail on the key drivers of the underlying cash flows is shown in Note 21.

Other intangible assets, which are regarded to have a finite life, are tested for impairment whenever there is an indication that the intangible asset may be impaired.

No impairment was recognised against other intangible assets for the year ended 31 December 2023 (year ended 31 December 2022: no impairment).

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 2023	Group 2022	Society 2023	Society 2022
		(Decrease) / increase in liabilities			
		£m	£m	£m	£m
Discount rate	+ / -0.25% pa	**(6.5) / 6.9**	(6.5) / 6.8	**(3.0) / 3.2**	(3.0) / 3.2
Rate of inflation	+ / -0.5% pa	**4.6 / (4.4)**	4.7 / (4.6)	**2.2 / (2.1)**	2.2 / (2.2)
Rate of salary growth	+ / -0.5% pa	**-**	-	**-**	-
Commutation allowance	+ / -10% pa	**(0.5) / 0.6**	(0.7) / 0.7	**(0.2) / 0.2**	(0.2) / 0.2
Life expectancy	+ / -1 year	**7.1 / (7.1)**	7.1 / (7.2)	**2.8 / (2.8)**	2.6 / (2.6)

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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
On financial assets held at amortised cost:				
On loans fully secured on residential property	**855.1**	575.5	**763.8**	502.5
On other loans and advances:				
To subsidiary undertakings	**-**	-	**107.2**	41.9
Other	**25.1**	13.7	**9.0**	4.9
On other liquid assets	**170.9**	53.4	**167.8**	51.2
	1,051.1	642.6	**1,047.8**	600.5
On financial assets held at fair value through other comprehensive income:				
On debt securities	**109.6**	34.2	**107.0**	33.7
On financial instruments held at FVTPL:				
Net income on derivative financial instruments held to hedge assets in qualifying hedge accounting relationships	**585.7**	129.9	**585.7**	129.9
Interest receivable accounted for using the effective interest rate method	**1,746.4**	806.7	**1,740.5**	764.1
On financial instruments held at FVTPL:				
On loans and advances to customers	**0.1**	0.1	**0.1**	0.1
On equity release portfolio	**22.0**	22.7	**22.0**	22.7
On debt securities	**-**	-	**3.0**	0.9
Net income / (expense) on derivative financial instruments held to hedge assets in non-qualifying hedge accounting relationships	**11.5**	(7.0)	**-**	(9.6)
Other interest and similar income	**33.6**	15.8	**25.1**	14.1
	1,780.0	822.5	**1,765.6**	778.2

Notes to the Accounts (continued)

3. Interest payable and similar charges

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
On financial liabilities held at amortised cost:				
On shares held by individuals	**697.8**	225.9	**697.8**	225.9
On shares held by others	**4.4**	1.1	**4.4**	1.1
On subscribed capital	**4.5**	4.5	**4.5**	4.5
On deposits and other borrowings:				
Subordinated liabilities	**22.6**	7.3	**22.6**	7.3
Subsidiary undertakings	**-**	-	**70.4**	10.7
Wholesale and other funding	**306.8**	109.4	**210.2**	71.4
Lease liabilities	**2.3**	2.1	**0.3**	0.3
	1,038.4	350.3	**1,010.2**	321.2
On financial instruments held at FVTPL:				
Net expense on derivative financial instruments held for hedging liabilities	**198.9**	47.8	**158.9**	37.7
Finance credit on put option liability	**(0.1)**	-	**-**	-
Deemed loans from Group undertakings	**-**	-	**137.8**	62.4
	1,237.2	398.1	**1,306.9**	421.3

4. 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 1m).

Group	2023 Products and services transferred at a point in time £m	2023 Products and services transferred over time £m	2023 Total £m	2022 Products and services transferred at a point in time £m	2022 Products and services transferred over time £m	2022 Total £m
Mortgage origination fees	**46.4**	**27.6**	**74.0**	82.3	19.3	101.6
Other mortgage related fees	**2.3**	**-**	**2.3**	3.2	-	3.2
General insurance income	**84.5**	**1.0**	**85.5**	69.8	0.8	70.6
Commissions earned on property sales	**275.6**	**-**	**275.6**	329.1	-	329.1
Commissions earned on property lettings	**108.9**	**121.3**	**230.2**	97.7	113.1	210.8
Commercial property services fees	**44.7**	**37.4**	**82.1**	44.0	43.4	87.4
Survey and valuation fees	**93.2**	**-**	**93.2**	135.4	-	135.4
Asset management commission	**15.3**	**0.1**	**15.4**	8.1	4.2	12.3
Conveyancing fees	**56.8**	**-**	**56.8**	62.7	-	62.7
Financial advice fees	**32.4**	**-**	**32.4**	32.6	-	32.6
Software and consultancy fees	**-**	**19.2**	**19.2**	-	19.3	19.3
Factoring and invoice discounting services	**14.3**	**-**	**14.3**	12.9	-	12.9
Other fees and commissions	**10.3**	**2.4**	**12.7**	14.2	0.5	14.7
	784.7	**209.0**	**993.7**	892.0	200.6	1,092.6

Society	2023 Products and services transferred at a point in time £m	2023 Products and services transferred over time £m	2023 Total £m	2022 Products and services transferred at a point in time £m	2022 Products and services transferred over time £m	2022 Total £m
Mortgage related fees	**2.1**	**-**	**2.1**	3.0	-	3.0
General insurance income	**-**	**1.0**	**1.0**	-	0.8	0.8
Financial advice fees	**31.5**	**-**	**31.5**	31.6	-	31.6
Other fees and commissions	**-**	**-**	**-**	0.2	-	0.2
	33.6	**1.0**	**34.6**	34.8	0.8	35.6

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 2023	Society £m	SIL £m	Connells £m	Other^ £m	Total £m
Mortgage origination fees	-	-	76.2	(2.2)	74.0
Other mortgage related fees	2.1	0.2	-	-	2.3
General insurance income	1.0	-	84.5	-	85.5
Commissions earned on property sales	-	-	275.6	-	275.6
Commissions earned on property lettings	-	-	230.2	-	230.2
Commercial property services fees	-	-	82.1	-	82.1
Survey and valuation fees	-	-	102.6	(9.4)	93.2
Asset management commission	-	-	15.4	-	15.4
Conveyancing fees	-	-	57.4	(0.6)	56.8
Financial advice fees	31.5	-	-	0.9	32.4
Software and consultancy fees	-	-	-	19.2	19.2
Factoring and invoice discounting services	-	-	-	14.3	14.3
Other fees and commissions	-	0.1	12.6	-	12.7
Fees and commissions receivable	34.6	0.3	936.6	22.2	993.7
Fees and commissions payable and other income	5.3	-	(2.9)	(9.0)	(6.6)
Net non-interest income	39.9	0.3	933.7	13.2	987.1

Notes to the Accounts (continued)

4. Fees and commissions receivable (continued)

Group	2022 (restated*)				
	Society £m	SIL £m	Connells £m	Other^ £m	Total £m
Mortgage origination fees	-	-	101.6	-	101.6
Other mortgage related fees	3.0	0.3	-	(0.1)	3.2
General insurance income	0.8	-	69.8	-	70.6
Commissions earned on property sales	-	-	329.1	-	329.1
Commissions earned on property lettings	-	-	210.8	-	210.8
Commercial property services fees	-	-	87.4	-	87.4
Survey and valuation fees	-	-	135.4	-	135.4
Asset management commission	-	-	12.3	-	12.3
Conveyancing fees	-	-	62.7	-	62.7
Financial advice fees	31.6	-	-	1.0	32.6
Software and consultancy fees	-	-	-	19.3	19.3
Factoring and invoice discounting services	-	-	-	12.9	12.9
Other fees and commissions	0.2	-	14.5	-	14.7
Fees and commissions receivable	35.6	0.3	1,023.6	33.1	1,092.6
Fees and commissions payable and other income	7.0	-	(2.5)	(16.7)	(12.2)
Net non-interest income	42.6	0.3	1,021.1	16.4	1,080.4

^ As described in Note 42, the 'Other' category comprises segments that are not separately reportable, together with the impact of Group consolidation adjustments. The Other category therefore includes amounts relating to all Group entities except for the Society, SIL and Connells. Amounts relating to Group consolidation adjustments includes intra-group adjustments in relation to intercompany trading.

* As described in Note 42, the information shown above for the year ended 31 December 2022 is restated to reflect the revision of reportable segments. The Group's reportable segments are now assessed and presented at the operating entity level. The impacts of this change are presentational only and there is no impact on total Group amounts reported for the year ended 31 December 2022.

5. Other operating income and expenses

a) Fair value gains / (losses) on financial instruments mandatorily held at FVTPL

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Hedging instruments and hedged items	**(1.6)**	(0.7)	**4.7**	(14.0)
Derivatives associated with equity release portfolio (Note 15)	**1.8**	122.5	**1.8**	122.5
Equity release portfolio (Note 15)	**9.2**	(132.3)	**9.2**	(132.3)
Share warrants	**13.3**	12.1	**-**	-
Put options held by minority shareholders	**0.3**	0.2	**-**	-
Equity share investments (Note 17d))	**0.5**	(0.5)	**-**	-
Other financial instruments	**-**	-	**5.0**	(5.8)
	23.5	1.3	**20.7**	(29.6)

b) Other income

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Realised profits on treasury assets held at FVOCI	**0.1**	-	**0.1**	-
Share of profits from joint ventures	**1.1**	1.4	**-**	-
Profit on disposal of subsidiary undertakings	**-**	0.1	**-**	-
Other	**1.7**	2.5	**8.7**	9.7
	2.9	4.0	**8.8**	9.7

c) Administrative expenses

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Employee costs:				
Wages and salaries	**701.8**	695.5	**115.7**	103.1
Social security costs	**72.2**	75.8	**11.4**	10.8
Pension costs:				
Defined contribution arrangements (Note 31)	**26.6**	26.2	**7.7**	7.1
Past service costs (Note 31)	**(0.8)**	-	**(0.4)**	-
	799.8	797.5	**134.4**	121.0
Other administrative expenses	**425.0**	391.0	**109.7**	75.6
Central administrative costs recharged to Group undertakings	**-**	-	**(5.0)**	(5.0)
	1,224.8	1,188.5	**239.1**	191.6
Other administrative expenses comprise:				
Depreciation and amortisation (Notes 18, 19, 20 and 21)	**74.2**	76.8	**8.1**	8.1
Impairment losses / (credit) on property, plant and equipment, right-of-use assets and investment property (Notes 18, 19 and 20)	**2.3**	(0.5)	**0.2**	(1.1)
Impairment losses / (credit) on trade receivables (Note 40c))	**0.9**	0.3	**-**	(0.2)
Lease expense – items exempt from IFRS 16:				
Short-term leases	**0.8**	0.8	**0.8**	0.8
Other property and establishment costs	**46.1**	40.0	**6.4**	6.2
Postage and communications	**6.8**	48.4	**6.5**	5.5
IT costs	**66.5**	27.8	**23.3**	16.2
Marketing and advertising	**64.3**	54.4	**12.2**	11.4
Insurance	**11.8**	13.8	**3.7**	3.5
Legal, professional and consultancy	**59.7**	32.9	**43.6**	20.5
Training, recruitment and other employee related costs	**59.8**	52.1	**4.4**	3.9
Costs of Connells' management incentive scheme (Note 28)	**(0.3)**	(3.2)	**-**	-
Other	**32.1**	47.4	**0.5**	0.8
	425.0	391.0	**109.7**	75.6

Included within legal, professional and consultancy costs above are amounts relating to external auditor remuneration. The remuneration of the Group's external auditor, EY, is set out below (excluding VAT):

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Audit of the Society and Group Annual Accounts	**1.1**	1.1	**1.1**	1.1
Audit of the Group's subsidiary undertakings' accounts pursuant to legislation	**2.4**	2.5	**-**	-
Audit-related assurance services	**0.3**	0.2	**0.3**	0.2
	3.8	3.8	**1.4**	1.3

Notes to the Accounts (continued)

5. Other operating income and expenses (continued)

d) Impairment and provisions

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Impairment credits / (losses) on loans and advances to customers (Note 14)	**3.1**	(17.1)	**4.4**	(16.3)
Impairment credits / (losses) on liquid assets	**0.1**	(0.1)	**0.1**	(0.1)
Impairment of goodwill (Note 21)	**-**	(0.8)	**-**	-
Realised losses on equity release portfolio (Note 15)	**(0.8)**	(0.7)	**(0.8)**	(0.7)
Provisions for liabilities (Note 29)	**1.2**	(1.6)	**(0.3)**	(0.3)
	3.6	(20.3)	**3.4**	(17.4)

6. Employee numbers

The average number of full and part-time persons employed during the year (including Executive Directors) was as follows:

	Group 2023	Group 2022	Society 2023	Society 2022
Society principal office	**1,939**	1,869	**1,939**	1,869
Society branches	**481**	501	**481**	501
Subsidiary undertakings	**15,757**	15,658	**-**	-
	18,177	18,028	**2,420**	2,370

7. Directors' emoluments

Directors' emoluments are set out within the Directors' Remuneration Report.

Total Directors' emoluments for 2023 amounted to £3.3m (2022: £3.8m).

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	2023 £m	2022 £m
Salary, benefits and annual performance pay	**5.3**	5.4
Employer pension contributions	**0.2**	0.2
	5.5	5.6

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:

	2023 £000	2022 £000
Mortgage loans outstanding at 31 December	**1,019**	1,223
Savings balances at 31 December	**1,476**	1,415

Interest receivable and payable on the above accounts during the year was as follows:

	2023 £000	2022 £000
Interest receivable	**28**	19
Interest payable	**17**	9

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 2023 there were five (2022: nine) outstanding mortgage loans granted in the ordinary course of business amounting in aggregate to £1,019,284 (2022: £1,223,027) to four (2022: five) 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 £35.0m (2022: £32.8m) and £9.4m (2022: £8.8m) respectively to pension schemes.

Related party transactions

During the year the Society had the following related party transactions with subsidiary undertakings:

	2023 £m	2022 £m
Rendering and receiving of services	**0.1**	0.2
Recharges of central costs	**5.0**	5.0
Interest receivable	**107.2**	41.9
Interest payable	**(208.2)**	(73.1)
Mortgage referral, valuation and legal fees *(note A)*	**(11.2)**	(9.2)
Other income	**8.1**	7.9
Collateral transferred to funding vehicles	**932.3**	1,521.7
Collateral transferred from funding vehicles	**(62.2)**	(62.4)
Repayment of debt securities	**(15.4)**	(18.8)

Note

A. 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).

In 2021, Connells Limited acquired the entire share capital of Countrywide plc. In order to fund the transaction, enable Connells to repay existing borrowings in Countrywide and provide working capital, the Society agreed to provide a loan of £253.0m to Connells Limited on completion of the acquisition. As at 31 December 2023, the outstanding amount due from Connells to the Society in respect of this loan was £122.5m (2022: £124.5m). For 2023 the interest receivable by the Society in respect of this loan was £9.2m (2022: £5.2m) (included within interest receivable presented in the table above).

At 31 December 2023 the Society owed £922.7m (2022: £788.0m) to subsidiary undertakings and was owed £372.7m (2022: £363.8m) by subsidiary undertakings. The total amount owed by subsidiary undertakings as at 31 December 2023 includes the £122.5m (2022: £124.5m) outstanding in respect of the loan to Connells Limited, as described above. Interest on intra-Group borrowings is charged at an appropriate market rate. As at 31 December 2023 the Society recognised no impairment loss allowance in respect of loans to subsidiary undertakings, on the grounds of immateriality (2022: £nil).

As disclosed in Note 17a), the Society has for the year ended 31 December 2023 provided guarantees over the liabilities of Amber Homeloans Limited, Bailey Computer Services Limited, Jade Software Corporation UK Limited, Skipton Group Holdings Limited, Skipton Investments Limited, Skipton Mortgage Corporation Limited, Skipton Mortgages Limited and Skipton Trustees Limited. As at 31 December 2023 the financial statements of these subsidiary undertakings include aggregate liabilities of £51.7m, of which £43.4m is intra-group liabilities.

Notes to the Accounts (continued)

8. Related party transactions (continued)

At 31 December 2023 the Group was owed £nil (2022: £nil) by joint ventures and owed £nil (2022: £nil) to joint ventures. At 31 December 2023 the Group was owed £0.2m (2022: £0.3m) by entities in which the Group holds equity share investments.

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 2023 or 31 December 2022.

9. Tax expense

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Current tax:				
corporation tax on profits in the period	**81.3**	56.7	**75.2**	40.1
Adjustments in respect of previous periods	**(1.0)**	(2.0)	**(0.4)**	-
	80.3	54.7	**74.8**	40.1
Deferred tax (Note 30):				
Current year	**(2.0)**	6.1	**0.9**	1.5
Adjustments in respect of previous periods	**1.1**	2.6	**0.9**	0.3
Effects of changes in tax rates	**(0.6)**	4.4	**0.2**	2.0
	(1.5)	13.1	**2.0**	3.8
	78.8	67.8	**76.8**	43.9

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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Profit before tax	**333.4**	298.8	**310.7**	222.9
Share of profits from joint ventures, net of tax	**(1.1)**	(1.4)	**-**	-
	332.3	297.4	**310.7**	222.9
Tax calculated at standard UK corporation tax rate of 23.5% (2022: 19.0%)	**78.2**	56.5	**73.0**	42.4
Effects of:				
Expenses not deductible for tax purposes	**0.9**	1.1	**0.1**	0.5
Adjustment to tax expense in respect of prior periods	**0.1**	0.6	**0.5**	0.3
Non-taxable dividend income	**-**	-	**(6.4)**	(11.8)
Other non-taxable income	**(1.7)**	(1.6)	**-**	(0.3)
Corporation tax rate change	**(0.6)**	4.4	**0.2**	2.0
Lower tax rates in other jurisdictions (see below)	**(6.4)**	(3.5)	**-**	-
Banking companies surcharge	**9.1**	10.6	**9.1**	10.6
Recognition of previously unrecognised tax losses	**(0.7)**	(0.2)	**-**	-
Other	**(0.1)**	(0.1)	**0.3**	0.2
Tax expense	**78.8**	67.8	**76.8**	43.9

The effective tax rate for the Group for the year ended 31 December 2023 is 23.7% (2022: 22.8%) compared with the standard rate of UK corporation tax of 23.5% (2022: 19.0%). The Group's effective rate is higher than the standard rate due mainly to the impact of the banking companies surcharge (see below), as well as expenditure disallowable for tax purposes. This is offset by, for example, the impacts of non-taxable income and the lower tax rate in Guernsey which applies to the taxable profits of Skipton International Limited. For 2023, other non-taxable income includes the £0.3m credit for the Connells management incentive scheme (2022: £3.2m credit) (see Note 28).

The effective tax rate for the Society for the year ended 31 December 2023 is 24.7% (2022: 19.7%). The Society's taxable profits above £100m are subject to a 3% banking companies surcharge (up to and including 31 March 2023, taxable profits above £25m were subject to an 8% surcharge). The effective rate of tax is also impacted by non-taxable dividend income of £27.0m (2022: £62.0m).

OECD Pillar Two Model Rules

The Skipton Group is within the scope of the OECD Pillar Two model rules. Pillar Two legislation was enacted in the UK during 2023 and came into effect from 1 January 2024. Since the Pillar Two legislation was not effective at the reporting date, the Group has no related current tax exposure as at the reporting date. In addition, the Group has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 *Income Taxes* issued in May 2023.

Under the Pillar Two legislation, each company in the Group may be liable to pay a qualified domestic minimum top-up tax (QDMTT) where their domestic operations have an effective tax rate of less than 15% and where the tax jurisdiction in question has adopted, locally, the Pillar Two rules.

Where the effective tax rate, as calculated under the Global Anti-Base Erosion (GloBE) Rules, remains below 15%, the Group will be liable for a further global top-up tax. This global top-up tax will also apply to the Group in respect of jurisdictions that do not adopt, or have not yet adopted, the Pillar Two rules.

The Group is in the process of assessing its exposure to the Pillar Two legislation based on the most recent tax filings, tax country-by-country reporting filings and financial statements available for its constituent entities. Based on the assessment, the Group has identified that all jurisdictions in which the Group currently operates are not expected to be subject to Pillar Two top-up taxes on the basis that either the effective tax rate exceeds 15% or the criteria of the Transitional CbCR Safe Harbour rules are expected to be met, with the exception of Guernsey and Jersey.

For 2023, the average effective tax rates (calculated in accordance with paragraph 86 of IAS 12) of the Group's operations in Guernsey and Jersey are:

	Guernsey *(note A)*	Jersey *(note B)*
Tax expense for the year ended December 2023	**£4.0m**	**£0.7m**
Accounting profit for the year ended 31 December 2023	**£41.1m**	**£7.0m**
Average effective tax rate	**9.7%**	**10.0%**

Notes
A. The companies operating in Guernsey are Skipton International Limited and Windward Insurance PCC Ltd Countrywide Assurance Group Cell.
B. The company operating in Jersey is Skipton International Limited.

The proportion of the Group's profit before tax from continuing operations for the year ended 31 December 2023 that would have been subject to Pillar Two top-up taxes is approximately 14% (Guernsey and Jersey are 12% and 2% respectively). Furthermore, the proportion of profit before tax and the effective tax rates in 2024 will depend on various factors.

Although the average effective tax rate for the year ended 31 December 2023 is below 15% in these jurisdictions, the Group might not necessarily be exposed to paying Pillar Two income taxes in relation to Guernsey or Jersey. This is due to the impact of specific adjustments in the Pillar Two legislation which give rise to different effective tax rates compared to those calculated in accordance with paragraph 86 of IAS 12, which the Group is in the process of assessing.

Due to the complexities in applying the legislation and calculating GloBE income, the quantitative impact of the enacted legislation is not yet reasonably estimable. Furthermore, even for those entities with an accounting effective tax rate above 15%, there may still be Pillar Two tax implications. The Group is currently engaged with tax specialists in order to assist it with applying the legislation.

Notes to the Accounts (continued)

10. Loans and advances to credit institutions

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Gross carrying amount	**488.8**	631.9	**497.7**	621.6
Loss allowance	**-**	-	**-**	-
Net carrying amount	**488.8**	631.9	**497.7**	621.6

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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Repayable on demand:				
Cash and cash equivalents	**134.7**	190.9	**79.5**	80.9
	134.7	190.9	**79.5**	80.9
In not more than three months:				
Cash and cash equivalents	**-**	0.5	**-**	-
Other loans and advances to credit institutions	**-**	0.3	**-**	-
	-	0.8	**-**	-
In more than three months but not more than one year:				
Other loans and advances to credit institutions	**0.5**	-	**0.5**	-
	0.5	-	**0.5**	-
No specified maturity:				
Cash pledged as collateral	**353.6**	440.2	**417.7**	540.7
	353.6	440.2	**417.7**	540.7
Total loans and advances to credit institutions	**488.8**	631.9	**497.7**	621.6
Total included within cash and cash equivalents	**134.7**	191.4	**79.5**	80.9

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 UK European Market Infrastructure Regulation (UK EMIR). Under the arrangements for cleared derivatives, additional collateral is required to protect the central clearing counterparty against credit risk of the counterparties and to cover intra-day market movements and possible variations in the future valuations of the derivative contracts. At 31 December 2023 the Group and Society pledged £309.6m (2022: £378.3m) of this additional collateral, which is included in the total on-balance sheet cash pledged as collateral against derivative contracts below.

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 34 years (2022: 35 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 2023 the Group has no cash (2022: £nil) pledged as collateral in repurchase arrangements.

Total on-balance sheet cash pledged as collateral against derivative contracts at 31 December 2023 is £353.6m for the Group (2022: £440.2m) and £417.7m for the Society (2022: £540.7m). Off-balance sheet cash held against derivative contracts at 31 December 2023 is £603.5m (2022: £1,025.1m) for both the Group and the Society.

Cash and cash equivalents in the Group in 2022 included £4.0m relating to Connells group deposits that could be used for restricted purposes only.

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	2023 FVOCI and Total £m	2022 FVOCI and Total £m
Gilts	**409.2**	288.3
Certificates of deposit	**97.9**	282.5
Fixed rate bonds	**584.0**	554.9
Floating rate notes	**219.8**	260.3
Treasury bills	**860.0**	367.9
Covered bonds	**758.6**	561.1
Residential mortgage backed securities	**408.2**	325.3
	3,337.7	2,640.3
Debt securities have remaining maturities as follows:		
In not more than three months	**487.7**	245.7
In more than three months but not more than one year	**942.7**	744.7
In more than one year but not more than five years	**1,477.2**	1,347.4
In more than five years	**430.1**	302.5
	3,337.7	2,640.3
Transferable debt securities comprise:		
Listed on a recognised investment exchange	**3,239.8**	2,357.8
Unlisted	**97.9**	282.5
	3,337.7	2,640.3

Notes to the Accounts (continued)

11. Debt securities (continued)

Society	2023 FVOCI £m	2023 FVTPL £m	2023 Total £m	2022 FVOCI £m	2022 FVTPL £m	2022 Total £m
Gilts	369.3	-	369.3	234.8	-	234.8
Certificates of deposit	97.9	-	97.9	282.5	-	282.5
Fixed rate bonds	584.0	-	584.0	554.9	-	554.9
Floating rate notes	169.6	-	169.6	169.5	-	169.5
Treasury bills	702.9	-	702.9	318.5	-	318.5
Covered bonds	758.6	-	758.6	561.1	-	561.1
Residential mortgage backed securities	461.1	63.1	524.2	393.3	58.1	451.4
	3,143.4	63.1	3,206.5	2,514.6	58.1	2,572.7
Debt securities have remaining maturities as follows:						
In not more than three months	392.0	-	392.0	218.3	-	218.3
In more than three months but not more than one year	844.1	63.1	907.2	667.3	-	667.3
In more than one year but not more than five years	1,477.2	-	1,477.2	1,326.5	58.1	1,384.6
In more than five years	430.1	-	430.1	302.5	-	302.5
	3,143.4	63.1	3,206.5	2,514.6	58.1	2,572.7
Transferable debt securities comprise:						
Listed on a recognised investment exchange	3,045.5	63.1	3,108.6	2,232.1	58.1	2,290.2
Unlisted	97.9	-	97.9	282.5	-	282.5
	3,143.4	63.1	3,206.5	2,514.6	58.1	2,572.7

The tables below provide further detail on the movement in debt securities during the year.

Group	2023 FVOCI and Total £m	2022 FVOCI and Total £m
At 1 January	2,640.3	2,193.2
Additions	2,476.7	1,995.5
Maturities and disposals	(1,828.4)	(1,447.2)
Changes in fair value	49.2	(100.7)
Other	(0.1)	(0.5)
At 31 December	3,337.7	2,640.3

Society	2023 FVOCI £m	2023 FVTPL £m	2023 Total £m	2022 FVOCI £m	2022 FVTPL £m	2022 Total £m
At 1 January	2,514.6	58.1	2,572.7	2,069.6	63.9	2,133.5
Additions	2,294.0	-	2,294.0	1,857.5	-	1,857.5
Maturities and disposals	(1,713.1)	-	(1,713.1)	(1,313.0)	-	(1,313.0)
Changes in fair value	47.9	5.0	52.9	(99.5)	(5.8)	(105.3)
At 31 December	3,143.4	63.1	3,206.5	2,514.6	58.1	2,572.7

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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Loss allowance at 1 January	0.3	0.3	0.4	0.4
Increases due to origination, acquisition and additions	0.1	0.2	0.1	0.2
Decrease due to derecognition, repayments and disposals	(0.2)	(0.2)	(0.2)	(0.2)
Loss allowance at 31 December	0.2	0.3	0.3	0.4

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 2023 £4.0m (2022: £0.5m) of debt securities have been pledged by the Group, and £213.3m (2022: £214.4m) 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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Fixed rate bonds	4.0	0.5	4.0	0.5
Treasury bills	-	-	209.3	213.9
Total on-balance sheet debt securities pledged as collateral	4.0	0.5	213.3	214.4

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 2023, the Group's repurchase agreements have a contractual period of up to three months (2022: three months).

There were no debt securities held by the Group or the Society at the end of 2023 or 2022 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	2023 £m	2022 £m
Carrying value of assets	408.2	325.3
Cumulative unrealised (gains) / losses recognised in fair value reserve	(1.4)	0.5
Maximum exposure to loss at 31 December	406.8	325.9

During the year, the Group and Society received interest income of £18.8m (2022: £4.3m) from its investments in unconsolidated structured entities and incurred impairment charges of £nil (2022: £nil). In addition, unrealised gains recognised through the fair value reserve were £1.9m (2022: £nil).

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.

Notes to the Accounts (continued)

11. Debt securities (continued)

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 2023 the Society also held £52.9m (2022: £68.0m) of residential mortgage backed securities held at FVOCI and £63.1m (2022: £58.1m) of residential mortgage backed securities held at FVTPL that were issued by the Group's securitisation vehicle Darrowby No. 5 plc.

12. Loans and advances to customers held at amortised cost

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Loans fully secured on residential property	**28,163.3**	25,064.8	**26,086.1**	23,174.9
Loans fully secured on land	**126.2**	149.4	**126.2**	149.4
Other lending:				
Debt factoring advances	**169.6**	149.4	**-**	-
Other loans	**53.2**	55.5	**-**	-
Fair value adjustment for hedged risk	**(350.9)**	(966.8)	**(347.4)**	(964.8)
	28,161.4	24,452.3	**25,864.9**	22,359.5
The remaining maturity of loans and advances to customers from the reporting date is as follows:				
On call and at short notice	**169.7**	147.4	**2.6**	2.1
In not more than three months	**22.5**	22.9	**22.4**	22.4
In more than three months but not more than one year	**49.1**	43.3	**46.8**	41.5
In more than one year but not more than five years	**893.2**	856.1	**850.9**	754.2
In more than five years	**27,066.5**	23,426.2	**24,979.1**	21,581.1
	28,201.0	24,495.9	**25,901.8**	22,401.3
Less: Impairment (Note 14)	**(39.6)**	(43.6)	**(36.9)**	(41.8)
	28,161.4	24,452.3	**25,864.9**	22,359.5

Included in loans fully secured on residential property is a £12.2m adjustment for Group (2022: £12.2m) and a £28.7m adjustment for Society (2022: £26.7m) due to applying the effective interest method of accounting for these mortgages (see Note 1u) for further details).

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. 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 2023, loans and advances to customers held at amortised cost include £3,882.3m (2022: £3,786.8m) 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. 5 plc (£301.4m; 2022: £366.5m) and Skipton Covered Bonds LLP (£3,580.9m; 2022: £3,420.3m). These loans secure £2,437.5m (2022: £2,635.9m) 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 2023 the balance on the deemed loan repayable to Darrowby No. 5 plc, which represents the proceeds received for the transferred financial assets, included in 'Amounts owed to other customers' in the Society was £301.4m (2022: £366.5m).

At 31 December 2023 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 2023 was £2,148.0m (2022: £2,304.8m).

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 2023	**Loans fully secured on residential property £m**	**Loans fully secured on land £m**	**Other loans and advances £m**	**Total £m**
Loss allowance at 1 January 2023	**32.5**	**9.9**	**1.2**	**43.6**
Amounts written off during the year, net of recoveries	**(0.5)**	**-**	**(0.4)**	**(0.9)**
Income statement (credit) / charge for the year	**(3.0)**	**(0.9)**	**0.8**	**(3.1)**
Loss allowance at 31 December 2023	**29.0**	**9.0**	**1.6**	**39.6**

Group 2021	Loans fully secured on residential property £m	Loans fully secured on land £m	Other loans and advances £m	Total £m
Loss allowance at 1 January 2022	10.9	16.2	1.0	28.1
Amounts written off during the year, net of recoveries	(0.2)	(1.3)	(0.1)	(1.6)
Income statement charge / (credit) for the year	21.8	(5.0)	0.3	17.1
Loss allowance at 31 December 2022	32.5	9.9	1.2	43.6

Society 2023	**Loans fully secured on residential property £m**	**Loans fully secured on land £m**	**Total £m**
Loss allowance at 1 January 2023	**31.9**	**9.9**	**41.8**
Amounts written off during the year, net of recoveries	**(0.5)**	**-**	**(0.5)**
Income statement credit for the year	**(3.5)**	**(0.9)**	**(4.4)**
Loss allowance at 31 December 2023	**27.9**	**9.0**	**36.9**

Society 2022	Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m
Loss allowance at 1 January 2022	10.8	16.2	27.0
Amounts written off during the year, net of recoveries	(0.2)	(1.3)	(1.5)
Income statement charge / (credit) for the year	21.3	(5.0)	16.3
Loss allowance at 31 December 2022	31.9	9.9	41.8

Notes to the Accounts (continued)

15. Equity release portfolio held at FVTPL

Movements during the year in the equity release portfolio are outlined below.

	Group and Society	
	2023	2022
	£m	£m
At 1 January	**278.7**	406.6
Redemptions	**(3.7)**	(5.0)
Further advances	**-**	0.1
Movements in fair value	**9.2**	(132.3)
Realised losses on redemption	**(0.8)**	(0.7)
Accrued interest	**9.9**	10.0
At 31 December	**293.3**	278.7

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). With respect to the significant fair value movements seen in the prior year ended 31 December 2022, this was driven principally by the rising interest rate environment; the discount rate applied to the equity release portfolio is linked to the market-driven SONIA curve which, being correlated to bank Base Rate, had increased during that year.

The Group holds derivative financial instruments to economically hedge the movements in fair value of the equity release portfolio. The movement in fair value of the derivatives held to hedge the equity release portfolio during the year was a £1.8m gain (2022: £122.5m gain) and is included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'.

The equity release portfolio comprises loans against which collateral is held in the form of property in the UK. As at 31 December 2023 this collateral was valued at £553.5m (2022: £600.7m).

16. Loans and advances to customers held at FVTPL

Movements during the year are outlined below.

	Group and Society	
	2023	2022
	£m	£m
At 1 January	**1.0**	1.2
Repayments	**(0.2)**	(0.3)
Accrued interest	**0.1**	0.1
At 31 December	**0.9**	1.0

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 2023 at £5.8m (2022: £7.0m).

17. Investments

a) Subsidiary undertakings

The net movement in investments in subsidiary undertakings during the year was as follows:

Society	Shares in subsidiary undertakings		Loans to subsidiary undertakings		Total	
	2023	2022	**2023**	2022	**2023**	2022
	£m	£m	**£m**	£m	**£m**	£m
Cost						
At 1 January	**183.5**	183.5	**363.8**	257.0	**547.3**	440.5
Additions	**-**	-	**12.9**	109.7	**12.9**	109.7
Repayments	**-**	-	**(4.0)**	(2.9)	**(4.0)**	(2.9)
At 31 December	**183.5**	183.5	**372.7**	363.8	**556.2**	547.3
Provisions						
At 1 January	**78.1**	78.1	**-**	-	**78.1**	78.1
At 31 December	**78.1**	78.1	**-**	-	**78.1**	78.1
Net book value at 31 December	**105.4**	105.4	**372.7**	363.8	**478.1**	469.2

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	Ownership interest 2023 %	2022 %
Connells Limited and subsidiary undertakings*	Estate agency and related businesses	Cumbria House, 16-20 Hockliffe Street, Leighton Buzzard, Bedfordshire, LU7 1GN	**99.96**	99.93
Darrowby No. 5 plc	Funding vehicle	10th Floor, 5 Churchill Place, London, E14 5HU	**(See below)**	(See below)
Jade Software Corporation Limited and subsidiary undertakings	Provider of software development services	5 Sir Gil Simpson Drive, Christchurch 8053, New Zealand	**100**	100
Northwest Investments NZ Limited	Provider of software development services	C/- Bell Gully, Level 22 Vero Centre, 48 Shortland Street, Auckland 1010, New Zealand	**100**	100
Skipton Business Finance Limited	Provider of debt factoring services	The Bailey, Skipton, North Yorkshire, BD23 1DN	**100**	100
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**	100
Skipton Group Holdings Limited (SGHL)	Intermediate holding company	The Bailey, Skipton, North Yorkshire, BD23 1DN	**100**	100
Skipton International Limited (SIL)	Offshore deposit taker and lender	Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 6DS	**100**	100
Skipton Trustees Limited	Provider of will writing services	The Bailey, Skipton, North Yorkshire, BD23 1DN	**100**	100

* Indicates where an option to purchase non-controlling interests in the future exists.

Notes to the Accounts (continued)

17. Investments (continued)

The Group also continues to hold 100% (2022: 100%) in the former lending entities Amber Homeloans Limited and North Yorkshire Mortgages Limited, both of which ceased active trading in 2021.

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.

For the year ended 31 December 2023, the Society has provided guarantees over the liabilities of the following subsidiary undertakings; these are thereby exempt from audit for the year ended 31 December 2023, as permitted by Section 479A of the Companies Act 2006:

- Amber Homeloans Limited
- Bailey Computer Services Limited
- Jade Software Corporation Limited
- Skipton Group Holdings Limited
- Skipton Investments Limited
- Skipton Mortgage Corporation Limited
- Skipton Mortgages Limited
- Skipton Trustees Limited

Consolidation of special purpose vehicles (SPVs)

Darrowby No. 5 plc is a securitisation vehicle 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

During 2023 Connells Limited purchased a number of small businesses for total consideration of £1.8m (of which £0.5m is deferred), generating goodwill of £1.0m. In addition, Connells Limited purchased non-controlling interests in an existing subsidiary undertaking, Vibrant Energy Matters Limited, for cash consideration of £0.2m. In the prior year Connells Limited purchased a number of small businesses for total consideration of £1.0m (of which £0.3m was deferred), generating goodwill of £0.3m.

c) Joint ventures

At 31 December 2023, the Group held interests in the following companies that are classed as joint ventures:

Name of investment	Principal business activity	Class of shares held	Ownership interest 2023 %	Ownership interest 2022 %	Carrying value 2023 %	Carrying value 2022 %
Cybele Solutions Holdings Limited*	Conveyancing services	Ordinary	**50.0**	50.0	**10.3**	10.1

* Registered office is Bickerton House, Lloyd Drive, Ellesmere Port, Cheshire CH65 9HQ

The Group's combined share of net assets and the Group's combined share of profit after tax for the above joint venture are presented within the Statement of Financial Position and the Income Statement respectively. The Directors reviewed the carrying value of the joint venture during the year and considered that no impairment adjustment was required (2022: £nil).

d) Equity share investments mandatorily held at FVTPL

At 31 December 2023, the Group held interests in the following companies:

Name of investment	Principal business activity	Ownership interest 2023 %	Ownership interest 2022 %	Carrying value 2023 £m	Carrying value 2022 £m
Hearthstone Investments Limited	Property fund management	**17.1**	17.1	**-**	-
OnTheMarket plc	Property search provider	**0.03**	0.2	**-**	0.1
Viewber Limited	Property viewings services	**3.2**	3.2	**0.4**	0.3
Global Property Ventures Limited	Property management services	**14.2**	7.2	**0.2**	-
Twenty7Tec Group Ltd	Software application provider	**3.9**	2.4	**1.2**	0.8
Hammer PW Topco Limited	Property technology services	**6.9**	-	**8.7**	-
				10.5	1.2

The movement during the year in the Group's equity share investments mandatorily held at FVTPL is analysed below:

	Group 2023 £m	Group 2022 £m
At 1 January	**1.2**	1.7
Additions	**8.9**	-
Disposals	**(0.1)**	-
Fair value gains / (losses) recognised in Income Statement	**0.5**	(0.5)
At 31 December	**10.5**	1.2

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, Global Property Ventures Limited and Twenty7Tec Group Ltd are based on the amounts invested by the Group; management considers that this represents the best indication of fair value as at 31 December 2023 for each of these investments. The carrying value of the Group's investment in Hammer PW Topco Limited is based on a third party valuation of that business. The investment in Hearthstone Investments Limited has been written down in full in previous years.

e) Equity share investments designated at FVOCI

At 31 December 2023, the Group held interests in the following companies:

Name of investment	Principal business activity	Ownership interest 2023 %	Ownership interest 2022 %	Carrying value 2023 £m	Carrying value 2022 £m
Commercial and Northern Limited (formerly Bank North Limited)	Financial Intermediary	**-**	12.6	**-**	-

The movement during the year in the Group's equity share investments designated at FVOCI is analysed below:

	Group 2023 £m	Group 2022 £m
At 1 January	**-**	8.5
Fair value losses recognised in other comprehensive income	**-**	(8.5)
At 31 December	**-**	-

Notes to the Accounts (continued)

17. Investments (continued)

Unlisted investments

In August 2021 the Group invested £6.0m in a start-up challenger bank, Commercial and Northern Limited (formerly Bank North Limited) ('Bank North'). As outlined in Note 1e), the Group elected under IFRS 9 to designate this equity share investment to be held at FVOCI. In the second half of 2022, amidst worsening economic and market conditions, Bank North was unable to raise the further funds required to obtain its full banking licence; as a result, Bank North commenced wind-down of its operations and subsequently entered liquidation in early 2023. The fair value of the Group's equity investment in Commercial and Northern Limited (formerly Bank North Limited) was therefore reduced during 2022 to £nil.

In December 2023 the Group received £0.2m as a first and final distribution from the liquidation of Bank North; this receipt is recognised in other comprehensive income by a credit to the fair value reserve. Following this final distribution, the remaining amount in the Group's fair value reserve that related to Bank North of £(5.8)m has been transferred within equity to the general reserve.

18. Property, plant and equipment

Group	2023 Land and buildings £m	2023 Equipment, fixtures and fittings £m	2023 Total £m	2022 Land and buildings £m	2022 Equipment, fixtures and fittings £m	2022 Total £m
Cost						
At 1 January	**106.2**	**82.2**	**188.4**	104.3	85.1	189.4
Additions	**6.6**	**11.0**	**17.6**	5.0	6.6	11.6
Disposals	**(2.0)**	**(5.2)**	**(7.2)**	(3.1)	(9.5)	(12.6)
Foreign exchange movements on translation	**-**	**(0.1)**	**(0.1)**	-	-	-
At 31 December	**110.8**	**87.9**	**198.7**	106.2	82.2	188.4
Depreciation						
At 1 January	**55.0**	**61.6**	**116.6**	54.3	61.9	116.2
Charge for the year	**5.3**	**8.6**	**13.9**	4.7	8.8	13.5
Impairment charge / (credit)	**-**	**0.2**	**0.2**	(1.2)	-	(1.2)
Disposals	**(1.9)**	**(4.5)**	**(6.4)**	(2.9)	(9.1)	(12.0)
Foreign exchange movements on translation	**-**	**(0.1)**	**(0.1)**	-	-	-
Reclassification to investment property	**-**	**-**	**-**	0.1	-	0.1
At 31 December	**58.4**	**65.8**	**124.2**	55.0	61.6	116.6
Net book value at 1 January	**51.2**	**20.6**	**71.8**	50.0	23.2	73.2
Net book value at 31 December	**52.4**	**22.1**	**74.5**	51.2	20.6	71.8

Society	2023 Land and buildings £m	2023 Equipment, fixtures and fittings £m	2023 Total £m	2022 Land and buildings £m	2022 Equipment, fixtures and fittings £m	2022 Total £m
Cost						
At 1 January	**52.6**	**15.5**	**68.1**	54.8	20.3	75.1
Additions	**3.0**	**3.0**	**6.0**	0.9	2.0	2.9
Disposals	**(0.5)**	**(1.0)**	**(1.5)**	(3.1)	(6.8)	(9.9)
At 31 December	**55.1**	**17.5**	**72.6**	52.6	15.5	68.1
Depreciation						
At 1 January	**20.4**	**9.6**	**30.0**	22.0	14.0	36.0
Charge for the year	**2.6**	**2.4**	**5.0**	2.4	2.4	4.8
Impairment credit	**-**	**-**	**-**	(1.2)	-	(1.2)
Disposals	**(0.4)**	**(1.0)**	**(1.4)**	(2.9)	(6.8)	(9.7)
Reclassification from investment property	**-**	**-**	**-**	0.1	-	0.1
At 31 December	**22.6**	**11.0**	**33.6**	20.4	9.6	30.0
Net book value at 1 January	**32.2**	**5.9**	**38.1**	32.8	6.3	39.1
Net book value at 31 December	**32.5**	**6.5**	**39.0**	32.2	5.9	38.1

Property, plant and equipment additions (Group and Society) include £0.2m (2022: £0.8m) in land and buildings and £0.1m (2022: £0.5m) in equipment, fixtures and fittings in relation to Capital Work in Progress (CWIP), relating mainly to branch refurbishment projects.

As shown in the tables above, impairment of £1.2m was reversed during 2022 (Group and Society); this reversal was included within the Income Statement line item 'Administrative expenses' (see Note 5c)).

The net book value of land and buildings comprises:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Freehold	**38.2**	40.5	**25.3**	26.6
Long leasehold	**6.6**	4.4	**1.7**	1.6
Short leasehold	**7.6**	6.3	**5.5**	4.0
	52.4	51.2	**32.5**	32.2

Notes to the Accounts (continued)

19. Right-of-use assets

Group	2023 Land and buildings £m	2023 Equipment, fixtures and fittings £m	2023 Total £m	2022 Land and buildings £m	2022 Equipment, fixtures and fittings £m	2022 Total £m
Cost						
At 1 January	**150.6**	**18.2**	**168.8**	143.2	7.6	150.8
Additions	**20.9**	**3.8**	**24.7**	24.5	11.1	35.6
Lease modifications and remeasurements	**10.5**	**-**	**10.5**	13.2	-	13.2
Disposals	**(21.5)**	**(0.7)**	**(22.2)**	(30.3)	(0.5)	(30.8)
Foreign exchange movements on translation	**(0.1)**	**-**	**(0.1)**	-	-	-
At 31 December	**160.4**	**21.3**	**181.7**	150.6	18.2	168.8
Depreciation						
At 1 January	**56.7**	**5.4**	**62.1**	51.9	3.1	55.0
Charge for the year	**32.6**	**5.0**	**37.6**	32.5	2.8	35.3
Impairment charge	**1.9**	**-**	**1.9**	0.6	-	0.6
Disposals	**(20.2)**	**(0.5)**	**(20.7)**	(28.3)	(0.5)	(28.8)
Foreign exchange movements on translation	**(0.1)**	**-**	**(0.1)**	-	-	-
At 31 December	**70.9**	**9.9**	**80.8**	56.7	5.4	62.1
Net book value at 1 January	**93.9**	**12.8**	**106.7**	91.3	4.5	95.8
Net book value at 31 December	**89.5**	**11.4**	**100.9**	93.9	12.8	106.7

Society	2023 Land and buildings £m	2023 Equipment, fixtures and fittings £m	2023 Total £m	2022 Land and buildings £m	2022 Equipment, fixtures and fittings £m	2022 Total £m
Cost						
At 1 January	**18.5**	**0.2**	**18.7**	17.5	0.2	17.7
Additions	**1.6**	**-**	**1.6**	2.0	-	2.0
Disposals	**(1.2)**	**-**	**(1.2)**	(1.0)	-	(1.0)
At 31 December	**18.9**	**0.2**	**19.1**	18.5	0.2	18.7
Depreciation						
At 1 January	**7.7**	**0.1**	**7.8**	6.1	0.1	6.2
Charge for the year	**2.3**	**-**	**2.3**	2.5	-	2.5
Disposals	**(1.0)**	**-**	**(1.0)**	(0.9)	-	(0.9)
At 31 December	**9.0**	**0.1**	**9.1**	7.7	0.1	7.8
Net book value at 1 January	**10.8**	**0.1**	**10.9**	11.4	0.1	11.5
Net book value at 31 December	**9.9**	**0.1**	**10.0**	10.8	0.1	10.9

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 2023, 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 2023, other operating income includes £0.3m (2022: £0.6m) (Group) and £nil (2022: £nil) (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 5c).

20. Investment property

	Group and Society 2023 £m	Group and Society 2022 £m
Cost		
At 1 January	**25.1**	25.1
At 31 December	**25.1**	25.1
Depreciation		
At 1 January	**19.1**	18.5
Charge for the year	**0.7**	0.6
Impairment charge	**0.2**	0.1
Reclassification to property, plant and equipment	**-**	(0.1)
At 31 December	**20.0**	19.1
Net book value at 1 January	**6.0**	6.6
Net book value at 31 December	**5.1**	6.0

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 (2022: £1.8m) for the Group and Society.

The aggregate estimated market value of investment properties is set out in the table below:

	Group and Society 2023 £m	Group and Society 2022 £m
Market value of investment property	**7.9**	7.9

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 an impairment charge of £0.2m should be recognised for the year (2022: £0.1m).

Notes to the Accounts (continued)

21. Intangible assets

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Goodwill	**217.7**	216.3	**-**	-
Other intangible assets	**95.5**	107.1	**0.2**	0.1
	313.2	323.4	**0.2**	0.1

Goodwill	Group 2023 £m	Group 2022 £m
Cost, less amortisation to 1 January 2004		
At 1 January	**228.8**	230.1
Acquisitions of subsidiary undertakings and business units (Note 17b))	**1.0**	0.3
Revaluation of put options	**0.4**	(1.6)
At 31 December	**230.2**	228.8
Impairment losses		
At 1 January	**12.5**	11.7
Impairment loss during the year	**-**	0.8
At 31 December	**12.5**	12.5
Net book value at 1 January	**216.3**	218.4
Net book value at 31 December	**217.7**	216.3

Goodwill acquired in a business combination is allocated at acquisition to the cash generating unit (CGU), or group of CGUs, that is expected to benefit from that business combination (as further described in Note 1d)); at Skipton Group level, the allocation of goodwill typically reflects the Group's operating segments. As noted in Note 42, the Group's reportable segments have been revised with effect from 1 January 2023. Previously, the Group's reportable segments were assessed and presented on a divisional basis. The Group's reportable segments are now assessed and presented at the operating entity level and goodwill held by the Group is allocated accordingly; when testing goodwill held by the Group for impairment at the consolidated level, amounts relating to CGUs within the Connells business are therefore aggregated.

The carrying value of goodwill held by the Group has been allocated as follows:

Operating segment	Group 2023			Group 2022		
	Cost of goodwill £m	Accumulated impairment £m	Carrying value £m	Cost of goodwill £m	Accumulated impairment £m	Carrying value £m
Connells	**218.9**	**7.5**	**211.4**	217.5	7.5	210.0
Other	**11.3**	**5.0**	**6.3**	11.3	5.0	6.3
Total goodwill	**230.2**	**12.5**	**217.7**	228.8	12.5	216.3

The following table provides a breakdown of the carrying value of brands (which are deemed to have an indefinite useful life) within the Connells operating segment:

	2023 £m	2022 £m
Peter Alan Limited	**2.3**	2.3
Gascoigne Halman Group Limited	**3.0**	3.0
RMS Estate Agents Limited	**1.2**	1.2
Countrywide Estate Agents	**42.6**	42.6
Lambert Smith Hampton Group Limited	**12.1**	12.1
Total Brands	**61.2**	61.2
Goodwill	**211.4**	210.0
Total goodwill and brands	**272.6**	271.2

Based upon the Directors' assessment of recoverable amounts, the Directors have concluded that no impairment of goodwill or brands is required to be recognised in 2023 (2022: £0.8m). Sensitivity disclosures are provided below.

The recoverable amounts of the operating segments are determined by consideration of 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 segments. The cash flows are extrapolated for subsequent years indefinitely (or a specific number of years where circumstances dictate), to reflect that the underlying businesses are held for long-term investment, based on a long-term growth rate of 3.0% (2022: 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
Connells	Volume of UK property transactions, house price inflation, level of unemployment and interest rates
Other	Volume of new business, arrears levels, level of unemployment and interest rates

In addition to the key drivers outlined above, the preparation of the corporate plans of Connells, the segment to which the majority of goodwill held by the Group is allocated, requires the Directors to take into account various other factors underpinning the UK housing market. These include, but are not limited to, expectations of the Connells group's future market share and projected average fees achievable in relation to second hand house sales. Connells' group corporate plans are subject to robust scrutiny and challenge by the Connells group and Society Boards.

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 segment.

The pre-tax discount rates are as follows:

Operating segment	Group 2023 %	Group 2022 %
Connells	**16**	18
Other	**13**	12 – 13

Sensitivity disclosures

For goodwill and brands held by the Group, the impairment assessment is typically carried out at the operating segment level (as described in Note 1d)). For each segment to which goodwill and brands are allocated, the impairment test compares the carrying value against the segment's recoverable amount. The segment's recoverable amount is determined as the higher of a) its fair value less costs to sell and b) its value in use; value in use is determined by discounting the forecast future cash flows of the segment to present value.

There is significant headroom in relation to all the CGUs and no reasonably possible alternative assumptions in relation to any of the key inputs used would result in impairment.

Notes to the Accounts (continued)

21. Intangible assets (continued)

Other intangible assets	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Cost				
At 1 January	**254.5**	264.8	**1.3**	19.0
Acquisition of other business assets	**1.2**	0.8	**-**	-
Additions	**10.1**	7.4	**0.2**	-
Foreign exchange movements on translation	**(1.7)**	-	**-**	-
Disposals	**(4.0)**	(18.5)	**(0.2)**	(17.7)
At 31 December	**260.1**	254.5	**1.3**	1.3
Amortisation and impairment				
At 1 January	**147.4**	137.6	**1.2**	18.6
Amortisation charge for the year	**22.0**	27.4	**0.1**	0.2
Foreign exchange movements on translation	**(1.4)**	-	**-**	-
Disposals	**(3.4)**	(17.6)	**(0.2)**	(17.6)
At 31 December	**164.6**	147.4	**1.1**	1.2
Net book value at 1 January	**107.1**	127.2	**0.1**	0.4
Net book value at 31 December	**95.5**	107.1	**0.2**	0.1

Other intangible asset additions include £0.1m (2022: £nil) for the Group and Society in relation to Capital Work in Progress (CWIP), relating to the Savings Transformation project (as detailed in the Strategic Report).

The net book value of other intangible assets comprises:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Brands	**61.2**	61.2	**-**	-
Customer contracts and relationships	**16.7**	39.4	**-**	-
Computer software and databases	**17.6**	6.5	**0.2**	0.1
	95.5	107.1	**0.2**	0.1

22. Other assets

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Trade receivables (Note 40c))	**58.0**	63.3	**1.8**	1.9
Prepayments	**33.1**	28.3	**16.6**	14.6
Accrued income	**21.8**	14.4	**0.4**	0.1
Equity share investments mandatorily held at FVTPL (Note 17d))	**10.5**	1.2	**-**	-
Share warrants	**15.1**	26.6	**-**	-
Investment property (Note 20)	**5.1**	6.0	**5.1**	6.0
Other	**8.5**	8.3	**0.5**	-
	152.1	148.1	**24.4**	22.6

23. Shares

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Held by individuals	**25,678.6**	22,279.2	**25,678.6**	22,279.2
Other shares	**274.5**	203.1	**274.5**	203.1
Fair value adjustment for hedged risk	**(3.3)**	(132.7)	**(30.8)**	(191.8)
	25,949.8	22,349.6	**25,922.3**	22,290.5

A maturity analysis of shares is included in Note 38.

24. Amounts owed to credit institutions

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Amounts owed to subsidiary undertakings	**-**	-	**209.3**	214.0
Other	**2,093.4**	2,963.3	**2,093.4**	2,963.3
	2,093.4	2,963.3	**2,302.7**	3,177.3

A maturity analysis of amounts owed to credit institutions is included in Note 38.

25. Amounts owed to other customers

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Amounts owed to subsidiary undertakings	**-**	-	**713.4**	574.0
Other	**2,808.9**	2,339.2	**94.4**	54.7
Fair value adjustment for hedged risk	**(0.1)**	-	**(0.1)**	-
	2,808.8	2,339.2	**807.7**	628.7

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 2023 the amount of such deposits included above is £2,446.0m (2022: £2,195.5m).

Amounts owed to subsidiary undertakings by the Society include £301.4m in respect of a deemed loan from the special purpose vehicle Darrowby No. 5 plc which is held at amortised cost, in line with the accounting policy outlined in Note 1f) (2022: £366.5m). 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. 5 plc is considered very low.

26. Debt securities in issue

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Covered bonds	**2,251.5**	2,396.1	**2,242.5**	2,392.6
Securitisation	**186.0**	239.8	**-**	-
Fair value adjustment for hedged risk	**(22.8)**	(44.3)	**-**	-
	2,414.7	2,591.6	**2,242.5**	2,392.6

During 2023 the Society issued covered bonds totalling £1bn; £500m issued in June 2023 and £500m issued in October 2023. Covered bonds totalling £300m were repurchased by the Society in October 2023. There were also two maturities during the year; £400m matured in May 2023 and £500m matured in October 2023.

A maturity analysis of debt securities in issue is included in Note 38.

Group debt securities in issue include £2,437.5m (2022: £2,635.9m) of funding secured on certain loans and advances to customers through the Group's securitisation vehicle Darrowby No. 5 plc and the special purpose vehicle Skipton Covered Bonds LLP.

27. Lease liabilities

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
At 1 January	**113.0**	114.4	**11.1**	11.5
Additions	**23.5**	37.6	**1.6**	2.0
Modifications / remeasurements of existing lease liabilities	**9.4**	13.0	**-**	0.1
Interest charged	**2.3**	2.1	**0.3**	0.3
Lease payments (including interest)	**(43.5)**	(52.8)	**(2.6)**	(2.7)
Disposals	**(1.7)**	(1.3)	**(0.1)**	(0.1)
At 31 December	**103.0**	113.0	**10.3**	11.1

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 5c).

28. Other liabilities

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Trade payables	**10.2**	7.9	**2.3**	1.5
Fair value of put option obligation	**3.5**	3.8	**-**	-
Fair value of liability of subsidiary management incentive scheme	**4.2**	7.0	**-**	-
VAT and employment taxes	**34.5**	37.3	**3.1**	2.9
Other	**33.5**	27.7	**13.8**	5.5
	85.9	83.7	**19.2**	9.9

Put option obligation

The movement in the fair value of the put option obligation is summarised below:

	Group 2023 £m	Group 2022 £m
At 1 January	**3.8**	8.6
Unwind of the discount factor	**0.1**	0.1
Exercise of put options by non-controlling shareholders	**(0.4)**	(3.0)
Revaluation of market values and changes to future exercise dates	**-**	(1.9)
At 31 December	**3.5**	3.8

Subsidiary management incentive scheme

In 2019 two members of Connells Limited senior management purchased equity shares in that company. At the same time, the Group issued options to these shareholders which required SGHL to purchase their shareholdings in Connells Limited at some future dates.

During 2023, one member of management left the scheme and as at 31 December 2023 one option remains outstanding, with the maximum option length being three years from 31 December 2023.

The movement in the fair value of the liability of the subsidiary management incentive scheme is summarised below:

	Group 2023 £m	Group 2022 £m
At 1 January	**7.0**	19.1
Exercise of share options during the year	**(2.5)**	(8.9)
Movement in fair value of the liability recognised in the Income Statement	**(0.3)**	(3.2)
At 31 December	**4.2**	7.0

29. Provisions for liabilities

The movements in provisions for liabilities during the year were as follows:

Group 2023	**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	**7.2**	**16.9**	**8.4**	**0.7**	**1.5**	**34.7**
(Credit) / charge for the year	**(0.8)[A]**	**8.7[B]**	**(1.2)[A]**	**0.1[A]**	**0.7[A]**	**7.5**
Utilised during the year	**(0.8)**	**(8.6)**	**(2.0)**	**(0.5)**	**(0.9)**	**(12.8)**
At 31 December	**5.6**	**17.0**	**5.2**	**0.3**	**1.3**	**29.4**

Group 2022	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	11.0	15.0	7.6	0.8	2.0	36.4
(Credit) / charge for the year	(2.7)[A]	16.5[B]	2.5[A]	0.3[A]	1.5[A]	18.1
Utilised during the year	(1.1)	(14.6)	(1.7)	(0.4)	(2.0)	(19.8)
At 31 December	7.2	16.9	8.4	0.7	1.5	34.7

Notes to the Accounts (continued)

29. Provisions for liabilities (continued)

Society 2023	**Provision for the costs of surplus properties £m**	**Commission clawbacks £m**	**Customer compensation £m**	**Other provisions £m**	**Total £m**
At 1 January	**-**	**-**	**0.6**	**0.2**	**0.8**
Charge for the year	**0.2[A]**	**-**	**0.1[A]**	**-**	**0.3**
Utilised during the year	**(0.1)**	**-**	**(0.4)**	**-**	**(0.5)**
At 31 December	**0.1**	**-**	**0.3**	**0.2**	**0.6**

Society 2022	Provision for the costs of surplus properties £m	Commission clawbacks £m	Customer compensation £m	Other provisions £m	Total £m
At 1 January	-	0.1	0.7	0.2	1.0
Charge for the year	-	-	0.3[A]	-	0.3
Utilised during the year	-	(0.1)	(0.4)	-	(0.5)
At 31 December	-	-	0.6	0.2	0.8

Notes

A. The (credit) / charge for the year is recognised within the Income Statement line 'Impairment and provisions'.

B. 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 £8.7m (2022: £16.5m charge) has been recognised against 'Fees and commissions receivable' in the Income Statement.

Provision for the costs of surplus properties

This 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 Connells group 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 included provisions for claims on payment protection insurance (PPI) in 2022 of £0.1m.

30. Deferred tax

Deferred tax is calculated on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using the enacted tax rate expected to apply in the relevant tax jurisdiction for the period when these differences are expected to reverse, which is 28% (2022: 28%) for the Society and 25% (2022: 25%) for most other Group companies. The rate for the Society is higher than for most other Group companies as the Society's taxable profits over £100m are subject to a 3% banking companies surcharge (up to and including 31 March 2023 the surcharge was 8% on taxable profits over £25m).

The movement during the year in the net deferred tax asset was as follows:

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
At 1 January	**13.1**	33.0	**16.5**	15.6
Income Statement credit / (charge) (Note 9)	**1.5**	(13.1)	**(2.0)**	(3.8)
Items taken directly to other comprehensive income	**6.6**	(6.7)	**2.2**	4.7
Acquisition of other business assets	**(0.3)**	(0.1)	**-**	-
At 31 December	**20.9**	13.1	**16.7**	16.5

Deferred tax assets and liabilities are attributable to the following items:

Deferred tax assets

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Fixed asset temporary differences *(note A)*	**6.9**	11.4	**(1.7)**	(0.3)
Intangible asset temporary differences *(note A)*	**(17.3)**	(19.2)	**-**	-
Derivatives and loans *(note B)*	**7.6**	5.4	**6.1**	7.7
Pension obligations	**8.3**	10.8	**4.4**	5.2
Provisions	**6.4**	4.4	**1.8**	0.9
Corporation tax losses *(note C)*	**6.0**	4.6	**-**	-
Tax losses on IFRS 16 transitional adjustments *(note D)*	**1.7**	4.4	**-**	-
Financial assets held at FVOCI	**3.7**	3.8	**3.6**	3.7
Cash flow hedges *(note A)*	**(1.9)**	(11.5)	**2.5**	(0.7)
Cost of hedging reserve	**0.2**	0.4	**-**	-
Gain deferred by rollover relief *(note A)*	**(0.7)**	(0.7)	**-**	-
Other *(note A)*	**-**	(0.7)	**-**	-
	20.9	13.1	**16.7**	16.5

Notes

A. 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.

B. The Society amount above is in relation to the adoption of IFRS 9 in 2018; this resulted in an adjustment to the deferred tax asset in the Society of £13.3m which, as permitted by relevant accounting standards, is being released to the Income Statement over a 10 year period.

C. The amounts shown above relating to corporation tax losses include £5.0m in respect of certain Connells group entities (2022: £4.3m), primarily within certain Countrywide entities, together with £1.0m in respect of certain Jade entities (2022: £0.3m). These deferred tax amounts were assessed by reference to the Group's five year corporate planning period. For Countrywide, management also considered the outlook for that business following its acquisition by the Group in 2021. For Jade, management also considered the recent trading history of relevant Jade entities.

D. Tax losses on IFRS 16 transitional adjustments arose from the impairment of right-of-use assets following the adoption of IFRS 16 in 2019. These losses are being spread over the average lease term of 5.6 years. The deferred tax asset at the reporting date is in respect of the losses that are still to be spread.

Notes to the Accounts (continued)

30. Deferred tax (continued)

The deferred tax (credit) / charge in the Income Statement comprises the following:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Fixed asset temporary differences	**4.5**	4.1	**1.4**	0.6
Intangible asset temporary differences	**(2.1)**	(2.7)	**-**	-
Provisions	**(2.0)**	0.3	**(0.9)**	0.4
Derivatives and loans	**(2.2)**	8.4	**1.5**	2.8
Contingent consideration	**-**	(1.0)	**-**	-
Corporation tax losses	**(1.4)**	8.5	**-**	-
Tax losses on IFRS 16 transitional adjustments	**2.7**	(4.4)	**-**	-
Other	**(1.0)**	(0.1)	**-**	-
	(1.5)	13.1	**2.0**	3.8

Deferred tax has not been recognised in relation to certain losses carried forward at 31 December 2023, which comprises the following:

- Trading losses of £6.4m for the Group (2022: £10.2m) and £nil for the Society (2022: £nil);
- Capital losses of £56.6m for the Group (2022: £56.7m) and £nil for the Society (2022: £nil); and
- Other tax losses of £0.2m for the Group (2022: £1.1m) and £nil for the Society (2022: £nil).

Trading losses relate to certain Jade entities and are based on the Group's five year corporate plan as well as the recent trading history of those entities. Capital losses relate primarily to Countrywide entities; in determining the amounts to be unrecognised, management considered the likelihood of future capital gains materialising against which these losses could be offset and recognised.

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

a) Defined contribution schemes

The amount charged to the Income Statement in respect of contributions to the Group's defined contribution arrangements is the contribution payable in the year. The total pension cost charged to the Income Statement amounted to £26.6m for the Group (2022: £26.2m) and £7.7m for the Society (2022: £7.1m).

b) Defined benefit schemes

During 2023 the Group sponsored the schemes set out below:

- The Skipton Building Society (2015) Group Pension Scheme (the 'Skipton (2015) Scheme') – a funded defined benefit arrangement
- The Connells (2014) Group Pension Scheme (the 'Connells (2014) Scheme') – a funded defined benefit arrangement
- The Countrywide plc Pension Scheme (the 'Countrywide Scheme') – a funded defined benefit arrangement. The Countrywide scheme was previously a hybrid scheme (with a funded defined benefit element) prior to closure of the direct contribution element during 2023.

The schemes 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 – 707 members
- Connells (2014) Scheme – 944 members
- Countrywide Scheme – 187 members

Skipton Pension Trustees Limited, a company that acts as the sole Trustee, is appointed to manage the Skipton (2015) Scheme and the Connells (2014) Scheme.

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 based on the following:
  - 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 based on the following:
  - 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.
- Countrywide Scheme – The benefits are based on the following:
  - the highest annual average salary earned over three consecutive years in the last 10 years of employment prior to leaving active service or, if higher, the highest annual salary in the last five years of employment prior to leaving active service.

The defined benefit 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 Countrywide Scheme on 31 December 2003. 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.

BlackRock act as fiduciary manager to set and deliver the investment strategy on behalf of the Trustee of the Skipton (2015) Scheme and the Connells (2014) Scheme. The assets of the Skipton (2015) Scheme and the Connells (2014) Scheme transitioned to BlackRock in February 2021.

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 complete actuarial valuations for each of the schemes showed the following:

Scheme	Valuation date	Deficit £m	Recovery period	Annual contribution 2024 (estimate) £m
Skipton (2015)	31 December 2022	(24.5)	-	-
Connells (2014)	30 April 2023	(18.4)	6 years and 9 months	3.0
Countrywide	5 April 2021	(4.5)	3 years	1.3

Notes to the Accounts (continued)

31. Pensions (continued)

The actuarial valuations of the above schemes each showed a deficit. At the time, the Group agreed with the Trustees of each scheme 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. As part of the 31 December 2022 Skipton (2015) scheme actuarial valuation, the Group agreed a one-off payment of £22,999,000 to reduce the expected ongoing contributions into this scheme to nil; therefore, the current best estimate of contributions to be paid by the Group to the schemes for the year commencing 1 January 2024 is £4.3m (see page 187 for further details).

Management acknowledges the requirements of Section 37 of the Pension Schemes Act 1993 and the June 2023 High Court ruling in the Virgin Media v NTL Pension Trustees II Limited case. Following an initial review, management has a reasonable expectation that Section 37 has been complied with in respect of the Group schemes. However, due to the complexity of the legislation and the need to consult with actuaries and legal advisors, it is too early to determine the exact impact on the financial statements and pension obligations.

Management is committed to ensuring that the pension schemes remain compliant with all regulatory requirements, and are closely monitoring the situation. In the event of the case being finalised following appeal, a full assessment may be undertaken.

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 2023. The actuarial valuation amounts shown in the table above will always be different to the IAS 19 accounting amounts 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 2023 %	 2022 %
Retail price inflation (RPI)	**3.15**	3.25
Consumer price inflation (CPI)	**2.70**	2.75
Discount rate	**4.8**	5.00
Increases to pension payment:		
in line with RPI, subject to a max of 5% pa	**2.96**	3.02
in line with RPI, subject to a min of 3% and max of 5% pa	**3.64**	3.67
in line with RPI, subject to a min of 4% and max of 5% pa	**4.25**	4.25
in line with RPI, subject to a max of 2.5% pa	**1.99**	2.02
in line with CPI, subject to a max of 5% pa	**2.62**	2.65
in line with CPI, subject to a min of 3% and max of 5% pa	**3.48**	3.50
in line with CPI, subject to a max of 3% pa	**2.10**	2.11
in line with CPI, subject to a max of 2.5% pa	**1.85**	1.86
Fixed 4.00% pa	**4.00**	4.00
Rate of increase for deferred pensions (in line with CPI, subject to a max of 5% pa)	**2.70**	2.75
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.

The most significant non-financial assumption is the assumed rate of longevity. For the year ended 31 December 2023, these have been based on mortality rates that are 96% - 98% (male) and 96%-97% (female) of the standard S3PMA and S3PFA_M tables respectively, with an allowance for projected improvements in mortality in line with CMI_2022 improvements with a 1.25% per annum long-term rate of convergence. The tables adopted imply the following life expectancy:

	Life expectancy at age 65 (years) 2023	 2022
Male retiring in the current year	**21.6 - 21.7**	22.1
Female retiring in the current year	**23.6**	24.4
Male retiring in 15 years' time	**22.4 - 22.6**	22.7
Female retiring in 15 years' time	**24.6 - 24.7**	25.2

When determining the financial and non-financial assumptions, consideration was given to the potential impact of climate related risks. Based on the evidence available at this time, it was concluded that no explicit allowances were required in this respect.

As at 31 December 2023 the Statement of Financial Position includes amounts relating to defined benefit schemes as set out below:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Within liabilities				
Retirement benefit obligations (see below)	**(26.2)**	**(29.6)**	**(15.9)**	(16.9)

Retirement benefit obligations

For the Society, amounts presented within retirement benefit obligations relate to the Skipton (2015) Scheme. For the Group, the amounts presented also include the Connells (2014) Scheme and the Countrywide scheme.

The table below shows the net pension liability recognised within the Statement of Financial Position:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Fair value of plan assets	**191.1**	187.9	**79.2**	78.6
Present value of defined benefit obligations	**(217.3)**	(217.5)	**(95.1)**	(95.5)
Net pension liability	**(26.2)**	(29.6)	**(15.9)**	(16.9)

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.

Notes to the Accounts (continued)

31. Pensions (continued)

The table below sets out a reconciliation of the present value of the defined benefit obligation for the year:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
At 1 January	**217.5**	285.1	**95.5**	154.0
Balance at 1 January of scheme previously reported in surplus	**-**	50.6	**-**	-
Interest expense	**10.6**	5.8	**4.7**	2.6
Remeasurement losses / (gains) arising from changes in:				
Scheme experience	**1.3**	13.4	**(0.2)**	5.6
Demographic assumptions	**(4.9)**	1.2	**(2.1)**	0.5
Financial assumptions	**5.7**	(123.9)	**2.3**	(58.4)
Actual benefit payments	**(12.1)**	(14.7)	**(4.7)**	(8.8)
Past service costs	**(0.8)**	-	**(0.4)**	-
At 31 December	**217.3**	217.5	**95.1**	95.5

There have been no settlements, plan amendments or curtailments during the year.

The estimated average duration of the defined benefit obligation as at 31 December 2023 is 14 years (2022: 13 years).

The table below sets out the reconciliation of the fair value of scheme assets for the year:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
At 1 January	**187.9**	255.0	**78.6**	136.8
Balance at 1 January of scheme previously reported in surplus	**-**	51.8	**-**	-
Interest income	**9.3**	5.4	**3.8**	2.4
Return on plan assets (excluding amounts included in interest income)	**(2.4)**	(116.0)	**(0.2)**	(53.5)
Contributions by employer	**8.4**	6.6	**1.7**	1.7
Benefits paid	**(12.1)**	(14.7)	**(4.7)**	(8.8)
Assets acquired in a business combination	**-**	(0.2)	**-**	-
At 31 December	**191.1**	187.9	**79.2**	78.6

The actual return on the scheme assets, including interest income on plan assets, over the year ended 31 December 2023 was as follows:

- Group £6.9m (2022: £(110.6)m)
- Society £3.6m (2022: £(51.1)m)

The table below sets out the fair value of the scheme assets by each major category:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Diversified growth fund *(note A)*	**32.9**	32.1	**17.7**	17.4
Insured pensioners (annuities) *(note B)*	**34.8**	26.4	**-**	-
Indexed linked bonds	**-**	1.0	**-**	-
Liability driven investments *(note C)*	**72.3**	62.7	**36.7**	33.1
Equities	**31.3**	29.5	**15.2**	14.3
Cash	**2.2**	8.0	**1.1**	2.2
Corporate bonds	**13.1**	20.6	**6.4**	7.9
Government bonds	**4.5**	7.6	**2.1**	3.7
	191.1	187.9	**79.2**	78.6

Notes

A. 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.

B. An insured pensioner annuity is a type of annuity that is purchased by the scheme to provide a guaranteed income to its members. The insurer takes on the risk of paying the income, rather than the pension scheme.

C. 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 Trustee has an approach to asset-liability matching where the level of coverage of interest rate sensitivity and inflation sensitivity are set based on a series of funding ratio triggers. This applies to both the Skipton (2015) Scheme and the Connells (2014) Scheme.

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. The schemes' assets that are invested in exchange traded funds have a quoted market price. The remainder use either the price of a recent transaction for an identical asset (where quoted prices for the asset are unavailable) or valuation techniques using non-observable data.

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.

Longevity risk: The liabilities are very sensitive to unexpected changes in future mortality. If longevity increases by more than assumed, then the liabilities will increase at future calculations.

Inflation risk: Elements of the pensions in payment under the Scheme increase at an inflation-linked rated, albeit that there are caps applying to the indexation. In addition, the rules of the Scheme require that some pensions are increased in the period up until payment commences in line with increases in inflation, again up to a certain cap.

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 schemes 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. Each 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.

31. Pensions (continued)

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.

In addition to the above, the Countrywide scheme has mitigated risks associated with longevity risk, inflation risk and interest rate risk by securing a proportion of the Scheme's benefits for members with insurance companies.

The table below sets out the amounts which have been recognised within the Income Statement. The service costs are recognised within 'Administrative expenses', whilst the net interest expense is recognised within 'Other income'.

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Service costs				
Past service costs	**(0.8)**	-	**(0.4)**	-
Administrative expenses	**-**	0.1	**-**	-
Net interest expense	**1.3**	0.4	**0.9**	0.2
Total recognised in Income Statement	**0.5**	0.5	**0.5**	0.2

Past service costs above relate to the estimated impact of the application of Guaranteed Minimum Pension (GMP) equalisation requirements to historical transfers out of pension schemes. Estimated costs of £0.7m for the Skipton (2015) scheme and £0.8m for the Connells (2014) scheme were included in the 2020 Annual Report & Accounts. These estimates have been revised at 31 December 2023 to £0.1m for each scheme. The difference between the previous estimates (after being rolled forward from 31 December 2020, the date of the original estimate, and updated for changes in market conditions at 31 December 2023) and the revised estimates have been treated as a negative past service cost within 'Administrative expenses' in the Income Statement.

The table below sets out the remeasurements of retirement benefit obligations which have been recognised within the Statement of Comprehensive Income:

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Remeasurements of retirement benefit obligations:				
Actuarial (losses) / gains arising from:				
Experience adjustments	**(1.3)**	(13.4)	**0.2**	(5.6)
Demographic assumptions	**4.9**	(1.2)	**2.1**	(0.5)
Financial assumptions	**(5.7)**	123.9	**(2.3)**	58.4
Return on plan assets (excluding amounts included in net interest expense)	**(2.4)**	(116.0)	**(0.2)**	(53.5)
Total amount recognised in other comprehensive income	**(4.5)**	(6.7)	**(0.2)**	(1.2)

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 2024, based on the most recent actuarial valuations. As detailed on page 182, the Group made a one-off payment of £23.0m to the Skipton (2015) Scheme on 2 January 2024. This payment has reduced the expected ongoing contribution into this scheme to nil.

	Group 2024 £m	**Society 2024 £m**
Estimated employer contributions		
Ongoing	4.3	-
Lump sum contribution	23.0	23.0
Estimated total contributions	**27.3**	**23.0**

In line with UK pensions legislation, a formal actuarial valuation ('triennial valuation') of the assets and liabilities of each scheme 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 181. Following completion of the most recent actuarial valuations carried out, a new schedule of deficit contributions payable by the Group was agreed with the Trustees. The Group continues to make contributions in line with this schedule.

Notes to the Accounts (continued)

32. Subordinated liabilities

	Group and Society 2023 £m	2022 £m
Fixed rate reset notes:		
Senior non-preferred (SNP) notes due 2026	351.7	351.7
Senior non-preferred (SNP) notes due 2029	354.1	-
	705.8	351.7
Unamortised discount on issue:		
Senior non-preferred (SNP) notes due 2026	(0.4)	(0.6)
Senior non-preferred (SNP) notes due 2029	(1.8)	-
	(2.2)	(0.6)
Fair value adjustment for hedged risk	(18.3)	(39.3)
	685.3	311.8

The fixed rate reset notes are denominated in Sterling. Coupons are paid on a fixed basis semi-annually.

In April 2023, £350m of senior non-preferred fixed rate reset notes were issued under the Group's £2.0bn Euro Medium Term Note Programme. These notes have a maturity date of 25 April 2029 and an optional redemption date of 25 April 2028.

The pre-existing fixed rate reset notes have a maturity date of 2 October 2026 and an optional redemption date of 2 October 2025.

The optional redemptions, at 100% of the principal amount plus accrued and unpaid interest up to (but excluding) the date of redemption are subject to certain conditions.

The notes are junior in right of payment to all Senior Claims, pari passu with all other Senior Non-Preferred Claims, and in priority to all Subordinated Claims.

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.

Senior non-preferred notes contribute to meeting the Society's MREL requirements.

33. Subscribed capital

	Group and Society 2023 £m	2022 £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

a) Cash flows from operating activities

i) Impairment (gains) / losses on financial instruments

For the purposes of the Statements of Cash Flows, amounts presented within the line 'Impairment (gains) / losses on financial instruments' include the following:

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Impairment (credit) / charge on loans and advances to customers (net of recoveries) (Note 14)	**(3.1)**	17.1	**(4.4)**	16.3
Loans and advances recovered	**0.4**	0.6	**0.4**	0.6
Impairment (credit) / charge on liquid assets	**(0.1)**	0.1	**(0.1)**	0.1
Impairment charge / (credit) on trade receivables (Note 40c))	**0.8**	0.3	**-**	(0.2)
	(2.0)	18.1	**(4.1)**	16.8

ii) Fair value (gains) / losses on certain financial instruments held at FVTPL

For the purposes of the Statements of Cash Flows, amounts presented within the line 'Fair value (gains) / losses on certain financial instruments held at FVTPL' include the following:

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Fair value (gains) / losses on equity release portfolio (Note 15)	**(9.2)**	132.3	**(9.2)**	132.3
Fair value gains on share warrants	**(13.3)**	(12.1)	**-**	-
Fair value gains on put options held by minority shareholders	**(0.3)**	(0.2)	**-**	-
Fair value (gains) / losses on equity share investments at FVTPL (Note 17d))	**(0.5)**	0.5	**-**	-
	(23.3)	120.5	**(9.2)**	132.3

iii) Other non-cash movements

For the purposes of the Statements of Cash Flows, amounts presented within the line 'Other non-cash movements' include the following:

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Impairment of goodwill (Note 21)	**-**	0.8	**-**	-
Profit on disposal of treasury assets	**(0.1)**	-	**(0.1)**	-
Realised losses on equity release portfolio (Note 15)	**0.8**	0.7	**0.8**	0.7
Income Statement credit for fair value of subsidiary management incentive scheme liability (Note 5)	**(0.3)**	(3.2)	**-**	-
Share of profits from joint ventures	**(1.1)**	(1.4)	**-**	-
Other *(note A)*	**(39.7)**	8.9	**(16.0)**	(24.3)
	(40.4)	5.8	**(15.3)**	(23.6)

Note
A. Includes adjustments for impact of certain gains / losses recognised through other comprehensive income.

Notes to the Accounts (continued)

34. Cash flows (continued)

b) Cash flows from investing activities

i) Other investing activities

For the purposes of the Statements of Cash Flows, amounts presented within the line 'Other investing activities' include the following:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Purchase of property, plant and equipment and investment property (Notes 18, 20)	**(17.6)**	(11.6)	**(6.1)**	(2.9)
Purchase of intangible assets	**(10.1)**	(7.4)	**(0.2)**	-
Proceeds from disposal of property, plant and equipment, investment property and intangible assets	**1.6**	0.8	**0.1**	0.1
Dividends received from joint ventures	**0.9**	0.8	**-**	-
Investment in equity share investments (Notes 17d), 17e))	**(0.2)**	-	**-**	-
Purchase of other business units	**(1.4)**	(0.7)	**-**	-
Proceeds from liquidation of equity share investment (Note 17e))	**0.2**	-	**-**	-
Proceeds from disposal of equity share investments	**0.1**	-	**-**	-
	(26.5)	(18.1)	**(6.2)**	(2.8)

c) 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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Balance at 1 January	**477.2**	520.0	**364.5**	389.4
Changes from financing cash flows:				
Proceeds from issue	**350.0**	-	**350.0**	-
Payments made	**(44.1)**	(62.6)	**(2.4)**	(2.4)
Interest paid	**(25.3)**	(13.9)	**(23.2)**	(12.1)
Total changes from financing cash flows	**280.6**	(76.5)	**324.4**	(14.5)
Changes in fair value	**20.7**	(29.9)	**21.0**	(24.8)
Liability-related changes:				
Interest expense	**29.3**	13.9	**27.4**	12.1
Lease modifications	**9.4**	13.0	**-**	0.1
Lease additions	**23.5**	37.6	**1.6**	2.0
Lease disposals	**(1.7)**	(1.3)	**(0.1)**	(0.1)
Total liability-related changes	**60.5**	63.2	**28.9**	14.1
Other non cash flow changes:				
Unwind of discount	**(1.5)**	0.4	**(1.6)**	0.3
Other	**0.1**	-	**-**	-
Total other changes	**(1.4)**	0.4	**(1.6)**	0.3
Balance at 31 December	**837.6**	477.2	**737.2**	364.5

The Group balance at 31 December 2023 in the table above consists of £3.5m (2022: £3.8m) of put option obligations, a £4.2m (2022: £7.0m) subsidiary management incentive scheme liability, £103.0m (2022: £113.0m) of lease liabilities, £685.3m (2022: £311.8m) of subordinated liabilities and £41.6m (2022: £41.6m) of subscribed capital.

The Society balance at 31 December 2023 in the table above consists of £10.3m (2022: £11.1m) of lease liabilities, £685.3m (2022: £311.8m) of subordinated liabilities and £41.6m (2022: £41.6m) of subscribed capital.

35. Tax effects relating to each component of other comprehensive income

Group	2023			2022		
	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	**1.8**	**(0.2)**	**1.6**	(30.8)	6.4	(24.4)
Cash flow hedges	**(34.3)**	**9.6**	**(24.7)**	35.0	(9.4)	25.6
Cost of hedging reserve	**0.8**	**(0.2)**	**0.6**	3.8	(1.4)	2.4
Remeasurements of defined benefit obligations	**(4.5)**	**1.1**	**(3.4)**	(6.7)	0.4	(6.3)
Translation of foreign operations	**(0.3)**	**-**	**(0.3)**	0.4	-	0.4
Other comprehensive income	**(36.5)**	**10.3**	**(26.2)**	1.7	(4.0)	(2.3)

Society	2023			2022		
	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	**0.4**	**(0.1)**	**0.3**	(21.7)	6.4	(15.3)
Cash flow hedges	**(11.4)**	**3.2**	**(8.2)**	0.4	-	0.4
Remeasurements of defined benefit obligations	**(0.2)**	**0.1**	**(0.1)**	(1.2)	(0.7)	(1.9)
Other comprehensive income	**(11.2)**	**3.2**	**(8.0)**	(22.5)	5.7	(16.8)

36. Other financial commitments and contingent liabilities

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.

Skipton International (SIL) is undertaking a review exercise following a review from the Guernsey Financial Services Commission (GFSC) in 2023 as part of the latter's PRISM approach to supervision. As at 31 December 2023, SIL has assessed that it is possible, but not probable, that conduct costs may be incurred in relation to this matter. At this early stage, it is not possible to make a reliable estimate of the amount or timing of any cost. Accordingly, no provision has been recognised in the financial statements.

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.

Notes to the Accounts (continued)

37. Derivative financial instruments (continued)

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 hedging ratio is recalibrated to be close to 100%, thereby reducing hedge ineffectiveness. The hedging ratio is the level of hedged items designated in the portfolio against hedging instruments, taking into consideration the maturities of the hedge.

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, Medium Term Note (MTN) liabilities and wholesale deposits. 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 critical terms do not exactly match, 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 (2022: £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.

Fair value hedges of currency risk

The Group has entered into one (2022: two) cross-currency swap agreement(s) 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 193 to 197. Further information on the derivatives held to hedge this portfolio can be found on page 164.

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 within the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'.

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	2023				2022			
	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)	**-**	**-**	**1,817.5**	**256.0**	-	-	1,404.0	730.5
Weighted average fixed interest rate (%)	-	-	4.5%	3.6%	-	-	4.5%	3.9%
Fair value hedges								
Interest rate swaps								
Notional (£m)	**3,144.0**	**8,606.8**	**21,167.8**	**955.5**	1,919.6	7,221.6	16,723.1	755.0
Weighted average fixed interest rate (%)	2.4%	3.2%	2.9%	2.8%	0.5%	1.3%	1.4%	1.9%
Cross currency swaps								
Notional (£m)	**-**	**443.5**	**-**	**-**	-	448.1	443.5	-
Weighted average fixed interest rate (%)	-	0.01%	-	-	-	0.5%	0.01%	-

37. Derivative financial instruments (continued)

Society	2023 Up to 3 months	2023 3 – 12 months	2023 1 – 5 years	2023 Over 5 years	2022 Up to 3 months	2022 3 – 12 months	2022 1 – 5 years	2022 Over 5 years
Cash flow hedges								
Interest rate swaps								
Notional (£m)	**12.0**	**232.8**	**2,727.6**	**272.7**	-	9.0	1,996.6	730.5
Weighted average fixed interest rate (%)	3.9%	5.5%	3.9%	3.6%	-	0.3%	3.7%	3.9%
Fair value hedges								
Interest rate swaps								
Notional (£m)	**3,242.8**	**8,877.5**	**21,612.5**	**955.5**	2,038.7	7,435.4	17,416.4	755.0
Weighted average fixed interest rate (%)	2.3%	3.2%	2.9%	2.8%	0.5%	1.3%	1.3%	1.9%

The table below provides further detail on the Group's fair value hedges used in hedge accounting relationships:

2023 Group	Notional £m	Carrying amount (note A) Assets £m	Carrying amount (note A) Liabilities £m	Change in fair value (charge) / credit (note B) £m	Hedge ineffectiveness (credit) / charge (note C) £m
Interest rate swaps	**33,874.1**	**960.8**	**(310.7)**	**(392.6)**	**(3.7)**
Cross currency swaps	**443.5**	**-**	**(23.6)**	**21.1[D]**	**(0.1)**
Society					
Interest rate swaps	**34,688.3**	**963.9**	**(355.3)**	**(372.0)**	**(3.7)**
2022 Group					
Interest rate swaps	26,619.3	1,300.7	(258.0)	914.1	(0.3)
Cross currency swaps	891.6	-	(45.5)	5.2[D]	0.9
Society					
Interest rate swaps	27,645.5	1,301.7	(321.1)	856.4	(0.3)

Notes

A. The Statement of Financial Position lines that includes these items are 'Derivative financial instruments'.

B. The change in fair value during the period that was used as the basis for calculating hedge ineffectiveness and which was recognised in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'.

C. 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 gains / (losses) on financial instruments mandatorily held at FVTPL'.

D. In addition, £0.8m of fair value gains (2022: £3.8m gain) 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.

2023 Group	Notional £m	Carrying amount (note A) Assets £m	Carrying amount (note A) Liabilities £m	Change in fair value charge (note B) £m	Losses / (gains) reclassified from OCI to Income Statement £m
Interest rate swaps	**2,073.5**	**3.8**	**(61.2)**	**(27.1)**	**14.1**
Society					
Interest rate swaps	**3,245.1**	**13.5**	**(95.8)**	**(11.8)**	**14.1**
2022 Group					
Interest rate swaps	2,134.5	8.9	(39.2)	(43.1)	(12.8)
Society					
Interest rate swaps	2,736.1	11.5	(82.0)	(78.3)	(12.8)

Notes

A. The Statement of Financial Position lines that includes these items are 'Derivative financial instruments'.

B. 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 cash flow hedging reserve: (Losses) / gains taken to equity' line of the Statement of Comprehensive Income.

There was no hedge ineffectiveness recognised during either 2023 or 2022 in respect of the Group or Society's cashflow hedges.

Hedged items

The tables below provide further detail on the Group's hedged items:

Group 2023	Carrying amount Assets £m	Carrying amount Liabilities £m	Fair value adjustments on hedged item (note A) £m	SOFP line	Change in fair value credit / (charge) (note B) £m	Amount remaining on items de-designated from hedge relationship (note C) £m
Cash flow hedges						
Floating rate assets	**1,271.0**	**-**	**n/a**	**note D**	**n/a**	**78.3**
Floating rate liabilities	**-**	**802.5**	**n/a**	**note E**	**n/a**	**(14.9)**
Fair value hedges						
Fixed rate mortgages	**21,758.7**	**-**	**(350.9)**	**note F**	**615.9**	**-**
Debt securities	**854.4**	**-**	**(52.3)**	**note D**	**47.5**	**-**
Fixed rate savings	**-**	**11,194.4**	**(3.3)**	**note G**	**129.4**	**-**
Amounts owed to other customers	**-**	**41.3**	**(0.1)**	**note I**	**(0.1)**	**-**
Covered bonds	**-**	**434.4**	**(22.8)**	**note E**	**18.0**	**-**
Subordinated liabilities	**-**	**705.8**	**(18.2)**	**note H**	**21.1**	**-**
Group 2022						
Cash flow hedges						
Floating rate assets	1,231.0	-	n/a	note D	n/a	116.8
Floating rate liabilities	-	903.5	n/a	note E	n/a	(45.7)
Fair value hedges						
Fixed rate mortgages	19,632.8	-	(966.8)	note F	(770.3)	-
Debt securities	638.9	-	(99.8)	note D	(78.0)	-
Fixed rate savings	-	7,679.4	(132.7)	note G	(77.9)	-
Covered bonds	-	889.2	(44.3)	note E	5.1	-
Subordinated liabilities	-	351.7	(39.3)	note H	(24.8)	-

Notes to the Accounts (continued)

37. Derivative financial instruments (continued)

Society 2023	Carrying amount Assets £m	Liabilities £m	Fair value adjustments on hedged item (note A) £m	SOFP line	Change in fair value credit / (charge) (note B) £m	Amount remaining on items de-designated from hedge relationship (note C) £m
Cash flow hedges						
Floating rate assets	1,544.8	-	n/a	note D	n/a	78.3
Floating rate liabilities	-	1,700.3	n/a	note E	n/a	(14.7)
Fair value hedges						
Fixed rate mortgages	21,828.7	-	(347.4)	note F	617.4	-
Debt securities	854.4	-	(52.4)	note D	47.4	-
Fixed rate savings	-	11,938.7	(30.8)	note G	160.9	-
Amounts owed to other customers	-	41.3	(0.1)	note I	(0.1)	-
Subordinated liabilities	-	705.8	(18.2)	note H	21.1	-
Society 2022						
Cash flow hedges						
Floating rate assets	1,240.8	-	n/a	note D	n/a	116.8
Floating rate liabilities	-	1,495.3	n/a	note E	n/a	(45.0)
Fair value hedges						
Fixed rate mortgages	19,674.9	-	(964.8)	note F	(782.5)	-
Debt securities	638.9	-	(99.8)	note D	(78.0)	-
Fixed rate savings	-	8,663.5	(191.7)	note G	(148.4)	-
Subordinated liabilities	-	351.7	(39.3)	note H	(24.8)	-

Notes

A. Fair value adjustments on hedged items are included within the Statement of Financial Position (SOFP) as adjustments to the relevant SOFP line; see below notes for details.

B. The change in fair value during the period that is used as the basis for calculating hedge ineffectiveness and is recognised within the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Hedging instruments and hedged items'.

C. 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.

D. The Statement of Financial Position lines that include these items are 'Debt securities' and 'Investments in subsidiary undertakings and joint ventures'.

E. The Statement of Financial Position line that includes these items is 'Debt securities in issue'.

F. The Statement of Financial Position line that includes these items is 'Loans and advances to customers held at amortised cost'.

G. The Statement of Financial Position lines that include these items are 'Shares' (Group and Society) and 'Amounts owed to other customers' (Group only).

H. The Statement of Financial Position line that includes these items is 'Subordinated liabilities'.

I. The Statement of Financial Position line that includes these items is 'Amounts owed to other customers'

Group 2023	Notional £m	Carrying amount Assets £m	Liabilities £m	Change in fair value recognised in OCI: credit (note A) £m	Amount reclassified from OCI to Income Statement £m
Cross currency swaps	443.5	-	(23.6)	0.8	-
2022					
Cross currency swaps	891.6	-	(45.5)	3.8	-

Note

A. The change in fair value during the period is recognised within the 'Movement in cash flow hedging reserve: (Losses) / gains taken to equity' line of the Statement of Comprehensive Income.

The tables below provide an analysis of amounts recognised in other comprehensive income resulting from hedge accounting during the year:

Group	2023 Cash flow hedging reserve £m	2023 Cost of hedging reserve £m	2023 Total £m	2022 Cash flow hedging reserve £m	2022 Cost of hedging reserve £m	2022 Total £m
Balance at 1 January	29.6	(1.1)	28.5	4.0	(3.5)	0.5
Change in fair value of derivatives in effective hedging relationships:						
Held to hedge interest rate risk	(40.7)	0.8	(39.9)	(30.1)	3.8	(26.3)
Net amounts reclassified to profit or loss from derivatives:						
Held to hedge interest rate risk	6.4	-	6.4	65.1	-	65.1
Tax on movements in reserves during the year	9.6	(0.2)	9.4	(9.4)	(1.4)	(10.8)
Balance at 31 December	4.9	(0.5)	4.4	29.6	(1.1)	28.5

Society	2023 Cash flow hedging reserve £m	2023 Cost of hedging reserve £m	2023 Total £m	2022 Cash flow hedging reserve £m	2022 Cost of hedging reserve £m	2022 Total £m
Balance at 1 January	1.8	-	1.8	1.4	-	1.4
Change in fair value of derivatives in effective hedging relationships:						
Held to hedge interest rate risk	(17.3)	-	(17.3)	(64.1)	-	(64.1)
Net amounts reclassified to profit or loss from derivatives:						
Held to hedge interest rate risk	5.9	-	5.9	64.5	-	64.5
Tax on movements in reserves during the year	3.2	-	3.2	-	-	-
Balance at 31 December	(6.4)	-	(6.4)	1.8	-	1.8

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 monitored and managed by the Treasury function and overseen by ALCO under a series of delegated authorities;
- the Treasury function conducts a series of 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).

38. Liquidity risk (continued)

There are two measures that the Group considers key to monitoring its liquidity position:

- LCR – which analyses the amount of high quality liquidity that it is necessary to hold to survive a 30 day regulatory stress scenario; 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.

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	2023						
	Repayable on demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	No specified maturity £m	Total £m
Assets							
Cash in hand and balances with the Bank of England	3,159.7	-	-	-	-	106.5	**3,266.2**
Loans and advances to credit institutions	134.7	-	0.5	-	-	353.6	**488.8**
Debt securities	-	487.7	942.7	1,477.2	430.1	-	**3,337.7**
Derivative financial instruments	-	57.1	145.5	694.2	104.0	-	**1,000.8**
Loans and advances to customers held at amortised cost	169.5	22.5	49.0	891.9	27,028.5	-	**28,161.4**
Loans and advances to customers held at FVTPL	0.9	-	-	-	-	-	**0.9**
Equity release portfolio at FVTPL	-	5.4	17.7	69.3	200.9	-	**293.3**
Equity share investments at FVTPL	-	-	-	-	-	10.5	**10.5**
Trade receivables	26.1	31.9	-	-	-	-	**58.0**
Share warrants	15.1	-	-	-	-	-	**15.1**
Other assets	-	-	-	-	-	0.2	**0.2**
Total financial assets	**3,506.0**	**604.6**	**1,155.4**	**3,132.6**	**27,763.5**	**470.8**	**36,632.9**
Liabilities							
Shares	7,716.2	13,931.6	2,289.7	1,982.7	29.6	-	**25,949.8**
Amounts owed to credit institutions	13.0	7.3	304.2	1,165.2	-	603.7	**2,093.4**
Amounts owed to other customers	960.1	603.2	1,008.6	236.9	-	-	**2,808.8**
Debt securities in issue	-	302.3	606.3	1,506.1	-	-	**2,414.7**
Derivative financial instruments	-	24.3	61.8	282.8	83.3	-	**452.2**
Lease liabilities	0.1	7.5	22.2	58.8	14.4	-	**103.0**
Trade payables	-	10.2	-	-	-	-	**10.2**
Fair value of put option obligation	-	-	3.3	0.2	-	-	**3.5**
Subordinated liabilities	-	-	-	326.9	358.4	-	**685.3**
Subscribed capital	-	-	-	-	-	41.6	**41.6**
Total financial liabilities	**8,689.4**	**14,886.4**	**4,296.1**	**5,559.6**	**485.7**	**645.3**	**34,562.5**
Net liquidity gap	**(5,183.4)**	**(14,281.8)**	**(3,140.7)**	**(2,427.0)**	**27,277.8**	**(174.5)**	**2,070.4**

Group	2022						
	Repayable on demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	No specified maturity £m	Total £m
Assets							
Cash in hand and balances with the Bank of England	3,423.8	-	-	-	-	96.7	3,520.5
Loans and advances to credit institutions	190.9	0.8	-	-	-	440.2	631.9
Debt securities	-	245.7	744.7	1,347.4	302.5	-	2,640.3
Derivative financial instruments	-	9.5	123.7	1,069.9	152.0	-	1,355.1
Loans and advances to customers held at amortised cost	147.1	22.9	43.2	854.6	23,384.5	-	24,452.3
Loans and advances to customers held at FVTPL	1.0	-	-	-	-	-	1.0
Equity release portfolio at FVTPL	-	3.6	14.0	63.7	197.4	-	278.7
Equity share investments at FVTPL	-	-	-	-	-	1.2	1.2
Trade receivables	34.9	28.4	-	-	-	-	63.3
Share warrants	26.6	-	-	-	-	-	26.6
Total financial assets	3,824.3	310.9	925.6	3,335.6	24,036.4	538.1	32,970.9
Liabilities							
Shares	6,137.5	12,999.5	1,342.5	1,808.6	61.5	-	22,349.6
Amounts owed to credit institutions	20.8	3.3	0.4	1,913.6	-	1,025.2	2,963.3
Amounts owed to other customers	728.7	593.9	826.8	189.8	-	-	2,339.2
Debt securities in issue	-	0.3	845.7	1,745.6	-	-	2,591.6
Derivative financial instruments	-	16.0	51.7	244.8	103.1	-	415.6
Lease liabilities	-	7.8	23.0	67.1	15.1	-	113.0
Trade payables	-	7.9	-	-	-	-	7.9
Fair value of put option obligation	-	-	3.5	0.3	-	-	3.8
Subordinated liabilities	-	-	-	311.8	-	-	311.8
Subscribed capital	-	-	-	-	-	41.6	41.6
Total financial liabilities	6,887.0	13,628.7	3,093.6	6,281.6	179.7	1,066.8	31,137.4
Net liquidity gap	(3,062.7)	(13,317.8)	(2,168.0)	(2,946.0)	23,856.7	(528.7)	1,833.5

Notes to the Accounts (continued)

38. Liquidity risk (continued)

Society	2023						
	Repayable on demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	No specified maturity £m	Total £m
Assets							
Cash in hand and balances with the Bank of England	3,159.7	-	-	-	-	106.5	**3,266.2**
Loans and advances to credit institutions	79.5	-	0.5	-	-	417.7	**497.7**
Debt securities	-	392.0	907.2	1,477.2	430.1	-	**3,206.5**
Derivative financial instruments	-	57.1	145.8	707.2	92.9	-	**1,003.0**
Loans and advances to customers held at amortised cost	2.6	22.4	46.7	849.7	24,943.5	-	**25,864.9**
Loans and advances to customers held at FVTPL	0.9	-	-	-	-	-	**0.9**
Equity release portfolio at FVTPL	-	5.4	17.7	69.2	201.0	-	**293.3**
Loans to subsidiary undertakings	372.7	-	-	-	-	-	**372.7**
Trade receivables	1.8	-	-	-	-	-	**1.8**
Total financial assets	**3,617.2**	**476.9**	**1,117.9**	**3,103.3**	**25,667.5**	**524.2**	**34,507.0**
Liabilities							
Shares	7,716.2	13,931.6	2,289.7	1,982.7	2.1	-	**25,922.3**
Amounts owed to credit institutions	13.0	216.6	304.2	1,165.2	-	603.7	**2,302.7**
Amounts owed to other customers	424.8	59.4	323.5	-	-	-	**807.7**
Debt securities in issue	-	301.9	434.4	1,506.2	-	-	**2,242.5**
Derivative financial instruments	-	28.4	48.9	348.1	83.3	-	**508.7**
Lease liabilities	-	0.6	1.7	5.9	2.1	-	**10.3**
Trade payables	-	2.3	-	-	-	-	**2.3**
Subordinated liabilities	-	-	-	326.9	358.4	-	**685.3**
Subscribed capital	-	-	-	-	-	41.6	**41.6**
Total financial liabilities	**8,154.0**	**14,540.8**	**3,402.4**	**5,335.0**	**445.9**	**645.3**	**32,523.4**
Net liquidity gap	**(4,536.8)**	**(14,063.9)**	**(2,284.5)**	**(2,231.7)**	**25,221.6**	**(121.1)**	**1,983.6**

Society	2022						
	Repayable on demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	No specified maturity £m	Total £m
Assets							
Cash in hand and balances with the Bank of England	3,423.8	-	-	-	-	96.7	3,520.5
Loans and advances to credit institutions	80.9	-	-	-	-	540.7	621.6
Debt securities	-	218.3	667.3	1,384.6	302.5	-	2,572.7
Derivative financial instruments	-	9.8	124.4	1,072.4	135.7	-	1,342.3
Loans and advances to customers held at amortised cost	2.1	22.4	41.4	752.8	21,540.8	-	22,359.5
Loans and advances to customers held at FVTPL	1.0	-	-	-	-	-	1.0
Equity release portfolio at FVTPL	-	3.6	14.0	63.7	197.4	-	278.7
Loans to subsidiary undertakings	363.8	-	-	-	-	-	363.8
Trade receivables	1.5	0.4	-	-	-	-	1.9
Total financial assets	3,873.1	254.5	847.1	3,273.5	22,176.4	637.4	31,062.0
Liabilities							
Shares	6,137.5	12,999.5	1,342.5	1,808.6	2.4	-	22,290.5
Amounts owed to credit institutions	20.8	217.3	0.4	1,913.6	-	1,025.2	3,177.3
Amounts owed to other customers	222.9	32.9	12.7	360.2	-	-	628.7
Debt securities in issue	-	-	845.7	1,546.9	-	-	2,392.6
Derivative financial instruments	-	17.0	40.7	315.5	103.1	-	476.3
Lease liabilities	-	0.5	1.6	6.4	2.6	-	11.1
Trade payables	-	1.5	-	-	-	-	1.5
Subordinated liabilities	-	-	-	311.8	-	-	311.8
Subscribed capital	-	-	-	-	-	41.6	41.6
Total financial liabilities	6,381.2	13,268.7	2,243.6	6,263.0	108.1	1,066.8	29,331.4
Net liquidity gap	(2,508.1)	(13,014.2)	(1,396.5)	(2,989.5)	22,068.3	(429.4)	1,730.6

With respect to loans and advances to customers presented within the tables above, each outstanding loan balance is allocated in full to a single maturity grouping according to that loan's contractual maturity date (regardless of any scheduled repayments that may be receivable prior to the contractual maturity date). Loans and advances to customers presented as repayable on demand represent those loans and advances that are on call and at short notice.

With respect to the equity release portfolio, contractual maturity arises in the event of the borrower's voluntary redemption, death or move to long-term care. For the purposes of the tables above, amounts have been allocated to maturity groupings based on the anticipated redemption profiles applied in the Group's equity release portfolio valuation model (see Note 1e) and Note 1u) for further details).

Group debt securities in issue include £186.0m (2022: £239.8m) of funding obtained through the Group's securitisation issuances carried out through 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 twelve months. As a result, all such amounts have been shown within 3–12 months in the tables above.

Notes to the Accounts (continued)

38. Liquidity risk (continued)

The following table is an analysis of undiscounted gross contractual cash flows payable on financial liabilities:

Group	2023 Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Shares	21,648.9	2,360.0	2,117.9	29.6	**26,156.4**
Amounts owed to credit institutions, other customers and debt securities in issue	2,542.1	1,987.8	3,299.4	-	**7,829.3**
Derivative financial instruments	50.3	198.2	529.7	240.6	**1,018.8**
Lease liabilities	7.6	22.6	59.6	14.6	**104.4**
Trade payables	10.2	-	-	-	**10.2**
Fair value of put option obligation	-	3.4	0.2	-	**3.6**
Subordinated liabilities	-	28.9	440.6	371.9	**841.4**
Subscribed capital	1.6	2.9	18.0	*note A*	**22.5**
	24,260.7	**4,603.8**	**6,465.4**	**656.7**	**35,986.6**

Group	2022 Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Shares	19,137.8	1,349.2	1,838.8	61.5	22,387.3
Amounts owed to credit institutions, other customers and debt securities in issue	2,438.8	1,771.2	4,132.3	-	8,342.3
Derivative financial instruments	24.0	99.9	197.1	30.5	351.5
Lease liabilities	4.7	27.1	70.3	21.5	123.6
Trade payables	7.9	-	-	-	7.9
Fair value of put option obligation	-	3.5	0.3	-	3.8
Subordinated liabilities	-	7.0	364.0	-	371.0
Subscribed capital	1.6	2.9	18.0	*note A*	22.5
	21,614.8	3,260.8	6,620.8	113.5	31,609.9

Note

A. With respect to subscribed capital, gross contractual cash flows represent interest payable on the Group's Permanent Interest Bearing Shares (PIBS) (see Note 33). The undiscounted gross interest payable each year by the Group is £4.5m per annum. As the PIBS have no specified contractual maturity (as shown on pages 198 and 199), it is not possible to calculate the total amount of undiscounted gross interest that is payable beyond 5 years (i.e. into perpetuity). Also, as the PIBS have no specified contractual maturity, the amounts shown in the tables above do not anticipate any future repurchase of the PIBS by the Group.

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 201 are exercised.

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 2023 is £2,118.5m (2022: £2,112.5m) which are due within 3 months.

Society	2023 Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Shares	21,648.9	2,360.0	2,117.9	2.1	**26,128.9**
Amounts owed to credit institutions, other customers and debt securities in issue	1,680.1	1,176.0	2,921.8	-	**5,777.9**
Derivative financial instruments	58.6	202.7	586.1	241.2	**1,088.6**
Lease liabilities	0.6	1.9	6.4	2.2	**11.1**
Trade payables	2.3	-	-	-	**2.3**
Subordinated liabilities	-	28.9	440.6	371.9	**841.4**
Subscribed capital	1.6	2.9	18.0	*note A*	**22.5**
	23,392.1	**3,772.4**	**6,090.8**	**617.4**	**33,872.7**

Society	2022 Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Shares	19,137.8	1,349.2	1,838.8	2.4	22,328.2
Amounts owed to credit institutions, other customers and debt securities in issue	1,553.3	950.3	3,991.3	-	6,494.9
Derivative financial instruments	19.8	94.5	255.6	30.5	400.4
Lease liabilities	0.7	1.9	6.8	2.6	12.0
Trade payables	1.5	-	-	-	1.5
Subordinated liabilities	-	7.0	364.0	-	371.0
Subscribed capital	1.6	2.9	18.0	*note A*	22.5
	20,714.7	2,405.8	6,474.5	35.5	29,630.5

Note

A. With respect to subscribed capital, gross contractual cash flows represent interest payable on the Society's Permanent Interest Bearing Shares (PIBS) (see Note 33). The undiscounted gross interest payable each year by the Society is £4.5m per annum. As the PIBS have no specified contractual maturity (as shown on pages 202 and 203), it is not possible to calculate the total amount of undiscounted gross interest that is payable beyond 5 years (i.e. into perpetuity). Also, as the PIBS have no specified contractual maturity, the amounts shown in the tables above do not anticipate any future repurchase of the PIBS by the Society.

Amounts owed to other customers in the Society tables above include deemed loans from the Group's securitisation vehicle Darrowby No. 5 plc, which arises from the funding transactions carried out through this entity. The undiscounted gross contractual cash flows arising on these loans have been calculated on the assumption that the call options referred to on page 203 are exercised.

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 2023 is £2,050.8m (2022: £2,024.5m) which are due within 3 months.

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 Treasury 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.

b) 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. All these measures are used to guide interest rate risk management decisions.

Notes to the Accounts (continued)

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 2023 £m	Average 2023 £m	High 2023 £m	Low 2023 £m	As at 31 December 2022 £m
Static earnings-at-risk	**16.5**	**11.1**	**16.5**	**7.4**	7.4
Historical value-at-risk	**1.8**	**2.3**	**2.8**	**1.8**	3.2
2% parallel interest rate shift	**17.8**	**22.4**	**26.2**	**17.8**	22.8

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.

c) 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 one regulated covered bond in Euros totalling €500m (2022: 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.

Skipton International Limited (SIL) holds deposits from customers denominated in US dollars (USD). SIL manages its foreign currency risk by holding cash and debt securities denominated in USD; the objective is to minimise mismatches between the balance and maturity profile of USD assets and USD liabilities, and also mismatches between the related interest income and interest expense on USD assets and liabilities.

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 2023 are not material.

d) 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 146.

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.

Scenario analysis has been undertaken to identify the impact of climate-related risks on the Group's credit risk management. This includes assessing the residential lending portfolio at property level to determine the potential impact of key climate-related physical and transitional risks. The scenario analysis indicates that the most significant effects from climate change occur in the medium to long-term, with material financial impacts from transition risks expected to transpire before physical risks. However, recent UK Government pronouncements delaying climate-related policy interventions, and the ongoing cost of living crisis, are likely to further extend the transition timeline. The results of this assessment did not lead to a change in carrying amounts as at 31 December 2023 or 31 December 2022. The future impact of climate-related risks on credit risk is uncertain, and the Group will continue to monitor developments in future periods.

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 credit for hedged risk of £334.1m (2022: £966.8m credit) for the Group and £330.7m (2022: £964.8m credit) for the 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 2023 is £2,118.5m (2022: £2,112.5m) for the Group and £2,050.8m (2022: £2,024.5m) for the Society and the impairment loss allowance held against these commitments is £0.6m (2022: £0.5m) for both the Group and the Society.

Retail mortgage lending to customers

The Group currently lends in the prime residential UK mortgage market, including buy-to-let, through the Society, whilst Skipton International Limited (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 for the mortgage portfolios previously held by Amber Homeloans Limited (Amber) and North Yorkshire Mortgages Limited (NYM); these mortgage portfolios are now held by the Society, following the hive-up of those two businesses into the Society with effect from 1 June 2021. These portfolios 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 (SBF), 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.

Notes to the Accounts (continued)

40. Credit risk (continued)

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.

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 tables below show the breakdown of the Group and Society's loans and advances to customers held at amortised cost at the reporting date:

Group	2023				
	Gross carrying amount £m	ECL allowance (Note 14) £m	Fair value adjustment for hedged risk £m	Carrying amount £m	%
Residential mortgages	28,192.3	(29.0)	(350.9)	27,812.4	98.8
Loans fully secured on land^	135.2	(9.0)	-	126.2	0.4
Other lending:					
Debt factoring advances	171.2	(1.6)	-	169.6	0.6
Other loans	53.2	-	-	53.2	0.2
	28,551.9	(39.6)	(350.9)	28,161.4	100.0

Group	2022				
	Gross carrying amount £m	ECL allowance (Note 14) £m	Fair value adjustment for hedged risk £m	Carrying amount £m	%
Residential mortgages	25,097.3	(32.5)	(966.8)	24,098.0	98.6
Loans fully secured on land^	159.3	(9.9)	-	149.4	0.6
Other lending:					
Debt factoring advances	150.6	(1.2)	-	149.4	0.6
Other loans	55.5	-	-	55.5	0.2
	25,462.7	(43.6)	(966.8)	24,452.3	100.0

Society	2023				
	Gross carrying amount £m	ECL allowance (Note 14) £m	Fair value adjustment for hedged risk £m	Carrying amount £m	%
Residential mortgages	26,114.0	(27.9)	(347.4)	25,738.7	99.5
Loans fully secured on land^	135.2	(9.0)	-	126.2	0.5
	26,249.2	(36.9)	(347.4)	25,864.9	100.0

Society	2022				
	Gross carrying amount £m	ECL allowance (Note 14) £m	Fair value adjustment for hedged risk £m	Carrying amount £m	%
Residential mortgages	23,206.8	(31.9)	(964.8)	22,210.1	99.3
Loans fully secured on land^	159.3	(9.9)	-	149.4	0.7
	23,366.1	(41.8)	(964.8)	22,359.5	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:

	2023							
	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	27,485.7	506.4	8.5	28,000.6	25,412.6	505.6	8.5	25,926.7
Up to 30 days past due	-	67.0	1.8	68.8	-	64.2	1.8	66.0
31 to 60 days past due	-	42.5	3.5	46.0	-	41.8	3.5	45.3
61 to 90 days past due	-	12.7	7.3	20.0	-	12.7	7.1	19.8
Over 90 days past due	-	-	56.9	56.9	-	-	56.2	56.2
	27,485.7	628.6	78.0	28,192.3	25,412.6	624.3	77.1	26,114.0

	2022							
	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	20,685.8	4,264.8	8.5	24,959.1	18,799.9	4,263.0	8.5	23,071.4
Up to 30 days past due	-	49.3	2.9	52.2	-	47.8	2.9	50.7
31 to 60 days past due	-	27.6	4.9	32.5	-	27.1	4.9	32.0
61 to 90 days past due	-	9.7	8.1	17.8	-	8.9	8.1	17.0
Over 90 days past due	-	-	35.7	35.7	-	-	35.7	35.7
	20,685.8	4,351.4	60.1	25,097.3	18,799.9	4,346.8	60.1	23,206.8

Notes to the Accounts (continued)

40. Credit risk (continued)

The tables below provide information on movements in the gross carrying amount of residential loans and advances to customers during the year:

2023	Group Stage 1 £m	Group Stage 2 £m	Group Stage 3 £m	Group Total £m	Society Stage 1 £m	Society Stage 2 £m	Society Stage 3 £m	Society Total £m
Gross carrying amount at 1 January	20,685.8	4,351.4	60.1	**25,097.3**	18,799.9	4,346.8	60.1	**23,206.8**
Transfers due to changes in credit risk *(note A)*:								
From stage 1 to stage 2	(266.4)	266.4	-	-	(262.1)	262.1	-	-
From stage 1 to stage 3	(6.0)	-	6.0	-	(5.1)	-	5.1	-
From stage 2 to stage 1	3,471.8	(3,471.8)	-	-	3,468.9	(3,468.9)	-	-
From stage 2 to stage 3	-	(17.6)	17.6	-	-	(17.6)	17.6	-
From stage 3 to stage 2	-	7.1	(7.1)	-	-	7.1	(7.1)	-
From stage 3 to stage 1	1.6	-	(1.6)	-	1.6	-	(1.6)	-
Modification of contractual cashflows	(5.2)	(13.7)	14.5	**(4.4)**	(5.2)	(13.7)	14.5	**(4.4)**
Increases due to origination	6,575.3	26.9	1.1	**6,603.3**	6,205.9	26.9	1.0	**6,233.8**
Decrease due to derecognition and repayments	(2,980.5)	(514.9)	(9.8)	**(3,505.2)**	(2,800.6)	(513.2)	(9.7)	**(3,323.5)**
Written off	(0.2)	(1.5)	(3.4)	**(5.1)**	(0.2)	(1.5)	(3.4)	**(5.1)**
Other movements	9.5	(3.7)	0.6	**6.4**	9.5	(3.7)	0.6	**6.4**
Gross carrying amount at 31 December	**27,485.7**	**628.6**	**78.0**	**28,192.3**	**25,412.6**	**624.3**	**77.1**	**26,114.0**

2022 (re-presented *(note A)*)	Group Stage 1 £m	Group Stage 2 £m	Group Stage 3 £m	Group Total £m	Society Stage 1 £m	Society Stage 2 £m	Society Stage 3 £m	Society Total £m
Gross carrying amount at 1 January	22,326.2	458.9	70.1	22,855.2	20,676.9	455.6	70.0	21,202.5
Transfers due to changes in credit risk *(note A)*:								
From stage 1 to stage 2	(4,106.4)	4,106.4	-	-	(4,104.3)	4,104.3	-	-
From stage 1 to stage 3	(3.4)	-	3.4	-	(3.4)	-	3.4	-
From stage 2 to stage 1	61.5	(61.5)	-	-	60.2	(60.2)	-	-
From stage 2 to stage 3	-	(8.7)	8.7	-	-	(8.7)	8.7	-
From stage 3 to stage 2	-	12.0	(12.0)	-	-	12.0	(12.0)	-
From stage 3 to stage 1	0.1	-	(0.1)	-	0.1	-	(0.1)	-
Modification of contractual cashflows	(39.4)	29.4	4.3	(5.7)	(39.4)	29.4	4.3	(5.7)
Increases due to origination	6,084.0	37.8	0.2	6,122.0	5,620.2	37.8	0.2	5,658.2
Decrease due to derecognition and repayments	(3,634.7)	(227.3)	(10.8)	(3,872.8)	(3,408.2)	(227.8)	(10.7)	(3,646.7)
Written off	(0.2)	(0.2)	(3.9)	(4.3)	(0.2)	(0.2)	(3.9)	(4.3)
Other movements	(1.9)	4.6	0.2	2.9	(2.0)	4.6	0.2	2.8
Gross carrying amount at 31 December	20,685.8	4,351.4	60.1	25,097.3	18,799.9	4,346.8	60.1	23,206.8

Note

A. For the purposes of the analysis presented above, the amounts shown for 'transfers due to changes in credit risk' are based on account balances at the start of the reporting period (not account balances at the date of transfer); in previous reporting periods, the amounts shown for transfers into the new stage were based on account balances at the end of the reporting period. The comparative amounts for the year ended 31 December 2022 are re-presented above according to the revised basis; this revision is presentational only and there is no impact on total amounts reported for the year ended 31 December 2022.

As shown in the tables above, during 2023 there was a net decrease in stage 2 loans of £3,722.8m for the Group and of £3,722.5m for the Society. As outlined in Note 1u), during 2023 the Group has revised its view on forward-looking economic indicators, and also the associated scenario weightings; this caused PDs to reduce and, as a result, a number of accounts which were previously held in stage 2 no longer meet the 'significant increase in credit risk' criteria and have returned to stage 1.

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 2023, stage 3 loans include £16.6m for the Group (2022: £20.4m) and £16.6m for the Society (2022: £20.4m) 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:

2023	Group Stage 1 £m	Group Stage 2 £m	Group Stage 3 £m	Group Total £m	Society Stage 1 £m	Society Stage 2 £m	Society Stage 3 £m	Society Total £m
Loss allowance at 1 January	11.2	17.7	3.6	**32.5**	10.6	17.7	3.6	**31.9**
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(0.1)	1.5	-	**1.4**	(0.1)	1.5	-	**1.4**
From stage 1 to stage 3	-	-	0.7	**0.7**	-	-	0.7	**0.7**
From stage 2 to stage 1	1.8	(12.0)	-	**(10.2)**	1.8	(12.0)	-	**(10.2)**
From stage 2 to stage 3	-	(0.5)	1.5	**1.0**	-	(0.5)	1.5	**1.0**
From stage 3 to stage 2	-	0.1	(0.1)	**-**	-	0.1	(0.1)	**-**
Remeasurements within existing stage	(0.8)	0.1	0.3	**(0.4)**	(0.9)	-	0.3	**(0.6)**
Increases due to origination	5.5	0.3	0.1	**5.9**	5.4	0.3	0.1	**5.8**
Decrease due to derecognition and repayments	(1.4)	(1.5)	(0.3)	**(3.2)**	(1.4)	(1.5)	(0.3)	**(3.2)**
Changes due to modification without derecognition	-	0.3	1.4	**1.7**	-	0.3	1.2	**1.5**
Written off	-	-	(0.4)	**(0.4)**	-	-	(0.4)	**(0.4)**
Loss allowance at 31 December	**16.2**	**6.0**	**6.8**	**29.0**	**15.4**	**5.9**	**6.6**	**27.9**

Notes to the Accounts (continued)

40. Credit risk (continued)

	2022							
	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 at 1 January attributable by stage	3.4	2.3	4.9	10.6	3.3	2.3	4.9	10.5
Additional provision for payment deferrals *(note A)*				0.3				0.3
Loss allowance at 1 January				10.9				10.8
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(0.9)	13.5	-	12.6	(0.9)	13.5	-	12.6
From stage 1 to stage 3	-	-	0.2	0.2	-	-	0.2	0.2
From stage 2 to stage 1	-	(0.1)	-	(0.1)	-	(0.1)	-	(0.1)
From stage 2 to stage 3	-	(0.2)	0.4	0.2	-	(0.2)	0.4	0.2
From stage 3 to stage 2	-	0.3	(0.4)	(0.1)	-	0.3	(0.4)	(0.1)
Remeasurements within existing stage	4.7	1.0	(0.2)	5.5	4.2	1.0	(0.2)	5.0
Increases due to origination	4.5	0.5	-	5.0	4.5	0.5	-	5.0
Decrease due to derecognition and repayments	(0.5)	(0.3)	(0.3)	(1.1)	(0.5)	(0.3)	(0.3)	(1.1)
Changes due to modification without derecognition	-	0.7	0.2	0.9	-	0.7	0.2	0.9
Written off	-	-	(1.2)	(1.2)	-	-	(1.2)	(1.2)
	11.2	17.7	3.6	32.8	10.6	17.7	3.6	32.2
Decrease in additional provision for payment deferrals *(note A)*				(0.3)				(0.3)
Loss allowance at 31 December				32.5				31.9

Note

A. An additional provision for credit losses was previously 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 had occurred; this additional provision was fully released during the year ended 31 December 2022. When held, this additional provision was not allocated to the underlying loans and was not attributed to stages; in the table above it is presented within the total column.

The loss allowance at 31 December 2023 includes judgmental adjustments totalling £14.2m (2022: £13.3m) for the Group and £13.8m (2022: £12.8m) for the Society. Details of these judgmental adjustments are set out in Note 1u).

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	**2023**							
	Gross carrying amount				**Loss allowance**			
Probability of default	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
<0.15%	56.9	0.3	-	**57.2**	0.6	-	-	**0.6**
0.15% - <0.25%	1,168.8	-	-	**1,168.8**	0.4	-	-	**0.4**
0.25% - <0.5%	8,527.9	0.6	-	**8,528.5**	4.0	-	-	**4.0**
0.5% - <0.75%	10,540.5	1.8	-	**10,542.3**	5.7	-	-	**5.7**
0.75% - <2.5%	7,093.1	94.2	-	**7,187.3**	5.3	0.1	-	**5.4**
2.5% - <10%	98.5	200.8	-	**299.3**	0.2	0.3	-	**0.5**
10% - <100%	-	330.9	-	**330.9**	-	5.6	-	**5.6**
Default	-	-	78.0	**78.0**	-	-	6.8	**6.8**
	27,485.7	628.6	78.0	**28,192.3**	16.2	6.0	6.8	**29.0**
ECL coverage by stage (%)					**0.06%**	**0.95%**	**8.72%**	**0.10%**

Group	2022							
	Gross carrying amount				Loss allowance			
Probability of default	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<0.15%	65.2	0.3	-	65.5	0.5	-	-	0.5
0.15% - <0.25%	1,265.7	0.1	-	1,265.8	0.4	-	-	0.4
0.25% - <0.5%	6,580.0	1.0	-	6,581.0	2.8	-	-	2.8
0.5% - <0.75%	7,468.3	1.4	-	7,469.7	3.5	-	-	3.5
0.75% - <2.5%	5,286.2	93.5	-	5,379.7	4.0	0.1	-	4.1
2.5% - <10%	20.4	1,746.0	-	1,766.4	-	2.8	-	2.8
10% - <100%	-	2,509.1	-	2,509.1	-	14.8	-	14.8
Default	-	-	60.1	60.1	-	-	3.6	3.6
	20,685.8	4,351.4	60.1	25,097.3	11.2	17.7	3.6	32.5
ECL coverage by stage (%)					0.05%	0.41%	5.99%	0.13%

Society	**2023**							
	Gross carrying amount				**Loss allowance**			
Probability of default	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
<0.15%	56.9	0.3	-	**57.2**	0.6	-	-	**0.6**
0.15% - <0.25%	1,168.8	-	-	**1,168.8**	0.4	-	-	**0.4**
0.25% - <0.5%	8,547.2	0.6	-	**8,547.8**	3.9	-	-	**3.9**
0.5% - <0.75%	8,448.1	1.8	-	**8,449.9**	5.0	-	-	**5.0**
0.75% - <2.5%	7,093.1	94.2	-	**7,187.3**	5.3	0.1	-	**5.4**
2.5% - <10%	98.5	200.8	-	**299.3**	0.2	0.3	-	**0.5**
10% - <100%	-	326.6	-	**326.6**	-	5.5	-	**5.5**
Default	-	-	77.1	**77.1**	-	-	6.6	**6.6**
	25,412.6	624.3	77.1	**26,114.0**	15.4	5.9	6.6	**27.9**
ECL coverage by stage (%)					**0.06%**	**0.95%**	**8.56%**	**0.11%**

Society	2022							
	Gross carrying amount				Loss allowance			
Probability of default	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<0.15%	65.2	0.3	-	65.5	0.5	-	-	0.5
0.15% - <0.25%	1,265.7	0.1	-	1,265.8	0.4	-	-	0.4
0.25% - <0.5%	6,596.3	1.0	-	6,597.3	2.8	-	-	2.8
0.5% - <0.75%	5,566.1	1.4	-	5,567.5	2.9	-	-	2.9
0.75% - <2.5%	5,286.2	93.5	-	5,379.7	4.0	0.1	-	4.1
2.5% - <10%	20.4	1,746.0	-	1,766.4	-	2.8	-	2.8
10% - <100%	-	2,504.5	-	2,504.5	-	14.8	-	14.8
Default	-	-	60.1	60.1	-	-	3.6	3.6
	18,799.9	4,346.8	60.1	23,206.8	10.6	17.7	3.6	31.9
ECL coverage by stage (%)					0.06%	0.41%	5.99%	0.14%

Notes to the Accounts (continued)

40. Credit risk (continued)

The tables below provide 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 purposes 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	2023			2022		
	Gross carrying amount £m	ECL allowance £m	ECL coverage %	Gross carrying amount £m	ECL allowance £m	ECL coverage %
Over 30 days past due	55.2	2.3	4.2%	37.3	1.2	3.2%
In forbearance	7.3	0.1	1.4%	10.5	0.1	1.0%
In arrears	62.5	1.4	2.2%	44.5	0.9	2.0%
Term expired	13.5	-	-	24.8	0.2	0.8%
Temporary transfer to interest only*	210.7	0.4	0.2%	-	-	-
Increase in PD since origination	279.4	1.8	0.6%	4,234.3	15.3	0.4%
	628.6	**6.0**	**1.0%**	4,351.4	17.7	0.4%

Stage 2 analysis Society	2023			2022		
	Gross carrying amount £m	ECL allowance £m	ECL coverage %	Gross carrying amount £m	ECL allowance £m	ECL coverage %
Over 30 days past due	54.5	2.2	4.0%	36.0	1.2	3.3%
In forbearance	6.5	0.1	1.5%	8.7	0.1	1.1%
In arrears	59.7	1.4	2.3%	43.0	0.9	2.1%
Term expired	13.5	-	-	24.8	0.2	0.8%
Temporary transfer to interest only*	210.7	0.4	0.2%	-	-	-
Increase in PD since origination	279.4	1.8	0.6%	4,234.3	15.3	0.4%
	624.3	**5.9**	**0.9%**	4,346.8	17.7	0.4%

* Temporary arrangement in place, through the Mortgage Charter Scheme, to repay interest only

The tables below provide further information on the types of lending and geographical split:

Group	2023				2022			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Prime:								
Residential	21,437.2	492.2	48.7	**21,978.1**	16,746.1	2,278.4	36.8	19,061.3
Buy-to-let	5,864.2	73.3	11.5	**5,949.0**	3,818.2	1,899.8	6.9	5,724.9
Self build	9.7	1.3	1.0	**12.0**	7.0	3.3	0.5	10.8
Fast track*	10.9	1.4	-	**12.3**	11.9	3.4	0.2	15.5
Self certified	138.8	49.8	14.2	**202.8**	88.7	128.4	13.1	230.2
Sub-prime^:								
Residential	4.4	1.5	0.3	**6.2**	3.2	6.1	0.9	10.2
Buy-to-let	6.3	1.3	0.2	**7.8**	3.3	6.6	-	9.9
Self certified	14.2	7.8	2.1	**24.1**	7.4	25.4	1.7	34.5
	27,485.7	**628.6**	**78.0**	**28,192.3**	20,685.8	4,351.4	60.1	25,097.3

Society	2023				2022			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Prime:								
Residential	20,673.1	491.2	48.5	**21,212.8**	15,931.6	2,275.8	36.8	18,244.2
Buy-to-let	4,555.6	70.0	10.8	**4,636.4**	2,747.5	1,897.8	6.9	4,652.2
Self build	9.7	1.3	1.0	**12.0**	7.0	3.3	0.5	10.8
Fast track*	10.9	1.4	-	**12.3**	11.9	3.4	0.2	15.5
Self certified	138.4	49.8	14.2	**202.4**	88.0	128.4	13.1	229.5
Sub-prime^:								
Residential	4.4	1.5	0.3	**6.2**	3.2	6.1	0.9	10.2
Buy-to-let	6.3	1.3	0.2	**7.8**	3.3	6.6	-	9.9
Self-certified	14.2	7.8	2.1	**24.1**	7.4	25.4	1.7	34.5
	25,412.6	**624.3**	**77.1**	**26,114.0**	18,799.9	4,346.8	60.1	23,206.8

* Fast track relates to certain mortgages granted between 2007-2009 for which, subject to certain application criteria, the Society accepted reduced documentation from borrowers.

^ Sub-prime mortgages are defined as loans to borrowers that typically had weakened credit histories at the time the loan was advanced. Prior to 1 June 2021, these loans were held by the Group's specialist lending businesses Amber and NYM; these loans were hived-up into the Society with effect from 1 June 2021.

Group Region	2023				2022			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
North	806.6	20.6	3.1	**830.3**	647.3	128.3	2.5	778.1
Yorkshire	2,181.6	53.8	6.9	**2,242.3**	1,703.1	370.0	5.5	2,078.6
East Midlands	1,830.9	43.1	4.8	**1,878.8**	1,350.9	286.4	4.9	1,642.2
East Anglia	2,527.4	57.1	7.6	**2,592.1**	1,805.4	375.5	5.1	2,186.0
London	5,147.8	102.2	10.8	**5,260.8**	3,606.4	940.5	7.5	4,554.4
South East	4,316.7	101.4	13.7	**4,431.8**	3,124.1	647.9	10.8	3,782.8
South West	2,518.8	63.1	4.7	**2,586.6**	1,932.2	435.7	2.7	2,370.6
West Midlands	2,110.4	50.9	5.9	**2,167.2**	1,567.6	329.3	4.1	1,901.0
North West	2,605.4	73.3	10.0	**2,688.7**	2,009.5	423.6	9.3	2,442.4
Wales	773.1	21.6	2.2	**796.9**	615.7	127.5	1.7	744.9
Scotland	1,843.7	38.7	6.1	**1,888.5**	1,450.8	276.5	4.7	1,732.0
Northern Ireland	11.7	1.8	2.0	**15.5**	9.5	7.7	1.3	18.5
Channel Islands	811.6	1.0	0.2	**812.8**	863.3	2.5	-	865.8
	27,485.7	**628.6**	**78.0**	**28,192.3**	20,685.8	4,351.4	60.1	25,097.3

Society Region	2023				2022			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
North	802.0	20.6	3.1	**825.7**	643.6	128.3	2.5	774.4
Yorkshire	2,164.0	53.7	6.9	**2,224.6**	1,688.0	370.0	5.5	2,063.5
East Midlands	1,820.6	43.1	4.6	**1,868.3**	1,343.0	286.4	4.9	1,634.3
East Anglia	2,504.4	57.1	7.6	**2,569.1**	1,789.4	375.5	5.1	2,170.0
London	4,328.4	100.1	10.3	**4,438.8**	2,948.4	939.3	7.5	3,895.2
South East	4,168.9	100.7	13.7	**4,283.3**	3,000.9	647.0	10.8	3,658.7
South West	2,486.2	63.1	4.7	**2,554.0**	1,902.8	435.7	2.7	2,341.2
West Midlands	2,048.2	50.7	5.9	**2,104.8**	1,516.4	329.3	4.1	1,849.8
North West	2,496.3	73.1	10.0	**2,579.4**	1,918.0	423.6	9.3	2,350.9
Wales	767.8	21.6	2.2	**791.6**	612.0	127.5	1.7	741.2
Scotland	1,814.1	38.7	6.1	**1,858.9**	1,427.9	276.5	4.7	1,709.1
Northern Ireland	11.7	1.8	2.0	**15.5**	9.5	7.7	1.3	18.5
	25,412.6	**624.3**	**77.1**	**26,114.0**	18,799.9	4,346.8	60.1	23,206.8

Notes to the Accounts (continued)

40. Credit risk (continued)

Indexed loan-to-value information on the Group's residential loan portfolio is set out below:

Group	2023				2022			
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%	5,892.2	156.8	14.5	**6,063.5**	5,073.0	1,475.9	15.0	6,563.9
40% - 50%	4,151.6	113.4	15.3	**4,280.3**	3,571.1	1,034.9	16.1	4,622.1
50% - 60%	4,410.2	131.7	18.5	**4,560.4**	3,544.2	981.7	15.4	4,541.3
60% - 70%	4,538.0	109.2	13.3	**4,660.5**	3,930.0	695.9	7.7	4,633.6
70% - 80%	3,433.1	60.9	5.6	**3,499.6**	2,399.0	140.2	2.9	2,542.1
80% - 90%	3,271.7	43.1	4.6	**3,319.4**	1,811.5	16.3	0.8	1,828.6
90% - 100%	1,772.9	11.2	2.7	**1,786.8**	353.8	3.2	0.2	357.2
>100%	16.0	2.3	3.5	**21.8**	3.2	3.3	2.0	8.5
	27,485.7	**628.6**	**78.0**	**28,192.3**	20,685.8	4,351.4	60.1	25,097.3

Society	2023				2022			
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%	5,534.2	156.4	14.5	**5,705.1**	4,720.2	1,475.2	15.0	6,210.4
40% - 50%	3,807.0	113.2	15.2	**3,935.4**	3,225.0	1,033.5	16.1	4,274.6
50% - 60%	3,973.8	131.3	18.4	**4,123.5**	3,109.3	980.7	15.4	4,105.4
60% - 70%	4,031.0	108.3	12.8	**4,152.1**	3,456.9	695.9	7.7	4,160.5
70% - 80%	3,047.6	59.7	5.4	**3,112.7**	2,140.4	138.7	2.9	2,282.0
80% - 90%	3,233.8	41.9	4.6	**3,280.3**	1,793.0	16.3	0.8	1,810.1
90% - 100%	1,769.2	11.2	2.7	**1,783.1**	351.9	3.2	0.2	355.3
>100%	16.0	2.3	3.5	**21.8**	3.2	3.3	2.0	8.5
	25,412.6	**624.3**	**77.1**	**26,114.0**	18,799.9	4,346.8	60.1	23,206.8

The Group's policy for new mortgage lending is currently a maximum loan-to-value ratio of 100% for residential mortgages and 75% for buy-to-let lending. In addition, SIL lends up to 100% on its 'Next Generation' mortgages, for which a family member is required to provide a guarantee of up to 20% of the borrower's property value (to be supported by a bond over the guarantor's own suitable property in Guernsey or Jersey).

There has been an increase in the volume of 80-100% LTV lending within the year as we continue to deliver on our purpose of helping more people have a home. This has resulted in an increase in the overall percentage of the book with an LTV greater than 80%; 19.5% at 31 December 2023 (2022: 9.4%) and an increase in the average indexed loan-to-value of the Society's new lending in 2023 to 63.0% (2022: 57.5%). The quality of the lending remains high, with a well-managed spread of risk, carried out in a controlled manner being cognisant of the economic challenges that lie ahead. This is represented by the proportion of Group residential mortgage accounts in arrears by three months or more which remained low at 0.23% (2022: 0.16%).

At 31 December 2023, 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 44.5% (2022: 40.9%) and for Society residential mortgages was 44.3% (2022: 40.5%).

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.

Possessions

For the Group, at 31 December 2023 the balance of residential loans where the property has been taken into possession was £2.6m and represents less than 0.1% of total outstanding loans (2022: £2.2m; less than 0.1%). For the Society, at 31 December 2023 the balance of residential loans where the property has been taken into possession was £2.6m and represents less than 0.1% of total outstanding loans (2022: £2.2m; 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 2023, showing the type of account renegotiations applied. For the purposes 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 purposes of the tables below, the following loans are thus regarded as being in forbearance as at 31 December 2023:

- 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 2023); and
- any loan to which forbearance measures were applied and which remains on renegotiated terms at 31 December 2023 (even if the forbearance event was more than two years prior to the reporting date).

For the purposes of the tables below, loans are presented according to the ECL stage they were held in 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 2023	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Term extension £m	Total renegotiations £m	%
Stage 1							
Not past due	27,485.7	0.2	15.2	3.5	-	18.9	0.1
	27,485.7	**0.2**	**15.2**	**3.5**	**-**	**18.9**	**0.1**
Stage 2							
Not past due	506.4	0.3	25.7	6.5	-	32.5	6.4
Past due up to 30 days	67.0	0.1	21.9	0.3	-	22.3	33.3
Over 30 days past due	55.2	-	20.8	1.5	-	22.3	40.4
	628.6	**0.4**	**68.4**	**8.3**	**-**	**77.1**	**12.3**
Stage 3							
Not past due	8.5	0.8	2.2	-	-	3.0	35.3
Past due up to 90 days	12.6	0.1	5.5	0.4	-	6.0	47.6
Over 90 days past due	56.9	0.6	30.7	2.9	0.1	34.3	60.3
	78.0	**1.5**	**38.4**	**3.3**	**0.1**	**43.3**	**55.5**
Gross carrying amount	**28,192.3**	**2.1**	**122.0**	**15.1**	**0.1**	**139.3**	**0.5**
Loss allowance	**(29.0)**	**(0.3)**	**(4.4)**	**(0.2)**	**-**	**(4.9)**	**16.9**
	28,163.3	**1.8**	**117.6**	**14.9**	**0.1**	**134.4**	**0.5**

Notes to the Accounts (continued)

40. Credit risk (continued)

Group 2022	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Term extension £m	Total renegotiations £m	%
Stage 1							
Not past due	20,685.8	0.2	15.6	7.8	0.4	24.0	0.1
	20,685.8	0.2	15.6	7.8	0.4	24.0	0.1
Stage 2							
Not past due	4,264.8	0.1	42.8	8.1	0.8	51.8	1.2
Past due up to 30 days	49.3	-	22.9	0.6	0.2	23.7	48.1
Over 30 days past due	37.3	-	13.3	0.5	-	13.8	37.0
	4,351.4	0.1	79.0	9.2	1.0	89.3	2.1
Stage 3							
Not past due	8.5	-	3.5	0.2	-	3.7	43.5
Past due up to 90 days	15.9	-	6.4	1.0	0.1	7.5	47.2
Over 90 days past due	35.7	-	17.9	1.2	0.2	19.3	54.1
	60.1	-	27.8	2.4	0.3	30.5	50.7
Gross carrying amount	25,097.3	0.3	122.4	19.4	1.7	143.8	0.6
Loss allowance	(32.5)	-	(2.8)	(0.1)	-	(2.9)	8.9
	25,064.8	0.3	119.6	19.3	1.7	140.9	0.6

Society 2023	**Total £m**	**Capitalisation £m**	**Reduced payment £m**	**Transfer to interest only £m**	**Term extension £m**	**Total renegotiations £m**	**%**
Stage 1							
Not past due	25,412.6	0.2	15.2	3.5	-	18.9	0.1
	25,412.6	**0.2**	**15.2**	**3.5**	**-**	**18.9**	**0.1**
Stage 2							
Not past due	505.6	0.3	25.6	6.4	-	32.3	6.4
Past due up to 30 days	64.2	0.1	21.9	0.3	-	22.3	34.7
Over 30 days past due	54.5	-	20.8	1.5	-	22.3	40.9
	624.3	**0.4**	**68.3**	**8.2**	**-**	**76.9**	**12.3**
Stage 3							
Not past due	8.5	0.8	2.2	-	-	3.0	35.3
Past due up to 90 days	12.4	0.1	5.5	0.4	-	6.0	48.4
Over 90 days past due	56.2	0.6	30.7	2.9	0.1	34.3	61.0
	77.1	**1.5**	**38.4**	**3.3**	**0.1**	**43.3**	**56.2**
Gross carrying amount	**26,114.0**	**2.1**	**121.9**	**15.0**	**0.1**	**139.1**	**0.5**
Loss allowance	**(27.9)**	**(0.3)**	**(4.4)**	**(0.2)**	**-**	**(4.9)**	**17.6**
	26,086.1	**1.8**	**117.5**	**14.8**	**0.1**	**134.2**	**0.5**

Society 2022	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Term extension £m	Total renegotiations £m	%
Stage 1							
Not past due	18,799.9	0.2	15.6	7.8	0.4	24.0	0.1
	18,799.9	0.2	15.6	7.8	0.4	24.0	0.1
Stage 2							
Not past due	4,263.0	0.1	42.2	6.9	0.8	50.0	1.2
Past due up to 30 days	47.8	-	22.9	0.6	0.2	23.7	49.6
Over 30 days past due	36.0	-	13.3	0.5	-	13.8	38.3
	4,346.8	0.1	78.4	8.0	1.0	87.5	2.0
Stage 3							
Not past due	8.5	-	3.5	0.2	-	3.7	43.5
Past due up to 90 days	15.9	-	6.4	1.0	0.1	7.5	47.2
Over 90 days past due	35.7	-	17.9	1.2	0.2	19.3	54.1
	60.1	-	27.8	2.4	0.3	30.5	50.7
Gross carrying amount	23,206.8	0.3	121.8	18.2	1.7	142.0	0.6
Loss allowance	(31.9)	-	(2.8)	(0.1)	-	(2.9)	9.1
	23,174.9	0.3	119.0	18.1	1.7	139.1	0.6

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 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Stage 1	**27,480.3**	20,682.7	**25,409.8**	18,798.7
Stage 2	**628.0**	4,350.6	**623.7**	4,346.1
Stage 3	**77.0**	59.6	**76.1**	59.6
	28,185.3	25,092.9	**26,109.6**	23,204.4
Gross loan balances	**28,192.3**	25,097.3	**26,114.0**	23,206.8
Negative equity	**7.0**	4.4	**4.4**	2.4
Capped collateral held in respect of possessions (included within stage 3 above)	**2.2**	2.0	**2.2**	2.0

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 2023 is £63,377.2m (2022: £61,406.2m) and for the Society is £58,979.4m (2022: £57,294.9m).

At 31 December 2023 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 £0.7m (2022: £0.6m) for the Group and £0.7m (2022: £0.6m) for the Society.

Notes to the Accounts (continued)

40. Credit risk (continued)

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.

	2023 Group and Society				2022 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	89.6	31.7	2.1	**123.4**	105.2	41.7	3.8	150.7
Up to 30 days	1.4	2.7	-	**4.1**	0.1	2.2	-	2.3
31 to 60 days	-	0.4	-	**0.4**	-	3.0	-	3.0
61 to 90 days	-	3.0	0.2	**3.2**	-	-	0.1	0.1
Over 90 days	-	-	4.1	**4.1**	-	-	3.2	3.2
	91.0	**37.8**	**6.4**	**135.2**	105.3	46.9	7.1	159.3

The table below provides information on movements in the gross carrying amount of commercial loans during the year.

	2023 Group and Society				2022 (re-presented *(note A)*) 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 at 1 January	105.3	46.9	7.1	**159.3**	33.6	147.4	14.0	195.0
Transfers due to changes in credit risk *(note A)*:								
From stage 1 to stage 2	(1.6)	1.6	-	**-**	(4.3)	4.3	-	-
From stage 1 to stage 3	(0.1)	-	0.1	**-**	(0.8)	-	0.8	-
From stage 2 to stage 1	4.8	(4.8)	-	**-**	75.3	(75.3)	-	-
From stage 2 to stage 3	-	-	-	**-**	-	(0.7)	0.7	-
Modification of contractual cashflows	0.1	(0.8)	0.1	**(0.6)**	14.1	(10.6)	(5.6)	(2.1)
Decrease due to derecognition and repayments	(17.2)	(5.1)	(0.9)	**(23.2)**	(12.6)	(18.2)	(2.2)	(33.0)
Written off	(0.3)	-	-	**(0.3)**	-	-	(0.6)	(0.6)
Gross carrying amount at 31 December	**91.0**	**37.8**	**6.4**	**135.2**	105.3	46.9	7.1	159.3

Note

A. For the purposes of the analysis presented above, the amounts shown for 'transfers due to changes in credit risk' are based on account balances at the start of the reporting period (not account balances at the date of transfer); in previous reporting periods, the amounts shown for transfers into the new stage were based on account balances at the end of the reporting period. The comparative amounts for the year ended 31 December 2022 are re-presented above according to the revised basis; this revision is presentational only and there is no impact on total amounts reported for the year ended 31 December 2022.

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)).

For commercial loans, 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. At 31 December 2023, stage 3 loans include £nil being held in stage 3 under this probation period (2022: £nil).

The table below provides information on movements in the impairment loss allowance for commercial loans during the year.

	2023 Group and Society				2022 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 at 1 January	1.3	7.8	0.8	**9.9**	-	12.0	4.2	16.2
Transfers due to changes in credit risk:								
From stage 1 to stage 2	-	0.1	-	**0.1**	-	0.3	-	0.3
From stage 2 to stage 1	-	(0.2)	-	**(0.2)**	0.9	(4.8)	-	(3.9)
From stage 2 to stage 3	-	-	-	**-**	-	(0.1)	-	(0.1)
Remeasurements within existing stage	(0.5)	(0.1)	-	**(0.6)**	0.2	(0.3)	(0.1)	(0.2)
Decrease due to derecognition and repayments	(0.2)	(0.6)	-	**(0.8)**	-	(1.0)	(1.4)	(2.4)
Changes due to modification without derecognition	-	(0.4)	1.0	**0.6**	0.2	1.7	(1.6)	0.3
Written off	-	-	-	**-**	-	-	(0.3)	(0.3)
Loss allowance at 31 December	**0.6**	**6.6**	**1.8**	**9.0**	1.3	7.8	0.8	9.9
ECL coverage (%)	**0.66%**	**17.46%**	**28.13%**	**6.66%**	1.23%	16.63%	11.27%	6.21%

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	2023 Group and Society				2022 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	5.7	8.2	0.4	**14.3**	7.7	8.2	0.5	16.4
Retail	2.6	0.2	0.4	**3.2**	3.3	-	0.4	3.7
Nursing / residential homes	2.7	2.7	0.7	**6.1**	1.7	4.1	0.7	6.5
Offices	1.6	-	-	**1.6**	1.3	0.5	-	1.8
Commercial and industrial units	77.8	25.2	4.9	**107.9**	90.6	32.6	5.5	128.7
Miscellaneous	0.6	1.5	-	**2.1**	0.7	1.5	-	2.2
	91.0	**37.8**	**6.4**	**135.2**	105.3	46.9	7.1	159.3

Geographical analysis	2023 Group and Society				2022 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
North	2.6	1.4	0.7	**4.7**	2.4	2.9	1.0	6.3
Yorkshire	6.5	6.8	0.1	**13.4**	7.9	7.7	0.1	15.7
East Midlands	3.1	5.1	-	**8.2**	4.0	7.4	-	11.4
East Anglia	10.8	-	-	**10.8**	11.5	0.6	-	12.1
London	24.1	5.0	1.0	**30.1**	28.5	4.4	2.4	35.3
South East	12.6	5.0	0.7	**18.3**	15.9	7.0	0.7	23.6
South West	8.2	5.6	0.4	**14.2**	10.8	4.7	0.6	16.1
West Midlands	7.5	3.3	-	**10.8**	6.3	5.5	0.4	12.2
North West	11.3	3.9	3.0	**18.2**	12.4	5.0	1.5	18.9
Wales	2.4	1.5	-	**3.9**	2.6	1.6	-	4.2
Scotland	1.9	0.2	0.5	**2.6**	3.0	0.1	0.4	3.5
	91.0	**37.8**	**6.4**	**135.2**	105.3	46.9	7.1	159.3

Notes to the Accounts (continued)

40. Credit risk (continued)

Loan-to-value	2023 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	2022 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<40%	32.7	3.4	1.1	**37.2**	36.2	3.1	2.7	42.0
40% - 50%	17.9	1.7	0.9	**20.5**	17.0	2.3	0.4	19.7
50% - 60%	14.3	5.0	0.1	**19.4**	19.8	4.0	1.1	24.9
60% - 70%	7.8	2.8	0.1	**10.7**	10.9	5.2	-	16.1
70% - 80%	8.1	1.3	-	**9.4**	8.4	4.5	-	12.9
80% - 90%	3.4	5.4	-	**8.8**	4.4	3.4	0.8	8.6
90% - 100%	4.6	1.7	0.8	**7.1**	5.8	2.6	0.3	8.7
>100%	2.2	16.5	3.4	**22.1**	2.8	21.8	1.8	26.4
	91.0	**37.8**	**6.4**	**135.2**	105.3	46.9	7.1	159.3

At 31 December 2023 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 42.5% (2022: 44.9%). 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).

At 31 December 2023 the balance of commercial mortgages where the property has been taken into possession was £nil for the Group and Society (2022: £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 2022, 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 pages 215 and 216.

Group and Society 2023	Total £m	Reduced payment £m	Transfer to interest only £m	Total renegotiations £m	%
Stage 1					
Not past due	89.6	0.1	0.6	0.7	0.8
Past due up to 30 days	1.4	0.1	-	0.1	7.1
	91.0	**0.2**	**0.6**	**0.8**	**0.9**
Stage 2					
Not past due	31.7	-	7.6	7.6	24.0
Past due up to 30 days	2.7	0.6	-	0.6	22.2
Over 30 days past due	3.4	1.8	-	1.8	52.9
	37.8	**2.4**	**7.6**	**10.0**	**26.5**
Stage 3					
Not past due	2.1	0.1	1.3	1.4	66.7
Past due up to 90 days	0.2	0.2	-	0.2	100.0
Over 90 days past due	4.1	2.5	1.0	3.5	85.4
	6.4	**2.8**	**2.3**	**5.1**	**79.7**
Gross carrying amount	135.2	5.4	10.5	15.9	**11.8**
Loss allowance	(9.0)	(1.2)	(3.7)	(4.9)	**54.4**
	126.2	**4.2**	**6.8**	**11.0**	**8.7**

Group and Society 2022	Total £m	Reduced payment £m	Transfer to interest only £m	Total renegotiations £m	%
Stage 1					
Not past due	105.2	16.5	0.2	16.7	15.9
Past due up to 30 days	0.1	0.1	-	0.1	100.0
	105.3	16.6	0.2	16.8	16.0
Stage 2					
Not past due	41.7	17.6	-	17.6	42.2
Past due up to 30 days	2.2	2.1	-	2.1	95.5
Over 30 days past due	3.0	3.0	-	3.0	100.0
	46.9	22.7	-	22.7	48.4
Stage 3					
Not past due	3.8	0.4	0.4	0.8	21.1
Past due up to 30 days	0.1	0.1	-	0.1	100.0
Over 90 days past due	3.2	3.2	-	3.2	100.0
	7.1	3.7	0.4	4.1	57.7
Gross carrying amount	159.3	43.0	0.6	43.6	27.4
Loss allowance	(9.9)	(5.7)	-	(5.7)	57.6
	149.4	37.3	0.6	37.9	25.4

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.

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 2023 £m	Group and Society 2022 £m
Stage 1	**90.8**	104.9
Stage 2	**34.5**	41.5
Stage 3	**5.1**	6.7
	130.4	153.1
Gross loan balances	**135.2**	159.3
Negative equity	**4.8**	6.2
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 2023 is £318.0m (2022: £354.4m).

At 31 December 2023 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 (2022: £0.2m) for the Group and the Society.

40. Credit risk (continued)

iii) Other lending

Other lending comprises the following:

	Group					
	2023			2022		
	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	171.2	(1.6)	**169.6**	150.6	(1.2)	149.4
Other loans	53.2	-	**53.2**	55.5	-	55.5
	224.4	**(1.6)**	**222.8**	206.1	(1.2)	204.9

The table below provides information on movements in the gross carrying amount of other loans and advances during the year.

	Group							
	2023				2022			
	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 at 1 January	200.4	5.6	0.1	**206.1**	180.8	5.1	-	185.9
Transfers due to changes in credit risk *(note A)*:								
From stage 1 to stage 2	(4.1)	4.1	-	**-**	(2.4)	2.4	-	-
From stage 1 to stage 3	(0.2)	-	0.2	**-**	(0.3)	-	0.3	-
From stage 2 to stage 1	3.6	(3.6)	-	**-**	0.2	(0.2)	-	-
From stage 2 to stage 3	-	(0.7)	0.7	**-**	-	(0.2)	0.2	-
From stage 3 to stage 1	-	-	-	**-**	0.1	-	(0.1)	-
Modification of contractual cashflows	0.1	-	-	**0.1**	0.1	-	-	0.1
Increases due to origination	68.0	-	-	**68.0**	63.5	0.1	-	63.6
Decrease due to derecognition and repayments	(48.2)	(1.1)	(0.1)	**(49.4)**	(41.6)	(1.6)	(0.2)	(43.4)
Write-offs	-	-	(0.4)	**(0.4)**	-	-	(0.1)	(0.1)
Gross carrying amount at 31 December	**219.6**	**4.3**	**0.5**	**224.4**	200.4	5.6	0.1	206.1

Note

A. For the purposes of the analysis presented above, the amounts shown for 'transfers due to changes in credit risk' are based on account balances at the end of the reporting period (not account balances at the date of transfer).

The table below provides information on movements in the impairment loss allowance for other loans and advances during the year.

	Group							
	2023				2022			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance at 1 January	0.1	1.1	-	**1.2**	-	1.0	-	1.0
Transfers due to changes in credit risk:								
From stage 1 to stage 2	-	1.3	-	**1.3**	-	0.5	-	0.5
From stage 1 to stage 3	-	-	0.1	**0.1**	-	-	-	-
From stage 2 to stage 1	-	(0.5)	-	**(0.5)**	-	(0.1)	-	(0.1)
From stage 2 to stage 3	-	(0.6)	0.6	**-**	-	(0.1)	0.1	-
Remeasurements within existing stage	0.1	(0.2)	-	**(0.1)**	0.1	(0.2)	-	(0.1)
Write-offs	-	-	(0.4)	**(0.4)**	-	-	(0.1)	(0.1)
Loss allowance at 31 December	**0.2**	**1.1**	**0.3**	**1.6**	0.1	1.1	-	1.2

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 2023 and 31 December 2022, 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					
	2023			2022		
	Stage 1 £m	**Stage 2 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Total £m
Not past due	53.2	-	53.2	**55.4**	**-**	**55.4**
61 to 90 days	-	-	-	**-**	**0.1**	**0.1**
	53.2	**-**	**53.2**	**55.4**	**0.1**	**55.5**

The other loans of £53.2m (2022: £55.5m) 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 £116.9m (2022: £122.3m).

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.

At 31 December 2023 none of the Group or the Society's treasury assets were past due (2022: none past due). At 31 December 2023 the ECLs on the Group and the Society's treasury assets were all held as stage 1 (2022: all stage 1).

At 31 December 2023 and 31 December 2022, all the Group and the Society's treasury investments, except for building society deposits of £0.5m (2022 £nil) and certain collateral held of £0.1m (2022: £0.1m), were assessed to have a probability of default (PD) of less than 0.15%.

Notes to the Accounts (continued)

40. Credit risk (continued)

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 2023 99.9% (2022: 100%) 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 99.0% (2022: 98.4%) 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 2023 £m	Group 2023 %	Group 2022 £m	Group 2022 %	Society 2023 £m	Society 2023 %	Society 2022 £m	Society 2022 %
Aaa	**1,903.9**	**26.8**	1,611.9	23.7	**1,950.1**	**28.0**	1,627.5	24.2
Aa1	**90.5**	**1.3**	193.8	2.9	**90.5**	**1.3**	193.8	2.9
Aa2	**6.7**	**0.1**	96.2	1.4	**6.7**	**0.1**	96.2	1.4
Aa3	**4,543.7**	**64.1**	4,219.5	62.1	**4,356.3**	**62.5**	4,120.7	61.5
A1	**236.8**	**3.3**	251.4	3.7	**192.5**	**2.8**	157.3	2.3
A2	**0.9**	**-**	1.2	-	**-**	**-**	-	-
A3	**-**	**-**	40.3	0.6	**-**	**-**	40.3	0.6
Unrated	**310.2**	**4.4**	378.4	5.6	**374.3**	**5.4**	479.0	7.1
	7,092.7	**100.0**	6,792.7	100.0	**6,970.4**	**100.0**	6,714.8	100.0

'Unrated' in the above analysis includes an exposure to a central clearing house totalling £309.6m for the Group and Society (2022: £378.3m) used to clear derivatives to manage interest rate risk, as required by regulation, together with an exposure to subsidiary undertakings in the form of Credit Support Annex (CSA) collateral for the Society only, totalling £64.1m (2022: £100.6m).

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 2023 £m	Group 2023 %	Group 2022 £m	Group 2022 %	Society 2023 £m	Society 2023 %	Society 2022 £m	Society 2022 %
Cash in hand and balances with the Bank of England	**3,266.2**	**46.0**	3,520.5	51.8	**3,266.2**	**46.9**	3,520.5	52.4
Loans and advances to banks and building societies	**488.8**	**6.9**	631.9	9.3	**497.7**	**7.1**	621.6	9.3
Gilts	**409.2**	**5.8**	288.3	4.2	**369.3**	**5.3**	234.8	3.5
Certificates of deposit	**97.9**	**1.4**	282.5	4.2	**97.9**	**1.4**	282.5	4.2
Fixed rate bonds	**584.0**	**8.2**	554.9	8.2	**584.0**	**8.4**	554.9	8.3
Floating rate notes	**219.8**	**3.1**	260.3	3.8	**169.6**	**2.4**	169.5	2.5
Treasury bills	**860.0**	**12.1**	367.9	5.4	**702.9**	**10.1**	318.5	4.7
Covered bonds	**758.6**	**10.7**	561.1	8.3	**758.6**	**10.9**	561.1	8.4
Residential mortgage backed securities	**408.2**	**5.8**	325.3	4.8	**524.2**	**7.5**	451.4	6.7
	7,092.7	**100.0**	6,792.7	100.0	**6,970.4**	**100.0**	6,714.8	100.0

Geographical exposure	Group 2023 £m	Group 2023 %	Group 2022 £m	Group 2022 %	Society 2023 £m	Society 2023 %	Society 2022 £m	Society 2022 %
UK	**6,174.1**	**87.1**	5,702.5	84.0	**6,158.3**	**88.3**	5,783.1	86.1
Rest of Europe	**144.4**	**2.0**	269.1	4.0	**109.7**	**1.0**	228.3	3.4
Supranationals:								
Europe	**192.8**	**2.7**	201.8	3.0	**152.6**	**2.8**	161.6	2.4
Global	**335.9**	**4.8**	295.1	4.3	**335.9**	**4.8**	280.0	4.2
Africa	**27.5**	**0.4**	26.5	0.4	**27.5**	**0.4**	26.5	0.4
Asia	**106.5**	**1.5**	128.5	1.9	**106.5**	**1.5**	103.3	1.5
South America	**27.1**	**0.4**	50.9	0.7	**27.1**	**0.4**	50.9	0.8
North America	**81.3**	**1.1**	115.1	1.7	**52.8**	**0.8**	81.1	1.2
Rest of World	**3.1**	**-**	3.2	-	**-**	**-**	-	-
	7,092.7	**100.0**	6,792.7	100.0	**6,970.4**	**100.0**	6,714.8	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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Gross carrying amount	**60.4**	67.0	**1.8**	1.9
Loss allowance	**(2.4)**	(3.7)	**-**	-
Net carrying amount	**58.0**	63.3	**1.8**	1.9

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Loss allowance at 1 January	**3.7**	4.4	**-**	0.2
Net allowances made during the year	**0.9**	0.3	**-**	(0.2)
Write-offs	**(2.2)**	(1.0)	**-**	-
Loss allowance at 31 December	**2.4**	3.7	**-**	-

The table below provides information on the gross carrying amount of trade receivables by payment due status.

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Not past due	**31.9**	28.4	**-**	0.4
Up to 30 days past due	**14.1**	25.5	**0.2**	0.6
31 to 120 days past due	**11.4**	8.4	**0.9**	0.5
Over 120 days past due	**3.0**	4.7	**0.7**	0.4
	60.4	67.0	**1.8**	1.9

No collateral is held against trade receivables. At 31 December 2023 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 (2022: £nil) for the Group and £nil (2022: £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 one derivative, 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 2023 the Group held two derivatives (2022: three) 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	2023				2022			
	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	**1,000.8**	**(381.3)**	**(603.7)**	**15.8**	1,355.1	(311.4)	(1,025.2)	18.5
Financial liabilities								
Derivative financial instruments	**452.2**	**(381.3)**	**(43.9)**	**27.0**	415.6	(311.4)	(61.8)	42.4

Society	2023				2022			
	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	**1,003.0**	**(394.2)**	**(603.7)**	**5.1**	1,342.3	(314.9)	(1,025.2)	2.2
Financial liabilities								
Derivative financial instruments	**508.7**	**(394.2)**	**(108.1)**	**6.4**	476.3	(314.9)	(162.4)	(1.0)

In respect of the Group's derivative liabilities, there is a net amount after offsetting of £27.0m (2022: £42.4m) between the value of the derivatives and the cash collateral pledged. This predominantly relates to the collateral arrangements for the one (2022: two) cross currency derivative(s) held by the Group where collateral is not required to be posted up to a threshold.

In respect of the Group's derivative assets, there is a net amount after offsetting of £15.8m (2022: £18.5m) between the value of the derivatives and the cash collateral held. This predominantly relates to the collateral arrangements for one (2022: one) of the derivatives of the Group where collateral is not required to be posted due to the nature of the agreement with the derivative counterparty.

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	2023				2022			
	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	3,266.2	-	-	**3,266.2**	3,520.5	-	-	3,520.5
Loans and advances to credit institutions	488.8	-	-	**488.8**	631.9	-	-	631.9
Debt securities	-	3,337.7	-	**3,337.7**	-	2,640.3	-	2,640.3
Derivative financial instruments	-	-	1,000.8	**1,000.8**	-	-	1,355.1	1,355.1
Loans and advances to customers	28,161.4	-	0.9	**28,162.3**	24,452.3	-	1.0	24,453.3
Equity release portfolio	-	-	293.3	**293.3**	-	-	278.7	278.7
Equity share investments	-	-	10.5	**10.5**	-	-	1.2	1.2
Trade receivables	58.0	-	-	**58.0**	63.3	-	-	63.3
Share warrants	-	-	15.1	**15.1**	-	-	26.6	26.6
Other assets	0.2	-	-	**0.2**	0.3	-	1.4	1.7
Total financial assets	**31,974.6**	**3,337.7**	**1,320.6**	**36,632.9**	28,668.3	2,640.3	1,664.0	32,972.6
Other non-financial assets				**589.0**				598.7
Total assets				**37,221.9**				33,571.3
Shares	25,949.8	-	-	**25,949.8**	22,349.6	-	-	22,349.6
Amounts owed to credit institutions and other customers	4,902.2	-	-	**4,902.2**	5,302.5	-	-	5,302.5
Debt securities in issue	2,414.7	-	-	**2,414.7**	2,591.6	-	-	2,591.6
Derivative financial instruments	-	-	452.2	**452.2**	-	-	415.6	415.6
Lease liabilities	103.0	-	-	**103.0**	113.0	-	-	113.0
Trade payables	10.2	-	-	**10.2**	7.9	-	-	7.9
Fair value of put option obligation	-	-	3.5	**3.5**	-	-	3.8	3.8
Subordinated liabilities	685.3	-	-	**685.3**	311.8	-	-	311.8
Subscribed capital	41.6	-	-	**41.6**	41.6	-	-	41.6
Total financial liabilities	**34,106.8**	**-**	**455.7**	**34,562.5**	30,718.0	-	419.4	31,137.4
Other non-financial liabilities				**238.1**				240.8
Total liabilities				**34,800.6**				31,378.2

All financial assets and liabilities in the table above that are held as at FVTPL are mandatorily held as such.

Notes to the Accounts (continued)

41. Fair values (continued)

Society	2023 Amortised cost £m	2023 FVOCI £m	2023 FVTPL £m	2023 Total £m	2022 Amortised cost £m	2022 FVOCI £m	2022 FVTPL £m	2022 Total £m
Cash in hand and balances with the Bank of England	3,266.2	-	-	**3,266.2**	3,520.5	-	-	3,520.5
Loans and advances to credit institutions	497.7	-	-	**497.7**	621.6	-	-	621.6
Debt securities	-	3,143.4	63.1	**3,206.5**	-	2,514.6	58.1	2,572.7
Derivative financial instruments	-	-	1,003.0	**1,003.0**	-	-	1,342.3	1,342.3
Loans and advances to customers	25,864.9	-	0.9	**25,865.8**	22,359.5	-	1.0	22,360.5
Equity release portfolio	-	-	293.3	**293.3**	-	-	278.7	278.7
Loans to subsidiary undertakings	372.7	-	-	**372.7**	363.8	-	-	363.8
Trade receivables	1.8	-	-	**1.8**	1.9	-	-	1.9
Total financial assets	**30,003.3**	**3,143.4**	**1,360.3**	**34,507.0**	26,867.3	2,514.6	1,680.1	31,062.0
Other non-financial assets				**193.9**				204.6
Total assets				**34,700.9**				31,266.6
Shares	25,922.3	-	-	**25,922.3**	22,290.5	-	-	22,290.5
Amounts owed to credit institutions and other customers	3,110.4	-	-	**3,110.4**	3,806.0	-	-	3,806.0
Debt securities in issue	2,242.5	-	-	**2,242.5**	2,392.6	-	-	2,392.6
Derivative financial instruments	-	-	508.7	**508.7**	-	-	476.3	476.3
Lease liabilities	10.3	-	-	**10.3**	11.1	-	-	11.1
Trade payables	2.3	-	-	**2.3**	1.5	-	-	1.5
Subordinated liabilities	685.3	-	-	**685.3**	311.8	-	-	311.8
Subscribed capital	41.6	-	-	**41.6**	41.6	-	-	41.6
Total financial liabilities	**32,014.7**	**-**	**508.7**	**32,523.4**	28,855.1	-	476.3	29,331.4
Other non-financial liabilities				**65.8**				49.4
Total liabilities				**32,589.2**				29,380.8

All financial assets and liabilities in the table above that are held as at 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 the group's debt securities, with the exception of certificates of deposits; 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.

On 30 June 2022 the Group's equity share investment in Bank North (see Note 17e)), designated at FVOCI, was transferred from Level 2 to Level 3; this was on the grounds that certain inputs into the fair valuation were no longer considered observable as at that date. There were no other transfers between different levels of the fair value hierarchy during the year ended 31 December 2023 or the year ended 31 December 2022.

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	2023 Level 1 £m	2023 Level 2 £m	2023 Level 3 £m	2023 Total £m	2022 Level 1 £m	2022 Level 2 £m	2022 Level 3 £m	2022 Total £m
Financial assets								
Financial assets held at FVOCI:								
Debt securities	3,239.8	97.9	-	**3,337.7**	2,357.8	282.5	-	2,640.3
Financial assets at FVTPL:								
Equity share investments	-	-	10.5	**10.5**	0.1	-	1.1	1.2
Derivative financial instruments	-	975.4	25.4	**1,000.8**	-	1,322.7	32.4	1,355.1
Equity release portfolio	-	-	293.3	**293.3**	-	-	278.7	278.7
Loans and advances to customers	-	-	0.9	**0.9**	-	-	1.0	1.0
Share warrants	-	-	15.1	**15.1**	-	-	26.6	26.6
Other assets	-	-	-	**-**	-	-	1.4	1.4
	3,239.8	**1,073.3**	**345.2**	**4,658.3**	2,357.9	1,605.2	341.2	4,304.3
Financial liabilities								
Financial liabilities at FVTPL:								
Derivative financial instruments	-	404.1	48.1	**452.2**	-	356.7	58.9	415.6
Fair value of put option obligation	-	-	3.5	**3.5**	-	-	3.8	3.8
	-	**404.1**	**51.6**	**455.7**	-	356.7	62.7	419.4
	3,239.8	**669.2**	**293.6**	**4,202.6**	2,357.9	1,248.5	278.5	3,884.9

Notes to the Accounts (continued)

41. Fair values (continued)

Society	2023 Level 1 £m	2023 Level 2 £m	2023 Level 3 £m	2023 Total £m	2022 Level 1 £m	2022 Level 2 £m	2022 Level 3 £m	2022 Total £m
Financial assets								
Financial assets held at FVOCI:								
Debt securities	3,045.5	97.9	-	**3,143.4**	2,232.1	282.5	-	2,514.6
Financial assets at FVTPL:								
Derivative financial instruments	-	989.0	14.0	**1,003.0**	-	1,326.2	16.1	1,342.3
Debt securities	63.1	-	-	**63.1**	58.1	-	-	58.1
Equity release portfolio	-	-	293.3	**293.3**	-	-	278.7	278.7
Loans and advances to customers	-	-	0.9	**0.9**	-	-	1.0	1.0
	3,108.6	**1,086.9**	**308.2**	**4,503.7**	2,290.2	1,608.7	295.8	4,194.7
Financial liabilities								
Financial liabilities at FVTPL:								
Derivative financial instruments	-	460.5	48.2	**508.7**	-	417.4	58.9	476.3
	-	**460.5**	**48.2**	**508.7**	-	417.4	58.9	476.3
	3,108.6	**626.4**	**260.0**	**3,995.0**	2,290.2	1,191.3	236.9	3,718.4

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

Group 2023	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	Share warrants £m	Other assets £m	Total £m
At 1 January	1.1	278.7	1.0	(26.5)	(3.8)	26.6	1.4	**278.5**
Gain recognised in Income Statement	0.5[A]	9.2[B]	-	1.8[C]	0.3[D]	13.3[E]	-	**25.1**
Revaluations to goodwill	-	-	-	-	(0.4)	-	-	**(0.4)**
Accrued interest	-	9.9[F]	0.1[F]	2.0[F]	-	-	-	**12.0**
Repayments	-	(3.7)	(0.2)	-	-	-	-	**(3.9)**
Realised losses	-	(0.8)[G]	-	-	-	-	-	**(0.8)**
Exercise of put options by non-controlling	-	-	-	-	0.4	-	-	**0.4**
Additions / other	8.9	-	-	-	-	(24.8)	(1.4)	**(17.3)**
At 31 December	**10.5**	**293.3**	**0.9**	**(22.7)**	**(3.5)**	**15.1**	**-**	**293.6**

Notes

A. These are unrealised gains and are included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Equity share investments'.
B. These are unrealised gains and are included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Equity release portfolio'.
C. These are unrealised gains and are included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Derivatives associated with equity release portfolio'.
D. Included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Put options held by minority shareholders'.
E. Included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Share warrants'.
F. Included in the Income Statement line 'Interest receivable and similar income'.
G. Included in the Income Statement line 'Impairment and provisions'; as presented within Note 5d) line 'Realised losses on equity release portfolio'.

Group 2022	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	Share warrants £m	Other assets £m	Total £m
At 1 January	1.5	406.6	1.2	(150.7)	(8.6)	11.0	1.9	262.9
Transfers from Level 2	9.4	-	-	-	-	-	-	9.4
(Loss) / gain recognised in Income Statement	(0.4)[A]	(132.3)[B]	-	122.5[C]	0.2[D]	12.1[E]	-	2.1
Loss recognised in OCI	(9.4)[F]	-	-	-	-	-	-	(9.4)
Revaluations to goodwill	-	-	-	-	1.6	-	-	1.6
Accrued interest	-	10.0[G]	0.1[G]	1.7[G]	-	-	-	11.8
Repayments	-	(5.0)	(0.3)	-	-	-	-	(5.3)
Realised losses	-	(0.7)[H]	-	-	-	-	-	(0.7)
Exercise of put options by non-controlling	-	-	-	-	3.0	-	-	3.0
Additions / other	-	0.1	-	-	-	3.5	(0.5)	3.1
At 31 December	1.1	278.7	1.0	(26.5)	(3.8)	26.6	1.4	278.5

Notes

A. These are unrealised losses and are included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Equity share investments'.
B. These are unrealised losses and are included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Equity release portfolio'.
C. These are unrealised gains and are included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Derivatives associated with equity release portfolio'.
D. Included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Put options held by minority shareholders'.
E. Included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Share warrants'.
F. Included in the Statement of Comprehensive Income line 'Items that will not be reclassified to profit or loss: Gains / (losses) on equity share investments designated at FVOCI'.
G. Included in the Income Statement line 'Interest receivable and similar income'.
H. Included in the Income Statement line 'Impairment and provisions'; as presented within Note 5d) line 'Realised losses on equity release portfolio'.

Society 2023	Equity release portfolio £m	Loans and advances to customers £m	Derivative financial instruments £m	Total £m
At 1 January	278.7	1.0	(42.8)	**236.9**
Gain recognised in Income Statement	9.2[A]	-	6.6[B]	**15.8**
Accrued interest	9.9[C]	0.1[C]	2.0[C]	**12.0**
Repayments	(3.7)	(0.2)	-	**(3.9)**
Realised losses	(0.8)[D]	-	-	**(0.8)**
At 31 December	**293.3**	**0.9**	**(34.2)**	**260.0**

Notes

A. Included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Equity release portfolio'.
B. £1.8m is included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Derivatives associated with equity release portfolio'. The remaining £4.8m is included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Hedging instruments and hedged items'.
C. Included in the Income Statement line 'Interest receivable and similar income'.
D. Included in the Income Statement line 'Impairment and provisions'; as presented within Note 5d) line 'Realised losses on equity release portfolio'.

Notes to the Accounts (continued)

41. Fair values (continued)

Society	Equity release portfolio £m	2022 Loans and advances to customers £m	Derivative financial instruments £m	Total £m
At 1 January	406.6	1.2	(153.6)	254.2
(Loss) / gain recognised in Income Statement	(132.3)[A]	-	109.1[B]	(23.2)
Accrued interest	10.0[C]	0.1[C]	1.7[C]	11.8
Repayments	(5.0)	(0.3)	-	(5.3)
Realised losses	(0.7)[D]	-	-	(0.7)
Additions / further advances	0.1	-	-	0.1
At 31 December	278.7	1.0	(42.8)	236.9

Notes

A. Included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Equity release portfolio'.

B. £122.5m is included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Derivatives associated with equity release portfolio'. The remaining £(13.4)m is included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'; as presented within Note 5a) line 'Hedging instruments and hedged items'.

C. Included in the Income Statement line 'Interest receivable and similar income'.

D. Included in the Income Statement line 'Impairment and provisions'; as presented within Note 5d) line 'Realised losses on equity release portfolio'.

Equity share investments

The valuation of the Group's unlisted investments is typically regarded as a Level 3 valuation technique as certain inputs are not market observable. Until 30 June 2022 the valuation of the Group's equity share investment in Bank North was regarded as Level 2; this was on the grounds that the valuation of this investment was based on latest available information that included, inter alia, information from periodic share issuances by Bank North. As noted on page 229, this investment was transferred to Level 3 with effect from 30 June 2022; this was on the grounds that there were no recent share issuances or other market observable inputs available when updating the fair value. Further details of the Group's equity share investments are found in Note 17d) and 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).

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).

Derivative financial instruments

The Level 3 derivative financial instruments included in the tables on pages 229 to 231 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 £11.0m credit (2022: £9.8m charge).

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.

Share warrants and other assets

These assets relate to share warrants held in unlisted entities 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).

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 2023 Carrying value £m	**Group 2023 Fair value £m**	**Society 2023 Carrying value £m**	**Society 2023 Fair value £m**
Financial assets				
Cash in hand and balances with the Bank of England	3,266.2	3,266.2	3,266.2	3,266.2
Loans and advances to credit institutions	488.8	488.8	497.7	497.7
Loans and advances to customers	28,161.4	27,965.8	25,864.9	25,713.6
Trade receivables	58.0	58.0	1.8	1.8
Loans to subsidiary undertakings	-	-	372.7	372.7
Other assets	0.2	0.2	-	-
	31,974.6	**31,779.0**	**30,003.3**	**29,852.0**
Financial liabilities				
Shares	25,949.8	25,913.1	25,922.3	25,913.1
Amounts owed to credit institutions	2,093.4	2,093.4	2,302.7	2,302.7
Amounts owed to other customers	2,808.8	2,820.6	807.7	807.8
Debt securities in issue	2,414.7	2,408.4	2,242.5	2,222.2
Lease liabilities	103.0	103.0	10.3	10.3
Trade payables	10.2	10.2	2.3	2.3
Subordinated liabilities	685.3	682.9	685.3	682.9
Subscribed capital	41.6	57.8	41.6	57.8
	34,106.8	**34,089.4**	**32,014.7**	**31,999.1**

	Group 2022 Carrying value £m	Group 2022 Fair value £m	Society 2022 Carrying value £m	Society 2022 Fair value £m
Financial assets				
Cash in hand and balances with the Bank of England	3,520.5	3,520.5	3,520.5	3,520.5
Loans and advances to credit institutions	631.9	631.9	621.6	621.6
Loans and advances to customers	24,452.3	23,593.3	22,359.5	21,572.2
Trade receivables	63.3	63.3	1.9	1.9
Loans to subsidiary undertakings	-	-	363.8	363.8
Other assets	0.3	0.3	-	-
	28,668.3	27,809.3	26,867.3	26,080.0
Financial liabilities				
Shares	22,349.6	22,209.5	22,290.5	22,209.5
Amounts owed to credit institutions	2,963.3	2,963.3	3,177.3	3,177.3
Amounts owed to other customers	2,339.2	2,327.9	628.7	628.0
Debt securities in issue	2,591.6	2,590.7	2,392.6	2,350.9
Lease liabilities	113.0	113.0	11.1	11.1
Trade payables	7.9	7.9	1.5	1.5
Subordinated liabilities	311.8	312.8	311.8	312.8
Subscribed capital	41.6	58.0	41.6	58.0
	30,718.0	30,583.1	28,855.1	28,749.1

Notes to the Accounts (continued)

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. 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. The valuation includes information and expectations regarding estimated withdrawal profiles which are regularly reviewed and updated in light of experience. As these profiles are not considered to be observable by the market, the fair value of shares is considered to be derived by using Level 3 valuation techniques.

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, with the exception of amounts owed to other customers in relation to retail deposits with SIL which uses information and expectations regarding estimated withdrawal profiles which are regularly reviewed and updated in light of experience. As these profiles are not considered to be observable by the market, this fair value is considered to be derived by using Level 3 valuation techniques.

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 provides 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.

As noted on page 137, the Group's reportable segments have been revised with effect from 1 January 2023. Previously, the Group's reportable segments were assessed and presented on a divisional basis (the most recent divisions for this purpose were 'Mortgages and Savings', 'Estate Agency', 'Investment Portfolio' and 'Central'). Skipton's group structure has been simplified in recent years and information for management purposes is no longer presented on a divisional basis. In accordance with IFRS 8 *Operating Segments*, management has therefore updated its assessment of reportable segments to better reflect the holistic manner in which the Group is currently managed; the Group's reportable segments are now assessed and presented at the operating entity level. Information regarding segments that are not separately reportable is combined within the 'Other' category, together with the impact of Group consolidation adjustments. The comparative information shown in the tables below for the year ended 31 December 2022 is restated accordingly.

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. Intra-group dividends are excluded from the segmental analysis presented as these are not included in the measure of segment profit or loss that is used by the Group's Board.

No geographical analysis is presented because substantially all of the Group's activities are conducted within the UK. Of the total external income, £59.6m (2022: £50.4m) was generated outside the UK.

A breakdown of the allocation of goodwill to each segmental area is included within Note 21.

2023	Society £m	SIL £m	Connells £m	Other^ £m	Total £m
Net interest income	458.7	59.9	2.0	22.2	**542.8**
Net non-interest income	39.9	0.3	933.7	13.2	**987.1**
Fair value gains / (losses) on hedged items and derivatives	6.5	(0.5)	-	(5.8)	**0.2**
Fair value gains on equity release portfolio	9.2	-	-	-	**9.2**
Fair value gains on share warrants	-	-	13.3	-	**13.3**
Fair value gains on put options held by minority shareholders	-	-	0.3	-	**0.3**
Fair value gains on equity share investments mandatorily held at FVTPL	-	-	0.5	-	**0.5**
Fair value gains / (losses) on other instruments mandatorily held at FVTPL	5.0	-	-	(5.0)	**-**
Realised profits on treasury assets held at FVOCI	0.1	-	-	-	**0.1**
Share of profits from joint ventures	-	-	1.1	-	**1.1**
Total income	**519.4**	**59.7**	**950.9**	**24.6**	**1,554.6**
Administrative expenses	(239.1)	(11.9)	(938.6)	(35.2)	**(1,224.8)**
Realised losses on equity release portfolio	(0.8)	-	-	-	**(0.8)**
Impairment and provisions for liabilities	4.2	(0.5)	1.5	(0.8)	**4.4**
Profit / (loss) before tax	**283.7**	**47.3**	**13.8**	**(11.4)**	**333.4**
Taxation	(76.9)	(4.7)	(1.8)	4.6	**(78.8)**
Profit / (loss) after tax	**206.8**	**42.6**	**12.0**	**(6.8)**	**254.6**
Total assets	**34,700.9**	**2,647.3**	**610.2**	**(736.5)**	**37,221.9**
Total liabilities	**32,589.2**	**2,507.3**	**385.1**	**(681.0)**	**34,800.6**

Total income can be analysed as follows:

2023	Society £m	SIL £m	Connells £m	Other^ £m	Total £m
External income	614.5	5.7	937.2	(2.8)	**1,554.6**
Income from other segments	(95.1)	54.0	13.7	27.4	**-**
Total income	**519.4**	**59.7**	**950.9**	**24.6**	**1,554.6**

^ As noted above the 'Other' category comprises segments that are not separately reportable, together with the impact of Group consolidation adjustments. The Other category therefore includes amounts relating to all Group entities except for the Society, SIL and Connells. Amounts relating to Group consolidation adjustments include the elimination of intra-group transactions such as intercompany fees.

Notes to the Accounts (continued)

42. Group segmental reporting (continued)

2022 (restated*)	Society £m	SIL £m	Connells £m	Other £m	Total £m
Net interest income	356.9	50.2	(4.0)	21.3	424.4
Net non-interest income	42.6	0.3	1,021.1	16.4	1,080.4
Fair value gains on hedged items and derivatives	108.5	0.2	-	13.1	121.8
Fair value losses on equity release portfolio	(132.3)	-	-	-	(132.3)
Fair value gains on share warrants	-	-	12.1	-	12.1
Fair value gains on put options held by minority shareholders	-	-	0.2	-	0.2
Fair value losses on equity share investments mandatorily held at FVTPL	-	-	(0.5)	-	(0.5)
Fair value (losses) / gains on other instruments mandatorily held at FVTPL	(5.8)	-	-	5.8	-
Profit on disposal of Group undertakings	-	-	-	0.1	0.1
Share of profits from joint ventures	-	-	1.4	-	1.4
Total income	369.9	50.7	1,030.3	56.7	1,507.6
Administrative expenses	(191.6)	(10.3)	(960.8)	(25.8)	(1,188.5)
Realised losses on equity release portfolio	(0.7)	-	-	-	(0.7)
Impairment and provisions for liabilities	(16.7)	(0.5)	(2.0)	(0.4)	(19.6)
Profit before tax	160.9	39.9	67.5	30.5	298.8
Taxation	(43.9)	(4.0)	(13.0)	(6.9)	(67.8)
Profit after tax	117.0	35.9	54.5	23.6	231.0
Total assets	31,266.6	2,409.7	646.3	(751.3)	33,571.3
Total liabilities	29,380.8	2,303.5	413.3	(719.4)	31,378.2

Total income can be analysed as follows:

2022 (restated*)	Society £m	SIL £m	Connells £m	Other £m	Total £m
External income	405.7	42.3	1,025.0	34.6	1,507.6
Income from other segments	(35.8)	8.4	5.3	22.1	-
Total income	369.9	50.7	1,030.3	56.7	1,507.6

* As noted on page 235, the information shown above for the year ended 31 December 2022 is restated to reflect the revision of reportable segments. The Group's reportable segments are now assessed and presented at the operating entity level; information is no longer presented on a divisional basis. The impacts of this change are presentational only and there is no impact on total Group amounts reported for the year ended 31 December 2022.

43. Capital management

The components of the prudential group's capital and the associated regulatory framework are set out in the Strategic Report, and this is followed by quantitative disclosure of the components of capital resources and capital requirements. The Group's capital management processes are also set out in the Strategic Report. 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 adopted during the year *International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)*, further details of which are set out in Note 1j).

The Group also adopted during the year the following new accounting standards and amendments to existing accounting standards, none of which had a material impact on these financial statements:

- IFRS 17 *Insurance Contracts;*
- *Amendments to IFRS 17* (Amendments to IFRS 17)*;*
- *Initial Application of IFRS 17 and IFRS 9 – Comparative Information* (Amendments to IFRS 17)
- *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (Amendments to IAS 12);
- *Definition of Accounting Estimates* (Amendments to IAS 8); and
- *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2).

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:

- *Classification of Liabilities as Current or Non-current (Amendments to* IAS 1*);*
- *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16)
- *Lack of exchangeability* (Amendments to IAS 21); and
- *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7).

45. Subsequent events

In January 2024, the Group agreed and paid an additional one-off contribution of £22,999,000 into the Skipton (2015) defined benefit pension scheme. As at 17 January 2024 the Skipton (2015) Scheme was in surplus based on the scheme funding valuation basis at that date. Based on this updated funding position, it has been agreed that no further recovery plan contributions are required.

Skipton International (SIL) is undertaking a review exercise following a review from the GFSC in 2023 as part of the latter's PRISM approach to supervision. As at 31 December 2023, SIL has assessed that it is possible, but not probable, that conduct costs may be incurred in relation to this matter. At this early stage, it is not possible to make a reliable estimate of the amount or timing of any cost. Accordingly, no provision has been recognised in the financial statements.

There have been no other material subsequent events between 31 December 2023 and the date of approval of this Annual Report and Accounts by the Board.

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 31.12.23
Jade Software Corporation Limited	Provider of software development services	New Zealand	100.0
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

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.

Jade Software Corporation USA, previously a trading subsidiary, was dissolved during the year.

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.

2023 £m	UK	Australia	Guernsey	New Zealand	Jersey	Total
Total income by country	1,476.7	3.9	49.6	18.1	10.1	**1,558.4**
Inter-country adjustments	53.9	-	(53.9)	(3.8)	-	**(3.8)**
Consolidated income	**1,530.6**	**3.9**	**(4.3)**	**14.3**	**10.1**	**1,554.6**
Profit before tax by country	284.0	0.3	41.1	1.0	7.0	**333.4**
Inter-country adjustments	57.6	1.9	(53.2)	(6.3)	-	**-**
Consolidated profit before tax	**341.6**	**2.2**	**(12.1)**	**(5.3)**	**7.0**	**333.4**

£m	UK	Australia	Guernsey	New Zealand	Jersey	
Current tax expense	**75.6**	**0.1**	**4.0**	**(0.1)**	**0.7**	**80.3**
Corporation taxes paid	**54.3**	**0.1**	**3.0**	**-**	**0.9**	**58.3**
Public subsidies received^	**-**	**-**	**-**	**0.3**	**-**	**0.3**
Average number of employees	**17,235**	**13**	**77**	**236**	**6**	**17,567**

2022 £m	UK	Australia	Guernsey	New Zealand	Jersey	Total
Total income by country	1,437.7	3.2	38.5	16.5	12.3	1,508.2
Inter-country adjustments	0.1	-	(0.1)	(0.6)	-	(0.6)
Consolidated income	1,437.8	3.2	38.4	15.9	12.3	1,507.6
Profit before tax by country	258.0	0.3	31.4	0.3	8.8	298.8
Inter-country adjustments	2.1	1.2	(0.8)	(2.5)	-	-
Consolidated profit before tax	260.1	1.5	30.6	(2.2)	8.8	298.8

£m	UK	Australia	Guernsey	New Zealand	Jersey	Total
Current tax expense	50.7	0.1	3.1	(0.1)	0.9	54.7
Corporation taxes paid	65.3	0.1	1.7	-	0.8	67.9
Public subsidies received^	-	-	-	0.3	-	0.3
Average number of employees	16,765	15	68	223	6	17,077

^ Public subsidies received relate to cash payments received from governments in the form of grants.

Annual Business Statement

1. Statutory percentages

	As at 31 December 2023 %	Statutory Limit %
Lending limit	**4.11**	25.00
Funding limit	**16.75**	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

	2023 %	2022 %
As a percentage of shares and borrowings:		
(i) Gross capital	**9.46**	8.42
(ii) Free capital	**7.98**	6.74
(iii) Liquid assets	**21.32**	22.46
As a percentage of mean total assets:		
(i) Group profit after taxation	**0.72**	0.73
(ii) Group management expenses	**3.46**	3.77
(iii) Society management expenses	**0.72**	0.66
As a percentage of closing total assets:		
(i) Group profit after tax	**0.68**	0.69

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, subscribed capital and non-controlling interests, as shown within the Group Statement of Financial Position. Free capital represents gross capital, 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 2023 and 2022 total assets. Management expenses represent administrative expenses.

3. Information relating to Directors at 31 December 2023

The Board of Directors at 31 December 2023, 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
G V Burr	12 January 1963	27 April 2022
I A Cummings	22 October 1961	1 July 2022
S J Davis	28 June 1963	3 April 2023
S A Haire*	18 April 1974	31 December 2022
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
P W Moore	5 January 1960	1 February 2021
R S D M Ndawula*	24 February 1974	23 February 2015
S J Whitney	1 July 1963	1 May 2023

* 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 2023 were as follows:

A P Bottomley	Building Society Chief Executive Officer - Money	Bailey Computer Services Limited New Homes Group Limited Skipton Financial Services Limited Skipton Group Holdings Limited Skipton Trustees Limited
G Burr	Non-Executive Director & Chair	Ingleby Farms & Forests Metro AG Skipton Group Holdings Limited
I A Cummings	Non-Executive Director	Investec Wealth & Investment Limited Skipton Group Holdings Limited Rathbones Group Plc Rathbones Investment Management Limited
S J Davis	Non-Executive Director	Skipton Group Holdings Limited
S A Haire	Building Society Group Chief Executive	Skipton Group Holdings Limited
D A Hall	Non-Executive Director	Aareal Bank AG Auxmoney Europe Holding Limited Moneta Money Bank Skipton Group Holdings Limited
H L Jackson	Non-Executive Director	Admiral Long Foundation Ikano Bank AB Rothesay Life PLC Rothesay Limited Skipton Group Holdings Limited Yorkshire Cancer Research
M J Lund	Non-Executive Director	Coutts & Company Connells Limited Skipton Group Holdings Limited

Annual Business Statement (continued)

3. Information relating to Directors at 31 December 2023 (continued)

P W Moore	Non-Executive Director	Bank of Ireland (UK) PLC Connells Limited Hart Learning Group (including North Hertfordshire College) Skipton Group Holdings Limited St Mungo's Community Housing Association Wesleyan Assurance Society
R S D M Ndawula	Building Society Group Chief Financial Officer	Connells Limited Skipton Financial Services Limited Skipton Group Holdings Limited Skipton International Limited Skipton Investments Limited Skipton Mortgage Corporation Limited Skipton Mortgages Limited Yorkshire Cancer Research
S J Whitney	Non-Executive Director	Skipton Group Holdings Limited Connells Limited Bellway Plc Tritax Eurobox Plc JP Morgan Global Growth & Income PLC BBGI Global infrastructure SA University College London Whitney Consulting Limited

Messrs Bottomley, Haire and Ndawula have service contracts entered into on 1 January 2016, 14 July 2022 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 (CET1) capital primarily comprises internally generated capital from retained profits, less regulatory adjustments. CET1 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 V	Capital Requirements Directive V (CRD V) became effective on 31 December 2020.
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 can 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.
Fair value through other comprehensive income (FVOCI)	Financial instruments held at fair value in the Statement of Financial Position, with changes in fair value recognised through other comprehensive income.
Fair value through profit or loss (FVTPL)	Financial instruments held at fair value in the Statement of Financial Position, with changes in fair value recognised through the Income Statement.
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 less property, plant and equipment, right-of-use assets, investment property and intangible assets.
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.

Glossary (continued)

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 cost to mean asset ratio (previously named 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.
Minimum requirement for own funds and eligible liabilities (MREL)	A regulatory requirement for the minimum amount of equity and subordinated debt a firm must maintain to support an effective resolution.
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 2 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, for which the underlying collateral 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.
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 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 period of economic disruption caused by COVID-19 – TFSME, which closed for drawdowns in 2021, included additional incentives to provide credit to SMEs.
Tier 1 capital	A measure of financial strength. Common Equity Tier 1 capital comprises general reserves from retained profits less regulatory adjustments.

Glossary (continued)

Tier 2 capital	Tier 2 capital comprises the Society's PIBS.
UK CRR	UK Capital Requirements Regulation (UK CRR) implemented in 2022.
Wholesale funding	Amounts owed to credit institutions, amounts owed to other customers and debt securities in issue excluding balances deposited by offshore customers.
Terms used within the climate-related disclosures in the Strategic Report	
Financed emissions	These are the GHG emissions associated with the loans and investments of a financial organisation.
Greenhouse gas (GHG) emissions	Where we see a man-made increase in greenhouse gases in the earth's atmosphere which results in heat being trapped. Such emissions contribute to the greenhouse effect, a contributor to climate change.
Net zero	Balancing CO2 emissions released with equivalent amounts of captured, stored and / or offset.
Operational emissions	These are the GHG emissions through the running of an entity's buildings.
Scope 1 emissions	Direct emissions from owned or controlled sources – such as company cars.
Scope 2 emissions	Indirect emissions from purchased sources – such as electricity.
Scope 3 emissions	Other indirect emissions that occur in our value chain – such as business travel by grey fleet. It excludes scope 3 financed emissions.

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