Annual Report & Accounts 2021

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2021 Group Highlights

Key performance highlights

£1.5bn

Mortgage Book Growth

The mortgage book grew by £1.5bn to £23.2bn, an annual growth rate of 6.8% (2020: 8.6%)

£271.8m

Total Group Profit

Total Group profit before tax (PBT) was £271.8m (2020: £118.8m)

£233.4m

Underlying Group PBT

Underlying Group PBT (as defined on page 27) was £233.4m (2020: £124.0m)

44.6%

Group Common Equity Tier 1 Ratio

The Group Common Equity Tier 1 ratio remained strong at 44.6% (2020 restated: 38.5%)

£19.8bn

Savings Balances

Savings balances grew by £1.1bn to £19.8bn, an annual growth rate of 5.8% (2020: 7.7%)

1,082,997

Society Membership

Society membership increased by 21,859 (2.1%) to 1,082,997 (2020: by 14,844 (1.4%) to 1,061,138)

86%

Customer Satisfaction

Society net customer satisfaction was 86% (2020: 85%)

85%

Employee Engagement

Society employee engagement was 85% (2020: 90%)

Awards won in 2021

Winner of What Mortgage Awards 2021 for 'Best National Building Society'

Winner of Best overall mortgage lender in Personal Finance awards 2021/22

Winner of Business Disability Forum Disability Smart Award 2021

"I am proud to see how the Skipton team demonstrated the strength of our culture, pulling together as one team to support each other and showing great commitment and adaptability to provide outstanding service to members."

Chair's Statement

This past year has continued to underline the importance of purpose in everything we do. Skipton performed exceptionally well for its members in 2021 due to the commitment of our dedicated colleagues and delivered a profit before tax of £271.8m, up from £118.8m in 2020 and the best performance in our history. All our businesses achieved strong results, supported by the better than expected economy and housing market. Significant growth was achieved at our estate agency, Connells, as the benefits of its acquisition of Countrywide plc begin to be realised.

This is my final report to you as Skipton's Chair. Both David Cutter, our Group Chief Executive, and I will step down after the AGM on 25 April 2022. I have felt hugely privileged to serve on Skipton's Board since November 2011 and to work with all the talented people who serve you as our members, initially as a Non-Executive Director, and for the last five years as Chair. Skipton has been transformed over the last decade due to the efforts of the whole team under the leadership of David Cutter.

Skipton's strategy is working. The impact of COVID-19 has been far reaching and will continue to be so for the foreseeable future, but Skipton's financial strength, diversified portfolio of businesses, and focus on colleague engagement and member satisfaction, create a strong platform for the opportunities and challenges that lie ahead.

Purpose and culture

The Board revisited the Society's purpose during 2021, with a view to improving its connection to what you have told us is important to you. As we have done throughout our history, we will continue to help more people have homes, help people save for life ahead, and to support their long term financial well-being. We will also increase our emphasis on how we help first time buyers, finance the acceleration of greener UK homes thus reducing their impact on climate change, and provide financial advice more broadly.

We deliver our purpose by offering service and advice to our members with a human touch and creating outstanding experiences at the moments that matter. In 2021, we enabled 30,282 people to remortgage or buy a new home including 7,893 first time buyers, helped over 15,000 younger people to save in a Lifetime ISA (LISA) towards buying a house in the future or saving for their retirement, provided financial advice to over 4,800 customers and helped arrange 106,803 property exchanges through our estate agency business, Connells. We are encouraged that our approach continues to deliver sustained growth in membership, mortgage balances and savings balances, as people continue to look to us for support.

The extraordinary COVID-19 vaccination programmes in the UK and elsewhere in the world have done much to enable us to look forward to returning to a more normal life in the future. Progress with this was made in 2021 but it remained a year where many faced the incredibly sad loss of family members, shielding and material disruption to their everyday life. I am proud to see how the Skipton team demonstrated the strength of our culture, pulling together as one team to support each other and showing great commitment and adaptability to provide outstanding service to members. I would like to thank them for their efforts and for the great job they have done in such challenging circumstances.

The right strategy

In my report last year, I highlighted that the impact of the pandemic will be felt globally for many years to come and would drive changes in how we think about investment in public health, including social care, housing needs, government borrowing (which has reached record levels) and tax rates. It has accelerated existing trends around online shopping, the re-shaping of the high street and the primary purpose of branches, and how offices will be used in the future.

Some of these trends are now very evident and rightly have led us to re-examine our strategy so we remain a place to which people turn for a mortgage and help with their long term financial needs. Our work has confirmed that our strategy, focused on having a team of diverse and talented people inspired to do their very best for customers, working to deliver compelling mortgage, savings and financial advice propositions through exceptional service, will continue to encourage members to choose us for help when they need it.

Many of us have used digital services even more since the pandemic and we expect this trend to be sustained. We will

Chair's Statement (continued)

respond to this by continuing to invest in these services and in technology generally. By doing so, we expect to improve the services we offer and remain competitive in an increasingly digital led financial services market. We will however continue to differentiate from others by retaining our human touch, offering support and advice through our telephone, branch, webchat and video services when that is what our members want.

Skipton also owns other businesses including Connells which, following its acquisition of Countrywide plc in March 2021, is now the UK's largest estate agency. The purpose of our investment in these businesses is to produce a long term strong dividend stream that enables us to deliver better our purpose and core strategy to the advantage of members both present and future.

As ever, our strategy remains underpinned by our financial strength which enables us to be a safe and secure home for members' savings. By maintaining our financial strength, we can keep supporting our members and investing for the future so that we remain competitive and can continue to deliver our purpose.

Stakeholders

A primary purpose of the Board is to provide strong oversight and governance of Skipton. We are committed to building a better society for all our stakeholders.

In our Strategic Report, you will find detail on how we have delivered high net customer satisfaction of 86% and a high level of colleague engagement at 85%. We measure the views of customers and colleagues extensively so that we can improve our service to customers and enable our colleagues to do their jobs effectively and enjoyably. It remains our clear view that well trained, well led and motivated colleagues will provide great service to their customers. We were delighted that our work was recognised by being awarded 7th place in the UK's Best Big Companies To Work For 2021 list.

As well as assessing the Society by the standard of our service, members rightly focus on a range of other factors. These include the interest rates we pay on savings, our diversity and inclusion policies and practices, the amounts we pay to our senior leaders and climate change. The interest rates we pay to savers are materially influenced by the rates set by central banks, who kept their rates exceptionally low in order to provide economic support during the pandemic. Whilst interest rates have recently begun to rise as the economy strengthens back to pre-pandemic levels, interest rates paid to our members generally reduced in 2021. However, we continued to pay savers an average interest rate that exceeded the industry average (by 0.37% in 2021) (source: CACI Current Account & Savings Database, Stock).

We are committed to being a diverse and inclusive organisation reflecting the communities in which we serve. We believe that having a diverse range of views provides the challenge and perspectives that will enable the Society to be a better place for members and colleagues. Whilst there remains more to do, and we have a number of initiatives underway aimed at improving our diversity across all its aspects, we are pleased to now have 40% female representation across our combined Executive and Senior Leadership teams.

The Board is responsible for determining what we pay our most senior leaders. In 2020, in light of the pandemic, our Executive Committee declined to take any bonuses and deferred pay increases until later in the year. Non-Executives donated 20% of their net salary for three months to our charity partner Mental Health UK and Executives made personal contributions. In taking decisions on pay, the Board aims to pay fairly those who run Skipton and to attract the talent needed to run our businesses in the future. As a general rule, we pay less compared to quoted and private equity owned companies, recognising our mutual status and culture. Whilst it was right to reduce overall pay levels in 2020, it is also right that these have been increased in 2021 to ensure that we appropriately reward the commitment and effort made by our leaders and to ensure we can attract the right talent for the future. Pay awards in 2021 also reflect the impact on certain roles of the Countrywide acquisition, which significantly increased the size and complexity of the Group. These are finely based judgements supported by careful assessment of pay elsewhere and not to pay appropriate levels would be failing in our duty to ensure we have the best people to run Skipton both now and in the future.

Sustainability

Our approach to sustainability is shaped by the UN Sustainable Development Goals (SDGs) which have been established with the ambition of achieving prosperity for everybody, whilst protecting our planet for future generations. We focus on four of the seventeen goals where we can make a real difference.

Skipton was founded in 1853. The world has faced many challenges since then but none more so than the climate crisis which has been described by some as the "tragedy on the horizon". It will require everyone to contribute if we are to reduce the risks and Skipton is determined to play its role. For 2021, we are publishing a Group Responsible Business Report which includes significantly more detail on our impact on the climate and the actions we are taking.

Performance

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

Skipton's financial performance in 2021 was strong with record levels of profitability achieved, helped by the economy and housing market performing significantly better than we originally expected. In the first half of 2021, margins increased as competition in savings markets remained low and demand for mortgages increased, reflecting the stronger housing market as people looked to move home due to changing needs and to take advantage of reduced stamp duty. The second half of the year saw increased competition in the mortgage market, leading to lower margins, and to a lesser extent also for savings. We expect these trends to continue in 2022.

Skipton International, based in Guernsey, continued to perform well, providing savings and mortgages products for its international customer base.

The acquisition of Countrywide plc by Connells completed on 8 March 2021 and our team is making good progress with integrating the business. We were well positioned to take advantage of the extremely strong housing market during 2021 as people took advantage of the reductions in stamp duty and sought to move home having reappraised the type of home and lifestyle they wanted. Adding to Connells' already strong performance in the year, Connells' profit for 2021 includes a fair value gain of £27.1m due to obtaining control of TM Group (UK) Limited in March when existing non-controlling shareholdings held by each of Connells and Countrywide were combined; this combined investment in TM Group was subsequently sold in July 2021 for £58.0m.

Global environment

There is encouraging progress with the roll-out of vaccines and we remain hopeful that this will help us get back to close to a normal life in 2022. The impact of the pandemic will, however, be felt globally for many years to come. Most immediately, as the global and UK economies have reopened, demand has increased significantly for many items and this has caused, along with other factors, some supply-chain issues along with wage and general price inflation.

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

Board changes

In January this year we announced that, after almost 30 years with the business, 22 of which on the Board and 13 as Group Chief Executive, David Cutter and the Board agreed that he would step down from his role with effect from the Society's AGM in April 2022.

David has made an outstanding contribution. He has led the Group out of the challenges of the global financial crisis, through COVID-19 and also the transformative acquisition of Countrywide plc by Connells, to the robust financial health we enjoy today. The growth in membership, savings balances and mortgage lending through David's tenure show his focus and dedication to serving and delivering for our members.

The Board commenced a process in January to appoint a high calibre successor with the requisite blend of experience and expertise to lead the Group into the future. This process is progressing well.

Amanda Burton, who has served with great distinction as a Non-Executive Director since 2016, will also step down from the Board after the AGM on 25 April. Amanda has also been a Non-Executive Director on the Connells Board. Due to retire at the AGM, Helen Stevenson, who has been a Non-Executive Director on the Board since 2013 and has chaired our Remuneration Committee since 2016, is extending her tenure at the Board's request. This is to ensure continuity when there are other Director changes; Helen plans to retire from the Board at the end of December 2022. An effective Board is about having challenge, insight, and diverse views amongst its members. Amanda and Helen, with their member focus, experience from other industry sectors and different backgrounds, have been great members of the Board and I am grateful to them both for the valuable contributions that they have made.

We welcome Gwyn Burr as our proposed new Chair for members to vote on at our AGM. Gwyn has had an outstanding career, including as an Executive with Sainsbury's and latterly as a Non-Executive with a range of companies.

Looking ahead

It has been my privilege to work at Skipton for the last ten years and I thank you as members for allowing me to do so. Skipton is a business that touches the lives of many and does so in a way that is empathetic and caring with an absolute focus on getting it right for our customers. This focus is born from a unique culture created over many years but particularly the last decade as Skipton has transformed itself following the global financial crisis to become the Skipton we know today. This has been delivered by the many talented colleagues that I have been privileged to work with, including the Executive team led by David Cutter. I pay tribute to them all.

Skipton performed exceptionally well in 2021. Its financial strength, diversified portfolio of businesses, and focus on colleague engagement and member satisfaction create a strong platform for the opportunities and challenges that lie ahead. I believe that the Board has made a great choice in appointing Gwyn Burr as our next Chair. I am confident Gwyn will be an excellent Chair of your Society and, along with our experienced and talented team, will ensure that Skipton continues to serve the needs of you, our members, both now and in the future, and to earn the trust you place in us.

Robert East
Chair

17 March 2022

“Despite the long-term impact of the pandemic, and subsequent economic recovery, Skipton has started 2022 from a position of great strength. From this standpoint the Society will continue to invest in the business and in its people to ensure it is well placed to respond to the changing market conditions that lie ahead.”

Group Chief Executive’s Report

In what is to be my final report to you as Group Chief Executive, it is incredibly pleasing to report record profits. These results are testament to the strength of the Skipton Group business model, high colleague engagement, a strong culture, and our ability to move at pace in spotting and seizing opportunities for the benefit of our customers and our purpose-driven organisation. Coupled with this has been growing economic confidence, together with an incredibly hot housing market during late 2020 into 2021.

The Society, whose membership rose to 1,082,997, has seen Group profit before tax (PBT) increase by 129% to £271.8m (2020: £118.8m), and underlying Group PBT increase from £124.0m to £233.4m. This has been driven by an improving economy and the continued success of Skipton’s Group strategy, delivering on mortgage and savings customers’ needs, whilst growing its membership, meaning more members experience the excellent service we provide.

The results present a significant improvement from 12 months ago, when despite reporting good profits, our results were a clear indication of the challenging times the UK faced in the midst of a global pandemic. As a building society, our consistency in always making decisions based on the long-term best interests of the business and our members, not shareholders, has seen us successfully prepare for and navigate those challenges. And it’s exciting that we can utilise these profits to invest in activities that align to our ambitions and further strengthen experiences for both customers and our colleagues.

Performance highlights in 2021

In the year that the Society marked 25 years of owning its estate agency business, Connells completed the acquisition of Countrywide plc, creating the UK’s largest estate agency by far. The combined Connells group delivered dividends totalling £60.0m to the Society, improving its financial strength further, and during 2021 has already repaid £124.8m of the £253.0m which was loaned to Connells as part of the acquisition of Countrywide.

The strong housing market, supported by low interest rates and competitive mortgage products, boosted by Stamp Duty Land Tax (SDLT) relief, has driven increased sales across the enlarged Connells group, and led to record mortgage completions by the Society in excess of £5bn, including record lending to first time buyers. This robust performance has seen Skipton achieve a mortgage portfolio of over £23bn and lending that accounts for 2.0% of the growth in the UK residential mortgage market compared to the Society’s 1.4% share of UK residential mortgage balances (Source: Bank of England statistics, ‘Lending secured on dwellings’ for the 12 months to 31 December 2021).

Other key highlights include:

- **We provided 30,282 mortgages in the year, including 7,893 to first time buyers;**
- **Mortgage arrears continue to be low, at almost a quarter of the industry average, with only 0.22% of residential mortgages in arrears by three months or more; and**
- **Connells PBT increased by £59.5m to £111.3m, with the business seeing property exchanges 175% higher than 2020 (50% higher on a like-for-like basis, excluding exchanges recorded by Countrywide) and buyer registrations up 38% on 2020 on a like-for-like basis. However, shortage of stock remains an industry issue.**

The Society grew its savings balances by over £1bn to £19.8bn, while continuing to pay savers well ahead of market average rates. Despite the prevailing low interest rate environment, in the year Skipton paid an average savings rate of 0.65% to savers, 0.37% above the market average (Source: CACI Current Account & Savings

Group Chief Executive's Report (continued)

Performance highlights in 2021 (continued)

Database, Stock). In aggregate, this equates to an extra £70m in customers' pockets compared to market averages. And as one of the UK's largest provider of cash Lifetime ISAs, with over 156,000 customers and total balances of over £1bn, Skipton's LISA customers also received over £76m in government bonuses towards their first homes or retirement. Other savings results include:

- **The growth in the Society's savings balances accounted for 0.9% of the growth in the UK deposit savings market, compared to Skipton's 1.0% market share of savings balances (Source: Bank of England statistics, 'UK deposits from households' for the 12 months to 31 December 2021); and**
- **Skipton's exclusive member regular saver account, paying 3.5%, was taken up by over 44,000 members.**

Skipton's people remain its greatest asset, with highly engaged colleagues (85% colleague engagement) driving the year's record performance. Skipton has maintained its Investors in People platinum status accreditation, the highest accolade that can be achieved, since 2017. The Society's position as an employer of choice was further strengthened too in 2021 when the Society became the highest ranked financial services provider in the UK's Best Big Companies To Work For list.

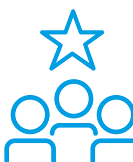
The challenges faced since March 2020 have only strengthened the Society's resolve to build a better Society; one that is more sustainable – socially, financially, and environmentally and to continue to support members in the ways they expect and need. 2021 highlights include:

- **The Society achieved carbon neutrality for its scope 1, scope 2 and for all of its grey fleet, business air and rail journey scope 3 emissions, together with diverting 99% of its waste from landfill;**
- **The Society donated over £575,000 to charities and community groups across the UK; and**
- **Skipton was awarded the Disability Smart Customer Service Award by Communication Access UK, together with exceeding the 77% accessibility benchmark set by the Business Disability Forum.**

Absolute customer focus

In this rapidly changing world, it's really important Skipton is able to continue to support its members in the ways they expect and need. The Society continued to maintain essential services to support its growing membership throughout the year, be it face-to-face in one of its 88 COVID-secure branch locations, or through video using Skipton Link or by telephone using Skipton Direct or branches. This has helped grow our member numbers at 31 December 2021 to 1,082,997 (31 December 2020: 1,061,138). On 1 June 2021 4,535 customers of Amber Homeloans Limited and North Yorkshire Mortgages Limited became members of the Society following the transfer of assets and hive-up of the operations of those subsidiaries.

Despite the challenging circumstances, Skipton is proud to have maintained extremely high customer satisfaction throughout 2021, as demonstrated through its net customer satisfaction score of 86% (31 December 2020: 85%). We're proud to have won two awards at the 2021 What Mortgage Awards: Best National Building Society and Best Intermediary Lender; as we continually strive to provide a high level of service to our customers and brokers, and it's fantastic to be recognised by consumers for both. We've won the Personal Finance Awards - Best Overall Mortgage Lender and Your Mortgage Awards - Best Building Society, too.



Brilliant people

The Society has followed the Government's social distancing guidelines throughout the pandemic, providing a safe and collaborative working environment. This has included supporting colleagues with working from home provisions for those that are able to, flexible working to allow for suitable hours of work, and ensuring the highest levels of safety in all working practices.

The Society aims to deliver an outstanding colleague experience as demonstrated by our overall colleague engagement score of 85% when last measured in September 2021 (2020: 90%), despite the upheavals of the pandemic. Throughout 2021 the Society has held regular 'Pulse' surveys, whereby colleagues have been asked their opinions, in particular about wellbeing and new ways of working. This all helps to make the Society a great place to work.

The Society received recognition as the UK's 7th best big company to work for in 2021, as part of the UK's Best Big Companies To Work For list. In addition, in March Skipton was awarded a 3-star accreditation from Best Companies for its levels of employee engagement, being the first time the Society has ever achieved this.

Powered by digital technology and data

The Society continued to improve the digital experience for members across mortgages, savings and financial advice in the year. Investment in enhanced digital capability continues to be a particular area of focus with data and analytics having been used to improve the efficiency and effectiveness of our mortgage and risk evaluation process, improving capacity whilst enhancing the customer experience. Skipton has achieved a digital customer satisfaction score of 85% which is testament to the work undertaken over the last 18-24 months to continuously develop and enhance the digital customer experience.

We're always looking for opportunities to learn about our customers' needs, and this has never been more important at a time when their lives and plans are being changed by the world around them. It's essential for us to know how their lives are impacted so we can meet their current and future expectations. We're using personalisation to tailor the customer experience online and make our customers' journeys more relevant. Skipton's Mortgage Product Finder went live in 2021, more easily giving customers the information they need to apply for a mortgage directly. The Mortgage Product Finder supports both new and existing customers wanting to apply for a mortgage or switch from an existing product to a new one, allowing them to tailor their search by answering a few simple questions. In 2021 Skipton's new customer appointment booking system 'Click to Schedule' went live online, allowing customers to book appointments direct with one of Skipton's mortgage advisers via our video service Skipton Link, which is proving a popular choice when face-to-face, in person appointments has been more difficult.

The Society has 54% of its online customers registered for the Skipton app as at 31 December 2021, with over 235,000 registrations since the launch of the app in July 2019. A significant new feature was added to our customer app at the beginning of September allowing customers to open an account in just two minutes – delivering an exceptional customer experience.

Financial strength

Strong performance in the Mortgages and Savings division

The Mortgages and Savings division reported an underlying PBT (as defined on page 27) of £165.3m (2020: £67.3m). A credit of £13.0m was recognised in the period for loan impairment provisions (2020: a charge of £25.2m), principally as a result of updates to the economic outlook in light of the improving COVID-19 situation. Statutory PBT for the Mortgages and Savings division was £170.8m, compared to £64.6m in 2020. Skipton International Limited (SIL) continues to make a strong contribution to the division's profits, with PBT of £25.5m (2020: £19.9m) and mortgages and savings balances of £1.7bn and £2.1bn respectively (2020: £1.6bn and £1.9bn respectively).

The Group's arrears position improved during the year and continues to be well below the industry average. The Group's UK residential mortgages in arrears by three months or more totalled 372 cases representing only 0.22% of mortgage accounts (2020: 456 cases, representing 0.29% of mortgage accounts), which compares to an industry average of 0.83% (2020: 0.91%) (Source: UK Finance industry arrears data (residential mortgages in arrears by more than three months) as at 31 December 2021). The quality of the SIL mortgage book remains good, with only one case in arrears by three months or more (2020: one case).

Net interest margin was 1.03% (2020: 0.89%). Margins on mortgage applications in late 2020 were significantly stronger than at the start of 2020, hence the mortgage pipeline at the start of 2021 was comparatively stronger than the prior period. However, mortgage rates across the industry gradually reduced throughout the year due to increasing competition. Savings rates in the market reduced slightly during the period as the market remained awash with surplus liquidity arising from UK savings accrued during the pandemic.

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

Group Chief Executive's Report (continued)

Exceptionally strong performance from enlarged Estate Agency business

Connells completed the acquisition of Countrywide plc on 8 March 2021 for total consideration of £131.8m and created the UK's largest estate agency measured by both market share and number of branches. At 31 December 2021, Connells trade under 81 brands from 1,179 (2020: 581) estate agency branches. The acquisition has complemented the Connells group's existing services, enhanced its value proposition for customers and benefitted consumers as a whole. Connells and the Society continue to believe that a well-invested high street estate agency branch network, coupled with a diversified brand portfolio, will allow the combined business to provide an attractive offering to its customers, whilst providing further diversification to the Group's business model, and delivering enhanced returns over the medium and longer term.

The UK housing market remained strong during the majority of 2021. Following the re-opening of the market in May 2020 after the first COVID-19 lockdown, the Government announced a partial stamp duty holiday, initially from 15 July 2020 to 31 March 2021, but subsequently extended to 30 June 2021. This, together with pent up demand following Brexit and the pandemic, continuing low interest rates and the 'race for space' created excellent market conditions with transaction volumes reaching levels not seen for many years. Whilst various local and national restrictions continued to be imposed periodically throughout the year, the housing market remained open throughout and the Connells group was able to continue trading and take advantage of the buoyant conditions.

Profit before tax in the enlarged Estate Agency division increased to £111.3m (2020: £51.8m).

Connells' PBT benefitted from £26.9m fair value gains on two businesses, TM Group (UK) Limited and Vibrant Energy Matters Limited, where both Connells and Countrywide previously held a non-controlling investment, and where control was obtained when combined on acquisition; together with a further £5.5m of fair value gains on share warrants and other investments. Connells subsequently sold its investment in TM Group (UK) Limited on 8 July 2021 for a cash consideration of £58.0m. The annual results also include amortisation charges totalling £52.4m in relation to Countrywide's intangibles recognised on acquisition, which will not be repeated in the medium term.

Underlying profits of the Connells group were £78.9m (2020: £55.1m). The Group's policy is not to adjust for the aforementioned amortisation charges when calculating underlying profits, however the fair value gain on investment in TM Group (UK) Limited and Vibrant Energy Matters Limited, and other fair value gains on equity share investments and share warrants, are excluded when arriving at underlying profits.

The Connells group's other income, namely fees and commissions receivable, increased by £624.4m to £1,000.1m for the year (2020: £375.7m), and the majority of the increase is attributable to Countrywide, where the results include ten months' trading post-acquisition, coupled with the strong housing market in the year. Connells' administrative expenses increased by £591.6m to £915.6m for the year (2020: £324.0m). The vast majority of this increase again is attributable to the acquisition of Countrywide, which doubled the size of the division.

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

Other subsidiaries

Skipton Business Finance (SBF), a provider of debt factoring and invoice discounting to small and medium-sized enterprises, recorded a PBT of £5.4m (2020: £3.6m). Throughout the pandemic SBF has offered its customers the Government backed Coronavirus Business Interruption Loan Scheme (CBILS), Bounce Back Loan Scheme (BBLS) and Recovery Loan Scheme (RLS) facilities to help support both new and existing clients during these difficult and unprecedented times. Alongside their business as usual facilities, these Government backed schemes have allowed SBF to provide much needed cash flow support to multiple clients across numerous sectors during periods of increased restrictions and economic uncertainty. Whilst exploitation of such schemes has been widely publicised, to date, SBF is not aware of any fraudulent activity in obtaining such loans.

Jade Software Corporation (a software solutions provider based in New Zealand that specialises in digital solutions and large IT enterprise solutions, as well as being the provider of the Society's core database and software development language) broke even in the year (2020: broke even).

Further information on the performance of these subsidiaries can be found in the Strategic Report on page 34.

Conclusion and outlook

2021 was a remarkable year for Skipton as all of our people continued to support our customers at the moments that matter, regardless of what the ongoing pandemic threw at everyone. And while the UK adjusts to a post-pandemic future, with new social norms and consumer behaviours, our purpose remains the same - helping people have a home, save for their life ahead, and supporting their long-term financial wellbeing.

Despite the long-term impact of the pandemic, and subsequent economic recovery, Skipton has started 2022 from a position of great strength. From this standpoint the Society will continue to invest in the business and in its people to ensure it is well placed to respond to the changing market conditions that lie ahead.

Money markets are predicting further increases in bank base rate, but strong competition in the mortgage market is expected to remain, putting pressure on interest margins. And while late 2020 / early 2021 saw strong housing market activity, supported by low interest rates and competitive mortgage products, it remains difficult for many first time buyers to get on the housing ladder. The housing market will likely moderate during 2022, and with Skipton's end-to-end view of this market, thanks to the Society owning the UK's largest estate agency network, it plans to do more to help people to get the keys to their first home.

The Society understands its customers' concerns over rising costs of living, potential tax increases, together with uncertainty over how best to save for their and their family's future. Skipton is well placed to respond to these challenges, by investing in the services it offers, how it offers them, and in its diverse and talented workforce - where providing the human touch to navigate such complexities matters to so many.

The Society anticipates the current strong competition in the mortgage market to continue for the foreseeable future due to the major lenders holding very high levels of liquidity. At the time of writing, the Society is also alert to the increasing geopolitical uncertainty created by the events in Ukraine. However, Skipton's financial strength, diversified portfolio of businesses, and focus on exceptional customer and colleague experiences puts it in a strong position to navigate the opportunities and challenges that lie ahead.

This is my last such report as I will be standing down at the AGM after 22 years on the Board. It has been my privilege to serve our members, and an honour to have worked with so many great colleagues over the years, and I wish the Society every success for the future.

David Cutter
Group Chief Executive

17 March 2022

Strategic Report

Skipton Building Society's purpose is rooted in serving the needs of our more than one million members - to help more people have a home, help people save for life ahead and support long term financial well-being. We believe this purpose remains as relevant and important today as it was when we were founded in 1853.

Our vision is to **"Build a better Society"** – for our customers, for our colleagues, and for the communities we serve.

The business model

As a mutual organisation, the Society is owned by its members and our mutual roots keep us grounded. We don't answer to shareholders and instead we're shaped by our members, who vote for directors and hold the Board to account. That is what makes us different to banks.

The Society's business model centres on providing a secure place for our members' savings and the provision of loans to our borrowers to enable people to have their own homes. We also source funding from the wholesale markets, which diversifies our funding base and improves our financial stability. In addition, we support the rented housing sector by providing buy-to-let mortgages to landlords. Our business model is strengthened by the provision of high quality financial advice, which customers can access in our branches, via video Link or in their own homes, enabling us to offer guidance to our customers to support their long term financial well-being; this sets us apart from many of our peers.

The difference between the interest received from our borrowers and on liquid assets and the interest payable to our savers and on wholesale funding, generates our net interest income. This income, together with other income mainly from the provision of financial advice and dividends from subsidiaries, covers any impairment losses, provisions, tax expenses and operating costs, including paying our people.

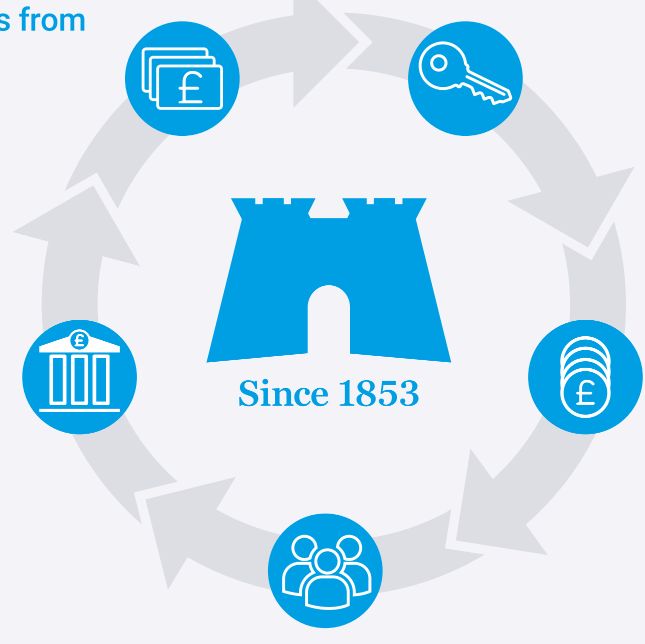
Our mutual status means we do not pay dividends, since we do not have external shareholders. Our profits are therefore reinvested into the Society for the long term benefit of our members; to support growth, to help us maintain a sustainable business model, and to preserve a strong capital position that supports and protects members and creditors through an economic downturn. The Society's business model can be illustrated as follows:

Where the money comes from

- Members' deposits
- Wholesale markets
- Retained earnings from previous profits in the Society and dividends from our subsidiaries

What we do with it

Provide mortgages to help people into homes:
- Residential mortgages
- Buy-to-let mortgages



What we use our profits for

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

How we generate income

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

What we incur costs on

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

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

Mortgages and Savings division

The Mortgages and Savings division is the core of the Group's business model, predominantly comprising the Society. The division also includes Skipton International Limited (SIL), which carries out mortgage lending in the Channel Islands and the UK and accepts deposits in Guernsey. Our specialist lending businesses, Amber Homeloans Limited (Amber) and North Yorkshire Mortgages Limited (NYM), which both ceased lending in 2008, have historically been part of this division; however, the activities of these two entities were hived-up into the Society with effect from 1 June 2021. The division also includes the Group's special purpose vehicles, formed to acquire funds from the wholesale markets, and the intermediate holding company Skipton Group Holdings Limited (SGHL).

Estate Agency division

The Society holds a significant presence in the estate agency sector through the Connells group (99.9% holding), which includes property sales, surveys and valuations, conveyancing, lettings, asset management and mortgage and insurance broking. The Society's capital position is reinforced by dividends from the Connells group, which are invested back into the Society for the benefit of our members.

The Group's estate agency presence in the UK was significantly enhanced in the year by the acquisition of Countrywide plc on 8 March 2021 (see note 17b)(i) for further details).

Investment Portfolio

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

On 14 May 2021 the Group acquired the remaining minority shareholdings in Jade for a nominal sum, taking its shareholding from 99.98% to 100%.

Promoting long term success

The Board's approach

Policies and practices

The business model set out on page 18 details how the Society generates long term value and preserves a strong capital position to protect our members. In order to achieve our purpose, the Board sets defined medium term objectives built around four strategic priorities that help it focus on the right areas. The Board monitors progress against these strategic priorities using a number of key performance indicators that are reported to the Board and senior management on an ongoing basis and are key to the Board's oversight of the business and to its decision making process. For further details on our four strategic priorities and how we delivered against these in 2021 see pages 22 to 27.

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

Responsible and sustainable

Whilst much has changed since we were founded in 1853, our commitment to being a responsible business holds firm. As we have grown, so has our responsibility to build a better, more sustainable society for all.

Creating a sustainable society has always been at the heart of what we do, shaping our decision making. This means meeting the needs of the present without compromising the needs of future generations. True to our mutual status, we are:

- Socially sustainable
- Financially sustainable
- Environmentally sustainable.

We have a clear strategy for making positive changes to our society, aligned with the United Nations Sustainable Development Goals, and in November 2021 we also signed up to the United Nations Principles for Responsible Banking.

For more information, including how we are performing against our commitment to making positive changes to our society, see our Summary Group Responsible Business Report on pages 40 to 45.

With specific regard to climate change, the Society continues to enhance and embed its capabilities to monitor and manage climate risk and to meet the requirements of the Prudential Regulation Authority's (PRA's) Supervisory Statement 3/19 (SS3/19) 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change'. We also support the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD), which aim to improve the reporting of climate-related financial information. We present information in line with the requirements of SS3/19 within our full Group Responsible Business Report which is available on our website **skipton.co.uk**; the information presented in that Report is also aligned with the TCFD recommendations.

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

Strategic Report (continued)

help them stay in business. We have since taken the decision to leave these shorter payment terms in place permanently for those suppliers, to support their ongoing financial resilience.

The Society has a modern slavery policy which fully supports the objectives of the Modern Slavery Act 2015, further details of which can be found at **skipton.co.uk/about-us/governance**. These policies are drafted by appropriately qualified experts and monitored on an ongoing basis to ensure they remain fit for purpose. For details on our diversity and inclusion framework and our diversity policy, see page 25 of this report.

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

The Society also has regard to the above matters as part of our risk assessment processes; a full description of our principal risks and how we manage these is found in the Risk Management Report on pages 72 to 81.

Corporate governance

The Board is responsible for determining the Society's strategy for managing risk and overseeing its systems of internal control. The ongoing effectiveness of these internal controls is reviewed by the Board on a regular basis, as described on pages 58 and 59 of the Directors' Report on Corporate Governance.

The Society maintains a high standard of corporate governance for the benefit of its current and future members and in order to conduct its business in a prudent and well organised manner. The Board's terms of reference clearly set out its responsibility for the overall stewardship of the Group within the contract of the Society's 'Principles of Governance', as set out on pages 58 and 59 of the Directors' Report on Corporate Governance.

Decision making

Achieving the right balance of risk and reward is essential to ensuring the long term sustainability of the Society and enables us to deliver on our strategic priorities. Through the Board Risk Committee approved risk management framework and governance structure, the Group has a formal mechanism for identifying and managing risks throughout the business, further details of which can be found on page 74 of the Risk Management Report.

The Corporate Plan is delivered in line with the risk management framework and was approved by the Board following a 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. The Group's strategic priorities, which remain unchanged from the previous year, are as relevant as ever; 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. The external environment continues to experience rapid change and the Society continues to monitor material risks to business plans as detailed on pages 72 and 73 of the Risk Management Report.

Strategy, priorities and objectives

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

The Society's strategy to achieve this is *"to create outstanding experiences at the moments that matter"*. This is delivered through four strategic priorities: Absolute Customer Focus, Brilliant People, Powered by Digital Technology and Data, and Financial Strength.

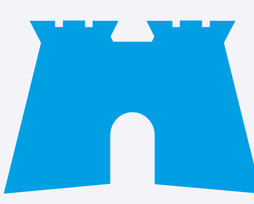
We have evolved our strategic statement from its previous iteration, to provide greater clarity on our direction and focus. However, our direction has not changed.

We want to be known for delivering outstanding experience for our customers and our colleagues, especially for those moments that matter the most; these range from big life events, such as buying a house, to those smaller things that make a difference, such as feeling assured that a transaction has gone through.

Attracting and retaining brilliant people has never been more crucial, to deliver those great experiences and to remain competitive. We are currently evolving our Employee Value Proposition which will support the attraction and retention of talent, in addition to developing vital skills. We work as a team, taking ownership, trusting one another and living up to the trust our customers place in us.

A growing number of customers now prefer to interact with us through digital channels. However, we believe the importance of that human touch for those big life conversations has not diminished. For us, this is not an 'either or' choice between digital channels and human contact; it is important we offer both for our customers. We aim to provide a truly omnichannel service so our customers can choose how they wish to interact with us. We will continue to enhance our online and digital services and video appointments, alongside building on our excellent face-to-face service advantage – connecting with people in an agile way in this ever-changing world.

Our financial strength provides the foundation that allows us to make the right investments and 2021 was another strong year. Our strategy and objectives have been developed to generate sufficient profits that maintain our strong capital position, optimising the balance between risk and reward. This is aided by profits generated around the wider Group, which has been further bolstered in 2021 following the acquisition of Countrywide plc by Connells. This strength enables us to build a sustainable future and to take long term decisions for the benefit of our current and future members.



Since 1853

Together, we're building a better Society

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

Our strategy is to create outstanding experiences at the moments that matter.

ONE TEAM | OWNERSHIP | TRUST

Absolute Customer Focus

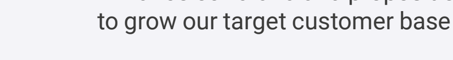
Outstanding experiences and compelling propositions for our customers

- Deliver a frictionless customer and broker experience
- Enhance our brand and propositions to grow our target customer base

Brilliant People

A diverse and inclusive culture that supports you to be your best

- Attract, retain, and develop our talent and skills base
- Build a more agile organisation



Powered by Digital Technology & Data

A Society equipped with the right tools to make insightful decisions and deliver outstanding experiences

- Implement cloud and data foundations and enhanced analytics operating model
- Enhance our mobile and app experience

Financial Strength

Creating mutual value today and for generations to come

- Optimise our net interest margin by balancing risk and reward
- Improve our cost efficiency and productivity

Economic and market background

The UK economic environment remained uncertain during 2021 but the outlook had improved markedly by the end of the year, benefitting from the successful roll-out of COVID-19 vaccinations in the UK and elsewhere in the world.

The housing market was strong throughout 2021, particularly in the earlier months as movers reassessed their housing needs and sought to take advantage of reduced stamp duty levels that were available until the autumn.

The unemployment rate did not reach the high levels some had expected would be seen when furlough support was withdrawn and some sectors saw labour shortages and wage inflation.

As consumer confidence rebounded strongly, the increase in consumer demand combined with supply-chain issues and wages growth contributed to inflationary pressures and rising costs.

Whilst the Group's UK focus means it is less directly impacted by Brexit, the medium to long term implications for the UK economy remain uncertain as the UK adjusts to the post-Brexit environment. This uncertainty could impact the Society and its subsidiaries.

The Society remains in a strong position, with strong capital and liquidity ratios, healthy and sustainable growth seen in mortgages and savings balances, good underlying profitability and a diversified business model, and is therefore well placed to serve both current and future members. Performance during 2021 is discussed in more detail on the following pages.

Performance in the year

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

Strategic Report (continued)

Absolute Customer Focus

Outstanding experiences and compelling propositions for our customers

Our 'Absolute Customer Focus' strategic priority is centred on delivering an outstanding experience and compelling propositions for our customers. This is based on a deep understanding of our customers' needs, gained through research, customer feedback and analysis - we use these insights to continually develop, refine and improve how we do things. Over one million members place trust in us to help them manage their money, save for the future, and secure homes of their own.

Central to our strategy is to provide an outstanding experience across all the ways our customers interact with us. One of the ways in which we monitor our success is by measuring net customer satisfaction (see page 23), which in 2021 was 86% (2020: 85%).

The coronavirus pandemic has continued to impact on our members and customers and in 2021 we continued to prioritise their safety and the provision of support. The significant challenges of these last two years have required us to be agile in how we support our customers and maintain the highest levels of service. We adapted quickly to meet changes in our customers' needs and it is evident that many of these changes are now embedded within the 'new norm'. We will continue to listen to our customers and respond to their feedback.

Part of our response has been to review our approach to how customers want to interact with us, both now and in the future. This has included utilising our digital capabilities such as Skipton Link (our video conferencing facility) for account opening and financial advice appointments, increased webchat capability and increased social media presence. We are developing the foundations for a truly omnichannel experience and we will further develop and deliver on that experience in the coming years.

A key element of our strategy is to grow the Society's membership in a sustainable manner, bringing the benefits of membership to an increasing number of people. In 2021, Society membership grew by 21,859 to take our total membership base to 1,082,997 by 31 December. On 1 June 2021, 4,535 customers of Amber Homeloans Limited and North Yorkshire Mortgages Limited became members of the Society following the hive-up of those subsidiary operations into the Society.

Our core savings and investment customers are those saving and planning for their life ahead. We are focused on providing compelling propositions to meet the needs of these customers which includes offering a broad and attractive range of savings products. We also provide financial advice and longer term investment planning for customers who want support with pensions, investments and Inheritance Tax planning.

In these challenging times the Bank of England base rate was held at an all time low of just 0.10% from March 2020 until December 2021, which has resulted in a prolonged period of exceptionally low savings rates across the market. However, we remain committed to providing savers with competitive savings rates, paying above the market average, along with excellent customer service. Our member exclusive regular saver account, launched in August 2021, paying a market-leading rate of 3.5%, was one way we supported our savings members. Over 44,000 members took advantage of the opportunity to open a regular saver. In May we launched our first limited access savings bond, a two-year fixed rate bond with a competitive rate that allows withdrawals of up to 25% during the fixed term.

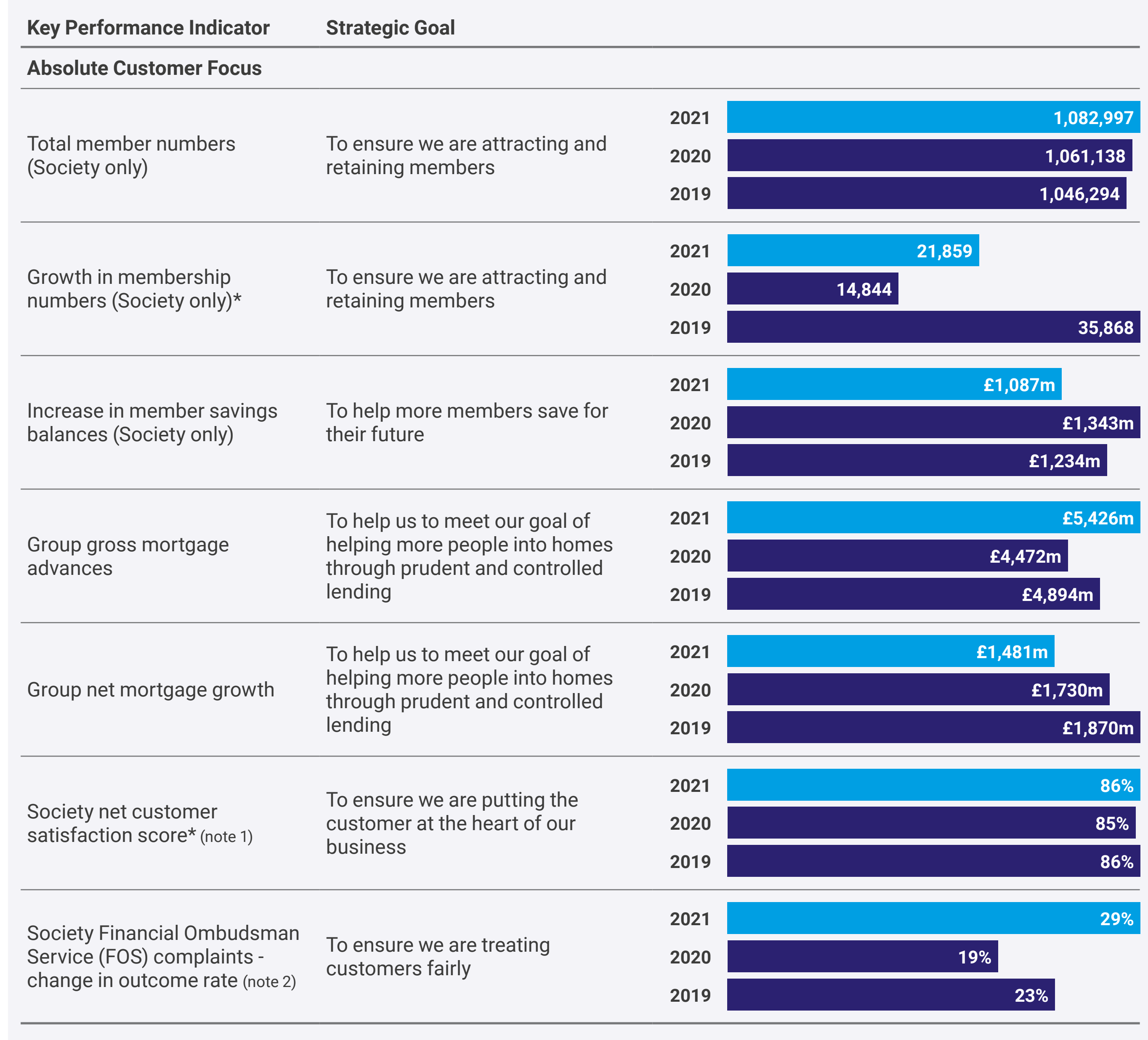
We continue to provide good value mortgages together with excellent personal service, both directly to our mortgage customers and through our intermediary partners. We support the rented housing sector by providing buy-to-let mortgages to landlords.

Independent third-party recognition of our products and services is a key demonstration of the value we deliver and in 2021 we received several awards. For example, our customer contact centre Skipton Direct was shortlisted for the Contact Centre Association (CCA) Excellence Awards, which recognises world-class professional achievement in customer service, achieving the 'Outstanding Team Award – Bronze'. Many of our Skipton financial advisers have been recognised nationally too, with an impressive 62 of our advisers featuring in the Financial Times' prestigious Top Rated Financial Advisers Guide.

We grew Group mortgage balances by 6.8% (2020: 8.6%) whilst maintaining our prudent credit risk appetite. Despite the highly competitive mortgage market, our mortgage growth in the year was significantly ahead of the UK residential mortgage market where net mortgage growth was 5.0% (Source: Bank of England statistics, December 2021), which demonstrates our success in delivering mortgage products and services that are valued by both new and existing Skipton members. Having temporarily scaled-back high LTV lending during 2020, as a result of uncertain market conditions, we reintroduced 90% LTV and subsequently 95% LTV in the first half of 2021.

Gross mortgage advances across the Group totalled £5,426m (2020: £4,472m). In March, June and September we saw exceptional numbers of mortgage completions, with people keen to move home and take advantage of temporary Stamp Duty Land Tax (SDLT) reliefs. These SDLT reliefs were initially due to expire on 31 March 2021 but were extended by the Government until 30 June 2021, with further tapered relief until 30 September 2021.

In 2021 Society savings balances grew by 5.8% (2020: 7.7%) compared to the UK savings market where net savings growth was 6.8% (Source: Bank of England statistics, December 2021). We paid on average 0.37% higher interest than the rest of market average for banks and building societies in the year (2020: 0.38%) (Source: CACI Current Account & Savings Database, Stock).



Key Performance Indicator	Strategic Goal	Year	Value
Absolute Customer Focus			
Total member numbers (Society only)	To ensure we are attracting and retaining members	2021	1,082,997
		2020	1,061,138
		2019	1,046,294
Growth in membership numbers (Society only)*	To ensure we are attracting and retaining members	2021	21,859
		2020	14,844
		2019	35,868
Increase in member savings balances (Society only)	To help more members save for their future	2021	£1,087m
		2020	£1,343m
		2019	£1,234m
Group gross mortgage advances	To help us to meet our goal of helping more people into homes through prudent and controlled lending	2021	£5,426m
		2020	£4,472m
		2019	£4,894m
Group net mortgage growth	To help us to meet our goal of helping more people into homes through prudent and controlled lending	2021	£1,481m
		2020	£1,730m
		2019	£1,870m
Society net customer satisfaction score* (note 1)	To ensure we are putting the customer at the heart of our business	2021	86%
		2020	85%
		2019	86%
Society Financial Ombudsman Service (FOS) complaints - change in outcome rate (note 2)	To ensure we are treating customers fairly	2021	29%
		2020	19%
		2019	23%

* Included as a key measure in the Executive Directors' remuneration policy calculations. For further details see the Directors' Remuneration Report on pages 82 to 103.

Notes

1. As measured from an in-house survey of Society customers with c.7,500 responses. The net customer satisfaction score is calculated by subtracting the percentage of customers who are dissatisfied (those scoring satisfaction with the Society as 1-3 on a scale of 1-7) from the percentage of customers who are satisfied (those scoring satisfaction as 5-7 on the same scale).
2. For the six months ended 30 June 2021, being the latest available comparable market data.

Customer experience

Whilst we strive to get things right for our customers first time, every time, we recognise that on occasion things can go wrong and our customers may have cause for complaint. We aim to deal with these complaints efficiently and with empathy, putting right what has gone wrong. A measure of our success in doing this is the proportion of the Society's complaints going to the FOS that have their outcomes changed. The Society's change in outcome rate for the first six months of 2021 was 29% (full year 2020: 19%). This compared favourably with the financial services industry average of 34% for the first six months of 2021, being the latest available comparable market data (Source: FOS complaints data (resolved cases)).

Strategic Report (continued)

Brilliant People

A diverse and inclusive culture that supports our people to be their best

Our 'Brilliant People' strategic priority is based on providing a diverse and inclusive culture that supports our colleagues to be their best - highly skilled, highly engaged, and high performing. We remain committed to providing a great environment for our people to work in, where their development and well-being is a key priority. We're proud to have over 2,200 people working together to deliver outstanding customer service, from our head office in Skipton, from their own homes and throughout our UK branch network.

As in 2020, our primary focus in 2021 has been the ongoing safety and well-being of our colleagues as they continued to serve our members through the pandemic. We've now safely welcomed back a growing number of colleagues who wished to return to head office. We have also further enhanced the provisions we make to support flexible and hybrid working, which is now successfully embedded. Our colleagues tell us that hybrid working has become an increasingly valued aspect of their overall colleague experience.

Delivery of the Society's people strategy is measured primarily by employee engagement and this was 85% when measured in September 2021 (2020: 90%). Our colleagues told us they feel listened to and that hybrid working is popular. The feedback from these surveys helps us understand what's working well or not so well and contributes to our existing action plans to ensure the Society is a great place to work for all.

Sustaining high engagement is achieved through a range of activities reflecting all aspects of our people strategy, including learning and development, recruitment and reward. We are proud that for the seventh year running we have been named as one of the UK's best companies to work for, which reflects the views of surveyed colleagues, achieving 7th place in the 25 Best Big Companies To Work For 2021 list. Best Companies also gave us a three-star accreditation, a first for Skipton and reflecting 'world class' levels of workplace engagement. We have been an Investors in People accredited organisation for over 25 years and have maintained platinum accreditation, the highest accolade, since 2017.

Our culture is strongly customer-focused and is based on our mutual values of One Team, Trust and Ownership. We encourage our people to be curious and to display agility. Our values are embedded in all aspects of people management including recruitment, induction, development, performance management and reward. We've now fully rolled-out our new performance and behaviours frameworks, following a successful pilot, designed to help colleagues have a deeper connection to our strategic priorities.

We promote a learning culture for colleagues to develop the knowledge and expertise needed to support and advise our customers through trusted relationships. To date, ten colleagues have studied for a Master's Degree in Strategic Leadership from Loughborough University, a programme designed in conjunction with the Building Societies Association. Keen to invest in the early careers of our future leaders, we have in 2021 recruited another fifteen apprentices into our 'Connecting Our Futures' programme and our next 'Aspiring Leaders' cohort will join us in the summer. Further, in September we welcomed the first cohort onto our new graduate leadership programme - yet another exciting way for young people to kick-start their Skipton career. We are further developing our early careers programmes in conjunction with the government's national apprenticeship scheme.

Encouraging a diverse and inclusive culture, representative of our communities, is a key element of Skipton's core values. Our policies to support this include, but are not limited to, a flexible working policy, a career break policy, a carer's leave policy, a family-friendly policy and a diversity policy.

We once again delivered a variety of diversity-focused initiatives throughout the year, ranging from menopause awareness to how to recognise and tackle non-inclusive behaviours. In September we again took part in National Inclusion Week; this year's theme was 'unity' and we ran daily sessions on varied topics such as disability, LGBTQ+, working parenting and neurodiversity.

We've made further advances to improve awareness and understanding of both the mental and physical disabilities faced by our colleagues and customers, including our ongoing work with AccessAble, an organisation that provides accessibility guides on thousands of venues across the UK. Our accessibility was assessed during 2021 by the Business Disability Forum, passing the benchmark to achieve their bronze award. We've also been working hard to make our communications more accessible for customers, including email design and audio offerings, and over 1,600 colleagues have completed Communication Access UK training. In November we began to offer British Sign Language translation in branch with SignVideo, an extension of the service we already offered over the telephone.

The investment we make in our people and our culture is aligned to the delivery of our purpose and our vision of 'Building a better Society'. A key element of this is our reward strategy. Our ambition is to offer a fair and competitive reward package for all, encouraging the right behaviours and customer outcomes.

We'll continue to develop our Employee Value Proposition which is aimed at attracting and retaining talented people from all walks of life; developing skills that continue to support the Society being fit for the future is vital to our ongoing success. We'll also keep engaging with our people as to what our 'workforce of the future' should look like, to ensure the Society is, and will continue to be, an employer of choice.

Key Performance Indicator	Strategic Goal	
Brilliant People		
Employee engagement (Society only)* (note 1)	To ensure our people are passionate, loyal and committed	2021: 85% 2020: 90% 2019: 89%

* Included as a key measure in the Executive Directors' remuneration policy calculations. For further details see the Directors' Remuneration Report on pages 82 to 103.

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

Diversity and inclusion

We aim to make further progress to ensure our people feel valued, respected and able to perform to their potential. We seek to provide a work environment that is safe and accessible, free from unfair treatment, discrimination and harassment and gives fair access to learning, development, reward and promotion opportunities. We have a range of policies and practices which support these aims and monitor their application. In relation to gender specifically, the Society would like to see a higher representation of women amongst its senior leaders, which is 40% at present (2020: 36%). 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. Our April 2021 report highlighted the development of our Diversity and Inclusion strategy, as well as improvements being made in recruitment and selection practices. Progress is also being made in the areas of talent development and succession planning.

The number of employees of each gender employed in the Society and the Group as at 31 December 2021 is outlined below:

Society	Male	Female	Total	Percentage female
Executive Directors	4	-	4	**0.0%**
Other Society senior leaders	40	29	69	**42.0%**
Senior leaders	**44**	**29**	**73**	**39.7%**
Non-Executive Directors	5	3	8	**37.5%**
Other employees	870	1,319	2,189	**60.3%**
	919	**1,351**	**2,270**	**59.5%**

Group	Male	Female	Total	Percentage female
Executive Directors (note 1)	4	-	4	**0.0%**
Senior managers (note 2)	51	29	80	**36.3%**
	55	**29**	**84**	**34.5%**
Non-Executive Directors (note 1)	5	3	8	**37.5%**
Other employees (note 3)	7.417	10,231	17,648	**58.0%**
	7,477	**10,263**	**17,740**	**57.9%**

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**.

Strategic Report (continued)

Powered by digital technology and data

A Society equipped with the right tools to make insightful decisions and deliver outstanding experiences

Our 'Powered by Digital Technology and Data' strategic priority aims to ensure we are equipped with the right tools and infrastructure to make insightful decisions and deliver outstanding experiences.

Outstanding customer service depends on two distinct elements of our digital approach. Firstly, our digital user interface must be engaging, slick and easy to use; this will become even more important as we progress our omnichannel offering over the coming years. Secondly, our core banking system and technology infrastructure must support colleagues to deliver an outstanding experience and must remain resilient against a myriad of threats; this too will remain imperative in the face of ever-changing cyber risks.

Not surprisingly, a growing number of customers are choosing to interact with us through digital and social media platforms. Our Digital Customer Service team responds to the needs of these customers with agility and innovation. This is reflected in our digital customer satisfaction score, which has improved to 85% (31 December 2020: 81%).

Since the launch of our mobile app in July 2019, over 235,000 members have signed-up and currently 54% of our online customers have registered for the app (31 December 2020: 47%).

We have improved the functionality that is available on our app, for example in September we successfully launched the ability to open savings accounts. Over time, we intend to further build our app channel functionality.

The way our customers choose to interact with us is changing and options such as webchat are becoming an increasingly popular means of interaction with Skipton Direct.

There's also increasing use of Skipton Link, our video conferencing facility, in ever expanding ways. We constantly strive to improve our tools. Our new Mortgage Product Finder went live in February 2021, giving customers the information they need to apply for a mortgage directly, and in May our new customer appointment booking system 'Click to Schedule' went live online.

We've also implemented in 2021 new digital capability to both personalise and optimise customer experiences and content online, enabling us to provide more tailored journeys for our customers.

The Society operates an in-house IT platform which provides us with unique control over our core system technology, including the nature and pace of future developments in line with our strategy.

The priority investment in our IT estate is to set the foundations for our cloud transition, to utilise the benefits that this will give us of agility and scalability. We have already made steps to begin that multi-year transition. We are also implementing more 'software as a service' (SaaS) solutions as part of that journey, as we seek to digitise our technology platforms.

In data, we have rolled-out new dashboards that give colleagues direct access to the information that empowers them to make more swift and informed decisions; this further supports our people to show agility in order to deliver great customer outcomes. Moreover, we have also improved our risk models utilising our data approach. We are in the process of further improving our foundations to provide greater capabilities as we implement our data & analytics strategy.

We are building on firm foundations and digital maturity, with a clear focus on targeted investment that will deliver our ambitions in the digital space.

Key Performance Indicator	Strategic Goal		
Powered by Digital Technology and Data			
Percentage of online customers registered for the Skipton app (note 1)	To ensure our customers have access to the best aspects of digital technology	2021	54%
		2020	47%

Notes

1. This was a new metric monitored with effect from 2020 for which our target for 2021 was 65% (2020: 44%). No comparisons are given for 2019 when this data was not monitored under our strategic priorities.

Financial Strength

Creating mutual value today and for generations to come

Our 'Financial Strength' strategic priority is based on creating mutual value for customers, colleagues and communities for generations to come. To do that, we maintain our strong capital and liquidity position to be able to invest to improve the Society and remain resilient in challenging conditions.

Despite the continued low interest rate environment, the Group achieved record profits in 2021 of £271.8m (2020: £118.8m). The Group's results benefitted from the strong housing market, and thus strong demand for mortgages, which led to increased profits for both the Society and Connells. The economic outlook improved, leading to a £12.9m release of loan impairment provisions (2020: charge of £25.7m), and we were also able to reintroduce 90% and 95% LTV lending to support our members. Our estate agency division saw its profits before tax grow to £111.3m for the year (2020: £51.8m), following the acquisition by Connells of Countrywide in March 2021. Group profits in 2021 also benefit from one-off fair value gains totalling £37.7m; this includes £10.8m due to restructure of an existing derivative instrument (Mortgages and Savings division) and £26.9m on step-acquisition of subsidiaries (Estate Agency division).

We continue to grow our mortgage and savings balances in a sustainable way. 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 accessed funds available through the Bank of England's '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 our current and future members.

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

Managing our cost base is a key component of our financial strategy. For the Mortgages and Savings division, administrative expenses increased in 2021 by £12.3m to £172.8m (2020: £160.5m). In 2020 we reduced or delayed some non-essential spend in response to the financial impacts of the pandemic; we resumed those delayed investments in 2021. We have focused on investing to power future capabilities and to provide efficiency and productivity gains; for example, we have commenced a Finance transformation programme.

For the Estate Agency division, administrative expenses increased in 2021 by £591.6m to £915.6m (2020: £324.0m). The vast majority of this increase is due to the Countrywide acquisition, which doubled the size of the division, plus market conditions drove increased income and thus higher variable costs. Also, amortisation relating to the Countrywide acquisition increased costs in 2021 by £52.4m.

As always, another key priority for us is to actively manage the risk of losses that may arise from our mortgage portfolios. 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 Society incurring financial loss.

The Group's investment in its subsidiaries, primarily Connells, remains a key part of our financial strategy, creating additional financial strength for the Society through the regular receipt of dividend payments. This has been further enhanced by the acquisition of Countrywide by Connells in March 2021.

Alternative performance measures

The Board monitors and reports profits at both a statutory level, governed by accounting standards and practices, and at an 'underlying' level. The Board uses underlying profit to measure the progress of the Group against its strategic objectives and uses this measure to aid in strategic decision making in relation to the operation of the Group's business activities. As per the Group's policy on alternative performance measures, which is agreed by the Board Audit Committee and which remains unchanged during the year, 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:

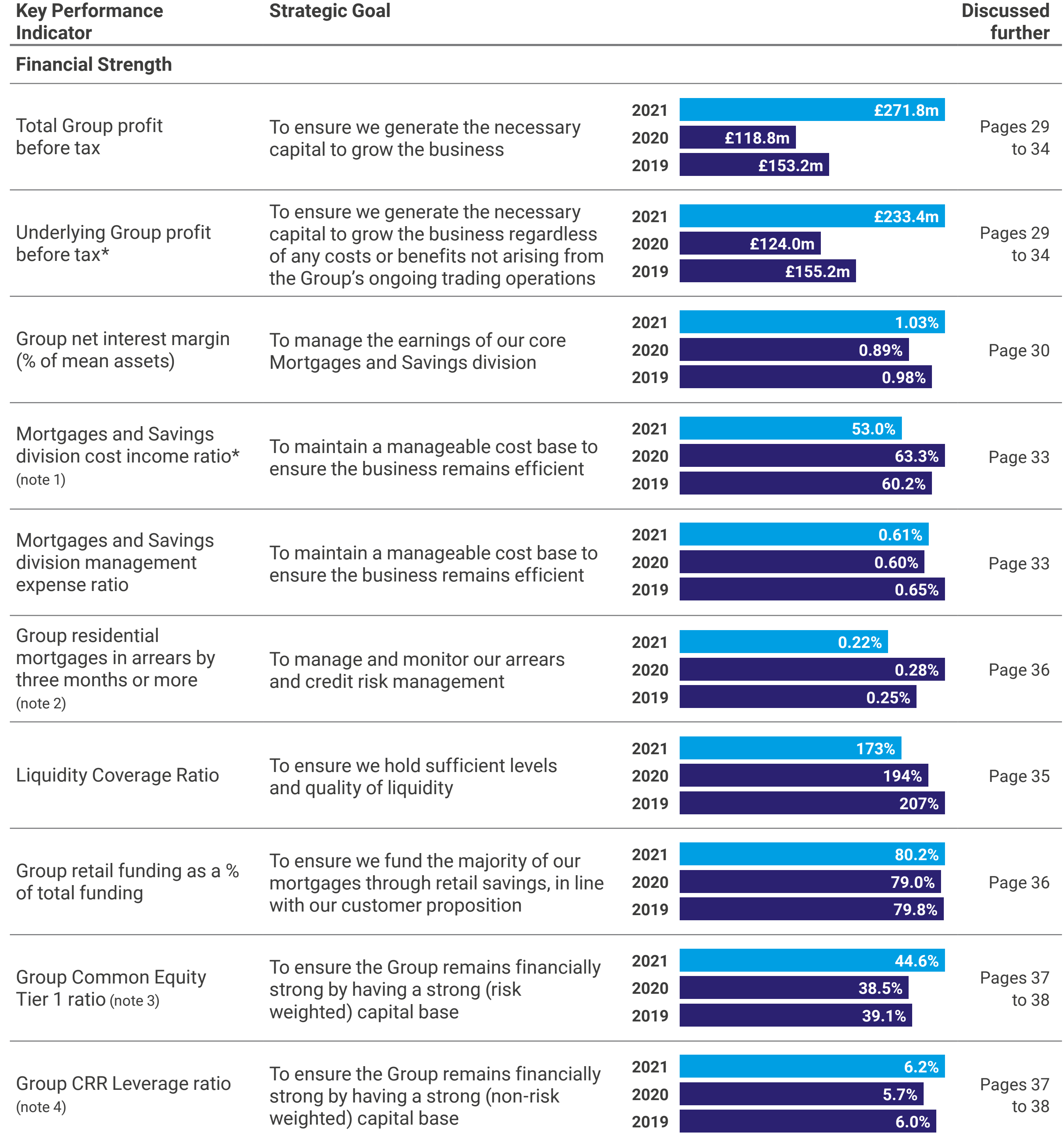
- Fair value movements in relation to the equity release portfolio and associated derivatives. Under IFRS 9, the Group's equity release portfolio is held entirely at fair value, as are the associated derivatives, with resulting gains / losses taken to the Income Statement and as a result, the Group is 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 not to adjust for amortisation charges or acquisition costs when calculating underlying profits; as noted on page 31, these have been significant in the period and will not be repeated 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.

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

Strategic Report (continued)



Key Performance Indicator	Strategic Goal	2021	2020	2019	Discussed further
Financial Strength					
Total Group profit before tax	To ensure we generate the necessary capital to grow the business	£271.8m	£118.8m	£153.2m	Pages 29 to 34
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	£233.4m	£124.0m	£155.2m	Pages 29 to 34
Group net interest margin (% of mean assets)	To manage the earnings of our core Mortgages and Savings division	1.03%	0.89%	0.98%	Page 30
Mortgages and Savings division cost income ratio* (note 1)	To maintain a manageable cost base to ensure the business remains efficient	53.0%	63.3%	60.2%	Page 33
Mortgages and Savings division management expense ratio	To maintain a manageable cost base to ensure the business remains efficient	0.61%	0.60%	0.65%	Page 33
Group residential mortgages in arrears by three months or more (note 2)	To manage and monitor our arrears and credit risk management	0.22%	0.28%	0.25%	Page 36
Liquidity Coverage Ratio	To ensure we hold sufficient levels and quality of liquidity	173%	194%	207%	Page 35
Group retail funding as a % of total funding	To ensure we fund the majority of our mortgages through retail savings, in line with our customer proposition	80.2%	79.0%	79.8%	Page 36
Group Common Equity Tier 1 ratio (note 3)	To ensure the Group remains financially strong by having a strong (risk weighted) capital base	44.6%	38.5%	39.1%	Pages 37 to 38
Group CRR Leverage ratio (note 4)	To ensure the Group remains financially strong by having a strong (non-risk weighted) capital base	6.2%	5.7%	6.0%	Pages 37 to 38

* Included as a key measure in the Executive Directors' remuneration policy calculations. For further details see the Directors' Remuneration Report on pages 82 to 103.

Notes
1. For the purposes of this ratio, costs and income exclude items that are not included in arriving at underlying Group profit before tax, as defined on page 27.
2. In line with regulatory guidance, customers granted mortgage payment deferrals were not treated as in arrears (unless already in arrears) and therefore any impact of COVID-19 on arrears may have been suppressed in the short term.
3. This ratio is calculated under the Internal Ratings Based (IRB) approach on a transitional basis; see pages 37 to 38 for further details. The ratio for 2020 is restated at 38.5% (previously reported in the Group's Annual Report & Accounts for the year ended 31 December 2020 as 39.7%); see page 38 for further details.
4. This ratio is calculated on an end-point basis; see pages 37 to 38 for further details.

Financial performance

A summary Group Income Statement is set out below:

	2021 £m	2020 £m
Net interest income	**296.7**	237.9
Net non-interest income	**1,048.7**	414.5
Fair value gains / (losses) on financial instruments mandatorily held at FVTPL	**4.7**	(0.2)
Fair value movements in relation to the equity release portfolio	**5.5**	(2.7)
Fair value gains on step-acquisition of Group undertakings	**26.9**	-
Profits on disposal of treasury assets	**0.1**	0.6
Profit on disposal of subsidiary undertakings	**0.5**	0.8
Share of profits from joint ventures	**1.2**	3.4
Total income	**1,384.3**	654.3
Administrative expenses	**(1,125.1)**	(506.3)
Operating profit before impairment losses and provisions	**259.2**	148.0
Impairment credit / (losses) on loans and advances to customers	**12.9**	(25.7)
Impairment losses on liquid assets	**(0.2)**	(0.1)
Impairment of goodwill	**-**	(2.0)
Impairment of joint ventures	**-**	(1.5)
Realised losses on equity release portfolio	**(0.5)**	(0.1)
Provisions for liabilities	**0.4**	0.2
Total Group profit before tax	**271.8**	118.8
Tax expense	**(55.9)**	(21.8)
Profit after tax	**215.9**	97.0

£271.8m
Total Group Profit
Total Group profit before tax (PBT) was £271.8m (2020: £118.8m)

Underlying Group profit before tax for the year was £233.4m (2020: £124.0m) as shown below. Underlying PBT by division is shown on page 32.

	2021 £m	2020 £m
Total Group profit before tax	**271.8**	118.8
Less profit on disposal of subsidiary undertakings	**(0.5)**	(0.8)
Less fair value gains / add back fair value losses in relation to the equity release portfolio (note 1)	**(5.5)**	2.7
Add back impairment of goodwill	**-**	2.0
Add back impairment of joint ventures	**-**	1.5
Less fair value gains on share warrants and equity share investments	**(5.5)**	(0.2)
Less fair value gains on step-acquisition of Group undertakings (note 2)	**(26.9)**	-
Underlying Group profit before tax	**233.4**	124.0

£233.4m
Underlying Group PBT
Underlying Group PBT (as defined on page 27) was £233.4m (2020: £124.0m)

Notes
1. The £5.5m gain (2020: £2.7m loss) is comprised of fair value losses of £27.3m (2020: £19.7m gains) as shown in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement, and fair value gains of £32.8m (2020: £22.4m losses) on the associated derivatives held to economically hedge these fair value movements, as shown in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Derivatives associated with equity release portfolio' line in the Income Statement.
2. This comprises a £27.1m fair value gain in relation to the Group's shareholding in TM Group (UK) Limited and a £0.2m fair value loss in relation to the Group's shareholding in Vibrant Energy Matters Limited; further details are provided in note 17b)(i) to the Accounts.

Strategic Report (continued)

£296.7m

Net Interest Income

Our net interest income was £296.7m (2020: £237.9m)

1.03%

Net Interest Margin

Group net interest margin increased to 1.03% (2020: 0.89%)

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

Net interest income

Our net interest income, the main source of income for the Mortgages and Savings division, was £296.7m (2020: £237.9m). The Group net interest margin, a key profitability and performance indicator that measures net interest income as a percentage of mean total assets, increased to 1.03% (2020: 0.89%).

The prolonged low interest rate environment remained a challenge throughout 2021, with the Bank of England maintaining Bank Base Rate at a record low of 0.1% from March 2020 until December 2021 when it rose to 0.25%. Despite higher demand for mortgages due to the stronger housing market, mortgage rates across the industry reduced due to increased competition. However, savings rates in the market reduced by a greater amount, reflecting reduced competition for savings and the availability of lower cost 'Term Funding Scheme with additional incentives for SMEs' (TFSME) funding. Taken together, these factors led to an overall increase in net interest margin in 2021.

The housing market was strong throughout the year, fuelled by the temporary stamp duty waiver and also by increased demand as people reappraised their needs following the move to more hybrid working practices. These factors, together with our pro-active re-entry into the 95% LTV market and competitively priced product range, led to record numbers of mortgage applications for the Society in April.

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. During the year we accessed funds available through the Bank of England's TFSME scheme which closed in October; this is further discussed on page 36.

Net non-interest income

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

	2021 £m	2020 £m
Mortgages and Savings	**33.8**	24.5
Estate Agency	**1,000.1**	375.7
Investment Portfolio	**27.1**	24.8
Inter-divisional adjustments^	**(12.3)**	(10.5)
	1,048.7	414.5

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

The majority of the Group's other income is generated by the Estate Agency division, which saw significant growth in 2021. This reflects the strong trading performance of Connells in 2021, including the benefits for ten months associated with its acquisition in March 2021 of Countrywide plc. Details of Connells' performance can be found on pages 33 to 34.

The Mortgages and Savings division's net non-interest income, which is predominantly made up of financial advice activities, was £33.8m (2020: £24.5m). Financial advice referrals increased in 2021 as customers returned to our branches in greater numbers following easing of COVID-19 restrictions. Financial advice income in 2021 also benefitted from 17.1% growth in the level of funds under management.

The Investment Portfolio's net non-interest income was £27.1m (2020: £24.8m). Jade Software Corporation saw an increase of £0.9m as significant new projects commenced towards the end of 2021. For Skipton Business Finance, net non-interest income increased by £1.3m compared to 2020, reflecting a return of demand from their clients as UK consumer confidence returned.

The inter-divisional adjustments of £(12.3)m (2020: £(10.5)m) relate predominantly to income recognised in Connells in relation to fees paid by the Society to Connells for introducing mortgage customers and for surveys and valuations carried out by Connells for the Society and SIL. The corresponding cost to the Society and SIL is spread over the expected life of the mortgage product through net interest income.

Fair value movements in relation to the equity release portfolio

The Society's legacy equity release portfolio, which was acquired on merger with Scarborough Building Society in 2009, is held at fair value with any fair value gains or losses taken to the Income Statement. The Group holds derivatives to economically hedge these fair value movements, which are also held at fair value. As these derivatives 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 loss of £27.3m on the portfolio and a £32.8m gain on the associated derivatives, resulting in a net fair value gain of £5.5m. 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 total gain on derivatives of £32.8m also includes a £10.8m gain that arose in September due to one of these derivative transactions being restructured. The net fair value gain of £5.5m is excluded from underlying profit, as shown in the table on page 29.

Profit on disposal of subsidiary undertakings

The profit on disposal of subsidiary undertakings during the year was £0.5m (2020: £0.8m).

The sale of Homeloan Management Limited (HML) to Computershare in 2014 included contingent consideration dependent on HML's performance over a period following the disposal. This resulted in contingent consideration being receivable by the Group of £32.5m between 2018 and 2022. The fourth instalment of £6.4m, out of a total of five, was received by the Group in May 2021 (May 2020: £6.4m) and the discounted contingent consideration asset stands at £6.3m at 31 December 2021 (2020: £12.3m). The profit recognised in the year of £0.5m (2020: £0.8m) comprises the unwind of the discounted cash flows.

Administrative expenses

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

	2021 £m	2020 £m
Mortgages and Savings	**172.8**	160.5
Estate Agency	**915.6**	324.0
Investment Portfolio	**24.1**	22.8
Sundry incl. inter-divisional adjustments^	**12.6**	(1.0)
	1,125.1	506.3

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

Administrative expenses across the Group increased by £618.8m to £1,125.1m (2020: £506.3m); £507.9m of this increase is attributable to the acquisition by Connells in March 2021 of Countrywide (including £52.4m amortisation charges).

For the Mortgages and Savings division, administrative expenses increased in the year by £12.3m (7.7%) to £172.8m (2020: £160.5m). There were one-off cost savings made in 2020 as the Society reduced or delayed some non-essential spend in response to the pandemic. Costs in 2021 are therefore higher as the Society resumes those delayed investments. This is reflected in a slightly worsened management expense ratio of 0.61% (2020: 0.60%).

Connells' administrative expenses increased by £591.6m to £915.6m (2020: £324.0m). The vast majority of the increase can be attributed to the acquisition of Countrywide, which doubled the size of the division. Also, the market conditions drove increased income which resulted in higher variable costs. Amortisation in the year relating to the Countrywide acquisition increased costs by £52.4m.

The movement in sundry / inter-divisional adjustments predominantly relates to the intra-Group adjustment between the Mortgages and Savings and Estate Agency divisions, as described on page 34, and resulted in a credit to administrative expenses in the year of £1.3m (2020: £1.2m credit). The remaining movement in sundry / inter-divisional adjustments is mainly in respect of the long-term management incentive scheme in place for Connells' senior management; this was a charge of £15.5m (2020: £1.2m charge). The management incentive scheme is in place to retain the high performing management team at Connells, in order to safeguard the financial contribution this business makes to the Group, and the scheme expense is based on a number of assumptions relating to the future performance of the Estate Agency division. The increased charge in 2021 reflects the impact of the strong housing market and the benefits associated with the Countrywide acquisition.

Impairment on loans and advances to customers

Impairment on loans and advances to customers for the Group was a credit of £12.9m for the year (2020: £25.7m charge) and is broken down as follows:

	2021 £m	2020 £m
Residential mortgages	**11.4**	(13.7)
Commercial mortgages*	**1.6**	(11.5)
Other loans	**(0.1)**	(0.5)
	12.9	(25.7)

* Also known as loans fully secured on land.

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

The impairment on residential loans and advances to customers for the Mortgages and Savings division was a £11.4m credit (2020: £13.7m charge). The key driver for this credit to profit for the year is the changes made to the Society's forward-looking economic assumptions, which have been updated to reflect the improved economic outlook as the UK emerges from the height of the COVID-19 pandemic; full details can be found in note 40a)(i) to the Accounts. The result of this improved economic outlook is

Strategic Report (continued)

that a number of residential loans previously held in stage 2, for which lifetime losses are held, have now returned to stage 1, for which 12 month losses are held. Overall impairment coverage for the residential portfolio at 31 December 2021 was 0.05% (2020: 0.11%) (see note 40a)(i) to the Accounts for further details). The Group continued to support customers with COVID-19 payment deferrals in 2021. The last of these COVID-19 payment deferrals ended in October 2021 and the vast majority of customers who took a COVID-19 payment deferral have now resumed making their regular monthly repayments.

The commercial lending portfolio of £195.0m has been closed to new business since 2008. Arrears levels within the portfolio have stabilised during 2021 and remain low. There was a credit to the Income Statement in the year of £1.6m for the impairment allowance on this portfolio (2020: £11.5m charge); this benefit to the Income Statement reflects the more stable arrears position, together with the impact of recent property valuations being better than previously expected. In 2021 we continued to provide support, through concessionary arrangements, to commercial customers who had been financially affected by COVID-19; the majority of these customers have since returned to regular payment terms as the financial difficulties caused by COVID-19 have eased. Overall impairment coverage for the commercial portfolio at 31 December was 8.31% (2020: 8.13%).

Taxation

The Group's effective tax rate is 20.7% (2020: 18.9%) compared with the standard rate of UK corporation tax of 19.0% (2020: 19.0%). The effective rate is increased by the impacts of expenditure disallowable for tax purposes and the banking companies surcharge (further explained below), offset in part by the impacts of non-taxable income, future corporation tax rate changes and the lower tax rate in Guernsey which applies to the taxable profits of Skipton International Limited.

The effective tax rate for the Society is 14.2% (2020: 13.4%). In addition to UK corporation tax payable on its profits, the Society's taxable profits above £25m are subject to an 8% banking companies surcharge which increases the tax charge for 2021 by £9.1m (2020: £1.1m); the impact of this surcharge is more significant in 2021 due to the Society's much higher profits and thus the Society's effective tax rate also increases. The Society's effective rate of tax is also impacted by non-taxable dividend income of £115.6m (2020: £12.4m), expenditure disallowable for tax purposes and future corporation tax rate changes.

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

UK taxes borne in the year	2021 £m	2020 £m
Corporation tax	**62.2**	27.1
Taxes on property	**10.7**	4.4
Employment taxes	**66.8**	30.4
Irrecoverable VAT	**12.1**	10.0
	151.8	71.9

More detailed tax disclosures are provided in notes 9 and 30 to the Accounts and in the Country by Country Reporting section on pages 254 and 255. 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 net income of £42.9m through other comprehensive income (net of tax) (2020: net expense of £23.5m). The 2021 figure includes a £23.9m gain (before tax) (2020: £22.7m loss) from the re-measurement of retirement benefit obligations, with further details provided in note 31 to the Accounts. Various other movements in the Group's fair value, translation and cash flow hedging reserves account for the remainder of the overall movement.

Performance by division

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

	2021 £m	2020 £m
Mortgages and Savings	**170.8**	64.6
Estate Agency	**111.3**	51.8
Investment Portfolio	**5.5**	3.6
Sundry incl. inter-divisional adjustments^	**(15.8)**	(1.2)
Profit before tax	**271.8**	118.8

^ Sundry including inter-divisional adjustments relate primarily to the elimination of inter-divisional trading, the impact of the Connells long-term management incentive scheme (£15.5m charge; 2020: £1.2m charge), and additional profit on disposal recognised in relation to the sale of HML in 2014 (£0.5m; 2020: £0.8m).

Statutory profit before tax in the year was £271.8m, compared to £118.8m in 2020, driven principally by the increase in underlying profits outlined below.

The Group's underlying profit before tax by division, determined in the same way as underlying Group PBT (as defined on page 27), was as follows:

	2021 £m	2020 £m
Mortgages and Savings	**165.3**	67.3
Estate Agency	**78.9**	55.1
Investment Portfolio	**5.5**	3.6
Sundry incl. inter-divisional adjustments^	**(16.3)**	(2.0)
Underlying Group profit before tax	**233.4**	124.0

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

The Group's underlying profit before tax in the year was £233.4m (2020: £124.0m). The increase in the Mortgages and Savings division's underlying profits to £165.3m (2020: £67.3m) largely reflects the material increase in margins due to strong demand for mortgages and lower funding costs. There was also a release of impairment in 2021 due to the improved economic outlook. Group mortgage and savings balances have seen good growth, of 6.8% and 5.8% respectively (2020: 8.6% and 7.7% respectively).

The Estate Agency division delivered another robust performance with underlying profits of £78.9m (2020: £55.1m). 2021 was a record year for the Connells group as a number of factors created excellent market conditions; these factors included Stamp Duty Land Tax reliefs (as outlined on page 34), pent-up demand following Brexit and the pandemic, low interest rates and the 'race for space'. In addition, the division grew significantly following the acquisition of Countrywide on 8 March 2021.

The Investment Portfolio delivered underlying profits of £5.5m (2020: £3.6m) with Skipton Business Finance generating a profit of £5.4m (2020: £3.6m) whilst Jade Software Corporation broke even during the year (2020: broke even).

The charge for sundry / inter-divisional adjustments during the year is predominantly as a result of a charge with respect to the Connells long-term management incentive scheme of £15.5m (2020: £1.2m charge). For further details, refer to the administrative expenses section on page 31 of this report, and for details of the calculation and the assumptions used see note 28 to the Accounts.

Mortgages and Savings

The Mortgages and Savings division reported underlying pre-tax profits for the year of £165.3m (2020: £67.3m), reflecting an increase in net interest margins, despite the continued low interest rate environment, and a release of impairment due to the improved economic outlook.

Our broad range of competitive mortgage products and strong intermediary partnerships have contributed to continued growth in our mortgage book during 2021 of 6.8% (2020: 8.6%), without compromising the quality of our mortgage assets. In the first half of 2021 we re-introduced lending at 90% LTV and 95% LTV to support homebuyers.

It has been another challenging year where the Bank Base Rate set by the Bank of England was held throughout the year at a record low level of 0.1%, until finally starting to rise from mid-December, which has continued to constrain the average savings rates we can offer our customers. We remain alert to how the ongoing low interest rate environment impacts our savers and we continue to offer rates above the market average, helping us to grow our retail savings balances by £1.1bn (or 5.8%) up to £19.8bn.

Our financial advice business generated £32.2m of income (2020: £25.2m), with funds under management totalling £4.1bn (2020: £3.5bn). Activity increased in the year as customer appetite for investments began to return. We have continued to invest in our people and systems to support this growing area of our business.

The division saw an increase in costs during the year of £12.3m to £172.8m as outlined on page 31. The cost income ratio, however, decreased in the year to 53.0% (2020: 63.3%) as a result of the growth seen in income. The management expense ratio was 0.61% (2020: 0.60%).

The mortgage impairment credit was £13.0m (2020: £25.2m charge) as discussed on pages 31 and 32, and the provisions for liabilities charge for the division was a £0.3m charge (2020: £0.5m charge). Further details of provisions movements in the year can be found in note 29 to the Accounts.

We closely monitor and manage mortgages that have fallen into arrears. The quality of the Group's lending remains high, and during the year the proportion of residential mortgage accounts in arrears by three months or more remained low at 0.22% (2020: 0.28%).

The division's Channel Islands operation, SIL, had another strong year, achieving profits of £25.5m (2020: £19.9m) as it grew its mortgage and savings balances to £1.7bn and £2.1bn respectively (2020: £1.6bn and £1.9bn respectively). The quality of the SIL mortgage book remains good, with only one case in arrears by three months or more (2020: one case).

Our specialist lending businesses, Amber and NYM, reported an aggregate profit before tax of £8.7m (2020: £3.8m). As noted on page 19, the activities of these two entities were hived-up into the Society with effect from 1 June 2021 and Amber and NYM both ceased to trade with effect from that date.

Estate Agency

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

	2021 £m	2020 £m
Total income (note1)	**1,026.2**	378.6
Profit before tax	**111.3**	51.8

	2021 Including Countrywide	2021 Excluding Countrywide	2020
Movement in:			
Estate agency property exchanges	**+175%**	**+50%**	-16%
Residential lettings properties under management	**+211%**	**+3%**	+0%
Number of mortgages arranged	**+70%**	**+8%**	-2%
Surveys and valuations completed	**+224%**	**+26%**	-15%
Number of conveyancing transactions arranged	**+149%**	**+56%**	-20%

Notes

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

The Estate Agency division reported a profit before tax for the year of £111.3m (2020: £51.8m). 2021 was a momentous year for the Connells group; the Countrywide acquisition was completed on 8 March 2021 for £131.8m, creating the largest estate agency in the UK by both market share and number of branches. The acquisition has been a success, with Countrywide delivering excellent trading results and good progress made on the integration plan. Management has been impressed with the quality and dedication of its people during this time. In order to fund the transaction, enable the Connells group to repay existing borrowings in Countrywide and provide working capital, the Society provided a loan to Connells Limited of £253.0m.

Strategic Report (continued)

The acquisition has complemented the Connells group's existing services, enhanced the value proposition for customers and benefitted consumers as a whole. We believe that a well-invested high street branch network, coupled with a diversified brand portfolio, provides an attractive offering to our customers. The branch network of Countrywide is a key asset and the Connells group intends to maintain and enhance Countrywide's current branding and service offering, while leveraging its own track record of positive investment in people and technology. An added benefit has been that the enlarged Connells group can provide exciting career opportunities for both Connells and Countrywide employees and has the potential to attract the best talent in the industry across all areas of expertise.

2021 was a record year for the Connells group as several factors together created excellent market conditions. These factors included the Stamp Duty Land Tax (SDLT) reliefs, pent-up demand following Brexit and the pandemic, low interest rates and the 'race for space'. Following the re-opening of the UK housing market in May 2020 after the first COVID-19 lockdown, activity levels improved considerably, helped by the SDLT reliefs announced by the Government from 15 July 2020 to 31 March 2021, which were subsequently extended to 30 June 2021 and then tapered to 30 September 2021. This built a large pipeline of sales that pulled through into income in 2021. Despite various local and national restrictions being imposed by the Government in the first half of 2021, top-line results remained excellent as consumers aimed to move home before the SDLT reliefs ended.

Excluding Countrywide, the number of properties that the division exchanged contracts on during the year was 50% higher than in 2020 (and 175% higher including Countrywide), an excellent performance capitalising on the market conditions.

Connells' financial services proposition continues to perform strongly and the number of mortgages arranged, excluding Countrywide, increased by 8% (and increased by 70% including Countrywide), aided by the increase in the number of exchanges. The number of residential lettings properties under management increased during the year by 3% excluding Countrywide (and by 211% including Countrywide). The division was able to perform surveys and valuations throughout the entirety of 2021, whereas 2020 was impacted significantly by the lockdown as surveyors were unable to carry out physical visits for two months. The total number of surveys and valuations completed in 2021 therefore increased compared to 2020 by 26% excluding Countrywide (and by 224% including Countrywide).

The total value of lending generated for UK mortgage providers during 2021 increased to £35.0bn (2020: £10.9bn) and the Connells group remains focused on helping more customers to buy homes or reduce their mortgage outgoings by providing them with a good experience and outcome.

Management acknowledges that the COVID-19 pandemic is not over and the Connells group's priority throughout has been the health, safety and well-being of its people and customers. The division has invested in personal protective equipment (PPE), devised comprehensive working practices and rolled-out training to allow for a safe and secure environment for its people and customers. The Connells group's IT systems enabled those who could work from home to do so.

As outlined in note 8 to these Accounts, the Society provided a loan of £253.0m to Connells on completion of the Countrywide acquisition in March 2021. By the end of 2021, Connells had repaid £124.8m (49.3%) of this loan within ten months of its granting; this is significantly ahead of initial expectations and is due to Connells making significant voluntary repayments, over and above scheduled repayments, during the year. Further, Connells paid dividends during the year to SGHL (the intermediate holding company) totalling £60.0m (2020: £20.0m).

Investment Portfolio

The Investment Portfolio reported a profit of £5.5m during the year (2020: £3.6m). Skipton Business Finance Limited (SBF) (a provider of debt factoring and invoice discounting to small and medium-sized enterprises) produced a pre-tax profit for the year of £5.4m (2020: £3.6m). Profits in 2020 were adversely impacted by COVID-19, with decreased client sales leading to reduced income and higher impairment provisions. Profits in 2021 benefitted from improved income levels and lower impairment provisions, as restrictions were eased and consumer confidence returned.

As reported in the 2020 Report, SBF successfully gained accreditation to partake in the Government's Coronavirus Business Interruption Loan Scheme (CBILS) and the Government's Bounce Back Loans Scheme (BBLS). This enabled SBF to offer BBLS loans with the Government guaranteeing 100% of all future losses, and CBILS loans with the Government guaranteeing 80% of any future losses, in order to help its SME clients through these challenging economic times.

Jade Software Corporation (a software solutions provider specialising in delivering digital business solutions and the provider of the Society's core database and software development language), broke even (2020: broke even). 2021 saw income growth, offset by the additional costs of delivery including people costs and product development.

Sundry, including inter-divisional adjustments

Sundry, including inter-divisional adjustments, of a £15.8m charge (2020: £1.2m charge) mainly comprises a £15.5m charge (2020: £1.2m charge) in respect of the Connells long-term management incentive scheme and profit in relation to contingent consideration on the 2014 disposal of HML of £0.5m (2020: £0.8m), as described on page 31 of this report.

The charge for the Connells long-term management incentive scheme is based on a number of assumptions relating to the future performance of the Estate Agency division. The increased charge in 2021 reflects the impact of the strong housing market and the benefits associated with the Countrywide acquisition. Further details regarding the calculation of this expense and the assumptions used are included in note 28 to the Accounts.

Other inter-divisional adjustments during the period of £0.8m expense (2020: £0.8m expense) relate to the elimination of inter-divisional trading, which is primarily in respect of introducer and valuation fees paid by the Society and SIL to Connells, as well as certain costs incurred by Connells in relation to this. The income and costs are recognised up-front by Connells but on consolidation are spread over the expected life of the mortgage product through net interest income.

Financial position

A summary Statement of Financial Position is set out below:

	2021 £m	2020 £m
Assets		
Liquid assets	5,095.5	5,467.5
Loans and advances to customers held at amortised cost	23,024.8	21,865.0
Loans and advances to customers held at FVTPL	1.2	1.3
Equity release portfolio held at FVTPL	406.6	433.8
Derivatives	227.9	64.1
Fixed and other assets	712.0	431.7
Total assets	29,468.0	28,263.4
Liabilities		
Shares	19,759.8	18,709.4
Borrowings	6,670.7	6,732.0
Derivatives	292.1	445.9
Other liabilities	403.1	279.1
Subordinated liabilities	336.3	349.7
Subscribed capital	41.6	41.6
Reserves	1,964.0	1,705.7
Non-controlling interests	0.4	-
Total liabilities and equity	29,468.0	28,263.4

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 uncertainty arising from the COVID-19 pandemic. The Liquidity Coverage Ratio (LCR), a measure designed to ensure that financial institutions have sufficient high quality assets available to meet their liquidity needs for a 30 day liquidity stress scenario, was 173% at 31 December 2021 (2020: 194%).

The Group's liquidity levels are closely managed by senior management and have remained above internal and regulatory limits throughout the period. Liquid assets at 31 December 2021 were £5.1bn (31 December 2020: £5.5bn), providing the Group flexibility in what may be an unpredictable market.

At 31 December 2021, the Society held £3.8bn (2020: £4.2bn) of High Quality Liquid Assets (HQLA) as analysed below:

	2021 £m	2020 £m
Balances with the Bank of England	2,343.3	3,163.6
Gilts	261.9	105.2
Fixed rate bonds	559.4	429.3
Floating rate notes	193.3	204.6
Residential mortgage backed securities	136.1	101.0
Covered bonds	260.3	202.8
	3,754.3	4,206.5

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

	2021 £m	2020 £m
Cash with other institutions	-	40.4
Certificates of deposit	314.9	-
Residential mortgage backed securities	30.8	7.4
	345.7	47.8

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 (£5.0bn; 2020: £5.6bn) due to certain items that are excluded from the above tables, such as liquid assets used as collateral and those used in repurchase (or 'repo') transactions.

The Group's treasury investments are held to provide liquidity and 100% (2020: 99.9%) 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 (146.7% at 31 December 2021; 147.4% at 31 December 2020) is well in excess of the regulatory requirement of 100%, confirming that the Group holds sufficient stable funding to meet the new requirement.

When measured as a percentage of shares, deposits and borrowings, the liquidity ratio remained strong at 19.3% compared with 21.5% at 31 December 2020. The Group regularly conducts an Internal Liquidity Adequacy Assessment Process (ILAAP) in accordance with the Prudential Regulation Authority's (PRA) liquidity guidelines and the Board remains satisfied that the Group has sufficient liquid assets at its disposal in order to meet its obligations as they fall due.

Loans and advances to customers

Lending to our members is at the core of the Society's purpose. The majority of the Society's mortgage lending is secured on residential property, including owner-occupied and buy-to-let mortgages. The Society also now holds the specialist lending portfolios formerly held by Amber and NYM, which were hived-up to the Society with effect from 1 June 2021, in addition to its legacy commercial mortgage portfolio; these portfolios all ceased lending in 2008.

The Group continues to grow its mortgage assets in a controlled manner, lending within clearly defined risk appetites through both the Society and SIL. During the year, the Group achieved strong net mortgage growth of 6.8%, with net mortgage lending totalling £1.5bn (excluding impairment and fair value adjustments for hedged risk) (2020: £1.7bn). The Group's new lending, delivered through both mortgage intermediaries and our own distribution channels, amounted to £5.4bn (2020: £4.5bn). The Society was able to achieve

Strategic Report (continued)

strong net growth in the mortgage book through high levels of existing customer retention and taking advantage of high demand in the market, which was made possible within our risk appetites due to the strong capital position of the Group.

The Society's average residential loan-to-value (LTV) ratio (calculated on a valuation-weighted basis) on new lending has increased slightly to 56.4% (2020: 54.2%). The average valuation-weighted LTV on the Group residential mortgage book remained low at 42.8% (2020: 44.8%).

Our well-managed spread of risk ensures that the quality of the Group's lending remains high, making us well placed to deal with any uncertainty ahead. This is evidenced by our low proportion of residential mortgage accounts in arrears by three months or more which remained low at 0.22% (2020: 0.28%), or 0.23% (2020: 0.29%) excluding non-UK lending, which compares with the industry average of 0.83% (2020: 0.91%) of UK mortgages in arrears by more than three months (Source: UK Finance).

Despite the challenges caused by COVID-19 the performance of residential mortgages has remained stable throughout 2021. Arrears have remained low, in part due to the government support schemes. In 2020, the Group supported over 25,000 customers with a COVID-19 payment deferral and we continued during 2021 to support a significant number of customers in this way; the last of these COVID-19 payment deferrals ended in October 2021. By December, 96.4% of customers who had taken a COVID-19 payment deferral had resumed making their regular monthly repayments. For a number of those affected customers who continue to experience financial difficulties, we have agreed with them appropriate forbearance measures.

As noted on page 19, the activities of Amber and NYM were hived-up into the Society with effect from 1 June 2021. The mortgage balances within those specialist lending portfolios, which closed to new business in 2008, continued to run off during the period. Close monitoring of the Group's exposure to potential losses on these outstanding loans remains a key part of our credit risk strategy.

The Group's commercial mortgage portfolio reduced in the year by 11.0% to £195.0m. The average LTV of this portfolio reduced slightly to 48.5% from 48.7% and the proportion of accounts in arrears by three months or more in this portfolio reduced to 1.91% (2020: 2.58%).

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

Funding

The Society continues to manage the mix of retail and wholesale funding in the best interests of our members but remains primarily funded by retail savings. Optimising our mix of retail and wholesale funding is essential to the Group achieving both its retail savings and lending growth objectives. We maintain a diverse funding portfolio to prevent over-reliance on one source and, taking into consideration the term profile of our lending, closely manage the term of our funding in order to manage the risks of duration mis-match. As at 31 December 2021, 80.2% of our funding comes from retail savings (2020: 79.0%).

Retail funding

As a mutual building society we remain committed to providing savers with competitive returns along with offering excellent customer service, which is reflected in the increase in retail savings balances of 5.8% during the year, as detailed on page 22.

In addition to our UK retail funding, the Group also accepts deposits through our Channel Islands based subsidiary, SIL. SIL has increased its funding base in the year, to £2.1bn (2020: £1.9bn). These balances are included in 'Amounts owed to other customers' within the Group Statement of Financial Position.

Wholesale funding

At 31 December 2021, £4.6bn (2020: £4.8bn) of our funding came from the wholesale markets, as analysed below:

	2021 £m	2020 £m
Repo and other secured agreements	2,025.9	2,100.9
Deposits	374.6	240.7
Certificates of deposit	5.0	14.1
Senior unsecured funding	66.6	66.5
Covered bonds	1,890.5	1,889.7
Securitisation	305.4	465.0
Non-interest bearing loan	1.0	-
Fair value adjustments	(49.4)	17.2
	4,619.6	4,794.1

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

	2021 £m	2020 £m
Amounts owed to credit institutions	2,203.4	2,149.2
Amounts owed to other customers	2,249.2	2,130.3
Debt securities in issue	2,218.1	2,452.5
Less: SIL funding	(2,051.1)	(1,937.9)
	4,619.6	4,794.1

At 31 December 2021 the Society had £2.0bn outstanding under the Bank of England's 'Term Funding Scheme with additional incentives for SMEs' (TFSME) (2020: £850m of TFSME outstanding), having refinanced in October 2021 all of the £1.15bn that remained outstanding at that date from the original Term Funding Scheme (TFS) (2020: £1.25bn of original TFS outstanding).

The credit ratings of the Society are assigned by two major credit rating agencies, Fitch and Moody's. In August 2021, Fitch announced that it had revised the outlook on the Society's Long-Term Issuer Default Rating (IDR) from Negative to Stable, and also affirmed the IDR at A-. In November 2021, Fitch affirmed the Society's Long-Term IDR at A- with a Stable outlook and Short-Term IDR at F1.

The Society's long-term deposits and Senior preferred ratings were also affirmed A. On 13 July 2021, Moody's announced that it had upgraded the Society's long-term senior unsecured credit rating by two notches to A2 and the short-term rating to P-1, with a Stable outlook. The ratings reflect the continued financial strength of the Society, which compares favourably to other large building societies. Our current credit ratings 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.

Intangible assets

The Group holds intangible assets as shown below:

	2021 £m	2020 £m
Goodwill	218.4	135.4
Other intangible assets	127.2	22.3
	345.6	157.7

The increase in goodwill during the year includes £81.9m relating to the Countrywide acquisition (see note 17b) (i)). Other intangible assets acquired on acquisition of Countrywide totalled £160.3m, including £54.7m in respect of brands. The carrying values of goodwill and brands, which are deemed to have an indefinite useful life and therefore not amortised, are tested for impairment at the end of each reporting period (or when there is an indication of impairment). 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 2021 (year ended 31 December 2020: no impairment).

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.

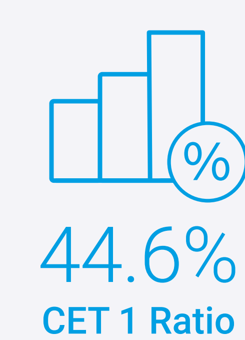
We monitor our capital at a prudential and individual consolidation group level by applying the Capital Requirements Directive V (CRD V) effective from 31 December 2020, and the Capital Requirements Regulation (CRR), as amended by the onshored provisions within the CRR II regulation (EU) 2019/876 and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

The difference between the capital position of the individual consolidation group and the prudential consolidation group is not material; the analysis throughout these disclosures has therefore been disclosed at a prudential consolidation group level only. The prudential consolidation group comprises the entire Group except Connells and a small number of other entities whose activities are not closely aligned with the core business.

Total regulatory capital has increased by £185.0m from 31 December 2020 to £1,815.5m as at 31 December 2021 (31 December 2020: £1,630.5m). This is mainly due to the retained profits accumulated during the period and dividend income received from the Connells group.

Risk weighted assets (RWAs) have decreased by £138.5m in the period to £3,984.7m (31 December 2020: £4,123.2m). Whilst we have seen strong mortgage book growth, risk weighted mortgage assets have decreased due to risk weights required for new lending being lower than the risk weights for accounts that have redeemed during the year. New lending is subject to our credit decision process and presents a low level of default risk which increases over time. Risk weighted mortgage assets have also decreased due to the improvement in house prices in the year. The RWAs in relation to the fair value of hedge adjustments on fixed rate assets have also decreased as the markets have increased their long term expectations of interest rates. These decreases have been partly offset by an increase in RWAs in relation to liquid assets, where we have taken the opportunity to diversify our holdings in a broader range of high quality assets throughout the year.

As a result of these movements, the CET 1 ratio has increased to 44.6% (31 December 2020 restated: 38.5%). The UK leverage ratio, which is reported on an end-point basis, has increased to 6.8% (31 December 2020: 6.5%) driven by the increase in profits during the period.



44.6%

CET 1 Ratio

The CET 1 ratio has increased to 44.6% (31 December 2020 restated: 38.5%)

6.8%

UK Leverage Ratio

The UK leverage ratio has increased to 6.8% (31 December 2020: 6.5%)

Strategic Report (continued)

The following table shows the composition of the prudential group's regulatory capital as at 31 December 2021. The capital ratios are reported on a CRD V transitional basis. On a transitional basis £40m of PIBS are being phased out of Additional Tier 1 capital over the period to 2022 and under CRD V end-point rules the PIBS are fully transitioned into Tier 2 capital.

On an end-point basis, both the CET 1 and Tier 1 ratios would be 44.6%, and the total capital ratio would be 45.6%. IFRS 9 transitional arrangements are applied to all transitional and end-point ratios.

Unaudited	2021 £m	2020 restated* £m
Capital resources:		
Common Equity Tier 1 capital	**1,775.5**	1,585.6
Total Tier 1 capital	**1,784.5**	1,603.6
Total Tier 2 capital	**31.0**	26.9
Total regulatory capital	**1,815.5**	1,630.5
Risk weighted assets	**3,984.7**	4,123.2
Capital and leverage ratios (note 1)		
Common Equity Tier 1 ratio (CET 1)	**44.6%**	38.5%
Tier 1 ratio	**44.8%**	38.9%
Total capital ratio	**45.6%**	39.5%
UK leverage ratio (note 2)	**6.8%**	6.5%
CRR leverage ratio	**6.2%**	5.7%

*On 8 March 2021 Connells Limited, a subsidiary of the Society, completed the acquisition of Countrywide plc. As disclosed at the time of acquisition, the cash consideration payable by Connells pursuant to the acquisition had been funded from an intra-group credit facility provided by the Society to Connells Limited. At 31 December 2020 the credit facility was in place but not drawn down. The 2020 capital figures have been re-stated to appropriately recognise this facility. As Connells Limited is outside the Society's prudential group the intra-group facility is risk weighted at 100%, a conversion factor of 50% is also applied as the exposure was undrawn. This reduces the Society's CET 1 ratio reported as at 31 December 2020 from 39.7% to 38.5%.

Notes

1. The capital ratios are calculated as relevant capital divided by risk weighted assets and the leverage ratio is calculated as Tier 1 capital divided by total exposure, i.e. total assets per the prudential consolidation group (subject to some regulatory adjustments). The UK leverage ratios are reported on a CRD V end-point basis with IFRS 9 transitional arrangements applied; under CRD V end-point rules all existing Additional Tier 1 instruments that become ineligible as capital under CRD V are excluded in full.
2. The UK leverage ratio represents the UK regulatory regime which excludes deposits with central banks from the leverage exposure measure. In October 2021, the Statement of Policy on the UK leverage ratio framework (PS21/21) was published. It has simplified reporting by applying a single Leverage Exposure Measure for all purposes, the UK definition. This simplified approach will be implemented from 1 January 2022 and so we continue to show both calculations in the above table.

Capital management

The Group is regulated by the PRA and is required to manage its capital in accordance with the rules and guidance issued by the PRA under CRD V and the CRR as amended by the onshored provisions within the CRR II regulation (EU) 2019/876 and the CRR 'Quick Fix' package.

The 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 addresses 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 will need to have is linked to the resolution strategy chosen for each firm and is being phased in over a transitional period to 1 January 2023. 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 ("the Banking Act").

At 31 December 2021, our total MREL resources, including MREL eligible senior non-preferred debt, were 54.4% of risk weighted assets. This is in excess of the 2021 requirement of 18% of risk weighted assets plus capital buffers issued by the Bank of England. From 1 January 2023 we expect the MREL requirement to be equal to 2x (pillar 1 plus pillar 2A capital requirements). Compliance with MREL is reflected in the Society's Corporate Plans.

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

In addition, the PRA requires the Group to hold additional Pillar 2A capital for risks not covered under Pillar 1 such as pension and interest rate risk. At 31 December 2021 this was £115.6m (31 December 2020: £115.6m).

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

Pension funds

The Group manages two funded defined benefit schemes as described in note 31 to the Accounts. Using the methodology set out in IAS 19, the aggregate valuation of the two defined benefit schemes at 31 December 2021 decreased to a combined deficit of £30.1m (2020: £96.4m). This decrease in deficit is largely due to lump sum contributions made by the Group during the year of £40.5m (in addition to regular annual contributions), together with remeasurement gains in the year of £22.3m.

Following a joint tendering process between the sponsoring employers and Trustee, BlackRock were appointed as fiduciary manager to set and deliver the investment strategy on behalf of the Trustee. The assets of the two funded defined benefit schemes transitioned to BlackRock in February 2021.

We continue to take steps to manage the deficit and both schemes are closed to new members and to future accrual of benefit. The actuarial valuation deficits, as described in note 31 to the Accounts, are used to judge the level of contributions that should be made and contributions totalling £89.4m have been paid into these two schemes in the last five years. In conjunction with the pension Trustee we have also undertaken several other initiatives aimed at managing the funding deficit of the above-mentioned defined benefit schemes and associated long-tail risk, including early retirement exercises and pension transfer exercises.

On 10 June 2021, the Trustee of the Holmesdale Building Society Pension Scheme (a small hybrid scheme assumed by the Society on its merger with Holmesdale Building Society in 2018) triggered the wind-up of that scheme and member benefits have now been discharged from the scheme. Further details are included in note 31 to the Accounts.

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.

Upon acquisition of Countrywide, Connells has responsibility for the Countrywide pension scheme. The scheme is a well-funded hybrid scheme and is expected to progress towards buy-out in the near future.

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

Non-financial information statement

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

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

Non-financial information	Discussed further
Business model	Page 18
Key performance indicators	Pages 23, 25, 26 and 28
Key risks	Pages 72 and 73
Climate matters	Pages 19 and 40 to 45
Environmental matters	Pages 19 and 40 to 45
Employees	Page 54
Social matters	Pages 19, 20 and 40 to 45
Respect for human rights	Page 54
Anti-corruption and anti-bribery matters	Page 20

Principal risks and uncertainties

As a result of its normal business activities, the Group is exposed to a variety of risks. The Group has a number of committees and policies to successfully manage these risks. These principal risks and uncertainties are set out in the Risk Management Report on pages 72 to 81 and in notes 38 to 40 to the Accounts.

This Strategic Report was approved by the Board of Directors on 17 March 2022 and signed on behalf of the Board by:

Bobby Ndawula

Bobby Ndawula
Group Finance Director

Summary Group Responsible Business Report

Our sustainability journey

The way we report on our efforts to be a sustainable business is evolving.

As a mutual that was established 169 years ago to help a local community, philanthropy and corporate social responsibility (CSR) has always been core to the Society's purpose. And this will never change.

Yet against a backdrop of profound social and environmental change, we are acutely aware of the challenges facing our planet. We recognise the urgency of these issues. And in recent years we have grown our understanding of the risks and opportunities they present to our colleagues, our customers and to wider society.

We have evolved our organisational strategy so that sustainability is woven through every part. And we have looked beyond the core Society and out into the wider Skipton Group. We have set ourselves challenging environmental, social and governance (ESG) targets and ambitions over the short, medium and longer terms. In support of our vision of building a better, more sustainable Society, we will continually reassess our understanding of the issues and the action we're taking to drive progress forward.

What follows here is a summary of our progress during 2021 - a year where the COVID-19 pandemic and the United Nations COP26 global climate change conference continued to underline the significance of the task in hand. Separately we have also produced a Group Responsible Business Report that going forwards will now sit alongside our Annual Report & Accounts. It outlines in detail our evolved sustainability strategy and the headway we are making against our ESG ambitions. It expands further on our social, environmental and financial sustainability performance during 2021. And it builds upon the governance, climate strategy, and risk management approach the Society and our subsidiaries within the Skipton Group are taking in anticipating and managing the risks and impact of climate change.

Ian Cornelius
Sustainability Steering Group Chair

Purposeful sustainability since 1853

Skipton Building Society was founded on a social purpose, one that gives people security and greater control of their own destiny and financial health. While the importance of delivering our purpose hasn't changed, some of the challenges facing society have. We believe a better society is one that is more sustainable – socially, financially and environmentally. And for Skipton to be sustainable, we need to meet all the needs of the present without compromising the needs of future generations.

Our goal is to ensure our sustainability efforts are responsive to the evolving social and environmental challenges – from enabling home ownership and saving for the future, through to decarbonising homes and transitioning to net zero.

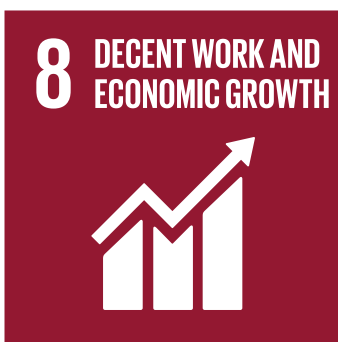
Our commitments

In 2021 we became a signatory of the United Nations Principles for Responsible Banking (PRBs). In doing so, we have made a commitment to aligning our strategic efforts with the United Nations Sustainable Development Goals (SDGs) and the 2015 Paris Climate Agreement.

The PRBs provide a thorough framework for a sustainable financial services system, something that closely aligns to our vision of building a better, more sustainable Society. This will further strengthen our existing commitments to the SDGs, with our purpose and sustainability strategy directly supporting four of the goals where we believe we can make the greatest positive impact.

Summary Group Responsible Business Report (cont.)

Our progression against these goals in 2021 includes:



Goal 8
Decent Work and Economic Growth

Our commitment:
we'll be one of the best places to work.

In 2021 we:

- were recognised as the UK's 7th best big company to work for, as part of The UK's Best Big Companies To Work For list
- were awarded a 3-star accreditation from Best Companies for our levels of employee engagement

Goal 11
Sustainable Cities and Communities

Our commitment:
we'll help more people into homes and support local communities.

In 2021 we:

- donated £575,000 to charities and community groups across the UK
- provided 30,282 mortgages to customers, including 7,893 mortgages to first time buyers

Goal 12
Responsible Consumption and Production

Our commitment:
we'll give more back to the planet than we take.

In 2021 we:

- planted 15,000 trees in the UK with the Yorkshire Dales Millennium Trust
- ensured all our electricity comes from renewable energy sources
- became carbon neutral for our scope 1, scope 2 and scope 3 grey fleet, business air and rail journeys through our offsetting programme with the Uchindile Mapanda Reforestation Project in Tanzania

Goal 16
Peace, Justice and Strong Institutions

Our commitment:
we'll always be owned by and responsible to our members, not shareholders.

In 2021 we:

- were named Best National Building Society for the eighth year running in the 2021 What Mortgage awards
- were awarded the Disability Smart Customer Service Award by the Business Disability Forum
- exceeded the 77% accessibility benchmark set by the Business Disability Forum to achieve a bronze accessibility award

Our Performance against our 2021 targets

Despite continuing disruptions caused by the pandemic to some of our targets, we've made encouraging progress against many of our targets.

Social Sustainability Target	Progress	Next steps
Donate £500,000 to Mental Health UK by the end of 2022	We have donated £430,000 over the last two years of the partnership	Continue to support our partner and raise a further £70,000 to achieve our target
Support 40 housing and homeless organisations per year through our community giving scheme	We donated £40,000 to 40 homeless and housing charities in 2021 We also donated £32,530 to food banks across the UK	After supporting housing and homeless charities for 3 years, donating £160,000, we are looking to focus on food banks in 2022
Become a Disability Smart Audited organisation	Following the Disability Smart Audit from the Business Disability Forum we achieved a bronze award with 77%	Look to maintain and improve our audit score to ensure we build a society where no one is left out
Encouraging 50% of our colleagues to volunteer up to three days per year	Unfortunately, we did not achieve our target in 2021. We focused on virtual volunteering to ensure we kept our colleagues safe during the pandemic	We already have several initiatives lined up for our colleagues and will put a strong focus to overachieve our target in 2022

Environmental Sustainability Target	Progress	Next steps
By 2025, take more carbon out of the atmosphere than we put into it	We reduced our carbon footprint by 1.9% in 2021 and offset all scope 1, scope 2 and scope 3 emissions from our grey fleet, business air and rail journeys	Develop net zero roadmap, ensuring we capture scope 3 operational emissions and financed emissions
Remove 75% of single use plastics by 2025	We have removed 30% of single use plastic since 2019	We aim to reduce a further 10% in 2022
Maintain 99% of our waste not going to landfill	Less than 1% sent to landfill	Continue to send less than 1% to landfill

Financial Sustainability Long-term Goals	Progress	Next steps
Support one million savers and investors	We supported 867,573 customers to save and invest in 2021	We continue to support our customers and pay above market average savings rates
Help more people to invest	Our financial advisers provided pensions and investments advice to over 4,800 customers	We will make financial advice more accessible and inclusive
Help 8,000 first time buyers own homes in 2021	We provided 7,893 mortgages to first time buyers in 2021 We are one of the UK's largest providers of cash Lifetime ISAs, with over 156,000 customers using the account to buy their first home or save for their retirement	We will help more first time buyers get on the housing ladder

Summary Group Responsible Business Report (cont.)

Our performance against climate change

Our momentum on taking action to reduce our environmental impact continues to strengthen. And in 2021 we set ourselves stretching targets to reduce our greenhouse gas emissions across the short, medium and longer terms. In doing so we are building a science-based target pathway to being a net zero organisation by 2050 in all our scope 1, scope 2 and scope 3 operational and financed emissions.

Our 2021 Streamlined Energy and Carbon Reporting (SECR) can be seen below. Our greenhouse gas emissions have been independently calculated by Envantage Ltd for the period 1 January to 31 December 2021.

Our energy and Greenhouse Gas (GHG) emissions data is compliant with SECR requirements and has been calculated in accordance with the GHG Protocol and SECR guidelines. Energy and GHG emissions are reported from buildings and transport where operational control is held – this includes electricity, natural gas and business travel in Society-owned vehicles and grey fleet. The table below shows the performance summary of Skipton Building Society and includes our subsidiary Skipton Business Finance, detailing the regulated SECR energy and GHG emission sources from the current and previous reporting periods.

		2021	2020	% change
Energy (kWh)				
	Natural Gas	3,414,398	3,116,514	9.6%
	Company Vehicles	167,309	338,316	-50.5%
	Electricity	3,306,778	3,982,600	-17.0%
	Grey Fleet	11,098	100,720	-89.0%
	Total energy	**6,899,583**	**7,538,150**	**-8.5%**
Emissions (tCO_2e)				
Scope 1	Natural Gas	625.4	573.0	9.1%
Scope 1	Company Vehicles	41.1	84.6	-51.4%
Scope 2	Electricity	13.7	13.7	-0.3%
Scope 3	Grey Fleet	2.7	24.9	-89.0%
	Total SECR emissions	**682.9**	**696.2**	**-1.9%**
Emission intensity ratio				
	Emissions intensity (tCO_2e / £m turnover)	**2.28**	**3.21**	**-28.9%**

Given the significance of climate change and the need to collaborate to avoid the worst effects of a changing climate, we believe it is right for us to not only report the Society's carbon emissions but to also measure and publish our Group emissions. This is the first time we have collated such data, and a full summary can be found in our Group Responsible Business Report.

Equally, 2021 marked the first time that we collated our climate-related financial disclosures. In embedding our approach to managing the risks from climate change we have focussed on four key pillars; governance, risk management, scenario analysis and disclosures. A summary of this is below, with more detail contained in the Group Responsible Business Report.

	Key progress to date	Future Focus
Governance	• A clear climate risk operational governance framework is in place, with Senior Management Function responsibility for the identification and management of the financial risks from climate change allocated to the Chief Financial Risk & Data Officer. • The Board is engaged with ESG and climate change risk via periodic updates and training sessions led by relevant internal and external specialists.	• Monitor the embedding of the climate risk governance framework. • Further develop regular reporting of key climate related risks and opportunities to Board and Senior Management.
Strategy	• A clear strategy has been defined with respect to climate risk management. The strategy is closely aligned to the Society's social purpose and wider ESG goals. • Dedicated investment budget is in place to deliver climate risk reduction activities. • A cross-Society Environment Champions Group was launched in 2021. • A climate risk assessment has been established within the product approval process. • The Green Lending Working Group has been established to drive forwards initiatives that will move us closer to our ambition of playing a leading role in greening the UK housing market. • A Green Additional Borrowing Range was launched in January 2022 to support customers in retro-fitting their homes to improve their energy efficiency and reduce their carbon footprint.	• Partnership with dedicated sustainability platforms to capture, monitor and track progress against ESG targets and to inform future activity. • Prioritise initiatives that support the greening of the UK housing market. • Focus on supporting our customers and brokers in the transition to a greener future.
Risk Management	• The key climate-related risks facing the Group over the short, medium, and long term have been identified. • Climate change scenario analysis has been undertaken to assess the impact of climate-related risks on the Group's risk management practices and strategic planning. • Early analysis has been performed on the Society's residential lending portfolio at property level to assess the potential impact of key climate-related physical and transitional risks.	• Further develop analytical capabilities with respect to climate risk quantification, learning from ongoing internal stress testing and evolving industry practice. • Develop quantitative risk assessments into lending risk management practices and risk appetite optimisation.
Metrics and Targets	• Through partnership with expert third parties, the Society is able to produce monitoring including hazard maps demonstrating geographical physical and transition risk concentrations on the residential mortgage book. • The Society became carbon neutral for our scope 1, scope 2 and scope 3 grey fleet, business air and rail journeys through our offsetting programme. • Continued to develop our capabilities to measure our carbon footprint across the Group.	• Seek to utilise insights from climate risk stress testing to inform strategic goals with respect to climate risk management, supporting sustainable growth and resiliency. • Develop regular climate risk monitoring across a range of business areas. • Halving our scope 1 and scope 2 emissions by the end of 2026, working to be net zero in scope 1, scope 2 and scope 3 in operational and financed emissions by 2050. • Ensuring Group subsidiaries develop their own environmental and net zero strategy.

Reaching forward

Our ultimate test is to continue building our ESG progress with ambition and accelerating action so we create tangible impact across our operations for all of our stakeholders. To do so, we will be brave, innovative and will seek to utilise the size, strength and voice of the Skipton Group to continually drive forward positive change.

Our key focus areas for the Society in 2022 are set out in detail in our separate Group Responsible Business Report. In it, we have identified opportunities where we can utilise our Group strength to challenge ourselves and collaborate on increasingly complex and far reaching social and environmental issues.

Governance

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The Board of Directors

Robert East

Chair of the Board, Nominations and Non-Executive Remuneration Committees. Robert will retire from the Board after the 2022 AGM.

"In 1976, I joined a branch of Barclays as the office junior. Since then, I have learned that well-led and motivated people will do the right thing for customers. Skipton has the same ambition. I feel privileged to have chaired Skipton Building Society and to have worked with such dedicated colleagues with their absolute focus on delivering for our members."

Robert joined the Board in 2011, bringing more than 40 years' experience in banking in the UK and internationally. He brings in-depth knowledge of building and leading financial services businesses. During his 32 years at Barclays Bank he was Chief Risk Officer of Absa South Africa amongst other roles. He also led the restructuring of the Cattles Group, becoming its Chief Executive in 2010 until completion of its wind down in 2019. He was Chair of Vanquis Bank Limited and a Non-Executive Director of Provident Financial plc until January 2022 and is a Non-Executive Director of Hampshire Trust Bank Plc.

Andrew Bottomley

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

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

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

David Cutter

Group Chief Executive, Chair of the Executive and Retail Credit Committees and member of the Asset & Liability and Non-Executive Remuneration Committees. David will step down from the Board after the 2022 AGM, by mutual agreement.

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

David has a wealth of experience of the Society having been its Group Chief Executive for the last 13 years. He's had roles in many areas of our business, including periods as Operations Director, Group Corporate Development Director and Head of Internal Audit. He joined the Board in 2000. He is a qualified chartered accountant, Trustee of the Moorlands Learning Trust and a former Chair of the Building Societies Association.

Amanda Burton

A member of the Nominations and Remuneration Committees and a Non-Executive Director of Connells Limited. Amanda will step down from the Board after the 2022 AGM.

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

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

The Board of Directors (continued)

Richard Coates

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

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

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

Ian Cornelius

Commercial & Strategy Director, member of the Executive, Retail Credit, Asset & Liability and Non-Executive Remuneration Committees. He is also a Non-Executive Director of Connells Limited and is Chair of Connells' Audit & Risk Committee.

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

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

Denis Hall

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

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

Denis has worked in senior risk roles with Citibank, Deutsche Bank and GE Capital. He brings a wide knowledge of risk management, regulation and financial services enabling him to chair the Board Risk Committee and provide support, advice and challenge to the Executive on risk management issues. Denis is a non-executive director of Switzerland's Cembra Bank and Moneta Bank in the Czech Republic and sits on the audit and risk committee(s) 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

A member of the Nominations, Remuneration and Risk Committees.

"I enjoy and value Skipton's focus on doing the right thing to create value for our customers and members now and in the future. I serve on other financial services boards and keeping customers' and colleagues' needs and expectations at the forefront of everything is what fascinates me. I believe organisations who do this build sustainable, successful relationships and do good business. This is how Skipton will maintain our 'there for you' approach."

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 our use of data to support better decision making. She has 25 years' experience in senior roles at Lloyds plc, Capital One, Boots the Chemist, Asda and Burton Group plc. She is a non-executive director for Ikano Bank Europe (and chairs their Change and Remuneration Committees) and also for Rothesay (annuity and pensions provider).

The Board of Directors (continued)

Mark Lund

Deputy Chair of the Board, Senior Independent Director and a member of the Audit, Nominations and Remuneration Committees. He is also a Non-Executive Director of Connells Limited.

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

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

Bobby Ndawula

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

"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 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 has been a member of the Board since 2015. He is also a Trustee of Yorkshire Cancer Research.

Philip Moore

A member of the Audit, Nominations and Risk Committees.

"I joined the Board in February 2021 after being attracted to the Society's strong mutual values and clear purpose. These attributes have made the Society a financially strong, customer-focused organisation and, by drawing on my wide financial experience, I hope to contribute to its continued success."

Philip has over 35 years' experience in international financial services, spending nearly 20 years as a CFO followed by extensive 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 Scandinavia's third largest property and casualty insurer Codan A/S. He is also Trustee of the Royal British Legion and a Governor at Hart Learning Group.

Helen Stevenson

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

"Skipton is well placed to strengthen both its excellent customer service and financial stability. I want to support the Board in maintaining a powerful connection between members and the business and evolving our strategy so it continues to thrive in a changing marketplace."

Helen brings extensive marketing and digital experience, a strong customer focus and experience in remuneration issues. Helen joined the Board in 2013. She spent 19 years with Mars Inc and was in executive board level marketing roles at Lloyds TSB and Yell Group. She is now Chair of RM Group plc, Senior Independent Director on the Boards of Reach plc, non-executive director at IG Group plc, a member of Henley Business School Advisory Board and a Governor at Wellington College. Due to retire at the AGM in 2022, Helen is extending her tenure at the Board's request for continuity as there are other Director changes. The Board is confident that she remains an independent Board member and adds substantial value.

Directors' Report

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31 December 2021.

The financial information included in this Directors' Report is taken from the statutory Accounts on pages 116 to 251 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 2021 and 2020 is set out on pages 21 to 32 of the Strategic Report.

Business objectives

The business objectives of the Group are set out on pages 18 to 21 of the Strategic Report.

Business review and future developments

The Chairman's Statement set out on pages 8 to 11, the Group Chief Executive's Report set out on pages 12 to 17 and the Strategic Report set out on pages 18 to 39 report on the performance of the business and its future objectives.

Profits and capital

Group profit before tax was £271.8m (2020: £118.8m). Total profit after tax (attributable to the Society) transferred to the general reserve was £215.8m (2020: £97.0m).

Total Group reserves at 31 December 2021 (excluding non-controlling interests) were £1,964.0m (2020: £1,705.7m) including the fair value reserve of £7.5m (2020: £4.1m), the cash flow hedging reserve of £4.0m (2020: £(15.1)m), the cost of hedging reserve of £(3.5)m (2020: £(3.5)m), and the translation reserve of £4.5m (2020: £4.9m).

Gross capital at 31 December 2021 was £2,341.9m (2020: £2,097.0m) including £336.3m (2020: £349.7m) of subordinated liabilities and £41.6m (2020: £41.6m) of subscribed capital. The ratio of gross capital as a percentage of shares, deposits and borrowings at 31 December 2021 was 8.86% (2020: 8.24%) and the free capital ratio was 6.89% (2020: 7.07%). The Annual Business Statement on pages 256 to 259 gives an explanation of these ratios.

Mortgage arrears

Group mortgage balances at 31 December 2021 included 83 cases (2020: 74) either in possession or where payments were 12 months or more in arrears. The capital balances of these loans were £13.9m (2020: £10.5m). The total amount of arrears on these loans was £1.0m (2020: £0.8m).

Charitable donations

During the year the Group made charitable donations of over £0.5m (2020: £0.4m), primarily to the Skipton Building Society Charitable Foundation and Mental Health UK. No contributions were made for political purposes (2020: £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 2021 for the Group was 19 days (2020: 12 days).

Principal risks and uncertainties

The principal risks and uncertainties are set out on pages 72 to 81 of the Risk Management Report and in notes 38 to 40 to the Accounts.

Financial risk management objectives and policies

Details of the key risks to which the Group is exposed in relation to its financial instruments, and how these risks are managed, are set out on pages 72 to 81 of the Risk Management Report and in notes 38 to 40 of the Accounts.

Employees

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

The Board met nine times during 2021 and is briefed regularly on key employee matters as they arise. There is a comprehensive internal communications structure to cascade relevant business information to employees throughout the organisation in an appropriate and timely way. The Society's subsidiary companies have similar arrangements in place to ensure effective communication of relevant matters.

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

Property, plant and equipment

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

Investment property

The Directors have considered the overall market value of investment properties. In arriving at a view, the Directors review internal valuations, and obtain external market valuations for investment properties at least every three years. In 2021, following independent valuation, £0.9m of impairment was charged against a particular property; this was driven by the lack of demand for large office space as a consequence of the COVID-19 pandemic The remaining valuations carried out in the year supported the carrying value of these investments. The Directors consider that the overall market value of the remaining investment properties held is in excess of the corresponding book value that is included within investment properties (per note 20 to the Accounts).

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

This statement, which should be read in conjunction with the Independent Auditor's Report on pages 106 to 115, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts.

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

The Building Societies Act 1986 (the Act) requires the Directors to prepare Group and Society Annual Accounts for each financial year. Under that law they are required to prepare the Group Annual Accounts in accordance with 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 Annual Business Statement can be found on pages 256 to 259.

The Directors are also required by the Disclosure and Transparency Rules of the Financial Conduct Authority to include a management report containing a fair review of the business, which is set out on pages 21 to 39 of the Strategic Report, and a description of the principal risks and uncertainties facing the Group which is set out on pages 72 to 81 of the Risk Management Report.

The Directors have decided to prepare voluntarily a report on corporate governance as if the Society were required to comply with the Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority in relation to those matters. The Directors' Report on Corporate Governance can be found on pages 58 to 65.

A copy of these Annual Report and Accounts is placed on the Society's website. Information in respect of the Capital Requirements (Country-by-Country Reporting) Regulations 2014 is included as an annex to these Annual Accounts on pages 254 and 255.

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' Report (continued)

Directors' responsibilities in respect of going concern

The Group's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance are set out on pages 21 to 39 of the Strategic Report and on pages 72 to 81 of the Risk Management Report. In addition, notes 38 to 40 of the Annual Accounts include the Group's objectives, policies and processes for managing its liquidity risk, details of financial instruments and hedging activities, and its exposure to credit risk, liquidity risk and market risk.

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

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

Directors' statement of longer term viability

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

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

The assessment also included a robust review of the Group's principal risks and uncertainties (outlined on pages 72 to 81), 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 2026. 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 2022 – 2026 business plans through the Group's Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process. The key economic stress test modelled reflected a market-wide fall in residential house prices of 33%, unemployment reaching 11.9% and the Bank Base Rate turning negative at (0.1)% during the five year period, each of which would adversely impact on the level of losses experienced within the Group's loan portfolio. The Directors concluded that the impact of this severe economic environment would not threaten the longer term viability of the Group.
- Reverse stress testing carried out by the Group, which considers scenarios specific to the Group that could cause the Group to fail. The Directors have concluded that any such scenarios are unlikely to materialise.
- The impact of the Countrywide acquisition under a number of stress scenarios.
- 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 ongoing and potential economic impacts associated with COVID-19, along with continued political and economic uncertainty as the UK adjusts to a post-Brexit environment.
- 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. In particular, the longer term economic impacts of the COVID-19 pandemic and the subsequent impacts on the Group remain uncertain, as do, albeit less directly than for businesses with international trade relationships, the political and economic implications that may arise from the UK leaving the EU which may also affect the Group. These impacts may have an effect on the performance of the Group within the Group's financial planning period; the extent of the impact is currently unknown.

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

Directors

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

Robert East (Chair)
Mark Lund (Deputy Chair)
Andrew Bottomley*
Amanda Burton
Richard Coates
Philip Moore (appointed 1 February 2021)
Ian Cornelius*
David Cutter* (Group Chief Executive)
Denis Hall
Heather Jackson
Bobby Ndawula*
Helen Stevenson

* Executive Directors

Details of Directors' service contracts are disclosed in the Directors' Report on Corporate Governance on page 62. No Director of the Society had any interest in the shares of any Group undertaking as at 31 December 2021.

Auditor

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

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

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

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

- the Annual Accounts, prepared in accordance with 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 and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the Group's and Society's position and performance, business model and strategy.

Signed on behalf of the Board

Robert East
Chair

17 March 2022

Directors' Report on Corporate Governance

Dear Member,

As Chair of the Society and, in line with the Society's ethos, I view good governance as being at the heart of a well-run business and am committed to complying with prevailing best practice. This report sets out the framework of how the Society oversees its business in a prudent and well organised manner, thereby maintaining high standards of governance for the benefit of our current and future members.

The impact of COVID-19 and the need for remote and, what is being referred to as, hybrid working, including operation of our governance arrangements, represented a true test of its effectiveness. I am pleased to be able to report that our framework continues to be implemented effectively and the Board is satisfied that oversight of the Society's service delivery and financial stability has been as robust as ever and will continue to be so as the pandemic evolves and is resolved.

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

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

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

During 2021, other than the points listed above, the Board believes that the Society complied with all other aspects of the Code.

Governance Framework

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

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

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

The Society sits within the Mortgages and Savings division which also includes related subsidiaries. During the year the mortgage portfolios of Amber Homeloans Limited (Amber) and North Yorkshire Mortgages Limited (NYM) were transferred to the Society so whilst both legal entities remain in place they are not trading.

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

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

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

Directors

The Role of the Board

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

- **Governing body** - *The Society is headed by an effective Board which is responsible for the long-term success of the Group.*
  The Board formulates strategy and establishes the Society's risk appetite and balance sheet strategy. It is organised so as to have a proper understanding of, and competence to deal with, the current and emerging issues facing the business of the Group, exercising independent judgement, and effectively reviewing and challenging the performance of management
- **Management and oversight** - *The Society's management and oversight framework enables the Board to provide strategic guidance to, and effective oversight of, management throughout the Group.*
  The governance framework clarifies the respective roles and responsibilities of Directors and senior executives in order to facilitate Board and management accountability to both the Society and its members. This ensures a balance of authority such that no single individual has unfettered powers. It has clear lines of sight into activities to enable challenge and oversight, allowing the Board to obtain assurance over performance, the integrity of reporting and effectiveness of control implementation.
- **Recognise and manage risk** - *The Board has a sound system of risk oversight, risk management and internal control supported by timely and transparent reporting.*
  This framework identifies, assesses, manages and monitors risk on an ongoing basis. It informs management and the Board of material changes to the risk profile of the Society or any of its subsidiaries and facilitates challenge of the effectiveness of actions taken to mitigate risk. It is designed to be forward-looking in approach so as to reduce both the likelihood and the impact of known risks crystallising.
  To support delivery of this, it has established a framework of authorities that maps out the structure of high-level delegation below Board level and specifies those issues which remain the responsibility of the Board. The Board also has a general duty to ensure that the Group operates within the Society's Rules, relevant laws, regulations and guidance issued by relevant regulatory authorities and that proper accounting records and effective systems of internal control are established, maintained and audited.

Culture

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

The Board monitors culture in a number of ways such as through customer feedback and employee surveys (internally and externally facilitated) but aggregates this through a 'culture dashboard' reporting mechanism which reports on performance metrics under the headings of: Ethical behaviour, People MI (management information), Colleague feedback, Customer, Risk & Control and Strategy understanding. I am pleased to report that no issues of concern have been reported this year.

Board Meetings

The Board met nine times during 2021. In line with good governance the Non-Executive Directors also meet, without the Executive Directors present, at least once a year. The attendance record of each Director at these Board meetings and of each committee member at relevant Board committee meetings is set out on page 63.

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

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

The Board agenda also includes:

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

For the Board to be effective, the relationship between the Executive and Non-Executive Directors must be constructive and one of openness and respect. The Boardroom environment at Skipton is collegiate with all encouraged to contribute. Maintaining this environment continues to be a focus for myself since the Board and its committees have operated on a hybrid calendar basis this year with on-site meetings held in June, September and December with the remainder by video.

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

Board Composition

The Rules of the Society detail the appointment process for Directors and require that the Board comprises not less than six and not more than 15 Directors. At 31 December 2021, the Board comprised 12 Directors, being four Executive Directors and eight Non-Executive Directors. Details of the Directors are set out on pages 48 to 53. This composition is designed to be able to meet the needs of the business and allow for efficient operation of the Board's committees.

The Board considers all the Non-Executive Directors to have been independent at the time of their appointment and to have continued to be so in accordance with the criteria set out in the Code. One Director, Richard Coates, appointed in 2017 was previously Managing Director of a former Society subsidiary, Baseline Capital Limited, but retired from the Group's employment in 2008.

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

As Chair, I regularly review the size and composition of the Board and its committees which are reviewed formally by the Nominations Committee at least annually. This ensures that there exists the required mix of skills and experience on the

Directors' Report on Corporate Governance (cont.)

Board and that succession planning is adequately addressed; our Board Composition Policy is available on the Society's website at **skipton.co.uk/about-us/governance/board-composition-policy**. The Nominations Committee aims to ensure that the Board's committees are optimally resourced and are refreshed at appropriate intervals to avoid reliance on any one individual.

Non-Executive Directors

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

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

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

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

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

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

Chair and Group Chief Executive

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

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

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

The Board, in line with the Society's Rules, elects its Chair and Deputy Chair annually at the Board meeting immediately following the Annual General Meeting (AGM).

Appointments to the Board and Its Committees

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

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

At 31 December 2021, three members (25%) of the Society's Board were female. This is a reduction from last year as Denise Cockrem retired from the Board at the AGM in April and has not yet been replaced. The Society is a signatory to the Women in Finance Charter which underlines the Board's commitment to gender equality.

Appointments to the committees of the Board (see page 62 for details) are made by the Board on the recommendation of the Nominations Committee, in consultation with the relevant committee's Chair. Both the Nominations Committee and the Board have regard to ensuring a range of skills, experience, knowledge and professional qualifications exist on each Board committee to enable it to fulfil its duties effectively.

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

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

Induction and Professional Development

On appointment, new Directors receive a comprehensive and tailored induction programme covering the Group's business and regulatory environment. Ongoing training and development needs are identified and addressed through regular review and usually take the form of attendance at external seminars and Board training sessions led by relevant internal and external specialists. Those Directors from a non-banking background are provided with specific training on the capital and liquidity regimes governing the Society's operations. Non-Executive Directors are encouraged to liaise with individual members of the Executive team to demonstrate support and to undertake subsidiary, branch and department visits on an ongoing basis. Understandably, such visits have been curtailed during the pandemic, but I am hopeful that we will, once again, be able to initiate these during 2022.

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

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

Board Evaluation

The Board undertakes an annual performance and effectiveness evaluation of itself and its committees. At least every three years, this review is conducted by an external facilitator. In 2019, after a competitive tendering process, the Board engaged Praesta Partners LLP to undertake the annual performance evaluation of the Board and its committees. In line with this framework the 2021 review was led by myself with support from the Secretary. This involved completion of a digital questionnaire by Directors, members of the Executive Committee and the Group Chief Internal Auditor seeking their views on the effectiveness of the Board's and its committees' operation and general performance. This was then discussed by myself with the individuals in one-to-one meetings and I prepared a summary report of views which was formally considered by the Board at its meeting on 1 March 2022.

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

The Boardroom virtual environment was not seen to adversely impact discussion or to restrict individual contribution; however, a strong desire was expressed to return to face to face meetings in the Society's offices as soon as Government restrictions allowed, to enable better connection to colleagues.

In terms of continuous improvement, the review confirmed that Directors believed continued focus should be devoted to development of our climate change strategy and Environmental, Social & Governance (ESG) framework, to further building diversity and evolving the framework for oversight of our subsidiaries, alongside development and execution of our financial advice proposition. To move this forward, our ESG Special Interest Group, which includes Non-Executive Directors, will continue to meet and update the Board on a quarterly basis. The framework for oversight of our subsidiaries will be reviewed by the Group Finance Director and the Group's Chief Risk Officers, whilst the conclusions of the Society's financial advice proposition review will be presented to the Board and regular progress updates on agreed strategy execution provided during the year.

Individual Review

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

Re-election Policy

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

The Board and Nominations Committee, in 2018, agreed with my recommendation that, as a very effective member of the Board, Helen Stevenson's tenure as a Non-Executive Director be extended to nine years. The Society was reviewing its Group remuneration governance arrangements and it was considered efficient and appropriate to extend the term of office of Helen, as Chair of the Remuneration Committee, to oversee developments; she will retire from the Board on 31 December 2022.

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

An independent recruitment search firm, Korn Ferry, which has no attachment to, or reliance on the Society, was appointed and commenced its work. However, the general uncertainty arising from the COVID-19 pandemic saw potential candidates unwilling to commit. This, combined with the economic uncertainty arising from the pandemic and, at that point, uncertainty surrounding Brexit negotiations saw the Board agree with the Nomination Committee's recommendation that I be asked to remain in post for a further 12 months, a request to which I agreed.

As I explained in my Chair's Statement (page 11), Korn Ferry completed its search for my successor in 2021: Gwyn Burr will, on the recommendation of the Board, succeed me as Chair of the Society subject to approval by members at the Society's 2022 AGM in April.

Directors' Report on Corporate Governance (cont.)

Remuneration

Details relating to Directors' remuneration are contained in the Directors' Remuneration Report on pages 82 to 103.

Directors' Service Contracts and Notice Periods

The Executive Directors are employed on rolling service contracts which can be terminated by either the Society or the Director giving one year's notice. The Group Chief Executive's employment will terminate at the Society's 2022 AGM in April. For the other Executive Directors, unless notice to terminate is given by either party, the contracts continue automatically.

Non-Executive Directors do not have service contracts.

Accountability and Audit

Financial Reporting

The Directors, after making appropriate enquiries and on review of internal management reports and completion of the external audit, consider that these Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for members to assess the Group's performance, business model and strategy. Further details on how this conclusion has been arrived at can be found on page 68 of the Audit Committee Report.

The responsibilities of the Directors in relation to the preparation of the Group's Annual Accounts and a statement that the Group is a going concern are contained in the statements of Directors' responsibilities on pages 55 to 57 in the Directors' Report.

Risk Management and Internal Control

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

The Executive Directors and senior management are responsible for the continuous operation of an effective risk management framework based on a robust system of internal control. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Society's business objectives. The principal categories of risk confronting the Group are described in greater detail in the Risk Management Report on pages 72 to 81, together with an explanation of the framework adopted by the Group for managing risk.

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

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

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

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

To ensure sufficient focus is devoted to all areas of risk, the Society operates two discrete risk functions headed by the Chief Financial Risk and Data Officer and the Chief Conduct Risk Officer. These are senior executive positions with both post holders being members of the Executive Committee. The Board Risk Committee and Board receive regular reports from the two Risk Officers throughout the year. The Board is satisfied that it understands the risks confronting the business and that senior management are taking appropriate action to mitigate these. More detail is provided on these in the Risk Management Report on pages 72 to 81.

Whilst work is ongoing to embed our control framework and standards within the Countrywide business following its acquisition by the Group, the Board is satisfied that the Group maintained an adequate system of internal control during 2021, with 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 Committees

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

The Board committee structure includes:

- The Audit Committee – further detail is contained in the Audit Committee Report on pages 66 to 71;
- The Board Risk Committee – further detail is contained in the Risk Management Report on pages 72 to 81;
- The Remuneration Committee and Non-Executive Directors' Remuneration Committee – further detail is contained in the Directors' Remuneration Report on pages 82 to 103; and
- The Nominations Committee – further detail is contained in the section on 'Appointments to the Board' on page 61 of this report.

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

Board and Committee Membership Attendance Record

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

	Board	Audit Committee	Nominations Committee	Remuneration Committee	Board Risk Committee
Robert East	8/9	-	2/2	-	-
Andrew Bottomley	9/9	-	-	-	-
Amanda Burton	9/9	-	1/2	6/8	6/6
Richard Coates	9/9	5/5	2/2	-	6/6
Denise Cockrem (note 2)	3/3	3/3	1/2	-	-
Ian Cornelius	9/9	-	-	-	-
David Cutter	9/9	-	-	-	-
Denis Hall	9/9	5/5	1/2	-	6/6
Heather Jackson	9/9	-	2/2	8/8	6/6
Mark Lund	9/9	5/5	2/2	8/8	-
Bobby Ndawula	9/9	-	-	-	-
Helen Stevenson	9/9	-	2/2	8/8	-
Philip Moore (note 3)	8/9	4/4	1/1	-	4/6

Notes

1. Where Directors are not available to attend meetings, they nonetheless receive all papers and provide feedback as appropriate.
2. Denise Cockrem retired from the Board at the AGM in April 2021.
3. Philip Moore joined the Board in February 2021.

Relations with Stakeholders

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

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

Members and Customers

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

We conduct regular large-scale market research with members to evaluate their experience of dealing with the Society and how satisfied they are with their relationship with us. This consists of both in the moment feedback following their interaction with the Society, and a more holistic view of how well the Society is meeting their evolving needs and expectations.

Acting on customer feedback continues to be essential in meeting these changing requirements, impacted by the developing world around them and the pace of transformation displayed by other organisations they interact with. Examples of how their feedback has been utilised to make improvements to our service offering or impact strategy include;

- Giving customers the option of opening new accounts in our mobile app;
- As an alternative to using the app, there's now an option to have a unique code sent to the customer's nominated mobile or landline number as an extra security measure when they're completing certain transactions on our website, Skipton Online;
- If customers need to provide additional documentation, they are given a secure link where they can upload and send their bank statement via Adobe sign, rather than having to attach in an email;
- We've enhanced our accessibility section on the website to include comprehensive information on all the support we offer to people with varying access needs;
- Again, with a focus on accessibility, we've increased the prominence of the webchat link and made sure it's fully keyboard navigable;
- We're building more customer and broker self-service capability into our app and portal; and
- Information will be shared more widely on how we're planning to minimise our impact on the environment in the here and now.

The move in 2020 to adopt more remote channels to conduct research acted as a catalyst for us to trial and embed new, more innovative ways to engage with our customers and share insight across the business, including video-based research and feedback. 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.

The Society has continued to achieve extremely high levels of net customer satisfaction, with a 2021 score of 86%. Mortgage customers in particular continue to report high levels of satisfaction at 90%, as do those who chose to use our Skipton App.

Directors' Report on Corporate Governance (cont.)

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 increased our rating to 4.6 stars out of 5 as at 31 December 2021. All customers who have interacted with us are invited to take part, with live feedback now showing on the **Skipton.co.uk** homepage for all to see.

Our People

It is important to us that we have a really strong understanding of our people's views of 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 such as Investors in People and Best Companies. We use an independent adviser, Willis Towers Watson, to run an annual employee opinion survey – 'My Voice'. This is an anonymous in-depth questionnaire issued to all Society colleagues and gathers views on a very wide range of topics, from confidence in senior management to views on the Society's treatment of customers and general concerns. This provides a rich insight into our people's thinking and is shared at Board level. It sees senior managers agree action plans with their teams to address issues and concerns raised; the Executive Committee also prepares a high-level action plan to address any perceived organisational issues.

The general feedback in September 2021 confirmed that colleagues agreed with the Society's values and purpose, believed senior managers demonstrated those values and considered that the Society had a strong focus on our customers; their needs and the experience they have with us. Our people value the support they get from their line manager and agree that the Society has an open and honest way of working which enables them to both contribute and raise challenges, if appropriate. They say they can be themselves at Skipton and value the flexibility many enjoy when working for the Society. Our latest survey showed once again high levels of employee engagement; how loyal, passionate and committed employees feel – which is higher than average within Financial Services. This is confirmed by 92% of employees saying they are proud to work for Skipton Building Society.

In terms of improvement areas it was felt that there was more the Society could do to explain how reward packages are calculated and the Society could do more to help colleagues understand how they contribute to the 'bigger picture' in terms of our Corporate Plan and strategic objectives. Colleagues also wanted the best possible processes for our customers and highlighting that some of these could be improved.

The Society has continued to issue shorter 'Pulse' surveys to Society colleagues to help us understand the wellbeing support our people need and how we are progressing as an agile organisation. Our colleagues have consistently said they feel very well supported by both their line manager and the Society overall during the COVID-19 pandemic and understand why we need to be agile and adaptable in the modern world. At times, they believe we could change more quickly which is something we are aspiring to do through agile ways of working.

In line with the Code's requirements, the Board appointed in 2019 a Non-Executive Director, Heather Jackson, to be the Board member responsible for providing a further avenue for the voice of our people to be heard at the Board table. She has conducted a series of 'listening sessions' where up to 30 of our people at a time are invited to a meeting to share their views on the Society, how they feel in the workplace, how they feel customers are treated and ideas on what we could do better and any other topic they wish to raise. Heather then provides a written summary of the feedback to the Board. In 2021, these sessions have evolved and now always include a member of the Executive Committee to hear views first hand. Together with regular personal communications from the Executive Committee in the form of videos, we have also introduced a quarterly Strategic Update where colleagues can ask questions of the Group Chief Executive and the Executive team regarding our direction of travel.

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

Suppliers

The Society closely monitors all its business relationships with suppliers, on an ongoing basis, assessing any risk of an adverse impact on our customers, our people and the environment in which we operate as a result of these relationships, or as a result of our policies. The Society has been developing its supplier management framework in recent years to strengthen the oversight and relationships we have with our suppliers. 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 the Society is when paying invoices, if our corporate responsibility values are clear and views on whether the Society lives these, strength of relationships and comparison of our approach to other clients. An additional question was added this year regarding how well the Society managed our supplier relationships and made adjustments to support our suppliers during the COVID-19 pandemic. The feedback continues to be very positive. A report was provided to the Board with assurance that the Society treats its suppliers appropriately. When asked the question 'Taking the whole relationship into consideration, how do we compare to other companies you deal with?', of the 30% who responded, 84% assessed the Society as 'good or exceeding'. Recognising that some of our small and medium sized enterprises (SME) suppliers may have been facing cash flow challenges as a result of the pandemic, we decided to accelerate payments due to them so, on average, payments were made within 10 days of invoices being submitted; immediate payment of SME invoices is now Society practice.

Regulators

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

Banking Counterparties

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

The Annual General Meeting (AGM)

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

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

In April 2021, in line with other organisations, the Society's AGM was somewhat different, taking place during the period of ongoing restrictions on movement. The only Directors present were myself and the Group Chief Executive supported by the Secretary and the only members present, to allow quorum but on a socially distanced basis in line with government regulations, were colleague members who had been working at Head Office that day. The meeting was live-streamed so members had the opportunity to observe proceedings and raise questions on the evening. They had also been given the opportunity to raise questions via their voting papers which enabled me to address key question themes on the evening; minutes of the meeting were then made available via the Society's website or direct from the Secretary.

I am pleased to report that no resolution received less than 80% support from members at the 2021 AGM.

Conclusion

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

On behalf of the Board

Robert East
Chair

17 March 2022

Audit Committee Report

Dear Member,

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

The report focuses mainly on the following three areas:

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

Membership and attendees

The members of the Audit Committee during the year were:

Richard Coates	Non-Executive Director (Committee Chair)
Denise Cockrem	Non-Executive Director (retired from the Committee 26 April 2021)
Denis Hall	Non-Executive Director
Mark Lund	Non-Executive Director
Philip Moore	Non-Executive Director (appointed to the Committee 1 March 2021)

Amanda Burton, a Non-Executive Director, had retired from the Committee on 31 December 2020.

The Committee held five scheduled meetings during 2021 and the attendance of its members at these meetings is set out on page 63 in the Directors' Report on Corporate Governance.

In June 2021 the Committee held an ad-hoc meeting to give due consideration to the accounting for Connells' acquisition of Countrywide; this included detailed review of the provisional amounts and disclosures for inclusion in the Group's half-yearly report for the period ended 30 June 2021. Further, the Committee kept this matter under close review at its subsequent meetings, including due consideration of updates to the amounts and disclosures relating to the Countrywide acquisition for inclusion in these Accounts.

The Committee held private discussions during the year with the external auditor Ernst & Young LLP (EY), the Chief Conduct Risk Officer and Secretary, the Group Chief Internal Auditor, the Group Finance Director, the Chief Financial Risk and Data Officer, the Connells Group Finance and Commercial Director, the Finance Director of Jade, the Finance Director of Skipton Business Finance and the Finance Director of SIL, to provide an opportunity for any relevant issues to be raised directly with Committee members.

In addition to its members, the Group Chief Executive, the Group Finance Director, the Chief Conduct Risk Officer and Secretary, the Head of Compliance Monitoring, the Commercial and Strategy Director (in his role as Chair of Connells' Audit & Risk Committee), the Chief Financial Risk and Data Officer, external audit representatives and the Group Chief Internal Auditor regularly attend meetings, by invitation.

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

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

Denis Hall has held senior leadership risk roles with a number of major banks, including Citibank, Deutsche Bank and GE Capital Bank; he currently holds Board and Audit Committee roles with several European banks. Mark Lund has over 30 years' experience in commercial and financial services, including senior leadership roles in financial advice and investment management. Philip Moore brings more than 35 years' experience in international financial services, having built commercial, strategic and regulatory experience from extensive consulting partner roles; he has chaired audit, risk and remuneration committees in a number of organisations, including Bank of Ireland (UK).

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 and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the Group's strategy, business model and performance;
- to provide oversight of the external audit process by monitoring the relationship with the external auditor, agreeing their remuneration and terms of engagement, monitoring their performance, objectivity and independence, ensuring that the policy to provide non-audit services is appropriately applied and making recommendations to the Board on their appointment, re-appointment or removal;
- to review the effectiveness and independence of the 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 Audit Committee are distributed to the Board following each meeting and I, as Chair of the Committee, provide a verbal report to the next Board meeting after each meeting of the Committee.

Activities of the Committee during the year

During 2021 our work fell under three main areas, in line with our responsibilities, as follows:

a) Internal controls and risk

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

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

Further details of the Group's risk management practices are provided in the Risk Management Report on pages 72 to 81.

Through the Committee, the Group's Internal Audit function provides independent assurance to the Board on the effectiveness of the internal control framework. The information received and considered by the Committee during 2021 provided assurance that there were no significant control failings that would lead to a material impact on the Group's financial statements. In the period since acquisition, management has identified weaknesses in the Countrywide financial control environment; however, these identified weaknesses have not led to a material impact on the Group's financial statements. Work is ongoing as a matter of priority to embed the Group's control framework and standards within the Countrywide business.

Group Internal Audit is supported, as required, by external advisers who are able to provide specialist technical support when required. The Group Chief Internal Auditor reports to myself 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 2021, 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 Audit Committee is also responsible for approving the annual budget of Group Internal Audit and for approving its annual plan of work. 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, on 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 surrounding key prudential risk areas;
- the ongoing effectiveness of the Society's response to the COVID-19 pandemic and the embedding of COVID-secure processes and procedures;
- Information Technology, cyber security, operational resilience and data protection risks to ensure that the Group has robust controls, in line with good practice, in this rapidly evolving area;
- the effectiveness of the Society's new lending and compliance with the Society's lending policy;
- the key project management controls for the Society's material projects throughout the year; and
- a number of specific areas of internal control in the Group's subsidiaries.

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

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

As part of the external audit process, the Society's auditor provides us with internal control reports. During the period these reports identified control weaknesses in Countrywide which are being addressed by management as a matter of priority. However, none of the control weaknesses identified in Countrywide have led to a material impact on the Group's financial statements for the year ended 31 December 2021.

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.

Audit Committee Report (continued)

b) Financial reporting

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

The Directors are responsible for preparing the Annual Report and Accounts. At the request of the Board, we considered whether the 2021 Annual Report and Accounts were fair, balanced and understandable and whether they provided the necessary information for members to assess the Group's position and performance, business model and strategy. This was assessed in the following ways:

- best practice guidance and recommendations, including those published by the FRC and leading audit firms, were reviewed and analysed against the Annual Report and Accounts, and enhancements implemented as a result of this analysis where necessary;
- the Executive Committee and the Board have been involved in reviewing and commenting on various drafts of the Annual Report and Accounts, to help ensure that the final draft is fair, balanced and understandable;
- the Committee reviewed and was satisfied that the alternative performance measure of underlying profit before tax (defined on page 27 in the Strategic Report), which is reported alongside the statutory profit measure, gives a clearer view of the underlying performance of the business for our members and is in line with the agreed policy; and
- a thorough review was undertaken by the Financial Reporting team to ensure there was appropriate supporting evidence for the content of the Annual Report and Accounts.

The Committee is satisfied that, taken as a whole, the 2021 Annual Report and Accounts are fair, balanced and understandable and include the necessary information as set out above. The Committee has confirmed this to the Board, whose statement in this regard is set out on page 55 of the Directors' Report.

We pay particular attention to matters we consider to be important by virtue of their impact on the Group's results, and particularly those which involve a high level of complexity, judgement or estimation by the Board. The key areas of estimate and judgement that we considered in reviewing the 2021 Annual Report and Accounts are set out below:

Significant matter	Committee action taken
Going concern and longer term viability review	The Committee reviewed the adoption of the going concern assumption for the Interim Accounts and the Annual Accounts, adopting the same comprehensive approach for both reporting periods. This involves rigorous consideration, based on reports produced by key risk functions around the business as requested by the Committee, of our current and projected liquidity, capital and funding positions, together with the 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 the impact of COVID-19 and adjusting to a post-Brexit environment) 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 on pages 56 and 57, 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 on pages 56 and 57 was recommended to, and approved by, the Board.
Impairment of financial assets	The Committee has monitored loan impairment provisions, taking account of the requirements of IFRS 9 *Financial Instruments*. We have reviewed the appropriateness of critical judgements made by management, including the definition of default and the determination of significant increase in credit risk. We have considered the impact of key assumptions within the Group's loan impairment models (such as house prices, unemployment and other forward-looking economic indicators within defined economic scenarios) on the level of provisions made and the relevant disclosure in the Accounts; this includes noting that, in response to greater political and economic uncertainty as a result of COVID-19 and adjusting to a post-Brexit environment, the Group has during the year updated its economic scenarios and reviewed the weightings attached to them. We have examined and challenged the assumptions adopted and, by requesting and scrutinising reports produced by management, are satisfied with the models used during the year to calculate loan impairment provisions for both the residential and commercial mortgage portfolios. The Committee has also monitored the level of impairment held against treasury assets under IFRS 9, including scrutinising reports produced by the Market & Liquidity Risk function. We consider the level of impairment held against these assets to be appropriate.

Significant matter	Committee action taken
Fair valuation of the equity release portfolio	The Group holds an equity release portfolio which is closed to new business. Under the terms and conditions of the mortgages in this portfolio, a no negative equity guarantee (NNEG) was given to customers. Under IFRS 9, the entire equity release asset (including the NNEG) is held at fair value with resulting gains or losses taken to the Income Statement. As outlined in note 1e) to the Accounts, there is no single industry pricing methodology for valuing the Group's equity release portfolio. The Group has therefore internally devised a fair valuation model, using inputs including mortality rates, voluntary prepayment rates, estimates of future RPI and a house price index, and associated volatility, to predict future cash flows on the portfolio. The valuation is also impacted by selection of appropriate discount rates (which include illiquidity premia). As the valuation technique uses some inputs that are not based on observable market data, judgement is required in determining appropriate assumptions. 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 2021 Annual Report and Accounts. The Group hedges the interest rate and inflation risk arising from its equity release portfolio through the use of derivatives. These derivatives are valued using discounted cash flow models which include estimated redemption profiles and, due to the long-dated nature of these derivatives, any changes to estimates or assumptions can have a significant effect on the valuation of the derivatives. As the underlying mortgage portfolio is not held at amortised cost under IFRS 9, hedge accounting cannot be applied. Both the equity release portfolio and the swaps are held at fair value through profit and loss. There is some natural offsetting between the changes in value of the portfolio and the derivatives but this is not perfect, partly due to the different discounting requirements. The Committee has reviewed papers prepared by management that support the assumptions used and which outline the control framework management has in place; the Committee is satisfied that the amounts recognised in the Income Statement are fairly stated and that the valuations of these derivatives are appropriate. Given the sensitivity of the fair value to certain key assumptions, the Committee also reviewed those key sensitivities and these are disclosed in note 1w) 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 which is based on observed historical data and Directors' judgement; management reviewed these estimates during the year and consider that the assumptions regarding mortgage product lives are appropriate. The Committee reviewed the reports prepared by management and is satisfied with the conclusions reached in this respect.
Accounting for the acquisition of Countrywide	On 8 March 2021, Connells acquired the entire issued share capital of Countrywide for total cash consideration of £131.8m; the acquisition is accounted for in these Accounts in accordance with IFRS 3 *Business Combinations*. The Committee has scrutinised reports received from management as to the accounting method applied, and the related disclosures to be made, in respect of the Countrywide acquisition. This included detailed review by the Committee at an ad-hoc meeting in June 2021 of the provisional amounts and disclosures for inclusion in the Group's half-yearly report for the period ended 30 June 2021. At its subsequent meetings, the Committee has maintained close oversight of the acquisition accounting for Countrywide, including due consideration of updated information as appropriate. The Committee has reviewed the critical judgements and estimates made by management, which includes management's assessment of the fair values of the identifiable assets and liabilities acquired, and the adjustments made for the alignment of Group Accounting Policies. The Committee examined the amounts and disclosures for inclusion in these Accounts, paying attention to updates subsequent to the provisional amounts and disclosures that were included in the Group's half-yearly report. The Committee is satisfied that the amounts and disclosures included in these Accounts in respect of the Countrywide acquisition are reasonable and appropriate.
Control environment of Countrywide	In the period since acquisition by the Group, management has identified weaknesses in the Countrywide financial control environment. Work is ongoing as a matter of priority to embed the Group's control framework and standards within the Countrywide business. The Committee has received regular updates from Connells' Audit & Risk Committee (Connells ARC), which maintains divisional oversight of Countrywide in this respect. This includes updates for the Committee on how Connells management has responded to Countrywide management letter points that were communicated by EY following EY's interim review procedures for the half-year ended 30 June 2021, together with progress made regarding Countrywide's control environment as this new subsidiary is integrated into the Group.

Audit Committee Report (continued)

Significant matter	Committee action taken
Control environment of Countrywide (continued)	With respect to weaknesses identified by EY during the course of their Countrywide audit for the year ended 31 December 2021, the Committee scrutinised reports prepared by EY, by Connells management and by Group management. Matters reported were discussed, including the impact on EY's audit procedures, the actions taken by local management to address risks, and the potential impact on the Group's financial statements for the year ended 31 December 2021; the information presented to and considered by the Committee provided assurance that there were no significant control failings that would lead to a material impact on the Group's financial statements for the year ended 31 December 2021. The Group's Internal Audit function has performed a number of targeted reviews at Countrywide since acquisition, and have also performed specific procedures in response to weaknesses identified by EY's 2021 audit; key findings have been discussed with the Committee, including follow-up actions. As noted above, work is ongoing as a matter of priority to embed the Group's control framework and standards within Countrywide. The Committee will continue to closely monitor progress in this respect, with the support of Connells ARC. Notwithstanding the matters noted above, the Committee is satisfied that the Group maintained an adequate system of internal control throughout 2021.
Appropriateness of provisioning for legal or regulatory matters	The Committee received reports from management on the recognition and amounts of provisions and considered the existence of any contingent liabilities. The Committee examined these reports and concluded that all such provisions were appropriately accounted for and disclosed in these Accounts and agreed with management's conclusion on the existence or otherwise of any contingent liabilities.
Defined benefit pension liability	The Group manages two funded defined benefit pension schemes which at 31 December 2021 had a combined deficit of £30.1m (31 December 2020: £96.4m). For part of the year the Group also operated a small hybrid scheme (with a funded defined benefit element); in June 2021 the Trustee of that scheme triggered its wind-up and member benefits have now been discharged from the scheme. In addition, following the Countrywide acquisition in March 2021, Connells has responsibility for the Countrywide pension scheme; this is a well-funded hybrid scheme and is in surplus as at 31 December 2021. Group Internal Audit performed a review during the year of how management maintains appropriate oversight of the defined benefit pension schemes for monitoring of pension risks within the Society and Connells. The review also assessed the adequacy of support provided by third party advisors in this respect. The Committee reviewed the findings of this review, which concluded that management maintained appropriate governance and oversight in this respect and that the associated risks were well understood and managed by management. The Committee has examined and challenged the pension scheme assumptions adopted in these Accounts and is satisfied that these are reasonable and appropriate.
Revenue recognition within the Estate Agency division	The Committee has considered the risk identified by the external auditor within the external audit report on page 111 relating to the recognition of revenue within the Estate Agency division. The Committee reviewed reports prepared by management and by EY regarding the effectiveness of key controls over the revenue recognition process, including for the newly acquired Countrywide operations. 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.

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 Audit Committee to ensure that the annual external audit cycle is effective. The assessment covers the external audit of the previous Annual Report and Accounts, whilst the proposed approach to the next audit is also discussed at this meeting, and includes consideration of matters such as:

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

Based on the above, senior management in the Financial Reporting function prepared a report for the Committee which outlined the principles contained within the 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 2020 Annual Report and Accounts. We concluded that the relationship with the external auditor had worked well and we were satisfied with their effectiveness and independence. Separately, the Committee also considered the proposed approach to the 2021 audit and we are satisfied in this respect. Following the audit of the 2021 Annual Report and Accounts an updated report, as detailed above, will be presented to the Committee in 2022 for scrutiny and to conclude on the effectiveness of the 2021 audit performed by EY.

The Committee considered the FRC's July 2021 Audit Quality Inspection Report on EY, which did not identify from its sample reviews any audits which required significant improvement. The Committee also considered the findings of the FRC's Audit Quality Review Team, following that team's review of EY's audit of the Society's accounts for the year ended 31 December 2019; that review, which was performed as part of the FRC's routine monitoring process, concluded that limited improvements were required and no key findings were identified. The results of both these FRC reports have been discussed by the Committee with EY.

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

EY undertook a limited number of non-audit related assignments for the Group during 2021. 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 to the Annual Accounts; non-audit fees during the year represented 5.3% of total EY audit fees for the Group (2020: 9.5%). 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 Audit Committee

The effectiveness of the Committee is assessed annually as part of the annual Board and Committee effectiveness review, further details of which are set out in the Directors' Report on Corporate Governance on page 61. The internal 2021 review, recently completed, concluded that we operated effectively during the year.

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

Richard Coates
Chair of the Audit Committee

17 March 2022

Risk Management Report

Dear Member,

As the Chair of the Board Risk Committee, I am pleased to present the 2021 Risk Management Report. This report explains the risk oversight arrangements we operate at Skipton, and what we believe to be the principal risks facing the Society and its subsidiaries (the Group).

The unique challenges resulting from the pandemic which emerged in 2020 have continued throughout 2021. During this challenging period our focus has continued to be on ensuring the safety and well-being of our colleagues and customers whilst continuing to deliver a reliable service in a remote-working, COVID-19 environment.

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

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

The economic uncertainty created by the pandemic has remained, although the speed with which government support was provided to the economy stabilised key economic metrics such as unemployment and house prices, which are key drivers of financial risk to the Group.

The extension of the furlough scheme and support to the housing market has provided economic stability, enabling the Group to support high demand for mortgages and house transactions, whilst effectively managing credit risk and maintaining a prudent liquidity position.

The strong demand for mortgages and the high level of housing transactions has enabled the Group to deliver strong profit growth during the year, increasing the capital strength and longer-term stability of the Group.

A fast-moving mortgage market has required the Group to demonstrate its ability to respond quickly to a rapidly changing environment and as a result the effectiveness of the governance framework for managing emerging operational and financial risks.

Across the Group each of the subsidiaries has similarly responded to the unique challenges emerging from the pandemic, successfully and safely supporting customers and colleagues whilst delivering strong profit growth and contributing high levels of dividends and capital to the Society. During 2021, Connells, our Estate Agency division acquired the Countrywide business which it continues to integrate.

In addition to the specific challenges associated with the pandemic, the Society and its subsidiaries have maintained focus on the full range of other risks.

A developing risk relates to the impact of climate change on our customers and business operating model.

In line with the regulatory requirements of SS3/19, the supervisory statement issued by the Bank of England regarding the approach of financial institutions to the financial risks from climate change, the Society and its subsidiaries have developed a strategic response to this developing risk. A risk framework and governance mechanism have been developed which will enable the Group to determine and evaluate the risks posed by climate change. These risks encompass the exposure of the Group and our customers to physical risk such as flood, coastal erosion, and subsidence, and to transition risks resulting from changes to business operating models and stakeholder expectations in response to climate change risks. This is an area where we expect to see further refinement and enhancements to our approach as new data and interpretation emerges.

Committee focus

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

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

- **Liquidity risk**, ensuring that the Group maintains a prudent liquidity position and is well placed to respond to the uncertain environment, whilst implementing our longer-term funding strategy to diversify our funding base. During the year the Society has prudently held high levels of liquidity reflecting the uncertainty faced over this period, in order that it was well placed to respond to market changes;
- **Interest rate risk**, to ensure that the Group has an effective balance sheet strategy and hedging arrangements in place to manage interest rate risk;
- **Credit risk**, to ensure that the Group appropriately evaluates and balances risk and reward in a highly competitive mortgage market, which is particularly important during a period of significant economic uncertainty;
- **Capital management**, to ensure that the Group maintains and projects sufficient capital resources to support our corporate plan, and potentially respond to a severe economic stress. During 2021, confirmation has been provided by the regulator of the MREL and capital regime that will be applicable to the Society over the coming years; the Society had been prudently planning for the impact of these changes;
- **Climate Risk**, to ensure that the Society is developing an appropriate strategy and framework to enable it and subsidiary firms to respond to the risks arising and ensure that these are effectively governed;
- **Operational resilience**, to ensure that the Society and subsidiary firms remain able to provide a reliable service in all areas to their customers despite the operating backdrop and are able to recover in a swift and organised manner in the event of an operational failure;
- **Cyber risk**, to ensure that the Group has an appropriate risk framework in place to reduce the likelihood of a successful attack. We have been alert to the increased risk arising from remote working and continue to develop our monitoring regime and defence systems; and
- **Financial planning and mortgage advice**, to ensure training and competence standards are appropriate, customers receive good advice and documentation standards substantiate this.

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

Risk overview

Day-to-day operation of the business naturally exposes the Group to a range of potential risks. To limit the level of risk accepted by Group entities in the normal course of business, the Board has established a risk appetite which it reviews, at least annually, in the context of prevailing economic conditions. This covers a number of areas such as capital, liquidity, interest rate risk and operational risk. In terms of core credit risk appetite, the risk appetite for the Society and Skipton International Limited (SIL) restricts lending to prime residential borrowers, either to owner occupiers or buy-to-let investors. The Board does not have any appetite for the Society or SIL to carry out new business in commercial or sub-prime lending. Central to operating within this appetite is a management culture which promotes awareness of actual and potential risks and an understanding of their impact on the portfolio should they crystallise.

Governance structure

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

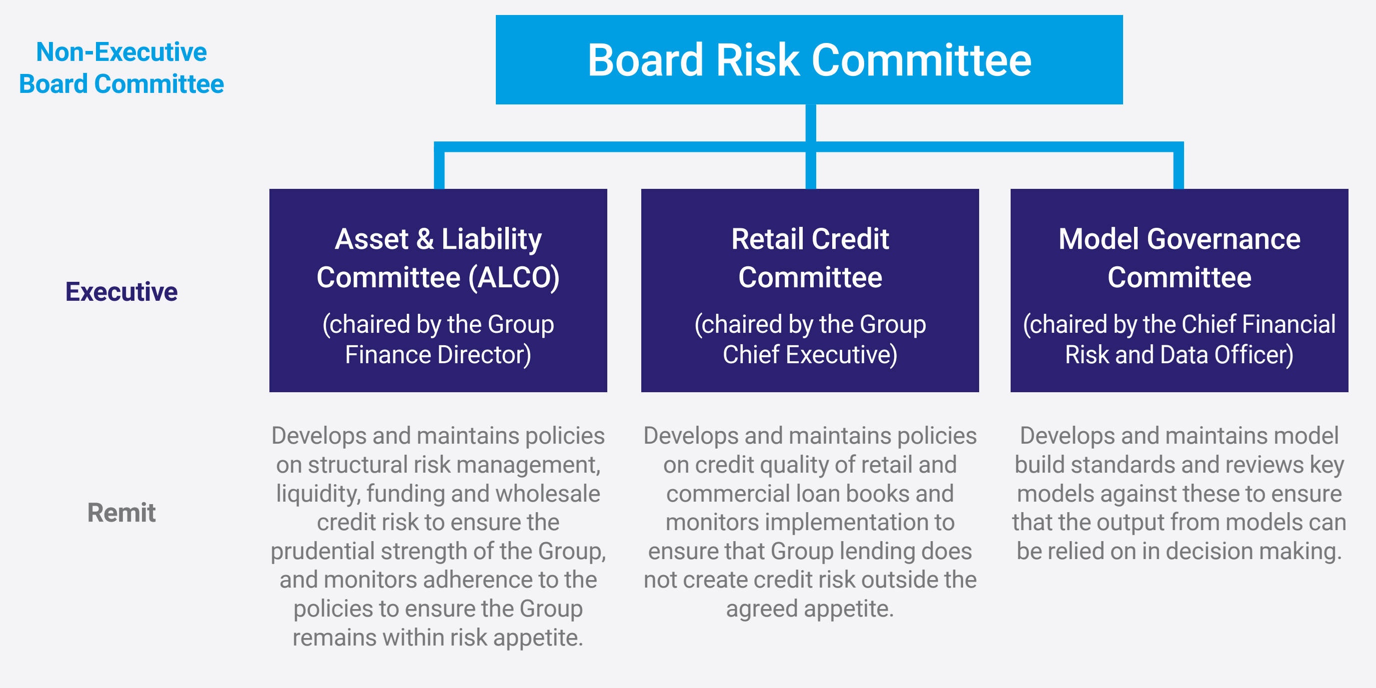
The Board Risk Committee is responsible for considering and recommending the Group's risk appetite and capital adequacy and liquidity management policies to the Board. It is also responsible for ensuring that the Group maintains an effective risk governance structure to ensure that internal and external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

Membership and attendees

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

Denis Hall (Chair), Non-Executive Director
Richard Coates, Non-Executive Director
Heather Jackson, Non-Executive Director
Amanda Burton, 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, as outlined in the diagram below:



Risk Management Report (continued)

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

Conduct and operational risk is overseen directly by the Society's Executive Committee which has a direct reporting line to the Society's Board.

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

Risk management framework

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

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

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

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

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

Risk environment

The Group is predominantly active in the UK and, to a large extent, exposed to the UK property market. Therefore, the general UK macro-economic environment is a key factor in determining the success of the Group. The main economic drivers that impact the risk profile of 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 retail franchise in financial services offering our customers mortgages, savings, financial advice and estate agency services, the management of conduct and operational risk is key to the ongoing success of the Group. Central to managing these risks is maintenance of a robust product governance framework, to ensure that we develop and market compliant and fair products and services designed to meet the needs of our target market. At point of delivery, the competency and oversight of our advisers to ensure we provide good outcomes for our customers is then essential to maintain the confidence and trust upon which our brand is based.

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

We have seen inflation increase during 2021 as a result of increases in commodity prices and supply shortages. Whilst this was initially viewed as temporary by a number of economic commentators, the Bank of England's latest projection of inflation is that it may peak at around 7.25% in April 2022, leading markets to price in further interest rate rises during 2022.

During 2021 unemployment has remained stable ending the year at 4.1%. More recently we have seen shortages in the supply of labour across a number of industries. Our latest projections indicate further stability in unemployment during 2022, which has been reflected in our forward-looking loan impairment provisions held in our balance sheet.

The housing market in 2021 stayed strong through the year, driving up house prices, and only showed signs of slowing down following the end of the reductions in stamp duty implemented by the government in response to the pandemic.

Mortgage arrears levels remained low throughout 2021, reflective of low interest rates and stable unemployment. It was uncertain whether arrears levels would increase following removal of furlough, but there was no noticeable change in arrears. We remain alive, however, to the impact of this change taking time to flow through to arrears.

A key driver of profit for the Society is the margin earned on mortgages offered to customers. During 2021 there was significant volatility in the level of supply of mortgages to the market, reflecting how views of the economic impact of the pandemic changed through the year. This volatility shaped the margin generated by new business written, with margins declining in the latter part of the year. We anticipate a highly competitive mortgage market throughout 2022.

The results of the Estate Agency division are principally driven by the volume of UK property transactions, in particular second-hand property sales. This market is heavily influenced by consumer confidence, driven by the general state of the economy, level of unemployment and interest rates, together with the availability of mortgages, particularly for first time buyers. A slowdown in the housing market puts pressure on Connells' income levels but the Estate Agency division is partially protected against the performance of its core business through its own diversification into complementary businesses such as property asset management and lettings. During 2021 the housing market remained strong and revenues and profits were boosted by acquisition of the Countrywide business in March.

Principal risks and uncertainties

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

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

Over the following pages, the prudential risks facing the Group are presented, followed by strategic and business risks and finally operational and conduct risks.

Risk	Risk mitigation and management
Credit risk	
Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group. The Group faces this risk from its lending to: • individual customers (retail mortgages); • businesses through historical commercial lending and ongoing debt factoring and invoice discounting; and • wholesale counterparties for the purposes of liquidity management.	The Society's retail and commercial credit exposure is managed by a team of experienced professionals, with oversight provided by the Retail Credit Committee. Similarly, the Group Wholesale Credit Committee manages treasury credit exposures, with oversight provided by ALCO. The Group has established comprehensive risk management processes in accordance with the Board's credit risk appetite which defines a number of limits regarding concentration risk as well as customer and collateral credit quality to which all lending activity must adhere. The Group maintains what the Board considers to be a low risk approach to new lending and will continue to do so. The credit decision process utilises automated credit scoring and policy rules within lending policy criteria supported by manual underwriting. All aspects of the credit decision process are subject to regular development, as well as independent review by the Credit Risk function, ensuring they support decisions in line with the Board's risk appetite. The Group's collections and recoveries functions provide a responsive and effective arrears management process. We seek to engage in early communication with borrowers experiencing difficulty in meeting their repayments, to obtain their commitment to maintaining or re-establishing a regular payment plan. We consider forbearance options on a case-by-case basis in line with industry guidance and best practice. The impact of any such forbearance is recognised within our provisioning policy. The Society has a commercial mortgage portfolio which is UK-based and, following a reduction in the Group's risk appetite, was closed to new lending in November 2008. The gross carrying value of this portfolio as at 31 December 2021 was £195.0m, representing 0.8% of total Group loans and advances. In addition, the Group includes specialist lending businesses Amber and North Yorkshire Mortgages which were also closed to new lending in 2008. The portfolios of both these businesses were successfully integrated into the Society portfolio with effect from 1 June 2021; the book value of these loans when migrated to the Society on 1 June 2021 was £561.3m. Skipton International (SIL) 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 portfolio's is managed locally, supported by oversight governance from the Retail Credit Committee. These portfolios are managed tightly against a low risk appetite, with consequent low levels of arrears and losses. As at 31 December 2021, SIL had one case of three months or more in arrears and held an impairment provision of £33,000.
Liquidity risk	
Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due.	The Society's Treasury function is responsible for the day-to-day management of the Group's liquidity and wholesale funding. The Board sets the Group's liquidity risk appetite and limits over the level, composition and maturity of liquidity and deposit funding balances, reviewing these at least annually. Compliance with these limits is monitored daily by Finance and Risk personnel and, additionally, a series of liquidity stress tests are performed weekly by the Risk function. Liquidity stress testing is carried out against a number of scenarios including those prescribed by the PRA, considering a wide range of liquidity and economic factors.

Risk Management Report (continued)

Risk	Risk mitigation and management
Liquidity risk (continued)	
Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due.	Early warning indicators are regularly assessed by a variety of functions across the Society to ensure liquidity is maintained at appropriate levels and reported to ALCO and the Board on a monthly basis. On an annual basis, a detailed and forward-looking assessment of our liquidity is undertaken as part of our corporate planning process. This formal review is known as our Internal Liquidity Adequacy Assessment Process (ILAAP) and is reviewed and approved by the Board and shared with the PRA. In addition, the PRA conduct a review every two years of our processes for managing liquidity. Feedback from the PRA regarding the most recent review undertaken during 2021, indicated that the PRA was satisfied that the Society holds sufficient liquidity in both size and quality. Our longer-term funding strategy is to continue to diversify our funding sources, through increasing the volume and diversity of our longer term wholesale funding. During 2021, the Society did not issue any wholesale transactions, however further transactions are planned for 2022. Retail funding growth has been good during the year and despite the challenges of the Bank of England Base Rate remaining low during 2021, the Society has increased retail savings balances by £1.1bn (or 5.8%). We have also maintained the quality of the Group's liquidity portfolio, with 46.0% of total liquidity held within the Statement of Financial Position comprising balances held at the Bank of England, with a further 7.6% held in UK gilts and Treasury Bills.
Interest rate risk	
Interest rate risk is the risk of loss arising from adverse movements in market interest rates.	Interest rate risk arises from the mortgages, savings and other financial products we offer. This risk is managed through the use of appropriate financial instruments, including derivatives used to hedge exposures, with established risk limits, reporting lines, mandates and other control procedures. Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between market rates), are also monitored closely and regularly reported to ALCO, the Board Risk Committee and the Board. This risk is also managed, where appropriate, through the use of derivatives, with established risk limits and other control procedures. Derivatives are only used to limit the extent to which the Group will be affected by changes in interest rates, foreign exchange rates or other indices which affect fair values or cash flows. Derivatives are therefore used exclusively to hedge risk exposures. The principal derivatives used by the Group are interest rate contracts such as interest rate swaps. The Group holds capital to absorb potential losses for any risks that are unable to be mitigated through the use of derivatives. The Group's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly, in line with PRA guidance.
Capital risk	
Capital risk is the risk that the business does not maintain sufficient capital levels to protect it against the principal risks it faces such as severe recession or business shocks.	The Society's Finance team conducts an Internal Capital Adequacy Assessment Process (ICAAP) at least annually to assess the Group's current and projected capital requirements to support the current risks in the business and future risks arising from the corporate plan. The ICAAP addresses all the Group's material risks and includes Board-approved stress scenarios which are intended, as a minimum, to meet regulatory requirements. The ICAAP is approved annually by the Board and reviewed by the PRA when setting the total capital requirements. The Group currently adopts the following approaches to calculating its Pillar 1 minimum capital requirements: • IRB approach for mortgage exposures of the Society; • 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.

Risk	Risk mitigation and management
Capital risk (continued)	
Capital risk is the risk that the business does not maintain sufficient capital levels to protect it against the principal risks it faces such as severe recession or business shocks.	Within the ICAAP we consider the impact of emerging capital regulation. There are a number of material changes to future capital regulation which will impact the Society's capital position over the corporate plan horizon. CRD V and the CRR, as amended by the on-shored provisions within the CRR II regulation (EU) 2019/876 and the CRR 'Quick Fix' package, define the regulatory framework the Society is required to operate within and is the basis upon which the ICAAP has been prepared. In addition, the Basel Committee have finalised reforms of the Basel III regulation. These reforms impact the basis of calculation of the capital requirement within our ICAAP. These reforms are commonly referred to as Basel IV. The timing for the implementation of the changes is currently uncertain but will be no sooner than 2023. The regulatory changes outlined below represent a material recalibration in the amount of regulatory capital required to be held by the Society, despite no material change to the risk profile of the Society, and include: • Minimum Requirement for Own Funds and Eligible Liabilities (MREL) is the minimum amount of eligible liabilities we are required to hold to ensure the Society has sufficient capital to resolve itself in the event of a resolution scenario. In December 2021 the Bank of England published its policy for setting MREL. Binding MREL for the Society will be 18% of risk weighted assets from 1 January 2022 to 31 December 2022. From 1 January 2023 the indicative end-state MREL is expected to be 2x (Pillar 1 plus Pillar 2A capital requirements) as set out in the Bank of England's statement of policy. • The Basel III reforms materially change the approach to calculating our risk weighted assets as a result of the introduction of an IRB output floor, which sets a minimum threshold for the Pillar 1 requirement which will be phased in from 50% of the equivalent Pillar 1 requirement calculated under the standardised approach to 72.5% over a five year period. • In 2021 the Society submitted new IRB models to the PRA incorporating material changes in accordance with regulatory requirements. The changes made are consistent with the requirements set out in the PRA's Supervisory Statement SS11/13 and result in a material increase in regulatory capital requirements from 1 January 2022. These models remain subject to regulatory approval. Our ICAAP demonstrates that we anticipate having sufficient capital resources to deliver our corporate plan over the plan horizon, incorporating the impact of the IRB model changes, and projected increases in capital requirements associated with the anticipated regulatory changes. These reforms represent a significant recalibration of regulatory capital requirements across the industry although there remains uncertainty on the final outcome and timings of the existing proposals. The Society satisfies all of the current capital requirements.
Pension obligation risk	
Pension obligation risk is the risk that the value of the schemes' assets, together with ongoing contributions, will be insufficient to cover their obligations over time. The schemes are also exposed to possible changes in pension legislation.	The Group has funding obligations for three defined benefit schemes, the two primary schemes of which carry funding deficits. The two primary schemes were closed to new entrants by 5 April 1995 and closed to future accrual of benefit by 31 December 2009. Whilst the pensions Trustee oversees the investment strategy for the pension funds, it is for the boards of the Society and Connells to ensure that the schemes are adequately funded to meet all liabilities. To manage the Group's exposure to pension obligation risk: • The Board, at least annually, reviews the Group's pension risk strategy; • The pension scheme Trustee meets, at least, quarterly to monitor the investment performance of scheme assets and make investment decisions, liaising with the principal employer in accordance with the scheme rules and taking advice from professional investment consultants; • The pension scheme Trustees also monitor the pension obligation position (on the Trustee's funding basis); and • The pension obligation position (on an IAS 19 basis) is updated every six months and reported, along with key pension risk metrics, to the Board Risk Committee and Board.

Risk Management Report (continued)

Risk	Risk mitigation and management
Model risk	
Model risk is the risk that, as a result of weaknesses or failures in the design or use of a model, a financial loss occurs or a poor business or strategic decision is made.	To mitigate this risk the Model Governance Committee (MGC) provides a formal forum for monitoring and managing model risk in the Society, ensuring that all material models: • go through a formal review and approval process; • have a robust change control process; • undergo a consistent model, development and validation process; and • are monitored routinely and reviewed periodically in line with a risk based timetable. MGC manages model risk with reference to a defined model risk appetite and governance policy which have both been approved by the Board Risk Committee, and also provide regular updates on model governance compliance to the Board Risk Committee.
Business risk	
Business risk is the risk of changes in the environment in which the Group operates or the occurrence of events which damage the franchise or operating economics of the Group's businesses.	The Executive Committee of the Society and the boards of subsidiary firms are responsible for ensuring that business risk is effectively managed. Potential sources of business risk include revenue volatility due to factors such as macro-economic conditions, inflexible cost bases, structural inefficiencies or new market entrants with lower cost structures or innovative service propositions. Delay or inability to respond to changing customer behaviours presents itself as a clear risk as customers' preferred means of accessing financial services evolves in a rapidly changing digital environment. The Society addresses these risks within its corporate plan which is approved by the Board along with the Group's key strategies. The Board Risk Committee is also provided with the results of stress and scenario tests to assess the potential impact on the Society and its subsidiary businesses of a stressed business environment such as a severe economic downturn. This enables the Committee to monitor the risk impact of business strategies and to determine whether changes to these may be required to protect the sustainability of the Society. In line with regulatory requirements the Society maintains a recovery plan detailing the steps it would take to sustain itself through such severe business stresses.
Climate change risk	
Climate change risk refers to the commercial impact that climate and environmental changes present to our business model.	The Executive Committee is responsible for management of the financial and operational risks arising from climate change and the management strategy to mitigate these risks. Climate change, considered as the combination of extreme weather events and longer-term climate modifications, presents both risks and opportunities to the Society, our members and the wider Group. Climate risks arise from both the potential impacts of climate change as well as societal responses to climate change. Climate risk can therefore manifest in various ways including the impact on traditional risk categories such as credit risk, operational risk and market risk. In addition, climate change presents risks and opportunities with respect to our business model, driven by changing customer and investor sentiments, regulatory expectations and government policy intervention. Progress has been made during 2021 with respect to embedding our approach to managing the risks from climate change, with focus on four key pillars; Governance captures the oversight approach and key responsibilities in relation to our evaluation and response to climate change risks; Risk management captures the identification of potential risks, a vulnerability assessment of these risks that assesses the likelihood and potential impact of potential risks, and the identification of opportunities to enhance the Society's response to climate change, including the establishment of key metrics to monitor risks and progress thereof; Scenario analysis encompasses the consideration of data sources to enable modelling of potential outcomes and their impact upon the Society, and also includes the development of modelled scenarios for evaluating the impact of potential risks; and Disclosures considers how the Society ensures that key stakeholders are fully aware of the activity and outcomes associated with our response to climate change. In addition to ensuring that the Society has considered and is addressing the potential financial risks associated with climate change, it has also identified a series of sustainable development goals, and developed a sustainability strategy, which outline the steps the Society is taking to ensure that it is acting responsibly in its individual response to climate change.

Risk	Risk mitigation and management
Conduct risk	
Conduct risk is the risk of delivering poor or inappropriate outcomes for customers.	The Executive Committee of the Society and the boards of Group subsidiary firms are responsible for ensuring that conduct risk is effectively managed. The framework to control this area is maintained and overseen by the Board Risk Committee. The key risk areas are: *Mortgage advice* - Likely to be the largest financial commitment undertaken by customers, the need for reliable mortgage advice is paramount. The Society provides advice directly and through its estate agency division, Connells. Rigorous quality checking and compliance monitoring are operated by the Society and Connells to ensure that the quality of advice and service provided to customers is as expected. A shortcoming in our processes could see poor outcomes for our customers, possible regulatory censure and damage to our brands. The Society and SIL (which advances non-advised residential loans in the Channel Islands and 'expat' buy-to-let loans in the UK via the intermediary market) operate rigorous affordability assessments as part of the mortgage underwriting process. This is subject to regular review to ensure that arrears experience does not exceed expectations, thus enabling early preventative action. *Pensions and investment advice* - Whilst the Society prides itself on the quality of advice offered to customers, the provision of pensions and investment advice is inherently complex and, on occasion, can subsequently be found not to be suitable for the customer. The liberalisation of pensions by the Government has increased the complexity of this area significantly and with it the risk of providing unsuitable advice. Alert to this risk, the Group maintains a robust compliance capability which supports development of appropriate customer offerings and closely monitors the suitability of advice provided to customers.
Operational risk	
Operational risk is the risk of financial loss or reputational damage arising from inadequate or failed internal processes, systems or human error.	The Executive Committee of the Society and the boards of Group subsidiary firms are responsible for ensuring that operational risk is effectively managed. The framework to control this area is maintained and overseen by the Board Risk Committee. The principal risks here are: *Change Execution* The scale, scope and pace of change across the business is hugely demanding and creates the risk of management attention being diverted from core business activities negatively impacting planned performance. Key areas of attention are: *Countrywide integration* – The successful integration of Countrywide with Connells is key to maximising the commercial potential of the enlarged entity, now the country's largest estate agency business. There is risk of significant operational challenges and failure to deliver the expected efficiency savings as well as the risk of unexpected conduct risk issues being identified. *Regulatory change* - The scale and pace of regulatory change has been significant in recent years and shows little sign of abating. The scale of this change may impact our ability to progress defined business growth strategies as IT and project resource is directed to ensuring delivery of new regulatory requirements. The regulatory horizon is scanned continuously to enable us to respond in a timely manner to mitigation of this risk which is helped by publication of a combined PRA/FCA Regulatory Initiatives Grid timeline. *Change Portfolio* - Alongside regulatory change, the Society, in particular, has an ambitious change portfolio designed to ensure that our customer proposition and service delivery are aligned to customer expectations. The Board and senior management are cognisant that a large and demanding change portfolio could, if inadequately managed, lead to the crystallisation of unforeseen risks resulting in poor service to customers. Focus and resource has been devoted to developing a robust governance regime to deliver effective oversight of projects from business case approval through to implementation using our Agile change management methodology introduced in 2020. *Technology* - The pace of technological development has created a period of significant change in financial services. Group businesses will continue to invest in its technology to provide an excellent level of customer service and manage risks in this area which include: *Cyber crime* – Cyber risk incorporates a wide array of potential threats to Group businesses. These can include denial of service attacks, network or perimeter threats or a breach of online controls leading to increased risk of online fraud and data leakage.

Risk Management Report (continued)

Risk	Risk mitigation and management
Operational risk (continued)	
Operational risk is the risk of financial loss or reputational damage arising from inadequate or failed internal processes, systems or human error.	These threats are of increasing significance given the expected growth in online customer transaction levels, magnified by remote working. In response to this, Group businesses continue to focus efforts on proactively managing the evolving nature of cyber threat through a rolling programme of cyber protection activity ensuring the Group is best placed to protect itself and its customers. This includes reviews of our plans to ensure disruption to our customers is minimised were an attack ever to succeed. *Business resilience* – Market experience has shown that executing IT change has significant risk attached to it and can lead to the loss of core systems and the ability to provide expected levels of customer service. Group businesses are aware of these inherent risks and continue to review their approach to business resilience and continuity to ensure that this is reflective of business changes over time and remains fit for purpose. Specialist teams oversee this area and assist first line teams to assess and challenge their operational resilience and ability to deliver a reliable service to our customers. *Financial crime* – As authorised deposit-takers, the Society and SIL carry the inherent risk of being used for money laundering and fraud. They have a clear duty of care to savers to protect their monies and ensure that customers can continue to save with trust and confidence. The market has seen a rise in scams such as Authorised Push Payment fraud and financial abuse of vulnerable customers; where this occurs, it can have a devastating impact upon the customer whilst creating risk of regulatory censure and the commercial ramifications of loss of confidence in our brand. To manage this risk, customer facing Group businesses maintain financial crime teams which oversee their frameworks to reduce the likelihood of their services being used for the furtherance of crime. The teams are closely involved in the development of new products and services whilst the Society and SIL teams closely monitor the use of savings accounts for unusual activity. Colleague awareness of how to spot financial crime is a core element of our defence so training is a regular feature for all our teams. The buying and selling of properties is also a known target for money launderers. Operating a large estate agency network increases the risk profile of the Group and is an area of Committee focus since internal monitoring found weaknesses in ID verification following the acquisition of Countrywide. Procedures and processes are being strengthened and close monitoring maintained to bring this area within our risk appetite *GDPR* - The extent of the GDPR regulations allied with the ongoing threat of cyber crime (referred to above) has increased the weighting attributed to this area within our risk profile, underlined by the scale of regulatory fines issued within the industry since the regulations passed into law in 2018. Whilst protection of our customer data has always been a focus within the Group, the extent and detailed requirements of this legislation has seen significant resource and investment dedicated to this area across the Group to build appropriate control frameworks and oversight arrangements. Our focus has been to embed our data culture as a business as usual activity rather than as a series of additional tasks to ensure compliance. As with our other conduct and operational risks the threat is solely not one of regulatory non-compliance but loss of customer confidence and lasting reputational damage. *Succession planning* – Succession planning risk is the risk that holders of key posts unexpectedly leave employment without there being an obvious successor in place. Mitigation of this risk has been a key focus of the Nominations Committee for both the Society and its principal subsidiaries. Whilst the Group has benefitted greatly from the vast experience of its senior teams and the relatively little turnover here, more emphasis has been placed on succession planning, particularly at the Society and Connells. Agreed frameworks with talent development programmes are in place. *People & talent* – this is the inability to retain or attract new talent with key technical skills in an increasingly competitive market which may limit our ability to effectively deliver key strategic and operational objectives. The advent of remote working where people may change employer whilst continuing to work from home along with increased competition for specialist resource in areas such as data, technology and IT security as well as generalist roles has seen the Society's vacancies

Risk	Risk mitigation and management
Operational risk (continued)	
Operational risk is the risk of financial loss or reputational damage arising from inadequate or failed internal processes, systems or human error.	increase significantly. Whilst talent development programmes continue to be enhanced, benchmarking of remuneration for all roles has been completed recently to ensure that the Society can continue to attract and retain the quality and numbers of people required to deliver our strategic objectives and ensure our customers continue to receive excellent service.
Reputational risk	
Reputational risk is the risk to earnings, liquidity or capital arising from negative market or public opinion.	The Executive Committee of the Society and the boards of Group subsidiary firms are responsible for ensuring that reputational risk is effectively managed. Such risk essentially arises through the poor management of risks generally. The consequences would adversely impact the future prospects of the Group and could expose it to litigation and financial loss. This risk is managed by: • maintaining and investing in control structures; • continuing to focus on customer outcomes; • promoting the Society through marketing and external communications; • working within the risk management framework which has reputational risk as a key consideration; and • closely monitoring social media and press references to Skipton Group businesses.

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

Conclusion

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

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

Denis Hall
Chair of Board Risk Committee

17 March 2022

Directors' Remuneration Report

Annual statement from the Chair of the Remuneration Committee

Dear Member,

On behalf of the Remuneration Committee, I am pleased to share the Directors' Remuneration Report for the year ended 31 December 2021. The details of pay, incentives and benefits are set out for the Skipton Building Society Directors.

The Committee

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

Helen Stevenson, Non-Executive Director (Chair)
Amanda Burton, Non-Executive Director
Heather Jackson, Non-Executive Director
Mark Lund, Non-Executive Director

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

Remuneration Report

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

- This annual statement explaining the priorities of the Committee across reward for all colleagues and outlining the remuneration policy for Executive Directors.
- An 'At a glance summary' of the key performance measures which inform our remuneration awards and the outcomes for the Executive Directors for 2021.
- The Directors' Remuneration Policy, which has been reviewed and updated for 2022 to include regulatory and minor operational changes as well as clarity on the exercise of Remuneration Committee discretion. Regulation requires shareholders (or in our case, members) to vote on policy every three years. The Remuneration Policy is included in full in this report and will be put to an Advisory Vote at the AGM in April 2022.
- The Annual Report on Remuneration in 2021 on pages 92 to 103 which explains how we applied our existing policy in 2021 and how we intend to apply the revised policy in 2022.

The Remuneration Committee's review of 2021

2021 saw unprecedented growth for the Skipton Group with the acquisition of Countrywide plc by our subsidiary Connells Ltd, expanding the Group from employing 9,458 colleagues to 16,400. This acquisition significantly increased the complexity of the Group and the accountabilities of both our Chair and Group Chief Executive. The Group Chief Executive led this transformative acquisition which sets the Group up for an exciting future.

At the same time, 2021 saw low unemployment alongside the highest demand for people we have ever seen, thereby increasing salary inflation in the market.

The step change in the size of the Group and the challenging external market led the Remuneration Committee to focus on the following key areas during the year:

- Pay awards for the Executive Committee were awarded in April 2021. The Connells group completed the acquisition of Countrywide in March 2021 and the substantial increase in scale and complexity of this division influenced the pay recommendations and led to us making a number of one-off salary adjustments. David Cutter's 17% increase reflected his increased accountability and responsibility as Group Chief Executive of the enlarged Group. Bobby Ndawula, Group Finance Director and Ian Cornelius, Commercial and Strategy Director, also received 5% increases to recognise their expanded Group responsibilities. On average the four Executive Directors were awarded 8.6%, the other members of the Executive Committee were awarded 2.4%, Senior Leaders 1.9% and all other colleagues 2.6%.
- The Committee reviewed and agreed a proposal that from 1 April 2021 David Cutter would receive a reduced pension contribution of 10% of base salary (a reduction from 20%). This aligns David Cutter's maximum employer contribution to that received by the wider workforce through the employee Retirement Savings Plan.
- The Committee reviewed the fees paid to the Chair of Skipton Building Society. Robert East, who will remain in tenure until the AGM in 2022, received an increase to £190,000 per annum (£165,000 per annum in 2020) effective from 1 April 2021. This was awarded to recognise the growth in the Skipton Group and the fact that the Chair fee sat low against all benchmarks. To ensure that Skipton can attract and retain a high performing Chair for our Board, and to pay a fee that reflects a fair benchmark against peers and comparator groups, a fee of £205,000 per annum was approved for the incoming Chair in 2022.
- Each year we review the design and focus of our annual bonus schemes to ensure that they drive the culture and behaviours we want to promote and reward appropriately. 2021 has been no exception with changes being made to both the quantum and the design of the Society's All Colleague Bonus scheme. In order to improve our competitive pay position and ensure we can attract and retain talent, significant investment has been made into the scheme doubling the on-target opportunity that can be achieved by colleagues in 2021. The average all colleague award for 2021 was 10.3% (2020: 4.9%).
- Our reward philosophy was examined to help identify the bonus design principles underpinning the schemes. By simplifying and having a common structure between the Senior and all colleague schemes, we have provided a much clearer message for all colleagues. The 2021 bonus is based on how the Society has performed against a small number of strategic financial and customer goals that align to the Corporate Plan, together with individual performance. Implementation and outcomes are explained in more detail in the section on Remuneration in respect of 2021 below.
- Diversity and Inclusion has remained a key topic for 2021. The Society has been a member of the Women in Finance Charter since 2019 and in 2021 achieved its target of 37% female representation at the Senior Leadership level. This is a good achievement and we will maintain our focus on this key area until there is no longer under-representation of women in our senior leadership.
- The Society seeks to offer an overall reward package that is competitive and both attracts new and retains existing colleagues. The buoyant market has meant that it has been a challenge to recruit and retain talent across the industry. Looking forward to 2022, a decision has been taken to make a significant investment in base pay and address all colleagues that are currently below benchmark for their role. In addition, for 2022, the colleague pay review date has been moved from 1 April 2022 to 1 January 2022. We believe these actions will help us to face into the current challenges and have a positive impact on colleagues and the Society.
- The annual pay review was considered for the Group Chief Executive. The Committee approved a salary increase of 3% and this will be effective from 1 April 2022.
- Focus has been given to exploring emerging trends around the role of ESG in executive compensation. ESG measures will be reflected in the Corporate Strategy and these will flow through to the variable pay schemes in 2022.
- Our Group Chief Executive is stepping down at the April 2022 AGM and we have started the search for a new Group Chief Executive to lead the Group into the next phase of its evolution.

Leaving arrangements for the Group Chief Executive

In agreement with the Board, as noted above, the Group Chief Executive will step down with effect from the Society's AGM in April 2022. The Committee has determined that he will receive his salary and contractual benefits in respect of his notice period, together with discretionary payments relating to loss of statutory rights, legal and pension advice, and accrued but untaken leave. These will total £880,647 of which £87,000 will be deferred in line with the Society's usual deferral arrangements.

He will retain his entitlement to existing deferred bonuses which will continue to be released in the usual way. He will not be eligible for any bonus in respect of 2022.

Remuneration Policy

In line with the regulatory requirements for listed companies, we choose to put our policy to a member vote at least every three years. The Directors' Remuneration Policy was put to an advisory vote and approved at the AGM in April 2019 and has been updated and amended in line with regulation. The Policy is included in full in this report and will be put to an advisory vote at our AGM in April 2022.

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

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

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

- A Single Variable Pay Arrangement (SVPA) exists for Executive Directors and other members of the Executive team.
- The Remuneration Committee has a wide-ranging discretion to amend the terms and application of the policy during the year to ensure that it can deal with any issues that may arise. Any exercise of discretion will be explained to members in the following year's Directors' Remuneration Report.
- The SVPA, which has a maximum opportunity of 50% of base salary, is made up of a balanced scorecard of measures which are targeted and assessed annually, align with the corporate plan and are within agreed Board risk appetites.
- There is a 28% weighting for personal and strategic team objectives which is designed to give a continued focus on the achievement of longer-term strategic objectives.
- The long term focus of the scheme is further maintained by a requirement that at least 50% (or more if required by regulation) of any variable pay awarded from the scheme is deferred and will vest over a period of either five years or four to seven years (as required by regulation).
- In addition to normal malus and clawback arrangements, these deferred payments are subject to a sustainability assessment one year after award and can be reduced if the Committee determines that the performance which generated the award has not been materially sustained in line with Board expectations.

SVPA in respect of 2021

The Society is focusing on four key priorities in order to deliver our long-term ambitions. The Executive in 2021 have been assessed on progress towards these important strategic areas.

Absolute Customer Focus

Our strategy is based upon an understanding of the needs of our customers gained through research, feedback and analysis. This insight is used to refine, develop and improve the products and services we offer. In 2021 Society membership grew by 21,859 to take our total membership base to 1,082,997. Our net customer satisfaction was 86%.

Brilliant People

Our strategy is to create an environment where our colleagues can be themselves, deliver their best and achieve their full potential. Employee engagement has decreased to 85%, which still remains an excellent score. However, work will be done to ensure we continue to listen and act on the feedback received from our colleagues

Powered by digital technology and data

Our strategy seeks to make the best use of technology and data to enhance the customer journey. The way our members choose to interact with us is changing and our Digital Customer Service team continue to enhance the Digital experience. This is reflected in the increase in our digital customer satisfaction score to 85% (2020: 81%). A

Directors' Remuneration Report (continued)

new metric first measured in 2020 showed that 47% of our online customers registered for the Skipton app. This has increased to 54% in 2021.

Financial Strength

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

Group profit before tax in 2021 was £271.8m (2020: £118.8m) and underlying profit before tax was £233.4m (2020: £124.0m). The addition of Countrywide to our Estate Agency division during the year should deliver enhanced returns for the Society and our members.

The core Mortgages and Savings division profit before tax for 2021 was £170.8m (2020: £64.6m), with underlying profit before tax for the division being £165.3m (2020: £67.3m).

Incentive Outcome for 2021

- At the end of the year, the Committee reviewed the annual performance under the SVPA for all the Executive Directors and Executive Committee members. The incentive outcomes for 2021 reflect the performance in terms of financial and non-financial contributions including personal and strategic objectives.
- The Committee reflected on the outcomes under the SVPA scheme, and whether they fully captured the transformative impact of the Countrywide acquisition and the contribution of the Group Chief Executive to the success of this transaction. The Committee made the decision to exercise its discretion by awarding the Group Chief Executive 100% of salary under the Society's SVPA scheme, subject to normal deferral arrangements.
- The outcomes for the other Executive Directors were between 42.5% and 43.1% of salary out of a maximum of 50% of salary, reflecting the strong performance of the Society over the year. The other Executive Committee members received on average 41.9% of salary. Further information on the SVPA can be found on pages 93 and 94.

The average variable pay awards made are set out in the table below:

	Award		Maximum achievable	
	2021	2020	2021	2020
Group Chief Executive	100%	-	50%	50%
Executive Directors	42.9%	-	50%	50%
Other Executive Committee members	41.9%	-	50%	50%
Senior leaders	20.8%	18.2%	From 25% to 50%	From 25% to 50%
Other colleagues	10.3%	4.9%	14%	10%

Notes

1. The calculations for average bonus awards are based on full year participation.
2. The Committee made the decision to exercise its discretion by awarding the Group Chief Executive 100% of salary under the Society's 2021 SVPA scheme, subject to normal deferral arrangements.
3. The senior leaders bonus scheme provides the opportunity of a maximum bonus of either 25% or 50% as determined by the size of the role.
4. The Executive Directors and other Executive Committee members voluntarily withdrew from any 2020 SVPA award and therefore no awards are shown.

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

Conclusion

On behalf of the Committee, I hope this report gives you a clear view of how we have implemented the policy in 2021 and how we are making changes for 2022. The Committee recommends that members vote in favour of the 2021 Annual Remuneration Report and the Directors' Remuneration Policy at the forthcoming AGM.

Helen Stevenson
Chair of the Remuneration Committee

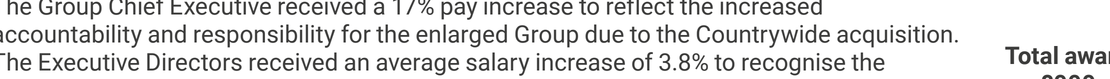
17 March 2022

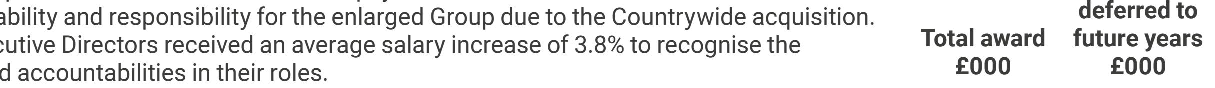
At A Glance Summary

Payments made to Executive Directors 2021

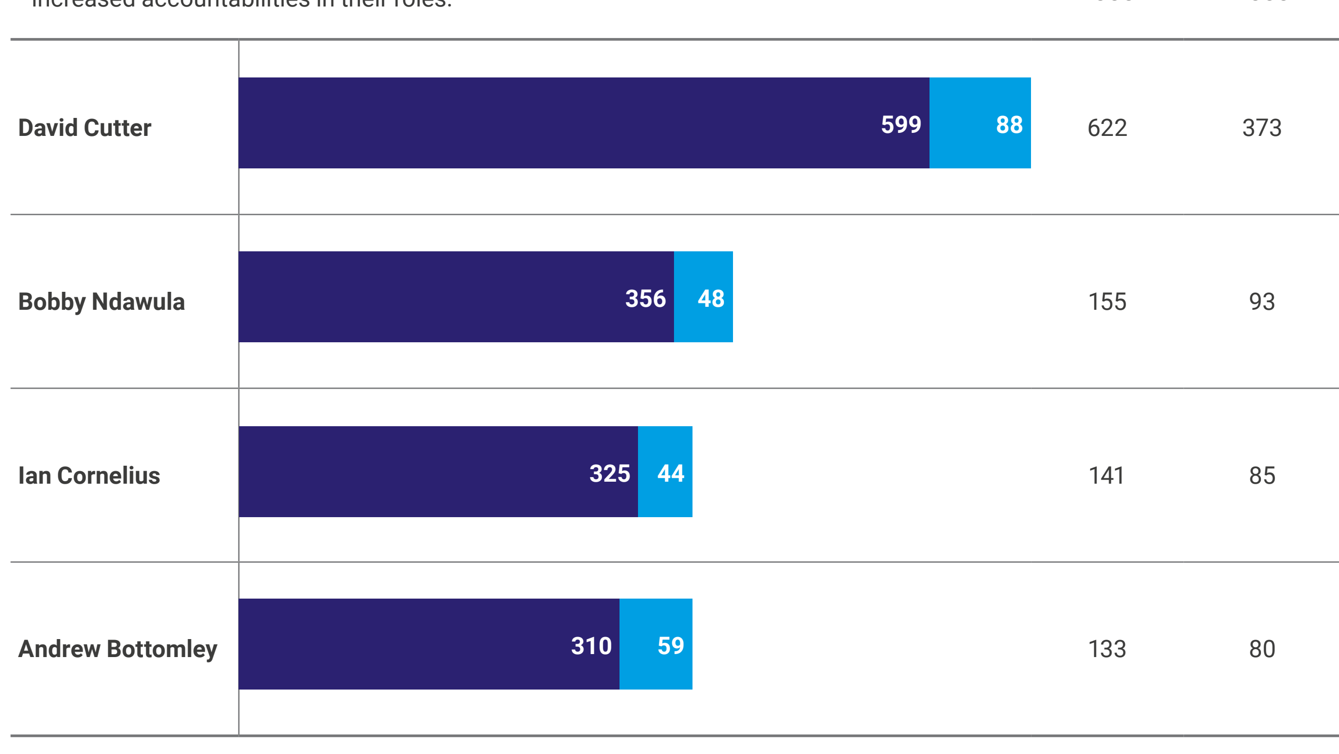
The table below summarises the total payments made to Executive Directors in respect of the 2021 financial year. The figures shown in the graph are included in the single figure table on page 92. Further details on the variable pay awards, the performance measures and the extent to which they are achieved are on pages 93 and 94.

Key highlights of 2021 — **2021 SVPA award**





- The Group Chief Executive received a 17% pay increase to reflect the increased accountability and responsibility for the enlarged Group due to the Countrywide acquisition.
- The Executive Directors received an average salary increase of 3.8% to recognise the increased accountabilities in their roles.



Notes

1. The base salary represents the actual base salary earned in 2021, taking account of any increase awarded in April 2021.

Remuneration in the Society

How does executive remuneration for 2021 align with the wider workforce?

	Salary Average pay increase	Bonus Average award
Group Chief Executive [1]	17.0%	100%
Executive Directors [2]	3.9%	42.9%
Other Executive Committee members	2.4%	41.9%
Senior leaders	1.9%	20.8%
All other colleagues	2.6%	10.3%

Notes

1. David Cutter's 17% increase reflected his increased accountability and responsibility for the enlarged Group. The increase was effective 1 April 2021.
2. The salary increase figure for Executive Directors includes an element to address the size and complexity of their Group role.

Directors' Remuneration Report (continued)

Key Metrics for Remuneration in the SVPA for 2021

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

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

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

Directors' Remuneration Policy

Overview of Remuneration Policy for Executive Directors in the Society

The Board's policy is designed to ensure that Executive Directors' remuneration reflects performance and enables the Group to attract, retain and motivate high calibre individuals to lead and direct the organisation and deliver sustainable business performance for our members. In line with regulations, approval for the remuneration policy will be required every three years, unless amendments are required in the interim, in which case appropriate approval will be sought. The policy received a majority vote in favour from members at the AGM held in April 2019 and due to regulatory changes, we've reviewed and updated the policy. The Policy is included in full in this report and will be put to an advisory vote at our AGM in April 2022.

How Executive Director remuneration is determined

In establishing, implementing and maintaining the remuneration policy, the Committee applies a set of remuneration principles for the Group. The general principles set out the Committee's standards regarding remuneration, governance, risk management and the link to performance. There are specific requirements for those firms captured by the PRA, which includes the Society.

General principles of remuneration in 2021

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

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

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

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

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

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

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

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

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

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

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

Directors' Remuneration Report (continued)

In addition to the general principles, the Committee sets out requirements for the operation of variable pay, setting appropriate rules and limits around incentive related payments, including approving executive salaries in excess of £200,000 and being informed of individuals earning in excess of £275,000 (including base salary, annual and any long-term bonus pay out) in any one calendar year. Additional rules apply to the calculation of termination payments to ensure they are fair to both the employee and the Skipton Group and do not reward failure or misconduct. Further requirements on deferral and performance adjustment apply specifically to Material Risk Takers (as defined on page 102). The principles are reviewed annually and are supported by key policies.

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

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

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

Policy on remuneration of Executive Directors

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

Element How element supports our strategy	Operation	Maximum potential value	Performance conditions and assessment
Base salary • Supports the recruitment and retention of Executive Directors, reflecting their individual roles, skills and contribution.	Base salary reflects the size of the role and responsibilities, individual performance (assessed annually) and the skills and experience of the individual. In setting appropriate salary levels, the Committee takes into account data for similar positions in comparable organisations. The data is independently commissioned and the Society aims to position Executive Directors competitively within this reference group. 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 agreed by the Committee and may be included for the purposes of calculating benefits, pensions and the annual incentive award.	Increases to base salary are determined annually by the Committee taking into account: • Individual performance; • The scope of the role; • Pay levels in comparable organisations; and • Pay increases elsewhere within the Group.	None applicable, although we do take account of individual performance when considering base pay increases.
Pension • Supports recruitment and retention of Executive Directors at a cost that can be controlled by the Society.	Generally, the Society contributes to a defined contribution pension scheme for the Executive Directors. The contribution can instead be paid in cash (which is excluded from incentive calculations) if the Executive Director is likely to be affected by the limits for tax-approved pension saving. All new appointments to executive roles will fully align to the pension arrangements available to all other colleagues. There are a small number of historical arrangements in place for our current executive team which are closed for future accrual.	The maximum is 15% of base salary. With one exception, the Executive Directors are below the maximum available to all other colleagues. New Executive Directors will be 10% maximum of base salary.	None applicable.
Benefits • To attract, retain and provide security for Executive Directors; and • Provide a competitive level of benefits to assist Executive Directors to carry out their roles effectively.	A number of benefits are provided to Executive Directors, including a car or car allowance, private medical insurance, life insurance and disability benefits. The Committee reviews benefits from time to time and may make changes, for example, to reflect market practice or the needs of the business.	The Society bears the cost of providing benefits, which may vary from year to year.	None applicable.

Element How element supports our strategy	Operation	Maximum potential value	Performance conditions and assessment
Single Variable Pay Arrangement (SVPA) • Supports the attraction and retention of Executive Directors. • Supports the development of a high-performance culture. • Rewards performance within the context of achieving corporate goals and objectives as set out in the corporate plan; and • Encourages the right behaviours in respect of sustainable performance that supports the achievement of strategic goals.	A combination of financial and non-financial measures and targets are set with a weighting which will not exceed 50% of the total incentive opportunity for financial measures and which will not exceed 60% for non-financial measures. The latter includes personal objectives (normally up to 15%). Targets are set and assessed against these criteria each year relative to the Society's strategic aims. 50% of earned incentive is normally paid in cash shortly after performance has been assessed. The remaining 50% of earned incentive is deferred over a period of one to five years, or four to seven years if required by regulation, and is normally paid in cash subject to performance adjustment. 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 CET 1 ratio falls below a prescribed level. An element of the performance assessment will be made over a period of more than one financial year to meet regulatory requirements and to maintain a longer-term perspective in the scheme. This will be achieved by the Remuneration Committee making a sustainability assessment one year after the award of the incentive. Up to 25% of the incentive originally awarded can be reduced or cancelled as a result of this assessment. The percentage of deferred incentive, the deferral period (one to five years or four to seven years) and the payment instrument may be amended in response to changes in regulation. The Committee may reduce or withdraw the payment of a deferred amount in certain circumstances and has the power to reduce, cancel or recover payments under the SVPA if it believes there are circumstances where the payments are not appropriate, for example due to failure to maintain certain capital levels, evidence of systemic conduct risk, or evidence of significant control failures or weaknesses.	The maximum incentive which may be earned for any year by the SVPA is 50% of base salary. For each performance measure, the Committee determines a threshold, target and maximum level of performance. No incentive is payable for performance below the threshold level, with varying levels of pay-out for performance between threshold and maximum. On-target performance generally attracts an incentive of 60% of the maximum.	The performance measures attached to the SVPA will be determined by the Committee from year to year, but might typically include (but are not limited to) any of the following: • Group profit (adjusted); • Mortgages and Savings division profit (adjusted); • Efficiency measures; • Customers (growth and satisfaction); • Risk and governance; • People; • Personal objectives (includes an element for strategy development and implementation). Performance against the measures is reviewed and approved by the Remuneration Committee. The weightings attached to the types of measure and the individual weightings attached to each individual measure may vary from year to year as determined by the Committee.

Notes to the table
Performance measures
The performance conditions attached to the SVPA scheme have been selected as they support the sustainable success of the Society. The Committee believes that the use of a range of financial and non-financial measures provides a balanced assessment of the overall performance of the Society.
The Committee considers the targets attached to the SVPA to be commercially sensitive and will not therefore disclose these at the beginning of the financial years to which they relate. The Committee will, however, disclose the weightings that will be attached to each SVPA performance measure at the beginning of the relevant financial year.
A summary of performance against the targets will be disclosed following the end of the relevant financial year. In setting the target and maximum payments, the Committee considers both the market position and the risk appetite of the Society and sets these levels accordingly. The weightings for 2022 are outlined in the 'Statement of implementation of Remuneration Policy in 2022' section of this report.
Remuneration for other employees
All employees of the Society receive a base salary and benefits consistent with market practice and are eligible to participate in the Society's pension plan and in the incentive arrangements relevant to their role.
Members of the Executive Committee and other selected senior managers may be eligible to participate in the SVPA on the same terms as the Executive Directors, subject to the discretion of the Group Chief Executive and the Committee. The award size for these individuals may be lower than for the Executive Directors.
A variable pay arrangement for all employees (excluding 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.

Directors’ Remuneration Report (continued)

Each element of remuneration is defined in the table below:

Element	Approach to determination
Base Salary	Base Salary reviewed annually
Pension and benefits	Pension contributions or pensions allowance plus taxable benefits
Incentive	Single Variable Pay Arrangement at on-target and maximum payment levels

Policy on remuneration of Non-Executive Directors

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

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

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

Approach to recruitment remuneration

Overall, the Committee aims to recruit Executive Directors using remuneration packages that are market-competitive and as consistent as possible with the existing remuneration structure. In doing so, the Committee seeks to pay no more than necessary to attract talented individuals to join the Society. Newly recruited Executive Directors are eligible to receive the same remuneration elements as existing Executive Directors, as set out in the policy table above, namely:

- Base salary – set at an appropriate level taking into account the experience and quality of the candidate.
- Pension and benefits – in line with our standard policy; and
- Single Variable Pay Arrangement – in line with our standard policy.

The Committee does not expect to make additional recruitment arrangements (such as signing on bonuses) as standard practice but may (subject to regulation), from time to time, be required to do so in order to secure the appointment of the right candidate.

The Committee may, where necessary, agree to the payment of relocation allowances and meet similar costs for new Executive Directors. The Committee will act to ensure that any such allowances and payments are not excessive.

In addition to ongoing remuneration arrangements, the Society may, where necessary, make replacement awards to ‘buy-out’ any remuneration awards or opportunities that an incoming Executive Director has forfeited in order to join the Society. Where this is necessary, the Committee will ensure that the overall value does not exceed the value of remuneration being given up and will take into account regulatory requirements, performance conditions and timing of payments.

Newly appointed Non-Executive Directors will receive fees in line with the policy outlined above.

Directors’ service contracts and notice periods

The Executive Directors are employed on rolling service contracts which can be terminated by either the Society or the Director giving one year’s notice. The Group Chief Executive’s employment will terminate at the Society’s 2022 AGM in April. For the other Executive Directors, unless notice to terminate is given by either party, the contracts continue automatically. Non-Executive Directors do not have service contracts.

Policy on termination payments

The Committee’s overarching aim is to treat departing Executive Directors fairly, taking into account the circumstances of their departure, but always taking care to ensure that the interests of members are considered and that there are no rewards for failure.

Executive Directors are entitled to be paid their base salary and contractual benefits (including pension contributions) during the notice period. The Society has the discretion to pay these as a lump sum benefit in lieu of notice. The Committee has the discretion to make further payments that it deems reasonable in the circumstances, for example including payment relating to loss of statutory rights, professional advice, and any accrued but untaken leave.

The Rules of the SVPA scheme set out the treatment of awards for individuals who cease to be an employee or Director of the Society.

In the following circumstances an individual will be eligible for a payment under the SVPA scheme:

- Normal retirement
- Death
- Injury or disability; or
- Any other circumstances which the Committee may in its discretion determine.

In exercising discretion on eligibility for payment of annual or deferred amounts, the Committee will consider the circumstances surrounding the departure.

For the SVPA, the Society will continue to pay any payment due in respect of a completed performance year. Deferred awards for completed performance periods and for part completed performance periods will be paid on the due date, except in the event of death, when the Committee may exercise its discretion and pay the deferred amount due immediately.

Eligible leavers (as set out above) will be considered for a bonus in respect of a partially completed performance year. Such an award would be pro-rated to take account of the service completed during the year. The award would be paid at the usual time, after the end of the performance year, taking account of the outcome of any performance conditions. Any deferred element of the SVPA scheme for eligible leavers will continue to be paid on the usual payment dates.

Consideration of remuneration for individuals elsewhere in the Society

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

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

As part of adopting, on a voluntary basis, the FRC Corporate Governance Code for listed companies, the Society has designated, since January 2019, a Non-Executive Director with a particular focus on engagement with employees as a further step to ensure that their views are reflected in Board discussions and decision making.

Consideration of member views

The Committee has, for a number of years, invited members to vote (on an advisory basis) on the Remuneration Policy and annual Remuneration Report and takes member feedback into account when determining policy and outcomes.

Directors' Remuneration Report (continued)

Annual Report on Remuneration in 2021

Executive Directors' Remuneration

The total remuneration for Executive Directors in 2021 and 2020 is set out in the tables below:

2021 Audited	**David Cutter £000**	**Andrew Bottomley £000**	**Ian Cornelius £000**	**Bobby Ndawula £000**	**Total £000**
Salary	599	310	325	356	**1,590**
Benefits[1]	15	12	12	12	**51**
Pension[2]	73	47	32	36	**188**
Total fixed remuneration	**687**	**369**	**369**	**404**	**1,829**
2021 annual performance award (SVPA)[3]	622	133	141	155	**1,051**
Total remuneration in respect of performance periods ending in 2021	**1,309**	**502**	**510**	**559**	**2,880**

2020 Audited	David Cutter £000	Andrew Bottomley £000	Ian Cornelius £000	Bobby Ndawula £000	Total £000
Salary	526	303	309	337	1,475
Benefits	15	12	12	12	51
Pension	105	46	31	34	216
Total fixed remuneration	646	361	352	383	1,742
2020 annual performance award (SVPA)	-	-	-	-	-
Total remuneration in respect of performance periods ending in 2020	646	361	352	383	1,742

Notes

1. Benefits comprise the provision of a car or car allowance and private medical insurance contributions.
2. David Cutter's 2021 pension figure includes the additional value earned in the defined benefit scheme during 2021 and a non-consolidated allowance paid in lieu of contributions. For the other Executive Directors, the figure relates to contributions to the defined contribution pension scheme and/or a non-consolidated cash allowance.
3. The SVPA award is subject to the deferral arrangements set out on page 94.

In 2021, no payments were made to past Directors or for loss of office.

Base Salary

Pay awards for the Executive Committee were awarded in April 2021. Connells Group completed the acquisition of Countrywide in March 2021 and the substantial increase in scale and complexity of this division influenced the pay recommendations and led to us making a number of one-off salary adjustments. David Cutter's 17% increase reflected his increased accountability and responsibility for the enlarged Group. The increases were effective 1 April 2021.

The Committee reviewed and agreed a proposal that from 1 April 2021 David Cutter would receive a reduced pension contribution of 10% of base salary (a reduction from 20%). This aligns David Cutter's maximum employer contribution to that received by the wider workforce through the employee Retirement Savings Plan.

Director	**% increase**	**April 2021**	October 2020
David Cutter	**17.00%**	**£621,930**	£531,560
Andrew Bottomley	**1.50%**	**£311,460**	£306,850
Ian Cornelius	**5.00%**	**£328,470**	£312,820
Bobby Ndawula	**5.00%**	**£360,690**	£343,510

Variable Pay

Single Variable Pay Arrangement (SVPA)

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

The four key strategic team objectives, aligned to the Society's corporate plan, were focused on delivering our strategy, building capability through organisational design, focusing on achieving a return on our investment in financial advice and optimising our cost base for 2021.

The table below summarises the weightings, targets and thresholds underlying the SVPA:

Measure	**Performance target range Threshold - Maximum**	**Performance relative to targets**	**Outcome**	**Weight**
Financials				
2021 Group PBT (adjusted) (£m)[1]	130.6 - 184.3	Above Target	239.8	8%
Mortgages and Savings division PBT (adjusted)(£m)[1]	94.1 - 110.7	Above Target	165.0	24%
Mortgages and Savings cost income ratio (%)	61.7% - 57.5%	Above Target	52.8%	8%
Mortgage year end balances (£bn)	22.8 - 23.7	Below Target	23.1	4%
Savings year end balances (£bn)	19.0 - 19.8	Above Target	19.8	4%
Team KPIs				
Net customer growth (Society only)	17,145 - 24,205	Above Target	21,859	5%
Net customer satisfaction (%)	81% - 88%	Above Target	86%	5%
Colleague engagement (%)	80% - 89%	At Target	85%	5%
Risk and Governance:				
Number of medium overdue audit actions	12 - 5 or less	Above Target	1	2%
Number of medium overdue compliance actions	10 - 4 or less	Above Target	3	2%
Women in Finance Charter[3]	A spot target - no threshold or maximum set. A rolling average of at least 37% male/female representation across Senior Management by end of 2021		38.8%	3%
Strategic Team Objectives - a set of objectives aligned to the Society's Corporate Plan focusing the Executive Team on the achievement of certain key strategic aims for the Society. Examples included Mortgage Strategy, Costs and the Society's Financial Advice Proposition.				15%
Personal Objectives - performance has been assessed against both the delivery of the Society performance scorecard as well as individuals goals, conduct and behaviours.				15%

Notes

1. For bonus purposes, the Group profit and Mortgages and Savings division profit are adjusted for those items that are not considered part of the Group's core strategy or 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 management incentive scheme costs and profits or losses on disposal of Group undertakings.

At the end of the year, the Committee reviewed the annual performance under the SVPA for all the Executive Directors and Executive Committee members. The incentive outcomes for 2021 reflect the performance in terms of financial and non-financial contributions including personal and strategic objectives.

The Committee reflected on the outcomes under the SVPA scheme, and whether they fully captured the transformative impact of the Countrywide acquisition and the contribution of the Group Chief Executive to the success of this transaction. The Committee made the decision to exercise its discretion by awarding the Group Chief Executive 100% of salary under the Society's SVPA scheme.

The outcomes for the other Executive Directors were between 42.5% and 43.1% of salary out of a maximum of 50% of salary, reflecting the strong performance of the Society over the year. The other Executive Committee members received on average 41.9% of salary.

Directors' Remuneration Report (continued)

Risk considerations

In order to ensure that rewards are based on sustainable performance, set in a multi-year period, the Remuneration Committee conducts a 'sustainable performance assessment' for senior schemes (SVPA and Senior Leaders), one year after the original performance year. The review also considers feedback from the Board Risk and Board Audit Committees provided as part of the annual risk assessment process. The sustainability review conducted in February 2022 for the 2020 SVPA and Senior Leaders' schemes demonstrated that 2020 performance levels had been maintained in 2021. Whilst no payments were made from the SVPA scheme for 2020, consideration was given for the Senior Leaders schemes and the Committee concluded that no adjustment to the 2020 award was required.

The Society has a Risk Adjustment Policy which sets out its approach to ex-ante and post risk adjustment, malus and clawback. Where the Remuneration Committee determines that risk adjustment is required, payments due from the scheme and deferred payments (if applicable) may be postponed, reduced or cancelled for some, or all, participants. In certain circumstances, the business may need to apply clawback arrangements and require repayment of an appropriate amount of variable pay relating to the event which has occurred.

The Remuneration Committee, after consultation with the Board Audit and Risk Committees and consideration of performance against risk appetites, did not make any risk adjustment for 2021.

Deferral arrangements

SVPA

The SVPA scheme requires a minimum deferral of 50% of the award over a period of five years for all participants but this increases to 60% for Executive Directors if remuneration for the current performance year exceeds de minimis limits, i.e. the total remuneration awarded for the current performance year is greater than £44,000 or the variable amount awarded for the current year is more than 33% of total remuneration. Where remuneration exceeds these limits, then 50% of the SVPA award will need to be paid in 'instruments'. In a listed company, this would be a form of share instrument, but for ourselves as a mutual organisation this means that 50% of the award payable in each year will be retained for a further 12 months and will only be paid subject to meeting agreed capital levels. The retained amount cannot increase or attract interest payments during the deferral and retention periods.

Deferred awards are released on a pro-rated basis between four and seven years if the Director is classified as a 'Senior Manager' under the PRA's Senior Managers Regime and remuneration exceeds the de minimis level.

In 2021, the total remuneration awarded exceeded the de minimis level and therefore 60% of the SVPA will be deferred and released during a period of four to seven years as per the schedule below:

	Year of Award	Total award (£000)	Non-deferred element	Mar-22	Mar-23	Deferred element	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27	Mar-28	Mar-29	Mar-30
David Cutter	2021	622	40%	20%	20%	60%			6%	12%	12%	12%	12%	6%
Bobby Ndawula	2021	155	40%	20%	20%	60%			6%	12%	12%	12%	12%	6%
Andrew Bottomley	2021	133	40%	20%	20%	60%			6%	12%	12%	12%	12%	6%
Ian Cornelius	2021	141	40%	20%	20%	60%	6%	12%	12%	12%	12%	6%		

Notes
1. The table reflects the percentage of the total award and how the payments are phased over time.
2. The 20% due in March 2023 is the retained element of the non-deferred portion of the award.
3. David Cutter, Bobby Ndawula and Andrew Bottomley are deferred for 7 years with no vesting until 3 years after award, in line with regulation. Ian Cornelius is deferred for 5 years.

Current and deferred awards can be reduced or clawed back at the discretion of the Remuneration Committee. This could be in the event of a significant loss, a material error, material failure of risk management or failure to meet appropriate standards of fitness and propriety or some other substantial reason.

Directors' pension benefits

David Cutter is a deferred member of the Skipton Building Society (2015) Group Pension Plan ('the scheme') which is a defined benefit fund registered with HM Revenue and Customs under the Finance Act 2004. The scheme is closed to the future accrual of benefits and no member contributions were made during the year. The value of his benefits in the scheme is set out below.

Audited 2021	**Normal retirement date**	**Member's contribution for the year ended 31 December 2021 £000**	**Accrued pension entitlement at 31 December 2020 £000 pa**	**Accrued pension entitlement at 31 December 2021 £000 pa**	**Value of remuneration for the year ended 31 December 2021 £000**
David Cutter	**1 January 2027**	**-**	**97**	**97**	**-**

Audited 2020	Normal retirement date	Member's contribution for the year ended 31 December 2020 £000	Accrued pension entitlement at 31 December 2019 £000 pa	Accrued pension entitlement at 31 December 2020 £000 pa	Value of remuneration for the year ended 31 December 2020 £000
David Cutter	1 January 2027	-	95	97	-

Normal retirement date for members of the scheme is when they reach the age of 65. The scheme rules specify that this is the earliest date at which members are entitled to benefits from the scheme:

- without consent (from the employer or the Trustee of the scheme); and
- without actuarial reduction in the benefits;
- but disregarding any special provisions in the scheme rules relating to a member's entitlement to early payment of their benefits on the grounds of ill health, redundancy or dismissal.

During the year David Cutter's accrued pension entitlement was revalued in line with the scheme rules. The value of remuneration shown above is calculated using a modified version of HM Revenue and Customs' tax rules for pension savings, as laid out in the regulations. The additional value earned by David Cutter during the year due to his membership of the scheme is included in his total remuneration.

Non-Executive Directors' remuneration

Non-Executive Directors' fees (excluding those of the Chair) are reviewed annually by the Non-Executive Directors' Remuneration Committee, in line with the policy outlined earlier in the report. The Non-Executive Directors' Remuneration Committee makes recommendations concerning Non-Executive Directors' remuneration to the Board.

The Committee reviewed the fees paid to the Chair of Skipton Building Society. Robert East, who will remain in tenure until the AGM in 2022 received an increase to £190,000 (£165,000 in 2020) effective 1 April 2021. This was awarded to recognise the growth in the SBS Group and the fact that the Chair fee sat low against all benchmarks. To ensure that Skipton can attract and retain a high performing Chair for our Board and to pay a fee that reflects a fair benchmark against peers and comparator groups a fee of £205,000 was approved for the incoming Chair in 2022.

Following benchmarking in 2021 the following increases were applied, effective 1 April 2021:

	2021 £	2020 £
Non-Executive Directors	**54,700**	52,100
Audit Committee, Risk Committee and Remuneration Committee Chairs	**15,300**	14,600
Deputy Chair	**7,200**	6,200
Connells Non-Executive Director	**35,000**	34,700

Directors' Remuneration Report (continued)

Audited		2021				2020			
	Note	Fees £000	Committee chair fees £000	Taxable benefits[1] £000	Total £000	Fees £000	Committee chair fees £000	Taxable benefits[1] £000	Total £000
Robert East (Chair)		184	-	1	185	165	-	1	166
Mark Lund (Deputy Chair)	2	90	-	-	90	58	-	1	59
Amanda Burton	3	95	-	-	95	78	-	-	78
Richard Coates	4	54	15	-	69	52	15	-	67
Denise Cockrem	5	13	-	-	13	49	-	-	49
Denis Hall	6	54	15	1	70	52	15	1	68
Heather Jackson		54	-	-	54	52	-	-	52
Philip Moore	7	54	-	-	54	-	-	-	-
Helen Stevenson	8	54	15	-	69	52	15	1	68
		652	45	2	699	558	45	4	607

Notes
1. The taxable benefits shown in the table above relate to the reimbursement of travel and subsistence expenses between home and Skipton head office (and for Amanda Burton and Mark Lund, who are also Non-Executive Director of Connells, Connells' head office), including for attendance at Board and Committee meetings.
2. Mark Lund became a Non-Executive Director of Connells Limited effective from 1 March 2021, for which he receives an annual fee of £35,000 included pro-rata in the table above.
3. Amanda Burton is also a Non–Executive Director of Connells Limited for which she receives an annual fee of £35,000 (to 1 March 2021: £34,700), included pro-rata in the table above. From 1 March 2021 to 30 November 2021, Amanda was also appointed as Chair of the Connells Remuneration Committee for which she received an annual fee of £7,600, which is also included pro-rata in the table above.
4. Denise Cockrem retired from the Board on 26 April 2021.
5. Richard Coates is Chair of the Audit Committee.
6. Denis Hall is Chair of the Board Risk Committee.
7. Philip Moore was appointed to the Board as a Non-Executive Director effective from 1 February 2021.
8. Helen Stevenson is the Chair of the Remuneration Committee.

History of Group Chief Executive's remuneration – David Cutter

The table below shows a breakdown of the total remuneration of the Group Chief Executive over the last eleven years, together with the SVPA/STI and MTI awarded to the Group Chief Executive as a percentage of his maximum possible award.

Year	Base pay[1] £000	Benefits and pension £000	Variable pay (SVPA)[2] £000	Variable pay (MTI)[3] £000	Total remuneration £000	SVPA/STI as % of maximum	MTI as % of maximum
2021	599	88	622	N/A	1,309	100	N/A
2020	526	120	-	N/A	646	N/A	N/A
2019	521	119	205	N/A	845	78	N/A
2018	510	117	234	N/A	861	91	N/A
2017	500	115	234	163	1,012	93	79
2016	490	113	161	157	921	66	79
2015	418	99	149	N/A	666	71	N/A
2014	408	96	195	N/A	699	95	N/A
2013	366	89	296	N/A	751	94	N/A
2012	352	84	181	N/A	617	60	N/A
2011	344	85	53	N/A	482	18	N/A

Notes
1. The Group Chief Executive's base pay was increased by 15.4% in 2016 to compensate for the reduction in his variable pay opportunity (from 100% to 50%).
2. From 2018, the SVPA (maximum 50% of salary) is the only variable pay awarded.
3. A proportion of the SVPA and the historical long-term incentive plan (MTI) is deferred and paid in future years as set out on page 94.

Remuneration in the Society

How does executive remuneration for 2021 align with the wider workforce?

	Salary Average pay increase	Bonus Average award
Group Chief Executive[1]	17.0%	100%
Executive Directors[2]	3.9%	42.9%
Other Executive Committee members	2.4%	41.9%
Senior leaders	1.9%	20.8%
All other colleagues	2.6%	10.3%

Notes
1. David Cutter's 17% increase reflected his increased accountability and responsibility for the enlarged Group. The increase was effective 1 April 2021.
2. The salary increase figure for Executive Directors includes an element to address the size and complexity of their Group role.

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

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

Change in Directors' remuneration compared with employees

The following table sets out the percentage change in the salary/fees, benefits and bonus for each Director from 2020 to 2021 compared with the average percentage change for the wider workforce.

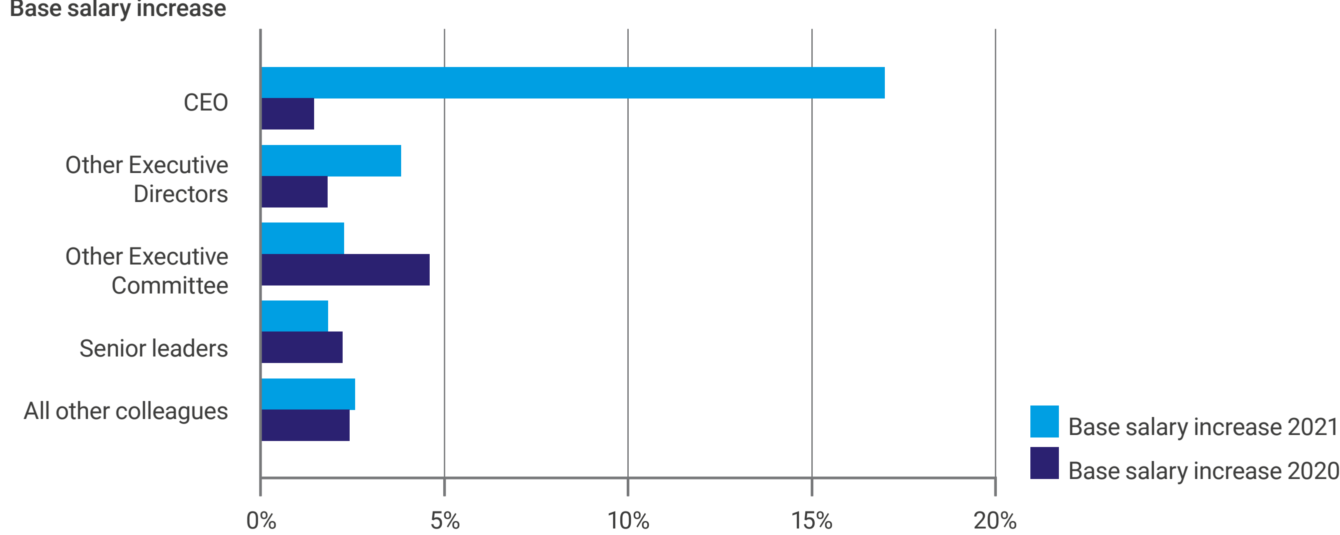
	Salary/Fees	Benefits[1]	Bonus
Executive Directors			
David Cutter	14%	0%	-
Andrew Bottomley	2%	0%	-
Ian Cornelius	5%	0%	-
Bobby Ndawula	6%	0%	-
Non-Executive Directors			
Amanda Burton	22%	-	-
Richard Coates	4%	-	-
Denise Cockrem	-73%	-	-
Robert East	12%	0%	-
Denis Hall	4%	0%	-
Heather Jackson	5%	-	-
Mark Lund	54%	-100%	-
Philip Moore	-	-	-
Helen Stevenson	4%	-100%	-
Wider workforce			
Executive Committee	4%	0%	-
Senior Leaders	7%	18%	19%
Average employee of the Society[2]	6%	-2%	113%

Notes
1. The benefits figure for Executive Directors and the wider workforce comprises car allowance and private medical insurance and, for Non-Executive Directors, comprises reimbursed travel expenses.
2. The average employee of the Society figures are based on earnings of full-time employees that were employed throughout the current and comparison period. The percentage change for some will indicate an individual change in role and therefore a potential change in benefit entitlement or change of bonus scheme.
3. In 2020 the Executive voluntarily withdrew from receiving a bonus and therefore there is no comparison data

Directors' Remuneration Report (continued)

Comparison of average base salary increases awarded in the annual pay review

The table below illustrates the average annual base salary increases, expressed as a percentage of salary, made as part of the annual pay review.



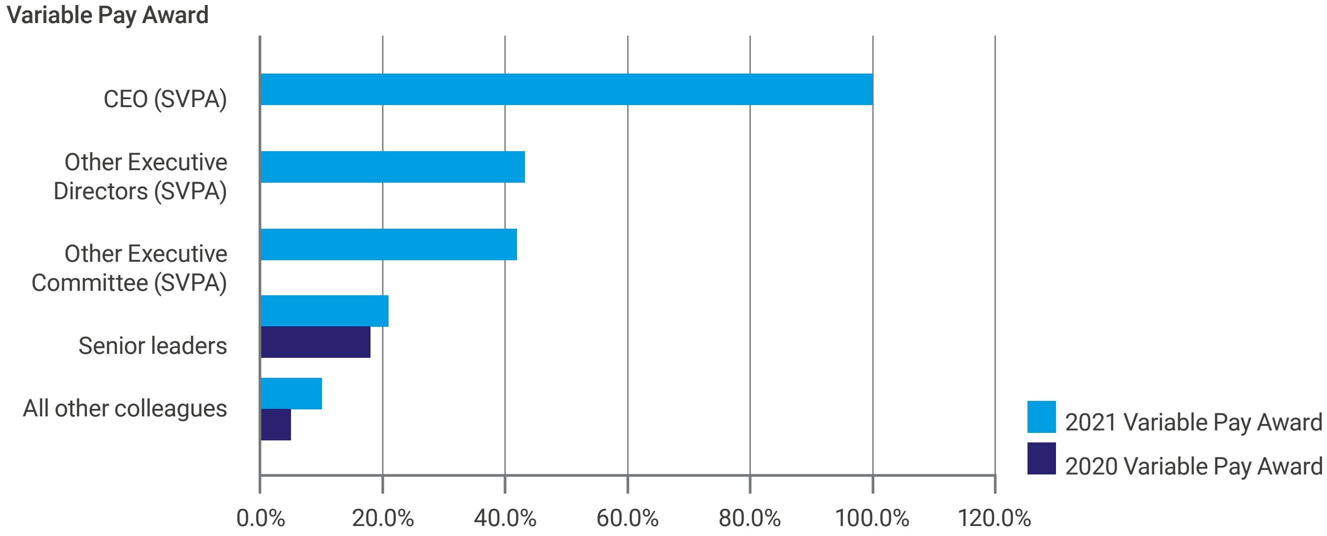
The 'all other colleagues' remuneration comparator relates to Society employees only as this is considered to be the most appropriate comparator to use due to the varying remuneration policies across the Group's subsidiaries. The pay increases for the CEO and other Executive Directors reflect the recognition given to the substantial increase in scale and complexity of their roles due to the acquisition of Countrywide by Connells in March 2021.

Comparison of annual variable pay awarded in respect of 2021

Bonus payments are determined based on the achievement of a mixture of Group profit and customer satisfaction and growth targets taken directly from the corporate plan.

Variable pay award as a % of salary

The table below illustrates the average annual variable pay awards, expressed as a percentage of salary, made in respect of 2021:



Notes
1. The calculations for average bonus awards are based on full year participation.

The Group Chief Executive's award under the Society's SVPA scheme in respect of 2021 represented 100% of his base salary (2020: nil). This compares to the average amount awarded to the other Executive Directors of 42.9% (2020: nil) and the other Executive Committee members of 41.9% (2020: 0%). The average amount awarded to the Senior Leaders was 20.8% (2020: 18.2%) and to the remainder of our people in the Society was 10.3% (2020: 4.9%).

Cascade of remuneration in the Society

The Society has well-being at the forefront of its culture and continues to support colleagues physically, mentally and financially. Our reward platform, Select, builds awareness and enables personalisation and choice of the benefits on offer. One of the many features is a total reward statement allowing an individual to understand how their package is constructed and reflect on the true value when all elements are included.

Cascade of Remuneration through the Society

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

CEO Pay Ratio

In line with the requirements for listed companies, the Board has agreed to voluntarily publish the CEO pay ratio for the Society only. Given the diversity of the wider Skipton Group, the Society measure was thought to be more appropriate as it would provide a more meaningful comparison with our peers in financial services.

For the purposes of this year's disclosure, the April 2021 gender pay gap data has been used to identify the three appropriate employees for comparison with the CEO (Option B). The latest available gender pay gap data is used to identify the best equivalent for three colleagues whose hourly rates of pay are at the 25th, 50th and 75th percentiles for the Group and their total pay and benefits figure for 2021 is then calculated. A sample of colleagues with hourly pay rates either side of the initially identified individuals are also reviewed to ensure that the appropriate representative colleagues are selected.

The table below compares the total remuneration of the Chief Executive against the total remuneration of the median employee and those who sit at the 25th, 50th and 75th percentiles for the Group:

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option B	35:1	30:1	18:1
2020	Option B	32:1	21:1	14:1
2021	Option B	54:1	38:1	22:1

The total remuneration and salary values for the 25th, median and 75th percentile employees in 2021 are:

Gender Pay Data	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Salary (£)	20,721	28,182	48,500
Total remuneration (£)	24,557	34,205	58,807

Notes
1. As recognised by the BEIS, those companies with multiple subsidiaries and payrolls can opt to use Option B.
2. Employee data includes full time equivalent total remuneration for Society employees as at 31 December 2021.

Base salaries of all employees, including our Executive Directors, are set with reference to a range of factors including market practice, experience and performance in role. The Committee made the decision to exercise its discretion by awarding the Group Chief Executive 100% of salary under the Society's SVPA scheme, subject to normal deferral arrangements.

Group Chief Executive Departure

In agreement with the Board, the Group Chief Executive will step down with effect from the Society's AGM in April 2022. The Committee has determined that he will receive his salary and contractual benefits in respect of his notice period, together with discretionary payments relating to loss of statutory rights, legal and pension advice, and accrued but untaken leave. These will total £880,647 of which £87,000 will be deferred in line with the Society's usual deferral arrangements.

He will retain his entitlement to existing deferred bonuses (including bonuses deferred from the 2021 SVPA) which will continue to be released in the usual way. He will not be eligible for any bonus in respect of 2022.

Directors' Remuneration Report (continued)

Statement of implementation of Remuneration Policy in 2022

Base Salary

In line with the approach taken across the Society, the annual pay review was brought forward by three months for the Group Chief Executive. The Committee approved a salary increase of 3% for the Group Chief Executive. The increase will be in effect from 1 April 2022.

SVPA

The SVPA scheme has been reviewed for 2022 and some changes have been made to simplify the design and to align, where appropriate, to the other Senior and All Colleague annual incentive schemes. The SVPA is designed as a discretionary variable incentive scheme and supports the attraction and retention of high-quality employees and the development of a high-performance culture. Participation in the scheme relating to any financial year shall be at the discretion of the Remuneration Committee.

The 2022 SVPA will have five groups of measures: Financial; Customer Growth; ESG; strategic team objectives; and personal objectives.

The weighting differential shown is to recognise the responsibilities the Group Chief Executive holds for the Skipton Group of Companies.

The measures and weightings for 2022 are set out in the table below:

Measure	Group Chief Executive Weighting	Weighting (Excluding Group Chief Executive)
Financials (42% Weighting)		
Group PBT	32%	12%
Mortgages and Savings division PBT	-	20%
Mortgages and Savings cost income ratio	10%	10%
Customer Growth (20% Weighting)		
Mortgage year end balances	5%	5%
Savings year end balances	5%	5%
Financial Advice direct income	5%	5%
Net customer satisfaction	5%	5%
ESG (10% Weighting)		
Colleague engagement	5%	5%
Women in Finance Charter	2%	2%
Environmental measure	3%	3%
Strategic team objectives	14%	14%
Personal objectives	14%	14%

The maximum opportunity will remain as 50% of base salary and will be 30% of base salary at target.

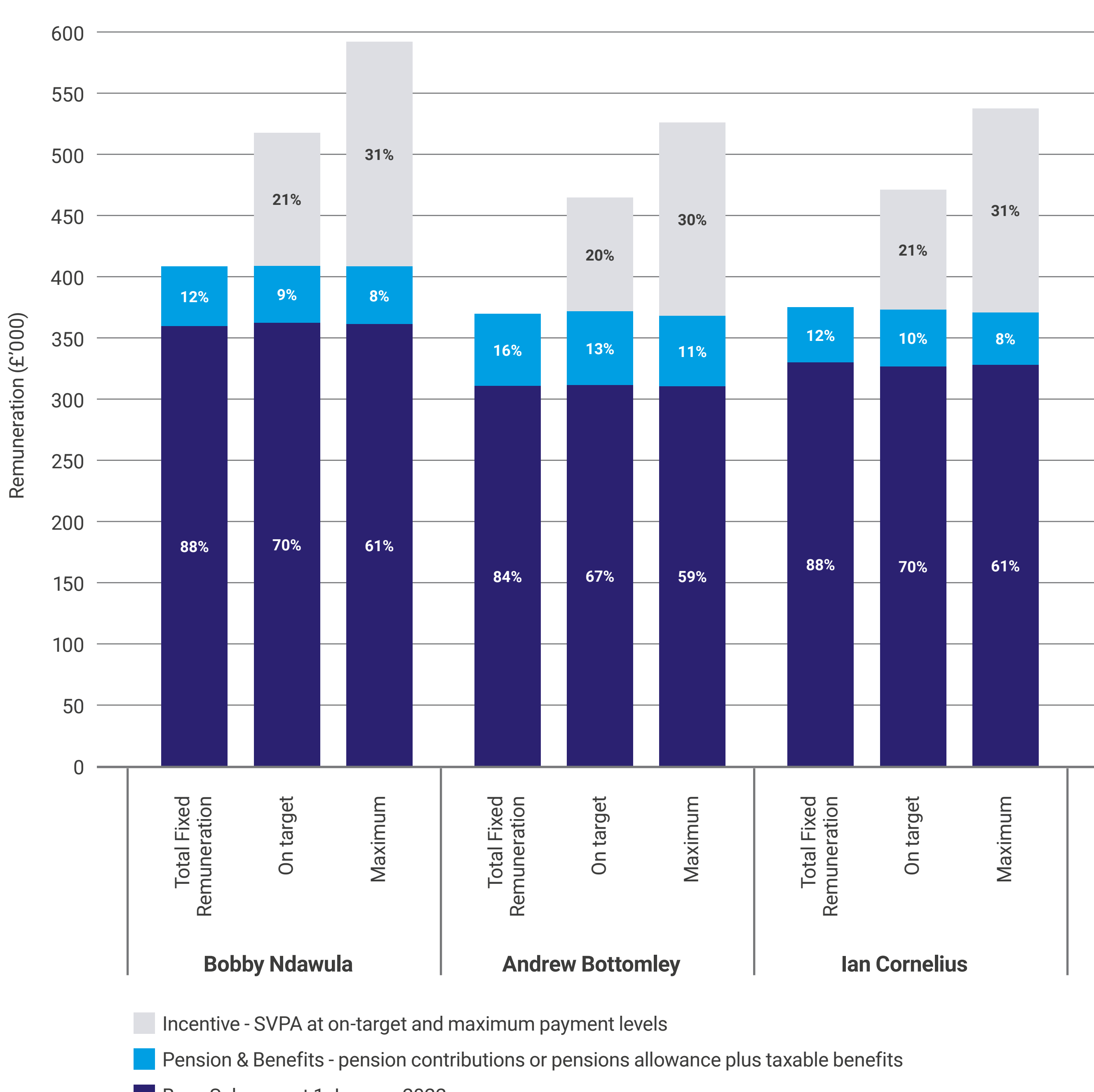
The deferral arrangements operating in 2021 will continue to apply in 2022 and Directors' salaries will be reviewed on 1 April 2022.

Illustration of application of remuneration policy

The chart below illustrates the 2022 remuneration that would be paid to each of the Executive Directors under three different performance scenarios: (i) Minimum; (ii) On-target; and (iii) Maximum. The Group Chief Executive, David Cutter, will be leaving in April 2022 and is therefore not shown on the chart. The minimum scenario assumes that no pay-out is achieved from any variable elements of remuneration and on-target and maximum scenarios are as defined in the policy table on pages 88 and 89.

The chart illustrates that the application of the policy evidences predictability of outcomes at threshold, target and maximum.

The elements of remuneration have been categorised into three components: (i) Base salary; (ii) Pension and benefits; and (iii) Incentive (Single Variable Pay Arrangement).



On a broader level in 2022, the Committee will continue to review our overarching approach to remuneration and our principles of fairness through the Society.

Directors' Remuneration Report (continued)

Material Risk Takers

Material Risk Takers (MRTs) are those 'whose professional activities have a material impact on an institution's risk profile' and, in accordance with CRD V and the criteria set out by the European Banking Authority (EBA), we have identified MRTs in the Society and in the Group subsidiary companies who are in scope of the regulations.

The Remuneration Committee is responsible for approving remuneration policies, maintaining oversight of the remuneration of MRTs and for ensuring that remuneration is paid to them in accordance with regulatory requirements.

Details of the MRTs' remuneration arrangements for 2021 are included in the Pillar 3 document which is available at **skipton.co.uk/about-us/pillar-3-disclosure**.

The Committee and its advisers

The purpose of the Remuneration Committee is

- To determine, on behalf of the Board, the Remuneration Policy
- Ensure that remuneration arrangements support and encourage desired behaviours and culture
- Maintain policies that are compliant with governing laws and regulations
- Ensure appropriate governance of remuneration practices across the Society and its subsidiary companies and exercise effective oversight of these
- Ensure that remuneration policies, principles and practices are appropriate to enable the business to attract, retain and reward people with the right skills, experience, knowledge and behaviours to support achievement of business goals and objectives

Amongst its other duties, the Committee specifically:

- Determines and agrees, on behalf of the Board, the Society's Remuneration Principles and Policy, ensuring alignment to the business strategy, risk profile, corporate values, regulatory requirements and the long-term interests of the Society and its members;
- Provides adequate oversight arrangements to ensure policies are operating as intended;
- Works closely with the Board Audit and Board Risk Committees to ensure that Remuneration Policy promotes sound and effective risk management;
- Maintains an effective risk adjustment policy and process which takes into account the Board Risk Appetite, capital and liquidity levels and ensures remuneration levels reflect overall performance;
- Assesses with regard to variable pay the achievement of performance targets and the need for ex-ante or ex-post risk adjustments, including the application of malus and clawback arrangements;
- Determines and agrees remuneration for the Chair of the Society Board and Society Executive Directors which shall be subject to the Remuneration Principles;
- Oversees the remuneration of the senior officers in the Risk and Compliance functions;
- Receives recommendations from the Group Chief Executive for approval of the remuneration for Senior Executives which shall be subject to the Remuneration Principles;
- Determines the policy, term, objectives and content of Society Executive Directors' and Society Senior Executives' service contracts to ensure they remain aligned to the Committee's overarching Remuneration Policy, regulatory requirements and good practice guidance; and
- Reviews any proposed remuneration structures or pay proposals which fall outside the parameters of the agreed Remuneration Principles.

The Committee ensures that clear remuneration principles for the Society and its subsidiaries are set and agreed annually. For the PRA and FCA regulated businesses, the principles set out appropriate standards for remuneration design, governance, risk management, and, where applicable, remuneration for MRTs. The Committee receives reports from the Group Remuneration Oversight Committee on the implications of the remuneration policies within the Group and compliance with the principles. The Chief Risk Officers update the Committee on risk related matters and provide information and insight as part of the risk adjustment process.

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

The Remuneration Committee met eight times during 2021. In discharging its duties, the Committee reviews and considers independently produced data in relation to similar financial services organisations. Remuneration consultants advising the Committee are independent from the Group.

Helen Stevenson, the Remuneration Committee Chair, has been in tenure since May 2016.

The Non-Executive Directors' Remuneration Committee, which currently comprises Messrs East (Chair), Bottomley, Cutter, Cornelius and Ndawula, determines the level of the other Non-Executive Directors' fees.

The Chair, Group Chief Executive, Chief Conduct Risk Officer and Secretary and Chief Human Resources Officer have regularly attended meetings by invitation and external advisers are invited to attend meetings as and when appropriate.

PwC were appointed by the Committee in 2015 following a review of potential advisers. PwC is a signatory to the voluntary Code of Conduct in relation to remuneration in the UK. Their remuneration team have continued to support the Committee in 2021 and have received £40,000 (net of VAT) in fees in respect of remuneration services provided. The Committee maintains oversight of remuneration policy and practice through an annual internal audit which is supported by other independent remuneration experts.

In addition to remuneration, PwC provide other services to the Society such as accounting, internal audit and tax advice.

Consideration of member views

The Committee has, for a number of years, invited members to vote (on an advisory basis) on the Remuneration Policy and annual Remuneration Report and takes member feedback into account when determining policy and outcomes.

Statement of voting at the 2021 AGM

At the 2021 AGM the Directors' Remuneration Report was subject to an advisory vote of members, the results of which were as follows:

	Votes		
	For	Against	Withheld
2020 remuneration report	**58,082 (92.39%)**	**4,787 (7.61%)**	**1,235**

Helen Stevenson
Chair of the Remuneration Committee

17 March 2022

Financial Statements

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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 2021 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 2021 which comprise:

Group	Society
Consolidated Statement of Financial Position as at 31 December 2021	Statement of Financial Position as at 31 December 2021
Consolidated Income Statement for the year then ended 31 December 2021	Income Statement for the year then ended 31 December 2021
Consolidated Statement of Comprehensive Income for the year ended 31 December 2021	Statement of Comprehensive Income for the year ended 31 December 2021
Consolidated statement of changes in Members' Interests for the year ended 31 December 2021	Statement of changes in Members' Interests for the year ended 31 December 2021
Consolidated Statement of Cash Flows for the year ended 31 December 2021	Statement of Cash Flows for the year ended 31 December 2021
Related notes 1 to 45 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 45 to the financial statements including a summary of significant accounting policies
Information of Country by Country Reporting	

The financial reporting framework that has been applied in their preparation is applicable law and 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's 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 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.
- The Group has modelled a number of adverse scenarios in its cash flow forecasts in order to incorporate unexpected changes to the forecasted liquidity and capital positions of the Group. We reviewed these scenarios, including considerations relating to operational resilience, customer behaviour and business operations, to identify whether they indicated significant issues that might impact the Group's ability to continue as a going concern over the next 12 months.
- We assessed the Group's funding risk with considerations to the maturity of significant debt obligations, and reviewed the Group's planned funding schedule to offset maturities and fund operational activity.
- We obtained the Directors' reverse stress testing and downside sensitivity analysis, and challenged key assumptions, in particular economic assumptions in light of the ongoing impact of COVID-19 and assumptions relating to liquidity and 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's and Society's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

In relation to the Group's 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 seven components. • The components where we performed full or specific audit procedures accounted for 99.8% of adjusted profit before tax (PBT) measure used to calculate materiality, 98.9% of total income and 100% of total assets.
Key audit matters	• Measurement of loan impairments relating to retail and commercial mortgages • Fair value of the equity release portfolio • Revenue recognition relating to effective interest rate (EIR) • Revenue recognition in respect of estate agency income • Accounting for the acquisition of Countrywide plc • Control environment of Countrywide
Materiality	• Overall Group materiality of £13.8m which represents 5% of adjusted 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 company.

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 nine components covering entities within the United Kingdom and Guernsey which represent the principal business units within the Group.

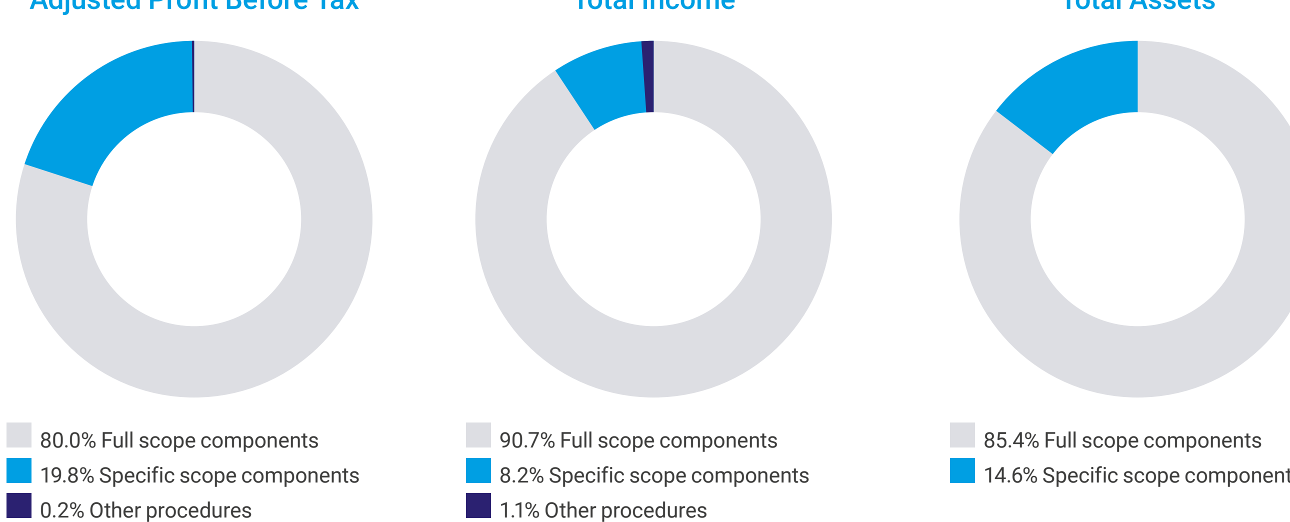
Of the nine components selected, we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size or risk characteristics. For the remaining seven components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 99.8% of the Group's adjusted PBT measure used to calculate materiality (2020: 100% of the Group's total members' interests), 98.9% (2020: 99.7%) of the Group's total income and 100% (2020: 100%) of the Group's total assets. For the current year, the full scope components contributed 80% of the Group's adjusted PBT measure used to calculate materiality (2020: 94% of the Group's total members' interests), 90.7% (2020: 90.8%) of the Group's total income and 85.4% (2020: 89.4%) of the Group's total assets. The specific scope components contributed 19.8% of the Group's adjusted PBT measure used to calculate materiality (2020: 6.0% of the Group's total members' interests), 8.2% (2020: 8.9%) of the Group's total income and 14.6% (2020: 10.6%) 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.

Independent Auditor's Report (continued)

Of the remaining six components that together represent 0.2% of the Group's adjusted PBT, none are individually greater than 0.2% of the Group's adjusted PBT. For these components, we performed other procedures, including detailed analytical reviews to respond to any potential risks of material misstatement to the Group financial statements.

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



Changes from the prior year

The coverage of full scope components has reduced for the year to 31 December 2021 as compared with the year to 31 December 2020 as a result of one full scope component being reclassified from full scope to specific scope for the 31 December 2021 audit. This entity has been designated as specific scope for the 31 December 2021 audit due to the relative size and risk of the entity reducing in the year to 31 December 2021 following the growth of the Group.

There has also been a reduction of components classified as specific scope. One entity previously classified as specific scope for the 31 December 2020 audit is now included in the six remaining components for the 31 December 2021 audit as it is not significant based on size, and the risk of material misstatement arising from the component is sufficiently low relative to Group materiality. A further component is not in scope compared to last year due to the entity entering liquidation in the year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 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 Group audit team led a number of video conference calls with the component teams to discuss the audit approach, any issues arising from their work, as well as meeting virtually with local management, and reviewing key audit working papers on risk areas. The primary team instructed component auditors as to the significant areas to be covered for the purpose of the Group audit, including the key audit matters given above, materiality levels to be used and the specific information to be reported back to the primary team.

The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed 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 the Group and Society. The Group and Society have determined that the most significant future impacts from climate change on their operations will be from physical and transitional risks. These are explained in the Summary Group Responsible Business Report, the Risk Management Report and Directors Report with respect to the statement of longer term viability on pages 56 and 57. Our procedures on these disclosures therefore consisted 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.

As explained in Note 1 to the Annual Report and Accounts, 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 certainty 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 UK adopted international accounting standards. In Note 1 to the financial statements supplementary narrative has been provided on significant judgements and estimates relating to climate change.

Our audit effort in considering climate change was focused on ensuring that the effects of material climate risks described in Note 1 have been appropriately reflected in the areas of judgement and estimation where relevant. Details of our procedures and findings on this matter are included in our key audit matters below. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Whilst the Group and Society have stated their commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050, the Group and Society are currently unable to determine the full future economic impact on their business model, operational plans, and customers to achieve this and therefore as set out above the potential impacts are not fully incorporated in these financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Measurement of loan impairments relating to retail and commercial mortgages **(Group – 31 December 2021: £27.1m, 31 December 2020: £40.9m; Society - 31 December 2021: £27.0m, 31 December 2020: £30.2m)** The measurement of the loan impairment provision under IFRS 9 is subjective and requires the Directors to exercise judgement with regards to estimating future losses that the Group may incur within the retail and commercial mortgage books. This calculation is ordinarily complex, however in the current economic environment there is heightened uncertainty and complexity as a result of the ongoing COVID-19 pandemic. Key judgements and estimates include: • The application of multiple economic scenarios, including the appropriate weightings for the various scenarios. • Completeness and valuation of post-model adjustments. • Identifying assets that have experienced a significant increase in credit risk (SICR) since origination (stage 2) and those that are credit impaired (stage 3). • Accounting interpretations and modelling assumptions used to build the models and calculate the ECL. Furthermore, there is a risk that financial disclosures do not comply with the requirements of UK adopted international accounting standards.	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 involvement of our internal credit modelling specialists. This included assessing the appropriateness of the model design, model performance and ECL replication on a sample basis. To assess data quality, we tested data used in the ECL calculation by reconciling and performing sample tests for accuracy of key data fields to source systems. For a sample of commercial mortgage provisions, we independently challenged the provision adequacy by assessing the valuation of collateral at the balance sheet date and considered assumptions about future recoverability. We critically assessed the Group's methodology for determining the SICR criteria and independently tested staging allocation by selecting a sample of loans in stages 1, 2 and 3 from a complete population to verify whether they were allocated appropriately, with reference to the 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	We communicated that we were satisfied that loan impairment provisions were reasonable and in compliance with the requirements of IFRS 9. We communicated to the Audit Committee that our independent testing of models and underlying modelling assumptions resulted in minor differences that were considered to be immaterial in aggregate. We considered the multiple economic scenarios incorporated in the IFRS 9 models and post model overlays to be reasonable. Our assessment of the overall provision balance through peer benchmarking and analysis of key indicators, such as the ratio of provisions to loan balances, indicated the provisions recorded as at year end were conservative, reflecting the continued uncertainty in the overall economic environment. 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 Audit Committee
	macroeconomic variables, such as unemployment, interest rates and house price indexes were appropriate loan loss provision drivers. We assessed the completeness of post model adjustments using our knowledge and experience across the UK lending sector and tested material overlays for reasonableness of estimation with reference to observable market data. We considered climate change as an emerging risk and the potential impact on the loan impairment provision. We corroborated the adequacy and appropriateness of the disclosures made within the financial statements for compliance with both IFRS 9 and IFRS 7.	
Fair value of equity release portfolio **(Group - 31 December 2021: £406.6m, 31 December 2020: £433.8m; Society - 31 December 2021: £406.6m, 31 December 2020: £433.8m)** 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. The Society is therefore exposed to potential losses on the portfolio, albeit any loss is limited in part by a further guarantee provided to the Society by a third party. The Society uses equity release swaps to manage the interest rate risk and reduce income statement volatility that would otherwise result from changes in the fair value of the equity release mortgage portfolio. 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. 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.	We understood and evaluated the design effectiveness of key controls over the fair value of the equity release portfolio and corresponding swaps, and adopted a substantive audit approach. With support from our valuation specialists, we assessed the appropriateness of the valuation techniques and independently calculated a range of fair values for the equity release portfolio. We compared the Directors' modelled fair values against this range. Our valuation specialists assessed the valuation methodologies used in relation to the swaps, and independently calculated fair values. We challenged assumptions used in the fair value models, including the discount 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 communicated to the Audit Committee that the models and assumptions informing the fair value of the equity release portfolio and associated swaps as at 31 December 2021 were reasonable. We also communicated our observations on the key assumptions. We highlighted the subjectivity in the discount rate, including illiquidity premia. We were satisfied that the assumptions deployed in the fair value of the equity release portfolio and corresponding swap models were reasonable in the context of the equity release mortgage portfolio and current market conditions.
Revenue recognition relating to effective interest rate (EIR) accounting **(Group - 31 December 2021: £457.3m, 31 December 2020: £441.7m; Society - 31 December 2021: £409.6m, 31 December 2020: £391.4m)** The EIR method of revenue recognition involves significant management	We understood and evaluated the design effectiveness of key controls over the EIR process, and adopted a substantive audit approach. We validated and challenged assumptions used in the EIR models, including the behavioural lives of assets and the approach to estimating future interest rates. Our challenge included comparing customer redemption assumptions with recent customer behaviours observable in the Group's portfolios, and	We communicated to the Audit Committee that the model, assumptions and calculations informing the EIR calculation as at 31 December 2021 were reasonable and that these resulted in EIR adjustments to interest income which were appropriately derived from

Risk	Our response to the risk	Key observations communicated to the Audit Committee
judgement and complex calculations in both determining the initial EIR and recording the present value of adjustments arising in subsequent periods when cash flows are reforecast. As such, it represents a risk of fraud in revenue recognition and through management override of internal controls. The Group's EIR models are most sensitive to changes in the behavioural life and future interest rate assumptions. Modelled forecast cash flows may be measured incorrectly due to the use of inaccurate or incomplete data, erroneous formulae or inappropriate assumptions. Due to the degree of judgement that needs to be exercised by the Directors around forecast future cash flows, the number of different products the Group has across its loan portfolio and the complexity of calculation, this was considered a key audit matter.	comparing the forecast interest rate methodology with market derived base rate forecasts and the Group's expectations of future interest margins. We tested the accuracy of the EIR calculations by independently recalculating the EIR for a sample of mortgages. We performed data integrity testing on the key data fields used within the EIR calculations by corroborating data back to the Group's systems and source documentation. We tested the appropriateness of the disclosures made in the financial statements regarding the key estimates used in the EIR models, and their sensitivity to reasonable alternative assumptions.	complete and accurate data. We also communicated our observations on the key assumptions. We highlighted the subjectivity in the forecasting of behavioural life and future interest rate assumptions, however we were satisfied that the assumptions deployed in the EIR model were reasonable in the context of the Group's mortgage portfolio and current market conditions.
Revenue recognition in respect of estate agency income **(Connells - 31 December 2021: £1,002.8m, 31 December 2020: £377.2m)** There is a risk that management may override controls and post manual journals in order to overstate revenue and achieve targets set within respective management incentive schemes. This risk is specific to manual revenue journals posted during the financial year within the 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 2021 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 have used data analysis tools, we tested the correlation of revenue to 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 Audit Committee that through our data analysis procedures we identified a correlation of transactions between revenue and trade receivables. We did not identify any evidence of material misstatements in the revenue recognised or any instances of management override.
Accounting for the acquisition of Countrywide plc On 8 March 2021, Connells Limited purchased 100% of Countrywide plc for cash consideration of £131.8m. As part of the transaction, Connells repaid existing debt of £93m plus accrued interest and fees. The deal was funded by an intercompany loan from Skipton Building Society of £253m. Under IFRS 3, the assets and liabilities acquired in a business combination are recorded at fair value. Acquisition accounting is complex with significant judgement required in determining the fair	We reviewed management's accounting paper setting out how the proposed accounting aligns with IFRS 3. We also obtained the provisional Purchase Price Allocation (PPA) prepared by management. We understood and evaluated the process management undertook to determine the PPA. We read the sale and purchase agreement to validate whether the terms and conditions of the transaction were accurately reflected in the accounting entries and the PPA. We considered completeness of contingent liabilities, including through our assessment of claims and compliance with laws and regulations. We evaluated the process and oversight performed by management in respect of the harmonisation of accounting policies. This included reading the	We communicated to the Audit Committee that the models adopted to determine the fair values of the intangible assets recognised on acquisition were appropriate. The key assumptions were reasonable and applied appropriately. Through our procedures, and assessments performed by management a number of adjustments to the PPA were recorded and we were satisfied that the final PPA had been appropriately prepared. We concluded that the material

Independent Auditor's Report (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
values of assets and liabilities as at the date of acquisition with the associated balances being highly material. The acquisition accounting is also complex due to deferred tax implications and the tax treatment of transaction costs associated with the acquisition. Furthermore, there is a risk that the disclosures do not comply with the requirements of IFRS 3. As a result, we considered this to be a key audit matter.	accounting policies of Countrywide, evaluating the completeness of management's own analysis of the accounting policy differences compared to the Group's. We also tested the valuation of adjustments recorded where alignment was required. We tested the fair value measurements, assumptions and inputs to the valuation of the PPA with the involvement of our internal valuation specialists. We: • Assessed the appropriateness of methodology and the models used. • Assessed and critically challenged the key valuation assumptions used, which included the Weighted Average Cost of Capital "WACC". • Evaluated the reasonableness of assumptions underlying the future trading forecasts of the operations acquired, business relationships, growth rates and the discount rate applied. • Validated the key data inputs used in the valuation model. • Evaluated whether the significant assumptions used in the valuation of the intangible assets such as discount rate, economic life of intangible assets and contributory asset charges were reasonable. • Evaluated whether or not the assumptions on which the estimates are based, individually and taken as a whole, are realistic and consistent. We read relevant advice received from management's tax advisors in relation to the interpretation and application of tax principles relevant to the acquisition accounting. We tested the recognition and measurement of deferred tax balances connected with the acquisition accounting. We reviewed the transaction costs incurred and associated tax treatment, to ensure consistency with underlying tax legislation. We corroborated the adequacy and appropriateness of the disclosures made within the financial statements for compliance with IFRS 3.	transaction was appropriately accounted for in accordance with IFRS 3, and the fair value adjustments and PPA were appropriate. The final purchase price, opening balance sheet and disclosures as presented are not materially misstated. The relevant tax considerations have been recorded and disclosed appropriately in the financial statements.
Control environment of Countrywide We identified weaknesses in the control environment of the Countrywide group of companies. As described in the Annual Report and Accounts, work is ongoing to embed the Group control framework and standards within the Countrywide business following its acquisition by the Group. As the robustness of financial reporting depends on the effective functioning of operational and financial controls, we deemed this to be a key audit matter.	We understood and evaluated the design effectiveness of the key internal controls that management rely on for financial reporting, and we adopted a substantive audit approach. Our testing included: • Increased sample sizes used during our substantive testing of balances. • Obtaining and inspecting bank confirmations for cash balances as at the year end, including performing additional testing with respect to completeness of balances and cut-off testing for transactions occurring around the year end. • Examining and testing management's reconciliations between source systems and the general ledger through to consolidation. • Testing increased samples of risk based journals and material post-closing adjustments to appropriate supporting evidence. We considered whether the journals posted were appropriate and were consistent with our conclusions on judgements and estimates made by management.	We highlighted to the Audit Committee that we identified control weaknesses in the Countrywide business and that enhancements to its control environment should be embedded as a matter of priority. This led to us extending the scope of our work by undertaking additional substantive testing. We satisfactorily obtained the necessary audit evidence from our additional substantive work.

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 £13.8 million (2020: £7.8 million), which is 5% of adjusted profit before tax (2020: 0.46% members' interests).

We determined materiality for the Society to be £5.7 million (2020: £3.8 million), which is 5% of adjusted profit before tax (2020: 0.25% of members' interests).

For the 31 December 2021 audit we have used adjusted profit before tax as the basis for materiality. This is consistent with the 31 December 2019 audit and reflects that the users of the financial statements (including the Society's members and regulators) principally focus on pre-tax profit in assessing the Group's performance. For the prior year audit, materiality figures for the Group and Society were based on members' interests given the uncertain economic environment as a result of the COVID-19 pandemic. In the current year, the Group's profits have normalised to levels consistent with historic performance, therefore we have reverted to a profit-based materiality measure.

We adjusted the Group's pre-tax profit for the costs and amortisation of intangibles associated with the acquisition of Countrywide, the release of prior year impairment charges, and the profit on disposal of subsidiaries, as these are non-recurring in nature and not part of the Group's core operating performance. We adjusted the Society's pre-tax profit for the release of prior year impairment charges and dividend income from shares from subsidiary undertakings.

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% (2020: 75%) of our planning materiality, namely £10.4m (2020: £5.8m). 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 the testing of effective financial reporting controls 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 £1.0m to £6.1m (2020: £1.2m to £3.1m).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.7m (2020: £0.4m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 6 to 103, other than the financial statements 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.

Independent Auditor's Report (continued)

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:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 56;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on pages 56 and 57;
- Directors' statement on fair, balanced and understandable set out on page 57;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 56;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 62; and;
- The section describing the work of the Audit Committee set out on page 67

Directors' Remuneration Report

The Society voluntarily prepares a Report of the Directors on remuneration in accordance with the provisions of the Companies Act 2006. The Directors have requested that we audit the part of the Report of the Directors on remuneration specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 55, 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 Group and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant were the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Building Societies Act 1986.
- We understood how the Group complies with 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, 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 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 three years, covering the years ending 31 December 2019 to 31 December 2021.
- The audit opinion is consistent with the additional report to the Audit Committee

Use of our report

This report is made solely to the Society's members, as a body, in accordance with Section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Steven Robb (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

17 March 2022

Income Statements

For the year ended 31 December 2021	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Interest receivable and similar income:					
Accounted for using effective interest rate method	2	**457.3**	441.7	**409.6**	391.4
Other	2	**(2.9)**	(2.1)	**(0.1)**	1.1
Total interest receivable and similar income		**454.4**	439.6	**409.5**	392.5
Interest payable and similar charges	3	**(157.7)**	(201.7)	**(163.5)**	(210.3)
Net interest receivable		**296.7**	237.9	**246.0**	182.2
Fees and commissions receivable	4a)	**1,054.5**	420.8	**35.2**	27.2
Fees and commissions payable		**(8.4)**	(7.3)	**(2.8)**	(2.6)
Fair value gains / (losses) on financial instruments mandatorily held at FVTPL:					
Hedging instruments and hedged items		**0.5**	(0.1)	**(5.1)**	4.3
Derivatives associated with equity release portfolio	15	**32.8**	(22.4)	**32.8**	(22.4)
Equity release portfolio	15	**(27.3)**	19.7	**(27.3)**	19.7
Share warrants		**3.2**	0.1	**-**	-
Put options held by minority shareholders		**(1.3)**	(0.3)	**-**	-
Equity share investments	17e)	**2.3**	0.1	**-**	-
Other financial instruments		**-**	-	**3.1**	(4.8)
Fair value gains on deemed loans from subsidiary undertakings designated at FVTPL		**-**	-	**-**	0.1
Fair value gains on step-acquisition of Group undertakings	17b)	**26.9**	-	**-**	-
Realised profits on treasury assets held at FVOCI		**0.1**	0.6	**0.1**	0.6
Income from shares in subsidiary undertakings		**-**	-	**115.6**	12.4
Profit on disposal of subsidiary undertakings	17c)	**0.5**	0.8	**-**	-
Share of profits from joint ventures		**1.2**	3.4	**-**	-
Other income		**2.6**	1.0	**7.9**	5.5
Total income		**1,384.3**	654.3	**405.5**	222.2
Administrative expenses	5	**(1,125.1)**	(506.3)	**(160.9)**	(149.1)
Operating profit before impairment and provisions		**259.2**	148.0	**244.6**	73.1
Impairment credit / (losses) on loans and advances to customers	14	**12.9**	(25.7)	**7.1**	(19.6)
Impairment losses on liquid assets		**(0.2)**	(0.1)	**(0.2)**	(0.1)
Impairment of goodwill	21	**-**	(2.0)	**-**	-
Impairment of joint ventures		**-**	(1.5)	**-**	-
Realised losses on equity release portfolio	15	**(0.5)**	(0.1)	**(0.5)**	(0.1)
Provision against investments in subsidiary undertakings	17a)	**-**	-	**(15.2)**	-
Provisions for liabilities	29	**0.4**	0.2	**(0.3)**	(0.5)
Profit before tax		**271.8**	118.8	**235.5**	52.8
Tax expense	9	**(55.9)**	(21.8)	**(33.4)**	(7.1)
Profit for the year		**215.9**	97.0	**202.1**	45.7
Profit for the year attributable to:					
Members of Skipton Building Society		**215.8**	97.0	**202.1**	45.7
Non-controlling interests		**0.1**	-	**-**	-
		215.9	97.0	**202.1**	45.7

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 2021	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Profit for the year		**215.9**	97.0	**202.1**	45.7
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Remeasurement gains / (losses) on defined benefit obligations	31	**23.9**	(22.7)	**12.3**	(14.3)
Gains on equity share investments designated at FVOCI	17f)	**2.5**	-	**-**	-
Income tax on items that will not be reclassified to profit or loss	35	**(3.1)**	7.1	**(2.2)**	4.7
		23.3	(15.6)	**10.1**	(9.6)
Items that may be reclassified subsequently to profit or loss:					
Movement in cash flow hedging reserve:					
Gains / (losses) taken to equity		**26.8**	(12.9)	**19.8**	(10.8)
Realised gains transferred to Income Statement		**(0.1)**	(3.2)	**(0.1)**	(3.2)
Movement in fair value reserve (debt securities):					
Gains taken to equity		**1.6**	4.6	**1.6**	5.3
Impairment loss allowance on debt securities held at FVOCI	11	**0.3**	(0.1)	**0.3**	(0.1)
Realised losses transferred to Income Statement		**0.1**	-	**0.1**	-
Movement in cost of hedging reserve:					
(Losses) / gains taken to equity		**(0.5)**	0.9	**-**	-
Exchange differences on translation of foreign operations		**(0.4)**	0.4	**-**	-
Income tax on items that may be reclassified to profit or loss	35	**(8.2)**	2.4	**(6.4)**	0.4
		19.6	(7.9)	**15.3**	(8.4)
Other comprehensive income / (expense) for the year, net of tax		**42.9**	(23.5)	**25.4**	(18.0)
Total comprehensive income for the year		**258.8**	73.5	**227.5**	27.7
Total comprehensive income attributable to:					
Members of Skipton Building Society		**258.7**	73.5	**227.5**	27.7
Non-controlling interests		**0.1**	-	**-**	-
		258.8	73.5	**227.5**	27.7

The accompanying notes form part of these financial statements.

Statements of Financial Position

As at 31 December 2021

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Assets					
Cash in hand and balances with the Bank of England		**2,433.6**	3,237.8	**2,433.6**	3,237.8
Loans and advances to credit institutions	10	**468.7**	724.7	**386.4**	615.0
Debt securities	11	**2,193.2**	1,505.0	**2,133.5**	1,707.7
Derivative financial instruments		**227.9**	64.1	**229.7**	75.9
Loans and advances to customers held at amortised cost	12	**23,024.8**	21,865.0	**21,188.2**	19,629.5
Loans and advances to customers held at FVTPL	16	**1.2**	1.3	**1.2**	1.3
Equity release portfolio held at FVTPL	15	**406.6**	433.8	**406.6**	433.8
Current tax asset		**1.0**	-	**1.3**	-
Investments in Group undertakings	17a)	**-**	-	**362.4**	851.9
Investments in joint ventures		**9.5**	13.3	**-**	-
Equity share investments mandatorily held at FVTPL	17e)	**1.7**	1.7	**-**	-
Equity share investments designated at FVOCI	17f)	**8.5**	-	**-**	-
Property, plant and equipment	18	**73.2**	72.5	**39.1**	40.7
Right-of-use assets	19	**95.8**	60.9	**11.5**	12.0
Investment property	20	**6.6**	8.1	**6.6**	8.1
Intangible assets	21	**345.6**	157.7	**0.4**	2.2
Deferred tax asset	30	**33.1**	46.4	**15.6**	29.9
Retirement benefit surplus	31b)	**1.2**	-	**-**	-
Other assets	22	**135.8**	71.1	**14.0**	12.2
Total assets		**29,468.0**	28,263.4	**27,230.1**	26,658.0
Liabilities					
Shares	23	**19,759.8**	18,709.4	**19,749.3**	18,725.2
Amounts owed to credit institutions	24	**2,203.4**	2,149.2	**2,400.2**	2,538.8
Amounts owed to other customers	25	**2,249.2**	2,130.3	**756.5**	997.0
Debt securities in issue	26	**2,218.1**	2,452.5	**1,911.3**	1,976.7
Derivative financial instruments		**292.1**	445.9	**251.7**	442.5
Current tax liability		**-**	4.0	**-**	1.4
Lease liabilities	27	**114.4**	62.5	**11.5**	12.2
Other liabilities	28	**114.2**	50.9	**9.3**	11.5
Accruals		**102.3**	42.9	**20.6**	13.3
Deferred income		**5.6**	2.3	**-**	-
Provisions for liabilities	29	**36.4**	18.9	**1.0**	0.9
Deferred tax liability	30	**0.1**	1.2	**-**	-
Retirement benefit obligations	31b)	**30.1**	96.4	**17.2**	51.1
Subordinated liabilities	32	**336.3**	349.7	**336.3**	349.7
Subscribed capital	33	**41.6**	41.6	**41.6**	41.6
Total liabilities		**27,503.6**	26,557.7	**25,506.5**	25,161.9
Members' interests					
General reserve		**1,951.5**	1,715.3	**1,716.5**	1,504.3
Fair value reserve		**7.5**	4.1	**5.7**	4.7
Cash flow hedging reserve		**4.0**	(15.1)	**1.4**	(12.9)
Cost of hedging reserve		**(3.5)**	(3.5)	**-**	-
Translation reserve		**4.5**	4.9	**-**	-
Attributable to members of Skipton Building Society		**1,964.0**	1,705.7	**1,723.6**	1,496.1
Non-controlling interests		**0.4**	-	**-**	-
Total members' interests		**1,964.4**	1,705.7	**1,723.6**	1,496.1
Total liabilities and members' interests		**29,468.0**	28,263.4	**27,230.1**	26,658.0

The accompanying notes form part of these financial statements.

These Accounts were approved by the Board of Directors on 17 March 2022 and were signed on its behalf by:

Robert East	**Chair**
David Cutter	**Group Chief Executive**
Bobby Ndawula	**Group Finance Director**

Statements of Changes in Members' Interests

For the year ended 31 December 2021

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 2021	**1,715.3**	**4.1**	**(15.1)**	**(3.5)**	**4.9**	**1,705.7**	**-**	**1,705.7**
Profit for the year	215.8	-	-	-	-	**215.8**	0.1	**215.9**
Other comprehensive income								
Remeasurement gains on defined benefit obligations	20.8	-	-	-	-	**20.8**	-	**20.8**
Net gains from changes in fair value	-	3.1	19.2	-	-	**22.3**	-	**22.3**
Debt securities at FVOCI: impairment loss allowance	-	0.2	-	-	-	**0.2**	-	**0.2**
Realised losses / (gains) transferred to the Income Statement	-	0.1	(0.1)	-	-	**-**	-	**-**
Exchange differences on translation of foreign operations	-	-	-	-	(0.4)	**(0.4)**	-	**(0.4)**
Total other comprehensive income (note 35)	**20.8**	**3.4**	**19.1**	**-**	**(0.4)**	**42.9**	**-**	**42.9**
Total comprehensive income for the year	**236.6**	**3.4**	**19.1**	**-**	**(0.4)**	**258.7**	**0.1**	**258.8**
Non-controlling interests arising on recognition of subsidiary undertakings with less than 100% ownership	-	-	-	-	-	**-**	**32.2**	**32.2**
Acquisition of non-controlling interests without change in control	(0.4)	-	-	-	-	**(0.4)**	**(0.1)**	**(0.5)**
Disposal of subsidiary undertaking held for sale	-	-	-	-	-	**-**	**(31.8)**	**(31.8)**
Balance at 31 December 2021	**1,951.5**	**7.5**	**4.0**	**(3.5)**	**4.5**	**1,964.0**	**0.4**	**1,964.4**

Statements of Changes in Members' Interests
(continued)

For the year ended 31 December 2020

Group	General reserve £m	Fair value reserve £m	Cash flow hedging reserve £m	Cost of hedging reserve £m	Translation reserve £m	Total £m
Balance at 1 January 2020	1,633.9	1.4	(3.3)	(4.3)	4.5	1,632.2
Profit for the year	97.0	-	-	-	-	97.0
Other comprehensive income						
Remeasurement losses on defined benefit obligations	(15.6)	-	-	-	-	(15.6)
Net gains / (losses) from changes in fair value	-	2.8	(9.2)	0.8	-	(5.6)
Debt securities at FVOCI: impairment loss allowance	-	(0.1)	-	-	-	(0.1)
Cash flow hedges: realised gains transferred to the Income Statement	-	-	(2.6)	-	-	(2.6)
Exchange differences on translation of foreign operations	-	-	-	-	0.4	0.4
Total other comprehensive income (note 35)	(15.6)	2.7	(11.8)	0.8	0.4	(23.5)
Total comprehensive income for the year	81.4	2.7	(11.8)	0.8	0.4	73.5
Balance at 31 December 2020	1,715.3	4.1	(15.1)	(3.5)	4.9	1,705.7

For the year ended 31 December 2021

Society	**General reserve £m**	**Fair value reserve £m**	**Cash flow hedging reserve £m**	**Cost of hedging reserve £m**	**Total £m**
Balance at 1 January 2021	**1,504.3**	**4.7**	**(12.9)**	**-**	**1,496.1**
Profit for the year	202.1	-	-	-	**202.1**
Other comprehensive income					
Remeasurement gains on defined benefit obligations	10.1	-	-	-	**10.1**
Net gains from changes in fair value	-	0.7	14.4	-	**15.1**
Debt securities at FVOCI: impairment loss allowance	-	0.2	-	-	**0.2**
Realised losses / (gains) transferred to the Income Statement	-	0.1	(0.1)	-	**-**
Total other comprehensive income (note 35)	**10.1**	**1.0**	**14.3**	**-**	**25.4**
Total comprehensive income for the year	**212.2**	**1.0**	**14.3**	**-**	**227.5**
Balance at 31 December 2021	**1,716.5**	**5.7**	**1.4**	**-**	**1,723.6**

For the year ended 31 December 2020

Society	General reserve £m	Fair value reserve £m	Cash flow hedging reserve £m	Cost of hedging reserve £m	Total £m
Balance at 1 January 2020	1,468.2	1.5	(2.7)	1.4	1,468.4
Profit for the year	45.7	-	-	-	45.7
Other comprehensive income					
Remeasurement losses on defined benefit obligations	(9.6)	-	-	-	(9.6)
Net gains / (losses) from changes in fair value	-	3.3	(7.6)	(1.4)	(5.7)
Debt securities at FVOCI: impairment loss allowance	-	(0.1)	-	-	(0.1)
Cash flow hedges: realised gains transferred to the Income Statement	-	-	(2.6)	-	(2.6)
Total other comprehensive income (note 35)	(9.6)	3.2	(10.2)	(1.4)	(18.0)
Total comprehensive income for the year	36.1	3.2	(10.2)	(1.4)	27.7
Balance at 31 December 2020	1,504.3	4.7	(12.9)	-	1,496.1

The accompanying notes form part of these financial statements.

Statements of Cash Flows

For the year ended 31 December 2021

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Cash flows from operating activities					
Profit before tax		**271.8**	118.8	**235.5**	52.8
Adjustments for:					
Impairment (credit) / charge on loans and advances to customers	14	**(12.9)**	25.7	**(7.1)**	19.6
Loans and advances written off, net of recoveries	14	**(0.9)**	(0.7)	**(0.5)**	(0.2)
Impairment losses on liquid assets		**0.2**	0.1	**0.2**	0.1
Impairment (credit) / losses on trade receivables	40c)	**(0.2)**	0.9	**-**	0.1
Impairment of goodwill	21	**-**	2.0	**-**	-
Impairment of joint ventures		**-**	1.5	**-**	-
Depreciation and amortisation	18, 19, 20, 21	**107.1**	38.1	**8.4**	8.5
Impairment of property, plant and equipment, right-of-use assets and investment property	18, 19, 20	**1.3**	2.6	**0.9**	1.2
Income from shares in subsidiary undertakings		**-**	-	**(115.6)**	(12.4)
Provision against investments in subsidiary undertakings	17a)	**-**	-	**15.2**	-
Income Statement charge for fair value of subsidiary management incentive scheme liability	5	**15.5**	1.2	**-**	-
Fair value gains on equity share investments at FVTPL	17e)	**(2.3)**	(0.1)	**-**	-
Interest on subordinated liabilities and subscribed capital	3	**11.8**	6.3	**11.8**	6.3
Interest on lease liabilities	3	**1.8**	1.3	**0.2**	0.2
(Profit) / loss on disposal of property, plant and equipment, investment property and intangible assets		**(0.4)**	0.5	**-**	0.6
Profit on disposal of treasury assets		**(0.1)**	(0.6)	**(0.1)**	(0.6)
Share of profits from joint ventures		**(1.2)**	(3.4)	**-**	-
Profit on disposal of subsidiary undertakings	17c)	**(0.5)**	(0.8)	**-**	-
Fair value losses / (gains) on equity release portfolio	15	**27.3**	(19.7)	**27.3**	(19.7)
Fair value gains on step-acquisition of Group undertakings		**(26.9)**	-	**-**	-
Fair value gains on share warrants		**(3.2)**	(0.1)	**-**	-
Realised losses on equity release portfolio	15	**0.5**	0.1	**0.5**	0.1
Other non-cash movements		**31.3**	(20.0)	**18.0**	(18.5)
		420.0	153.7	**194.7**	38.1
Changes in operating assets and liabilities:					
Movement in prepayments and accrued income		**(16.2)**	5.8	**(5.0)**	6.9
Movement in accruals and deferred income		**6.0**	(35.1)	**(11.8)**	(38.5)
Movement in provisions for liabilities		**(1.8)**	(4.8)	**0.1**	(0.1)
Movement in fair value of derivatives		**(317.6)**	59.2	**(344.6)**	91.5
Movement in fair value adjustments for hedged risk		**217.5**	(39.6)	**256.3**	(80.0)
Fair value movements in debt securities	11	**33.1**	(14.7)	**30.0**	(10.5)
Movement in loans and advances to customers		**(1,474.3)**	(1,725.7)	**(1,317.1)**	(1,653.3)
Movement in shares		**1,105.5**	1,376.3	**1,105.5**	1,376.3
Net movement in amounts owed to credit institutions and other customers		**173.8**	785.7	**(379.1)**	1,379.9
Repayment of amounts owed to credit institutions acquired on purchase of subsidiary undertaking		**(93.0)**	-	**-**	-
Net movement in debt securities in issue		**(167.8)**	97.7	**(64.8)**	(218.4)
Net movement in loans and advances to credit institutions		**236.1**	(152.5)	**221.1**	(152.1)
Net movement in other assets		**20.3**	1.3	**0.3**	-
Net movement in other liabilities		**(71.6)**	(15.6)	**(24.8)**	(12.4)
Income taxes paid		**(57.0)**	(31.7)	**(31.2)**	(14.9)
Net cash flows from operating activities		**13.0**	460.0	**(370.4)**	712.5

For the year ended 31 December 2021

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Net cash flows from operating activities		**13.0**	460.0	**(370.4)**	712.5
Cash flows from investing activities					
Purchase of debt securities	11	**(1,795.4)**	(2,414.6)	**(1,360.0)**	(2,291.9)
Proceeds from maturities and disposals of debt securities		**1,074.1**	3,108.2	**904.2**	2,627.8
Purchase of property, plant and equipment and investment property	18, 20	**(10.8)**	(11.6)	**(3.1)**	(6.3)
Purchase of intangible assets		**(6.8)**	(3.9)	**-**	(0.3)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		**2.3**	0.9	**1.1**	-
Dividends received from subsidiary undertakings		**-**	-	**115.6**	12.4
(Increase) / decrease in loans to subsidiary undertakings	17a)	**-**	-	**(86.3)**	46.6
Dividends received from joint ventures		**2.1**	1.1	**-**	-
Proceeds from disposal of assets held for sale	17b)	**58.0**	-	**-**	-
Contingent consideration received in respect of prior year disposals of subsidiary undertakings (net of costs)		**6.4**	6.4	**-**	-
Purchase of subsidiary undertakings in the year, net of cash acquired		**(121.8)**	-	**-**	-
Investment in equity share investments	17e), 17f)	**(6.5)**	(0.1)	**-**	-
Purchase of other business units		**(0.2)**	(1.3)	**-**	-
Proceeds from disposal of associate		**7.8**	-	**-**	-
Proceeds from disposal of equity share investments		**0.4**	-	**-**	-
Net cash flows from investing activities		**(790.4)**	685.1	**(428.5)**	388.3
Cash flows from financing activities					
Exercise of share options in subsidiary management incentive scheme	28	**(0.8)**	(0.6)		-
Purchase of non-controlling interests		**(0.6)**	-		-
Proceeds from issue of subordinated liabilities		**-**	348.6	**-**	348.6
Interest paid on subordinated liabilities and subscribed capital		**(11.8)**	(4.6)	**(11.8)**	(4.6)
Interest paid on lease liabilities	27	**(1.8)**	(1.3)	**(0.2)**	(0.2)
Payment of lease liabilities	27	**(42.5)**	(16.3)	**(2.7)**	(2.4)
Net cash flows from financing activities		**(57.5)**	325.8	**(14.7)**	341.4
Net (decrease) / increase in cash and cash equivalents		**(834.9)**	1,470.9	**(813.6)**	1,442.2
Cash and cash equivalents at 1 January		**3,315.8**	1,845.1	**3,206.3**	1,764.3
Decrease / (increase) in impairment loss allowance on cash and cash equivalents		**0.1**	(0.2)	**0.1**	(0.2)
Cash and cash equivalents at 31 December		**2,481.0**	3,315.8	**2,392.8**	3,206.3

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

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Cash in hand and balances with the Bank of England		**2,433.6**	3,237.8	**2,433.6**	3,237.8
Mandatory reserve deposit with the Bank of England		**(87.8)**	(71.9)	**(87.8)**	(71.9)
		2,345.8	3,165.9	**2,345.8**	3,165.9
Loans and advances to credit institutions	10	**135.2**	149.9	**47.0**	40.4
Cash and cash equivalents at 31 December		**2,481.0**	3,315.8	**2,392.8**	3,206.3

The accompanying notes form part of these financial statements.

Notes to the Accounts

1. Accounting policies

The principal accounting policies applied consistently in the preparation of these consolidated Annual Accounts are set out below.

a) Basis of preparation

The Annual Accounts of the Group and the Society are prepared on a going concern basis (see page 56 of the 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.

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

On 8 March 2021, Connells Limited, a subsidiary of the Group, acquired the entire issued share capital of Countrywide plc (now Countrywide Limited). The consolidated financial statements of the Group include the results of Countrywide from the date of acquisition.

b) Changes to significant accounting policies

There have been no changes to significant accounting policies during the year; however, the following accounting policies have been applied in the year:

- Business combinations under common control (see note 1c) on page 126)
- Fees and commissions – commercial property services (see note 1n) on page 140)
- Non-current assets held for sale (see note 1u) on page 141); and
- Software as a service (SaaS) (see note 1v) on page 141).

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.

When the Group loses control over a subsidiary, through disposal or other changes in circumstances, it derecognises the assets and liabilities of the subsidiary and any associated goodwill, as well as any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the Income Statement.

Put options

Within a number of subsidiary undertakings where the Group has less than 100% ownership, there is an option for the non-controlling shareholders to require the Group to purchase their shares at some point in the future. In accordance with IAS 32 *Financial Instruments: Presentation*, the Group recognises the present value of these options as a financial obligation, along with recognition of further goodwill on the future purchase of remaining non-controlling interests. Under this accounting policy the Group consolidates 100% of the results of such subsidiary undertakings to reflect the 100% implicit ownership in the recording of the future purchase of the non-controlling interests' shareholdings (i.e. the put option liability).

Any changes in the valuation of a put option obligation in respect of an entity acquired after 1 January 2010 are credited or charged through the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Put options held by minority shareholders' line in the Income Statement. Put options issued prior to 1 January 2010 are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements (2003)* and IFRS 3 *Business Combinations (2004)* and any adjustment to the Group's estimation of the present value of the put option liability results in an adjustment to goodwill. Dividends paid to the non-controlling interests are charged through the 'Administrative expenses' line in the Income Statement. The change in fair value of the liability due to the accretion of the discount of the liability is expensed in the 'Interest payable and similar charges' line in the Income Statement.

Joint ventures

A joint venture is an undertaking in which the Group has joint control and has rights to the net assets of the arrangement.

The results and assets and liabilities of joint ventures are accounted for in these consolidated financial statements using the equity method of accounting. Investments in joint ventures are carried within the Statement of Financial Position at cost, as adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments.

Equity share investments

An equity share investment is an investment in the share capital of a company where the Group does not have significant influence.

Unconsolidated structured entities

The Group invests in structured entities where the principal purpose of the structured entity is to provide investors with access to specific portfolios of assets and also provide the investor liquidity through the securitising of financial assets. A structured entity is one that has been set up so that any voting rights or similar rights are not the determining factor in deciding which party controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

A structured entity often has some or all of the following characteristics:

- Restricted activities;
- A narrow and well-defined objective;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

Third party funding entities

The Group invests in structured entities through the purchase of issued mortgage backed securities, as disclosed in note 11. These structured funding entities are not consolidated into the Group Accounts because the Group does not have the ability to direct the activities of the entities in question and does not control these entities through voting rights, contractual rights, funding agreements or any other means. The Group's involvement is in relation to investment activity only.

Interests in unconsolidated structured entities

The Group's interests in unconsolidated structured entities refer to involvement that exposes the Group to variability of returns from the performance of the structured entities.

Income derived from involvement with unconsolidated structured entities

Interest income on funding provided to unconsolidated structured entities is recognised within interest receivable in the Income Statement.

Notes to the Accounts (continued)

1. Accounting policies (continued)

Special purpose funding vehicles

The Society has transferred the beneficial interest in certain portfolios of loans and advances to customers to special purpose funding vehicles (SPVs). These SPVs enable the subsequent raising of debt, either by the SPVs or the Society, to investors who gain the security of the underlying assets as collateral. The SPVs are fully consolidated into the Group Accounts in accordance with IFRS 10.

The transfers of the beneficial interest in these loans to the SPVs are not treated as sales by the Society and are not derecognised. The Society continues to recognise these assets within its own Statement of Financial Position after the transfer because it retains substantially all the risks and rewards of these mortgage portfolios through the receipt of interest income and deferred consideration from the SPVs for the transfer of the beneficial interest in the mortgage loans. For securitisations, in the accounts of the Society, the proceeds received from the transfer of mortgage loans are accounted for as a deemed loan repayable to the SPV and are included in 'Amounts owed to other customers' within the Society's Statement of Financial Position.

Where the Society issues the debt, as is the case for the covered bonds (see note 17a)), it then lends the proceeds on back-to-back terms to Skipton Covered Bonds Limited Liability Partnership (LLP); the proceeds lent to the LLP are known as the 'term advance'. Some or all of the proceeds from the term advance are then paid to the Society from the LLP as consideration for the beneficial interest in the mortgage pool and this is accounted for as a deemed loan repayable to the LLP. In the accounts of the Society, the term advance and the deemed loan are not recognised separately as additional assets and liabilities; the difference between the term advance and the deemed loan are shown net within the Society's Statement of Financial Position as an amount owed from subsidiary undertakings. This is to avoid the 'grossing up' of the Statement of Financial Position.

To manage interest rate risk, the Society enters into interest rate swap arrangements with the LLP; the Society receives interest payments from the LLP relating to receipts on the mortgages in the pool and pays a floating rate of interest to the LLP. In accordance with IFRS 9 these swap arrangements are treated as part of the deemed loan and not separately fair valued because the relevant mortgage loans to which the interest swaps relate are not derecognised. All other derivatives relating to securitisations are treated as explained in note 1e).

To manage currency risk arising from the Euro-denominated covered bond issuances, the LLP has entered into a cross-currency swap transaction. These derivatives are designated in hedge accounting relationships against the term advance, which mirrors the conditions of the debt issued, effectively hedging the debt issued by the Society. In accordance with IFRS 9, any cost for currency basis spread priced within the cross-currency swap is permitted to be excluded from the hedge relationship and is recognised directly in reserves (the cost of hedging reserve). The Group has elected to apply this treatment for these hedge relationships. See note 1e) for further details.

Further details on the nature and amount of the beneficial interest transferred to the SPVs can be found in note 13 to these financial statements.

Business combinations under common control

Business combinations under common control are combinations in which all of the combining entities (or businesses) are ultimately controlled by the same party (or parties), both before and after the combination. Examples include certain group restructurings (e.g. transfer of a business between wholly-owned subsidiaries) and hive-ups (e.g. transfer of a business from a wholly-owned subsidiary to its parent).

For transactions that qualify as a 'business combination under common control', the Group determines the appropriate measurement method as follows:

- The acquisition method is applied for specified circumstances involving combinations that affect non-controlling shareholders of the receiving entity (with certain exemptions and exceptions). The acquisition method for these purposes is broadly as per the acquisition method set out in IFRS 3 *Business Combinations* (subject to specific considerations, including the arm's length price);
- The book-value method is applied for all other cases (i.e. for cases that do not meet the specified circumstances for use of the acquisition method). When applying the book-value method, the receiving entity measures the assets and liabilities received using the transferred entity's book values. The receiving entity then includes in its financial statements the assets, liabilities, income and expenses of the transferred entity prospectively from the combination date, without restating pre-combination information. Where the assets transferred include financial assets that are subject to the impairment requirements of IFRS 9 *Financial Instruments* (e.g. loan portfolios), the Group's IFRS 9 models continue to operate post-transfer as if the transfer had not taken place, such that IFRS 9 impairment continues to be assessed on a consistent basis following the transfer. No new goodwill is recognised by the receiving entity in respect of the transaction.

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) expected to benefit from the synergies of combination. The impairment test compares the carrying value of the CGU, 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 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.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU 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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

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, procurement fees and completion fees are deferred and recognised over the expected life of mortgage assets. Historical and forecast mortgage redemption data and management judgement of future performance are used to estimate the expected lives of mortgage assets.

A change to management's estimate of expected mortgage lives results in an immediate adjustment to the carrying amount of the mortgage asset (discounted at its effective interest rate) at the point this change is made, which recalculates the carrying value to account for the revised assumptions.

If a change is made to the rate that fixed rate mortgage customers will revert to at the end of the product's fixed term (i.e. the Mortgage Variable Rate (MVR) or Standard Variable Rate (SVR)), and it can be demonstrated that this change is driven by changes in market rates, this is accounted for as a change to the effective interest rate which means that the impact of the change is spread over the remaining life of the mortgage asset. Otherwise, any change in MVR or SVR is accounted for as described in the paragraph above.

Included in loans and advances to customers of the Society are balances which have been used to secure funding issued by the Group's special purpose funding vehicles which are consolidated into the Group Accounts, further details of which are included in note 17a). The beneficial interest in the underlying loans has been transferred to these entities. The loans are retained within the Society's Statement of Financial Position however as the Society retains substantially all the risks and rewards relating to the loans.

In accordance with IFRS 9, an impairment loss allowance is determined for financial assets at amortised cost in relation to expected credit losses (ECLs; see note 1g) for details on measurement of ECLs). The movement in the impairment loss allowance recognised during the period is charged or credited to the Income Statement.

At fair value through other comprehensive income (FVOCI)

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

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

The majority of the Group's debt securities, which are held to manage liquidity requirements, have been assessed by the Group to be in a 'held to collect and sell' business model and to have cash flows that pass the SPPI test.

Financial assets held at FVOCI are initially recognised at fair value plus directly attributable transaction costs, with subsequent changes in fair value recognised in equity. The majority of fair values of financial assets held at FVOCI are based on quoted prices, which represent the bid price. Where debt securities held at FVOCI do not have quoted prices available, the fair value is based on the present value of discounted cashflows using market observable inputs.

In accordance with IFRS 9, an impairment loss allowance is determined for debt securities measured at FVOCI in relation to ECLs. For debt instruments measured at FVOCI, the impairment loss allowance is not deducted from the carrying amount of the asset; instead the loss allowance is recognised through other comprehensive income. The movement in the impairment loss allowance recognised during the period is charged or credited to the Income Statement.

Interest income is recognised in the Income Statement on an effective interest basis. When the debt instruments are derecognised, the accumulated gains or losses within equity are reclassified to the Income Statement.

The premia and discounts arising on the purchase of these assets are amortised over the period to the maturity date of the security on an effective interest basis. Any amounts amortised are charged or credited to the Income Statement in the relevant financial periods.

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. During the year, the Group made an equity share investment in Bank North (see note 17f)) and an election was made to designate this investment as FVOCI; the remainder of the Group's equity share investments are held at FVTPL (see page 131).

The investment in Bank North was initially recognised at fair value plus directly attributable transaction costs, with subsequent changes in fair value being recognised in equity. The fair value of this investment is based on latest available information that includes the ongoing and expected future trading performance of Bank North, and also considers information from recent or ongoing capital issuances by Bank North to market participants. Equity share investments designated as FVOCI are not subject to impairment assessment.

Notes to the Accounts (continued)

1. Accounting policies (continued)

At fair value through profit or loss (FVTPL)

All financial assets which are not classified as either amortised cost or FVOCI, as described above, are measured at FVTPL. This includes all derivative financial assets. On initial recognition the Group may irrevocably designate as FVTPL a financial asset that otherwise meets the requirements to be measured at either amortised cost or FVOCI, if so doing eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Loans and advances to customers

A small number of loans are held at FVTPL because they contain contractual cash flows which do not pass the SPPI test. These loans consist mainly of certain lifetime mortgages. The fair value of these loans is determined by discounting future expected cash flows. Where the portfolio is so small that a probabilistic methodology to estimate future cash flows is not appropriate, management assumes that voluntary prepayments will be 100% in year one.

Equity release portfolio

The Group holds an equity release portfolio. The mortgage products within this portfolio provide the customer with a ‘no negative equity guarantee’ (NNEG), which is an embedded derivative. Under IFRS 9, the equity release portfolio and the NNEG are assessed together as a hybrid financial instrument. The Group assessed the characteristics of the equity release cash flows and concluded that the contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest. As a result, the equity release portfolio is classified as FVTPL.

The existence of the NNEG means that the Group’s maximum return on redemption of these loans is limited to the value of the customer’s property at that time. The Group’s exposure to potential losses as a result of the NNEG is limited in part by a guarantee provided to the Group by a third party for the longevity element of this risk. Due to the structured nature of the portfolio there is no single industry pricing methodology and assumptions for valuing these products differ by institution. Further complexity arises on a portion of the portfolio due to the customer rate being linked to the Retail Price Index (RPI).

A stochastic model was chosen and devised internally for the purpose of valuing this portfolio. The model uses inputs including mortality rates, voluntary prepayment rates, estimates of future RPI and a House Price Index (HPI) to predict future cash flows on the portfolio. These are then discounted back to present value using a discount curve based on a Sterling Overnight Index Average (SONIA) curve plus an illiquidity spread. The illiquidity spread reflects the fact that no repayments are made by the customer until the product redeems which may be many years into the future.

Where possible the inputs are market-driven or, where no market-driven data is available, based on management judgement that is informed by observable data wherever possible. Due to the high level of variability within these inputs, the model also runs several thousand scenarios for both the RPI and HPI inputs. The Group has robust control procedures in place regarding all the inputs to the valuation model.

As this valuation technique uses one or more significant inputs that are not based on observable market data, it is classed as a Level 3 valuation technique. For further details on the different levels of the fair value hierarchy, see note 41b). The impact of applying reasonably possible alternative assumptions of certain inputs into the valuation of the portfolio is found in note 1w).

Interest income on the equity release portfolio is recognised in the Income Statement on an effective interest basis. Fair value gains or losses on the portfolio are recognised within the ‘Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio’ line in the Income Statement. Realised losses recognised on redemption of loans within the portfolio are recognised in the ‘Realised losses on equity release portfolio’ line in the Income Statement.

Derivative financial instruments

The Group’s derivative financial instruments, which are held solely for hedging purposes, are measured and held at fair value within the Statement of Financial Position. The Group has elected to adopt the hedge accounting requirements of IFRS 9 for all hedge relationships covered by those requirements. As permitted under IFRS 9, the Group continues to apply the requirements of IAS 39 for derivatives designated in a portfolio fair value hedge. For all other derivatives designated in a hedging relationship, the Group applies the requirements of IFRS 9.

The Group uses derivative financial instruments to hedge its exposure to market risks (for example, interest rate risk) arising from operational, financing and investment activities. In accordance with its treasury policy and the Building Societies Act 1986, the Group does not hold or issue derivative financial instruments for trading purposes. In line with accounting standards, the changes in fair value of derivatives used to hedge particular risks can either be offset in the Income Statement or deferred to equity.

There are two types of hedge accounting strategies that the Group undertakes and these are summarised below:

- Fair value hedges - Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability (or portion of a recognised asset or liability), any gain or loss on the hedging instrument is recognised in the Income Statement. To the extent that there is an effective hedge relationship, the associated hedged items (for example, mortgage assets) are stated at fair value in respect of the hedged risk, with any gain or loss also recognised in the Income Statement. As a result, fair value movements in the hedging instrument and in the hedged items offset each other and reduce income statement volatility. Any residual fair value hedge ineffectiveness is also recognised in the Income Statement. In order to calculate the fair value in respect of hedged risk in relation to mortgage assets and some retail savings, the Group applies estimated prepayment assumptions using historical analysis. For fair value hedge relationships where ineffectiveness would arise as a result of foreign currency basis spread, movements are recognised in other comprehensive income (OCI) through the cost of hedging reserve (see below) in accordance with IFRS 9.
- Cash flow hedges - Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability (or portion of a recognised asset or liability) or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in OCI and deferred in a separate reserve. The effective portion recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the Income Statement immediately.

In accordance with IFRS 9, where foreign currency basis spread arises in fair value hedge relationships, this is separated and excluded from the designation of a financial instrument as the hedging instrument; movements relating to the foreign currency basis spread are recognised in OCI through the cost of hedging reserve. The Group calculates the value of the foreign currency basis spread by comparing the change in value of the actual foreign currency hedging instrument (excluding fees not relating to the hedge relationship) and the value of a hypothetical instrument derived and valued using market data excluding foreign currency basis spread.

Hedge accounting relationships within the scope of IFRS 9 require hedge accounting to only be discontinued when the qualifying criteria are no longer met. Additionally, if the hedge no longer meets the qualifying criteria due to a mismatch in the hedge ratio, the relationship must be rebalanced if possible, rather than discontinuing hedge accounting.

Fair values are determined by the three tier valuation hierarchy as defined in IFRS 13 *Fair Value Measurement* and Amendments to IFRS 7 *Financial Instruments: Disclosures* and as described in note 41b). All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

In valuing derivatives used to hedge our mortgage and savings portfolios, the Group has not valued them as one net pool for market risk and credit risk management purposes as permitted under IFRS 13, but has valued each derivative individually.

Interest on derivatives is included within interest receivable where the derivative economically hedges an asset and within interest expense where the derivative economically hedges a liability, to align the recognition with its economic purpose.

Fair value gains and losses on derivatives and hedged items that are posted to the Income Statement are recognised in the ‘Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Hedging instruments and hedged items’ line in the Income Statement, with the exception of the derivatives hedging the Group’s equity release portfolio, where changes in fair value are recognised in the ‘Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Derivatives associated with equity release portfolio’ line in the Income Statement.

To the extent that the hedge is effective, unrealised fair value gains and losses on cash flow hedging derivatives are recognised in the cash flow hedging reserve.

Where the Group enters into a cross-currency swap, as is the case for the issuance of Euro-denominated covered bonds (see page 126), the Group recognises the movement in the fair value of these derivatives as follows:

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

Contingent consideration

The Group holds a contingent consideration asset in relation to the disposal of a previous subsidiary undertaking. The Group assessed the characteristics of the contingent consideration cash flows based on the facts and circumstances that existed at initial recognition of the asset. As the contractual cash flows were dependent on the future performance of the counterparty, the Group concluded that the contractual terms did not give rise to cash flows on specified dates that are solely payments of principal and interest. The contingent consideration asset is therefore classified as FVTPL. The fair value of this asset is determined by calculating the present value of the expected future cash flows, discounted at an appropriate rate.

Equity share investments

Under IFRS 9 equity share investments are measured at FVTPL, except where an election is made at initial recognition to irrevocably designate an equity share investment that is not held for trading to be classified as FVOCI. The FVOCI election can be made on an instrument-by-instrument basis. During the year, an election was made to designate the Group’s investment in Bank North as FVOCI (see page 129).

Notes to the Accounts (continued)

1. Accounting policies (continued)

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 share warrants held in an unlisted entity. Other assets also include amounts recognised, where appropriate, for additional share warrants that have vested but are yet to be received. The Group assessed the characteristics of the related cash flows and concluded that the contractual terms fail the SPPI test; these assets are therefore classified by the Group as FVTPL. The fair value is determined by reference to information included in an independent third party valuation.

Debt securities

The Society holds in its Statement of Financial Position residential mortgage backed securities that were issued in previous periods by the Group's securitisation vehicles. Certain tranches of these securities are held at FVTPL because they fail the SPPI test due to an elevated level of credit risk relative to other tranches.

f) Financial liabilities

In accordance with IFRS 9, the financial liabilities of the Group are classified as measured at either amortised cost or FVTPL. A financial liability is classified as at FVTPL if it meets the definition of 'held for trading', which includes derivatives (except for derivatives that are financial guarantee contracts or which are designated and effective hedging instruments). On initial recognition the Group may irrevocably designate as FVTPL a financial liability that otherwise meets the requirements to be measured at amortised cost if so doing results in more relevant information; this can be either because it eliminates or significantly reduces an accounting mismatch that would otherwise arise, or because a group of financial liabilities is managed and evaluated on a fair value basis.

Financial liabilities at FVTPL are measured at fair value. Gains and losses, including any interest expense, are recognised in profit or loss unless the financial liability is one that was designated as FVTPL, in which case fair value changes are presented as follows:

- The amount of fair value change that is attributable to changes in the credit risk of the liability is presented in other comprehensive income (except where this would create or enlarge an accounting mismatch in profit or loss); and
- The remaining amount of fair value change is presented in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with any interest expense being recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The financial liabilities of the Group have been classified as set out below.

Borrowings, comprising shares, deposits and debt securities in issue, and subordinated liabilities are recognised initially at fair value, being the amounts deposited or proceeds issued, net of premia, discounts and transaction costs incurred. Borrowings and subordinated liabilities are subsequently measured at amortised cost using the effective interest method. Derivative liabilities and the fair value of the put option obligation are measured at fair value through profit or loss.

Permanent Interest Bearing Shares (PIBS) with no fixed maturity are classified as financial liabilities as opposed to equity instruments since their terms do not permit the Directors discretion to avoid the payment of interest, as the only instance where interest could not be paid on these instruments would be where capital levels are insufficient to allow such a payment to be made. PIBS are carried at amortised cost.

Where financial liabilities are hedged, the Group elects to use fair value hedging for those hedged financial liabilities. This treatment has been adopted to reduce the volatility that would otherwise exist given that the interest rate risk element of the underlying liabilities is economically hedged by derivatives which are held at fair value through profit or loss.

The deemed loan to the Society from the special purpose vehicle Darrowby No. 4 plc was fully repaid in February 2021 and had been voluntarily designated as FVTPL under IFRS 9. This designation was on the grounds that doing so was intended to reduce an accounting mismatch that could arise had the loan been held at amortised cost, given that the associated derivatives held to hedge fair value movements in the deemed loan were also held at FVTPL. Where applicable, changes in fair value of the deemed loans that were due to changes in credit risk of the Society were recognised in other comprehensive income.

The Group elected not to voluntarily designate the deemed loan to the Society from Darrowby No. 5 plc as FVTPL and therefore this loan is accounted for at amortised cost under IFRS 9. Management considers that holding this deemed loan at amortised cost more accurately reflects the economic value of the deemed loan, which is based on the value of the pool of mortgages that 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 17f)). The Group recognises impairment loss allowances for ECLs on the following financial assets that are not measured at FVTPL:

- Loans and advances to customers;
- Loan commitments;
- Trade receivables;
- Treasury assets, which comprise debt securities held at FVOCI, cash in hand and balances with the Bank of England and loans and advances to credit institutions; and
- Loans to subsidiary undertakings (within the Society's Statement of Financial Position) and firm commitments made in relation to such loans.

The Group recognises an impairment loss allowance for loan commitments where a firm offer has been made to the customer.

Measurement of ECLs

ECLs are an unbiased probability-weighted estimate of the present value of credit losses, taking account of forward-looking information that includes a range of possible economic outcomes. ECLs are measured as the difference between contractual cash flows and expected cash flows, discounted at the asset's effective interest rate.

When measuring ECLs, the Group assesses the probability of default, the expected exposure at the time of default, and the loss that is expected to arise on default. The maximum period considered is the maximum contractual period over which the Group is exposed to credit risk. The probabilities of default are adjusted to take account of expected customer redemptions. The Group typically assesses ECLs on an individual asset basis.

IFRS 9 requires an impairment loss allowance to be recognised at an amount equal to either 12-month ECLs ('stage 1' ECLs) or lifetime ECLs. Lifetime ECLs are ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group measures impairment loss allowances at an amount equal to lifetime ECLs, except for the following which are measured as 12-month ECLs:

- treasury assets that are determined to have low credit risk at the reporting date. The Group considers a treasury asset to have low credit risk when its credit rating is equivalent to the globally understood definition of 'investment grade'; and
- other financial assets on which credit risk has not increased significantly since their initial recognition (except trade receivables, for which the Group will always recognise lifetime ECLs in accordance with the simplified approach in IFRS 9).

Lifetime ECLs are required where the credit risk on a financial asset has increased significantly since initial recognition (except for investment grade treasury assets, as noted above).

For loan commitments, 12-month ECLs are measured by the Group for the percentage of such commitments expected to convert from an outstanding customer offer into a completed customer loan. The conversion factors applied are based on actual trends observed for the Group and are aligned with the Group's existing internal ratings based (IRB) approach for regulatory capital purposes.

Financial assets that are subject to the impairment requirements of IFRS 9 are described according to their ECL 'stage' as follows:

- 'Stage 1' - Assets for which a 12-month ECL is recognised;
- 'Stage 2' - Assets for which a lifetime ECL is recognised where there has been a 'significant increase in credit risk' but which are not credit-impaired;
- 'Stage 3' - Assets for which a lifetime ECL is recognised and which are 'credit-impaired'.

The Group's definitions of 'significant increase in credit risk' and 'credit-impaired' are detailed below.

IFRS 9 includes specific requirements for financial assets that are credit-impaired when initially purchased or originated (POCI assets). For POCI assets, an entity recognises only the cumulative change in lifetime ECLs since initial recognition, discounted by the credit-adjusted effective interest rate. For POCI assets, interest revenue is accounted for using the credit-adjusted effective interest rate. The Group had no POCI assets during the current or prior period.

The assessment of impairment requires a number of estimates and assumptions, details of which are included in note 1w).

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. 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 1w).

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 1w);
- the account is in a current state of forbearance (see pages 135 and 136);
- the account is in arrears (no minimum); or
- the account term has expired.

For commercial mortgages, the Group considers that credit risk has significantly increased when an account is placed on a watchlist or is in arrears of at least 50% of the contractual monthly payment.

For residential and commercial mortgages, the above criteria for assessing significant increase in credit risk ensures compliance with IFRS 9's backstop of more than 30 days past due.

During 2020 and 2021, a number of payment deferrals were granted in response to COVID-19. In accordance with regulatory guidance, these mortgage payment deferrals are not automatically recorded as forbearance cases and do not automatically have an impact on the reported staging of balances, except where credit risk is judged to have significantly increased since the loan was initially recognised in line with the criteria listed above. A post model adjustment has been recognised for residential mortgages to reflect the risks associated with these payment deferrals that have not yet been observed through underlying data or through migration to stage 2. Further details can be found in note 1w).

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.

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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

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.

During 2020 and 2021 a number of payment deferrals were granted in response to COVID-19, offering an initial three-month mortgage payment deferral, subsequently extended upon request for up to six months, with interest continuing to accrue on these loans. In accordance with regulatory guidance, these mortgage payment deferrals are not automatically recorded as forbearance cases and do not automatically have an impact on the reported staging of balances, except where credit risk is judged to have significantly increased since the loan was initially recognised.

For the purposes of disclosures in these financial statements, loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider.

Write-offs

A financial asset is written off (in full or in part) when the Group judges there to be no reasonable expectation that the asset can be recovered (in full or in part). This is typically the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is performed at the individual asset level. The related impairment loss allowance is also written off once all the necessary procedures have been completed and the loss amount has crystallised. Financial assets that are written off could still be subject to enforcement activities and subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Income Statement.

h) Financial assets and liabilities – modification, derecognition and offsetting

Modification

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new cash flows are substantially different to the original cash flows.

If the cash flows are substantially different, then the contractual rights to cash flows from the original loan are deemed to have expired. In this case, the original loan is derecognised (as discussed below) and a new loan is recognised initially at fair value. Where impairment is held against the original loan (i.e. the loan is not held at FVTPL), the original loan is derecognised from its existing impairment stage (which may be stage 1, stage 2 or stage 3) and the new loan is initially recognised in stage 1 with its new origination date. Thereafter, the assessment of whether there has been a significant increase in credit risk is made by reference to changes in credit risk for the new loan starting from the new origination date. Examples of loan modification events for which the Group typically applies derecognition include an existing borrower switching to a new mortgage product and an existing borrower porting their loan to a new property.

If the cash flows of a modified loan carried at amortised cost are not substantially different, then the modification does not result in derecognition of the loan. In this case, the Group recalculates the gross carrying amount of the loan and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the Income Statement. If such a modification is carried out because of financial difficulties of the borrower, the gain or loss is presented together with impairment losses. In other cases, it is presented within interest income. The Group assesses whether there has been a significant increase in credit risk by comparing the remaining lifetime PD as at the reporting date (based on the modified contractual terms) to the remaining lifetime PD for this point in time that was estimated at initial recognition (based on the original, unmodified contractual terms). An example of a loan modification event for which the Group typically does not apply derecognition is the application of forbearance strategies.

Derecognition

The Group derecognises a financial asset when the contractual rights to receive the asset's cash flows expire (including deemed expiry arising from a modification with substantially different terms as discussed above), or when the contractual rights have been transferred and either i) the Group transfers substantially all the risks and rewards of ownership, or ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of i) the consideration received (including any new asset obtained less any new liability assumed) and ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Society has not derecognised the loans transferred to the Group's special purpose funding vehicles because substantially all the risks and rewards are retained by the Society as detailed in note 1c).

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

Offsetting

Financial assets and financial liabilities are offset and the net amount presented within the Statement of Financial Position when, and only when, the Group has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS. With the exception of bank balances included within 'Loans and advances to credit institutions', there are no other financial assets or liabilities which are offset within the Statement of Financial Position and all other financial assets and liabilities are presented on a gross basis. The Group has a cash-pooling arrangement in place with one of its banking counterparties between its subsidiaries and the Society. At the reporting date, the Group has a legally enforceable right to offset balances in these bank accounts and so, in accordance with IAS 32, the net presentation more appropriately reflects the substance of the arrangement. At 31 December 2021 the Group has offset £3.0m (31 December 2020: £1.5m) 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) Government grants

Government grants and other assistance are recognised in the Income Statement over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate. A government grant that becomes receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Group entity with no future related costs, is recognised in the Income Statement in the period in which it becomes receivable.

Government grants are recognised when the Group has reasonable assurance that it will comply with the conditions attached to the grant and there is a reasonable assurance that the grant will be received.

k) Taxation

The income tax expense or credit on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity and disclosed in the Statement of Comprehensive Income.

Current tax is the expected tax payable or receivable on the taxable income or expenditure for the year, using tax rates in force during the period, and any adjustments to tax payable in respect of previous years.

Deferred tax recognises temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor income and expenditure, and differences relating to investments in subsidiary undertakings, associates and joint arrangements to the extent that it is probable they will not reverse in the foreseeable future. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at least annually and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and deferred tax liabilities are offset only where certain criteria are met.

Notes to the Accounts (continued)

1. Accounting policies (continued)

l) Leases

Definition of a lease

Under IFRS 16 a contract is a lease, or contains a lease, if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the following practical expedient permitted by the standard:

- For the purposes of identifying leases held by the Group, the Group elected to retain the assessments previously made by the Group under IAS 17 and IFRIC 4; IFRS 16 was therefore initially applied at 1 January 2019 only to those contracts that were previously identified as leases under IAS 17 and IFRIC 4. Contracts existing at 1 January 2019 that were not previously identified as leases under IAS 17 and IFRIC 4 were not reassessed. The new IFRS 16 definition of a lease is therefore applied by the Group only to contracts entered into, or changed, on or after 1 January 2019.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset becomes available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date, less any lease incentives received. Where an obligation is incurred by the Group, the cost also includes an estimate of costs for dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

If the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use asset is depreciated over the useful life of the underlying asset. Otherwise, the right-of-use asset is depreciated on a straight-line basis over the shorter of the estimated useful life of the right-of-use asset and the lease term. In accordance with IAS 36 *Impairment of Assets*, right-of-use assets are regularly reviewed, at least annually, for indications of impairment. Any impairment identified is charged to the Income Statement.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments for this purpose include fixed payments (including in-substance fixed payments but deducting lease incentives receivable), variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option where reasonably certain to be exercised by the Group, and payments of penalties for terminating a lease (if the lease term reflects the Group exercising the option to terminate). Variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

The present value of lease payments is determined using an appropriate discount rate. The Group uses the interest rate implicit in the lease where this can be readily determined; otherwise (and generally), the Group uses its incremental borrowing rate at the lease commencement date.

After the commencement date, the lease liability is increased to reflect the accretion of interest and is reduced for lease payments made. In addition, the lease liability is remeasured if there is a modification, a change in lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Exempt leases

The Group has elected to take the recognition exemption for short-term leases, except for property leases that are short-term by virtue of being under renegotiation. Short-term leases are those which, at the commencement date, have a lease term of not more than twelve months and do not contain a purchase option.

Except for leases of motor vehicles, the Group has elected to take the recognition exemption for leases for which the underlying asset is of low value when new. The Group considers an underlying asset to be of low value where its value, when new, is not more than approximately £4,000.

For exempt leases, the Group expenses lease rentals to the Income Statement on a straight-line basis over the lease term.

Other practical expedients

Certain of the Group's lease contracts contain non-lease components (e.g. service charges). Except for property leases, the Group has elected not to separate out the non-lease components and therefore to account for these as part of the lease component. For property leases, the Group accounts separately for lease components and non-lease components.

COVID-19 related rent concessions

In 2020 the Group adopted the amendments to IFRS 16 for *COVID-19 Related Rent Concessions*, with short term rent concessions in relation to COVID-19 being recognised directly in the Income Statement, and not resulting in a recalculation of the right-of-use asset or lease liability within the Statement of Financial Position. During 2021, the Group has early adopted *COVID-19 Related Rent Concessions beyond 30 June 2021* (Amendment to IFRS 16), which extends the period of application of this relief until 30 June 2022. This amendment has had no material impact on these financial statements.

m) Employee benefits

Defined contribution pension arrangements

Obligations for contributions to defined contribution pension arrangements are recognised as an expense in the Income Statement as incurred.

Defined benefit schemes

The Group currently operates three defined benefit pension schemes (one of which is a hybrid scheme). Each scheme is administered by a corporate Trustee and the funds of these schemes are separate from those of the Group.

For part of the year, the Group also operated a fourth defined benefit pension scheme; this was a small hybrid scheme, assumed by the Society on its merger with Holmesdale Building Society in 2018. The scheme was administered by a corporate Trustee and its funds were separate from those of the Group. In June 2021 the Trustee of that scheme triggered its wind-up and member benefits were discharged from the scheme; the scheme terminated with effect from 30 June 2021. Further details are included in note 31.

Included within the Statement of Financial Position are the Group's net obligations / net surplus 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.

n) Fees and commissions

The Group recognises fees and commissions receivable in accordance with IFRS 15 *Revenue from Contracts with Customers*. Revenue is measured based on the consideration specified in a contract with a customer.

Financial advice fees and commissions

Fees and commissions receivable from financial advice are recognised when both the customer has formally accepted and all of the advice within their case has been contracted in the financial markets. A provision for future clawbacks is made for repayment in the event of early termination by the customer.

Estate agency services

Estate agency commissions earned on the sales of properties and land and auction income are recognised on the date contracts are exchanged unconditionally. Property management income is recognised when the cash is received, which reflects the point at which income is earned and contractual obligations have been fulfilled. Insurance commission is recognised upon fulfilment of contractual obligations with a provision for future clawback repayment in the event of early termination by the customer. Survey and valuation revenue is recognised on the date the survey or valuation report is completed, which reflects the point at which all contractual obligations have been fulfilled; revenue and costs are recognised gross of sub-contracted panel fees. Mortgage origination income is recognised on completion of the mortgage transaction. Asset management commission is recognised on exchange of contracts and additional services are recognised upon completion of work, both of which reflect the point at which all performance obligations are considered to have been fulfilled.

Notes to the Accounts (continued)

1. Accounting policies (continued)

Commercial property services

Following the acquisition of Countrywide, the Group generates income from commercial property services, including 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.

o) Property, plant and equipment

Property, plant and equipment is measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of those items.

Depreciation is calculated to write down the cost of items of property, plant and equipment to their estimated residual values over their estimated useful lives as set out below on a straight line basis unless stated otherwise.

Freehold and long leasehold buildings	50 to 100 years
Special purpose freehold head office facilities	40 years
Refurbishment of freehold and long leasehold buildings	five to 10 years
Short leasehold buildings	period of lease
Equipment, fixtures and fittings	two to 10 years
Motor vehicles	25% reducing balance

Land is not depreciated. Major items of property, plant and equipment purchased are depreciated on a monthly basis from the date the asset is available for utilisation. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted where appropriate. In accordance with IAS 36 *Impairment of Assets*, all items of property, plant and equipment are regularly reviewed, at least annually, for indications of impairment. Any impairment identified is charged to the Income Statement.

Subsequent expenditure on items of property, plant and equipment is capitalised only if the subsequent expenditure increases the item's revenue generating capabilities and it is probable that future economic benefits associated with the expenditure will flow to the Group.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in 'Other income' in the Income Statement.

p) Segmental reporting

In accordance with IFRS 8 *Operating Segments*, each operating segment is determined according to distinguishable operating components of the Group for which discrete financial information is available. The chief operating decision maker, the Board, regularly reviews internal reporting for each segment to appropriately allocate resources and assess their performance. The Group does not aggregate any of its operating segments for the purposes of financial reporting.

Information regarding the results of each reportable segment is included in note 42.

q) Cash and cash equivalents

For the purposes of the Statements of Cash Flows, cash comprises cash in hand and unrestricted loans and advances to credit institutions repayable on demand, and excludes the mandatory deposit the Society is required to place with the Bank of England. Cash equivalents comprise highly liquid unrestricted investments, typically with original maturities of less than three months, that are readily convertible into known amounts of cash with an insignificant risk of changes in value.

The Statements of Cash Flows have been prepared using the indirect method.

r) Investment properties

Properties held by the Group for capital appreciation or which earn rentals are recognised as investment properties at cost less depreciation and impairment losses. The depreciation policy for investment properties is consistent with the policy for property, plant and equipment. Investment properties are regularly reviewed for indications of impairment and any impairment identified is charged to the Income Statement.

Rental income from investment property is recognised over the term of the lease and is included in 'Other income' in the Income Statement.

Any gain or loss on disposal of investment property is also recognised in 'Other income'.

s) Sale and repurchase agreements

Investments and other securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained within the Statement of Financial Position when substantially all the risks and rewards of ownership remain with the Group and the liability associated with the cash advanced is included separately within the Statement of Financial Position.

The difference between the sale and repurchase price is accrued over the life of the agreement and recognised within net interest income.

t) Provisions for liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date. Further details can be found in note 29.

u) Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification are regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Non-current assets (or disposal groups) acquired exclusively with a view to their subsequent disposal are classified as held for sale at the acquisition date only if the one-year requirement is met (with limited exceptions) and it is highly probable that any other criteria not met at that date will be met within a short period following acquisition (usually within three months).

Newly acquired assets (or disposal groups) that meet the criteria to be classified as held for sale at the acquisition date shall, if acquired as part of a business combination, be measured at fair value less costs to sell. Otherwise, non-current assets (or disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expenses.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately within the Statement of Financial Position.

v) 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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

w) Critical accounting judgements and estimates in applying accounting policies

Critical judgements

The Group has to make judgements in applying its accounting policies which affect the amounts recognised in the financial statements. The key judgements management has made in applying the Group's accounting policies are set out below.

Transfer of beneficial interest in mortgage loans

Management has judged that the transfer of the beneficial interest in the loans transferred from the Society to the SPVs does not result in a transfer of the risks and rewards in relation to these loans. Therefore, the transfer of the beneficial interest is not recognised as a sale by the Society, and the loans continue to be recognised within the Society's Statement of Financial Position, with the proceeds received from the transfer accounted for as a deemed loan repayable to the SPVs.

The Group's accounting policy for its SPVs is outlined in note 1c).

Impairment of mortgage loans and advances

Assessing loan impairment in accordance with IFRS 9 requires the following key judgements:

- determining whether credit risk has significantly increased since the loan was initially recognised; and
- the definition of default.

Residential mortgages

For residential mortgages, management judges that significant increase in credit risk is determined by reference to certain quantitative and qualitative criteria. The quantitative criteria involve measuring the relative increase in lifetime probability of default for the loan. The qualitative criteria include the loan being in forbearance, in arrears or term expired. Management has further judged that the definition of default should align with the Group's existing IRB definition for regulatory capital purposes. For IFRS 9 accounting purposes, stage 3 loans which no longer meet any of the default criteria are subject to a six month minimum probation period before they become eligible for transfer out of stage 3. Further details are found in note 1g).

Commercial mortgages

For commercial mortgages, management judges that credit risk has significantly increased when an account is placed on a watchlist or is in arrears of at least 50% of the contractual monthly payment. Management has further judged that an account is regarded as in default by reference to certain quantitative and qualitative criteria; these criteria include an account being 90 days past due (the IFRS 9 'backstop'). Further details are found in note 1g).

IFRS 16

When accounting for leases in accordance with IFRS 16 the Group makes the following key judgements that have an effect on the reported amounts of assets and liabilities:

Lease term

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease where this is reasonably certain to be exercised, or any periods covered by an option to terminate the lease where this is reasonably certain not to be exercised.

Many of the Group's leases, particularly property leases, contain options for the Group to extend and / or terminate the lease term. The Group applies judgement in evaluating whether it is reasonably certain to exercise these options, taking account of all relevant factors that create an economic incentive for it to do so. After the lease commencement date, the Group reassesses the lease term if there has been a significant event or change in circumstances that is within its control and which affects its ability to exercise (or not to exercise) the option to renew and / or to terminate (e.g. a change in business strategy).

Critical estimates

The Group also makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

Estimates and assumptions are evaluated on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key estimates and assumptions are set out below.

Effective interest rate

The carrying value of assets measured at amortised cost is accounted for using the effective interest method. This method imputes an interest rate which discounts the forecast future cash flows of an asset over its expected life back to its carrying value. The most critical factor in calculating the amortised cost of assets held by the Group is the expected lives of these assets which are determined on the basis of historical data and management judgement. The impact of a one month increase / (decrease) in the anticipated life of loans and advances to customers would result in the following increase / (decrease) in interest income:

	Group		Society	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
One month increase / (decrease)	**31.3 / (12.4)**	24.2 / (26.5)	**31.0 / (12.0)**	23.8 / (26.0)

During the year a charge of £8.3m (2020: £nil) for the Group and Society was recognised through interest income in relation to the reassessment of the expected lives of loans and advances to customers.

Impairment of mortgage loans and advances

The estimation of credit exposures for risk management purposes is complex and requires the use of models, a number of inputs into which are sources of estimation and require the Group to apply judgement. Key sources of estimation the Group uses to measure ECLs include:

- Probability of Default (PD) – the probability at a point in time that a customer will default;
- Exposure at Default (EAD) – the expected outstanding loan amount at the time of default;
- Loss Given Default (LGD) – the loss that is expected to arise on default, taking account of expected recoveries from collateral held;
- Thresholds to determine whether credit risk has significantly increased; and
- Use of forward-looking information.

ECLs are measured by multiplying together the PD, EAD and LGD, and are discounted using the loan's original effective interest rate. EAD is derived by adjusting the current outstanding loan amount for expected cashflows to the date of default. LGD is estimated on a discounted cash flow basis using the effective interest rate. The Group's LGD models consider factors including historical recovery rates and possible future property price changes.

Credit risk information is collected by the Group, based on a range of qualitative and quantitative data considered to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. The Group's PD models use the relevant information to generate estimates of the remaining lifetime PD of exposures and how these are expected to change over time. The PDs are adjusted to take account of expected customer redemptions and also for the impact of forward-looking information.

The following data is typically used to monitor the Group's exposure to credit risk:

- Payment record, including payment ageing analysis;
- Forbearance activity;
- Changes in business, financial and economic conditions;
- Credit reference information supplied by external agencies; and
- Internally generated data of customer behaviour, affordability metrics etc.

For residential mortgages, the assessment of whether credit risk has significantly increased includes assessing the degree by which the remaining lifetime PD at the reporting date has increased compared to initial estimates. The Group determines thresholds for this purpose, expressed as a multiple of the initial PD estimate. The thresholds vary according to the credit quality of the loan at initial recognition. They are set with the aim of identifying accounts with significantly increased credit risk before the borrower misses a payment. The Group periodically reviews the effectiveness of the criteria in achieving this objective and, as a result of this review, has during the year revised the 'medium risk' multiple; there were no other changes during 2021 to the 'significant increase in credit risk' (SICR) criteria. Details of this change, which does not materially impact these financial statements, are set out below.

Lifetime PD band at initial recognition	Multiple by which remaining lifetime PD has to increase compared with initial estimate, for 'significant increase in credit risk' to have occurred	
	2021	2020
Slight risk	**initial estimate x 8**	initial estimate x 8
Low risk	**initial estimate x 5**	initial estimate x 5
Medium risk	**initial estimate x 3**	initial estimate x 2.6
High risk	**initial estimate x 1**	initial estimate x 1

Notes to the Accounts (continued)

1. Accounting policies (continued)

As in the prior year, 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.

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 2021 were determined with due consideration to the economic uncertainty surrounding the COVID-19 pandemic and any ongoing impacts from the UK's departure from the EU.

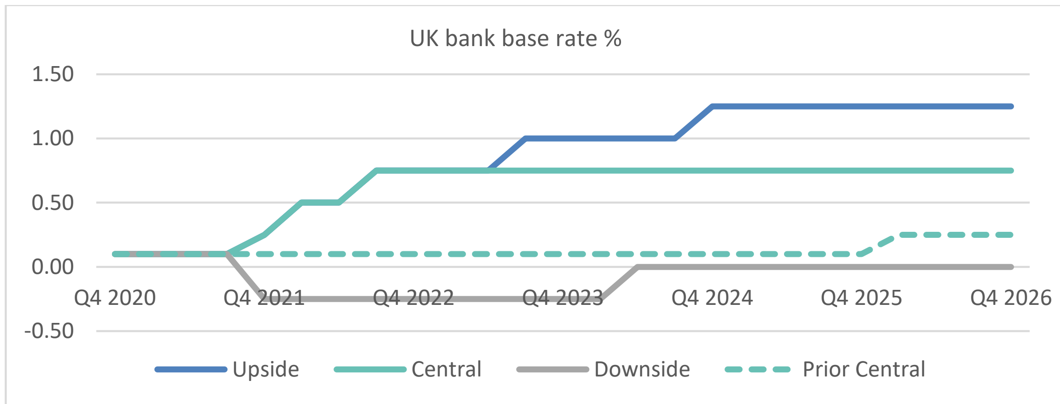
The Group's central scenario assumes increased economic activity as the UK's COVID-19 vaccination programme proves effective and GDP continues to recover at a steady rate. Whilst some COVID-19 measures are required in response to new variants, these do not significantly impact jobs and unemployment remains steady throughout 2022. House prices continue to rise as government-backed mortgages help maintain demand, but with slower growth from 2022 onwards. The supply chain issues that emerged in 2021 ease during the first half of 2022.

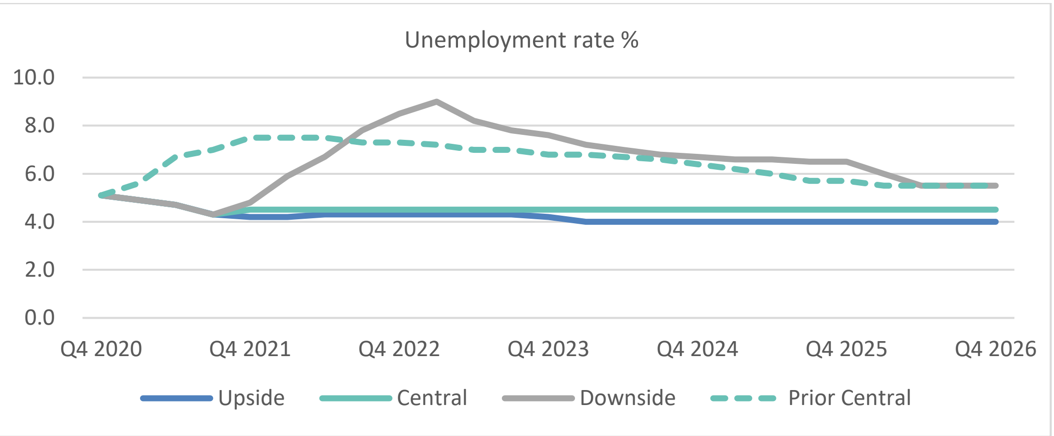
The Group's upside scenario assumes a swift and strong bounce-back from COVID-19's economic impacts. Compared with the Group's central scenario, GDP recovers at a faster rate and house price growth in 2022 is stronger. Unemployment remains low following the success of government furlough measures to preserve jobs. Inflation rises above government targets and average earnings also increase; the Bank of England responds by increasing interest rates.

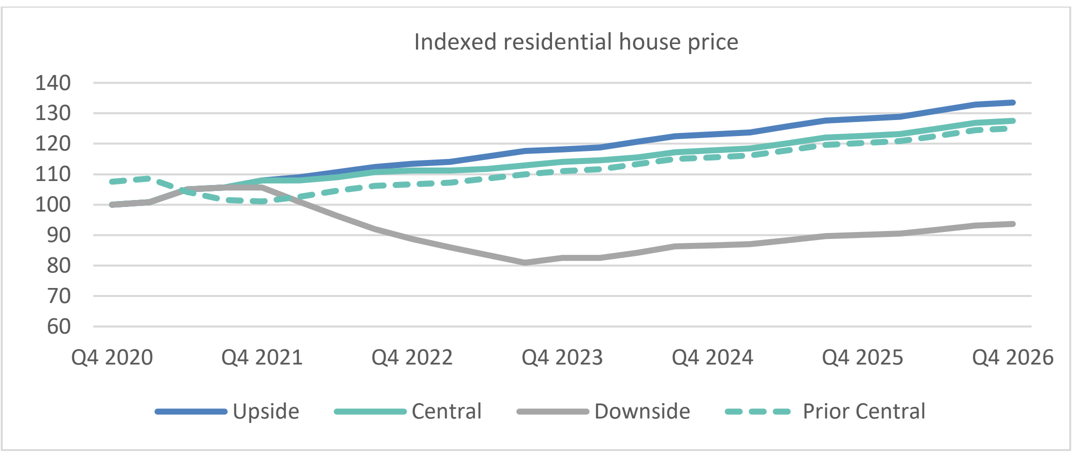
The Group's downside scenario assumes prolonged severe economic disruption due to COVID-19, with current vaccines proving ineffective against new variants and legal restrictions being reintroduced. Government support to the labour and housing markets is not reintroduced, leading to a sharp rise in unemployment, which peaks in the first quarter of 2023, and GDP growth is stifled. There is a profound effect on the housing market, with prices slumping by a cumulative 23.4% over the period to the third quarter of 2023, until recovery begins by the end of 2023. The global recession impacts the UK economy; rising oil and import prices lead to above-target inflation in the mid-term.

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 the significant economic uncertainties surrounding COVID-19 and any ongoing impacts from the UK's departure from the EU.

The graphs below show the historical and forecasted Bank Base Rate, indexed residential house prices and unemployment rate for the Group's three economic scenarios as at 31 December 2021, 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 2020 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 (from reporting date to peak or trough over 5 year forecast period)	2021			2020		
	Upside	**Central**	**Downside**	Upside	Central	Downside
Bank of England base rate (%) (note 1)	**0.50 / 1.25**	**0.50 / 0.75**	**(0.25) / 0.00**	0.10 / 0.75	0.10	(0.5) / 0.10
Unemployment (%) (note 2)	**4.3**	**4.5**	**9.0**	6.5	7.5	11.0
House price inflation (UK) (%) (note 3)	**23.7 / 0.0**	**18.1 / 0.0**	**0.0 / (23.4)**	18.7 / (1.0)	11.8 / (6.0)	0.0 / (21.9)
Commercial property price growth (%) (note 3)	**10.4 / 0.0**	**0.0 / (14.7)**	**0.0 / (21.2)**	8.2 / 0.0	0.0 / (19.0)	0.0 / (29.0)

Notes

1. The Bank of England base rate is shown as the lowest/highest rate over the forecast period.
2. Unemployment is shown as the highest rate over the forecast period. In the downside scenario for example, the peak is assumed to occur in Q1 2023, which is higher than the year-end positions shown in the table below.
3. House price inflation and commercial property price growth are shown as the largest cumulative growth / fall from 1 January 2022 (2020: from 1 January 2021) over the 5 year forecast period.

Economic variables (annual rate)		As at 31.12.21				
	Scenario	**2022**	**2023**	**2024**	**2025**	**2026**
Bank of England base rate (%) (note 1)	Upside	**0.75**	**1.00**	**1.25**	**1.25**	**1.25**
	Central	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
	Downside	**(0.25)**	**(0.25)**	**0.00**	**0.00**	**0.00**
Unemployment (%) (note 1)	Upside	**4.3**	**4.2**	**4.0**	**4.0**	**4.0**
	Central	**4.5**	**4.5**	**4.5**	**4.5**	**4.5**
	Downside	**8.5**	**7.6**	**6.7**	**6.5**	**5.5**
House price inflation (UK) (%) (note 2)	Upside	**5.1**	**4.2**	**4.2**	**4.2**	**4.2**
	Central	**3.0**	**2.5**	**3.3**	**4.1**	**4.0**
	Downside	**(16.0)**	**(7.0)**	**5.0**	**4.0**	**4.0**
Commercial property price growth (%) (note 2)	Upside	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
	Central	**(14.7)**	**0.0**	**0.0**	**0.0**	**0.0**
	Downside	**(18.6)**	**(3.2)**	**0.0**	**0.0**	**0.0**

		As at 31.12.20				
	Scenario	2021	2022	2023	2024	2025
Bank of England base rate (%) (note 1)	Upside	0.10	0.25	0.50	0.50	0.75
	Central	0.10	0.10	0.10	0.10	0.10
	Downside	(0.50)	(0.50)	(0.50)	(0.25)	0.00
Unemployment (%) (note 1)	Upside	5.0	4.8	4.5	4.5	4.5
	Central	7.5	7.3	6.8	6.4	5.7
	Downside	10.0	10.7	9.4	8.0	7.0
House price inflation (UK) (%) (note 2)	Upside	1.0	4.1	4.2	4.2	4.2
	Central	(6.0)	5.6	4.1	4.1	4.1
	Downside	(15.1)	(6.6)	6.1	5.0	4.0
Commercial property price growth (%) (note 2)	Upside	0.0	2.0	2.0	2.0	2.0
	Central	(15.6)	(4.0)	0.0	0.0	0.0
	Downside	(23.3)	(7.5)	0.0	0.0	0.0

Notes

1. The Bank of England base rates and unemployment rates are the position at 31 December each year.
2. House price inflation and commercial property price growth are the annual growth rate in each year. 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.

The relative weightings assigned to each scenario have also been revised during the period taking into account the severity of the scenarios which have been significantly updated to reflect the impacts of the COVID-19 pandemic and the level of uncertainty over the economic outlook, both domestic and global. The Group's scenario weightings as at 31 December 2021 were 50% for the central scenario, 15% for the upside scenario and 35% for the downside scenario (31 December 2020: central scenario 55%, upside scenario 5%, 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 credit losses over a 12 month outcome; as IFRS 9 has been effective only since 2018, there is currently limited experience available for the Group to back-test predicted lifetime ECLs against actual results. Additional assurance is gained from validation of the composite sub-models. The ECL calculation is subject to formal quarterly monitoring, with output reported to the Society's Model Governance Committee for review, challenge and approval. In addition, the ECL calculation and all sub-components are subject to regular first-line review and independent validation. Where necessary, post model adjustments (PMAs) are included within ECLs to reflect identified risks not captured in model outputs; each material PMA is subject to review and challenge by the Society's Loan Impairment Working Group, subject to approval by the Group Finance Director and subject to oversight by the Board Audit Committee.

With respect to residential mortgages, the Group and the Society held PMAs as at 31 December 2021 as follows:

	Group 2021	Group 2020	**Society 2021**	Society 2020
COVID-19 payment deferrals (note 1)	**0.3**	1.6	**0.3**	1.4
Flats subject to fire safety risks (note 2)	**0.8**	-	**0.8**	-
Model risk in downturn scenario (note 3)	**1.6**	5.2	**1.6**	3.6
Move to ONS HPI (note 4)	**1.6**	-	**1.6**	-
Other	**0.2**	2.5	**0.2**	(0.9)
	4.5	9.3	**4.5**	4.1

Notes

1. In accordance with regulatory guidance, payment deferrals granted in response to COVID-19 are not automatically recorded as forbearance cases and do not automatically impact the reported staging of loans except where credit risk is judged to have significantly increased since the loan was initially recognised. PMAs are therefore held to reflect the risks associated with COVID-19 payment deferrals where underlying data is yet to be observed that may support migration of some loans to Stage 2.
2. 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.
3. 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.
4. In January 2022 the Group changed the index used in its models to estimate UK house prices from the Halifax index to the ONS index, which impacts current and historical property valuations used in the Group's models; this change has a consequential impact on the calculation of key model parameters which include forced sale discounts and cure rates. This PMA is held to reflect an estimate of these impacts.

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 balances would be held in Stage 2.

2021	Upside %	Central %	Downside %	ECL £m	Stage 2 share of gross balances %
Residential:					
Actual probability weighted ECL	**15**	**50**	**35**	**10.9**	**2.2**
100% upside	**100**	**-**	**-**	**4.9**	**1.6**
100% central	**-**	**100**	**-**	**5.5**	**1.6**
100% downside	**-**	**-**	**100**	**22.5**	**6.1**
Commercial:					
Actual probability weighted ECL	**15**	**50**	**35**	**16.2**	**75.5**
100% upside	**100**	**-**	**-**	**5.6**	**75.5[1]**
100% central	**-**	**100**	**-**	**12.0**	**75.5[1]**
100% downside	**-**	**-**	**100**	**26.5**	**75.5[1]**

2020	Upside %	Central %	Downside %	ECL £m	Stage 2 share of gross balances %
Residential:					
Actual probability weighted ECL	5	55	40	23.1	12.6
100% upside	100	-	-	9.4	2.5
100% central	-	100	-	11.2	4.6
100% downside	-	-	100	40.0	27.2
Commercial:					
Actual probability weighted ECL	5	55	40	17.8	73.9
100% upside	100	-	-	5.5	73.9[1]
100% central	-	100	-	11.1	73.9[1]
100% downside	-	-	100	28.4	73.9[1]

Note

1. For the Commercial portfolio, the staging of balances is driven by arrears, watchlist cases and sector factors and does not therefore change according to scenario weightings.

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.

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 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
		Increase / (decrease) in impairment allowance			
Downside scenario weighting (note 1)	Absolute increase of 10%	**2.1**	2.6	**2.1**	1.7
Significant increase in credit risk criteria (note 2)	Relative reduction by 25%	**0.7**	4.1	**0.7**	3.7
Future house price inflation (note 3)	+ / - 0.5% pa	**(0.5) / 0.5**	(1.3) / 1.5	**(0.5) / 0.5**	(0.8) / 0.9
Unemployment (note 4)	+ / - 0.5% pa	**0.6 / (0.5)**	n/a	**0.6 / (0.5)**	n/a

Notes

1. This sensitivity shows the impact of an increase of 10% to the probability weighting assigned to the downside scenario, from 35% to 45% (2020: from 40% to 50%), with a relative decrease to the probability weighting assigned to each of the base case and upside scenarios.
2. As outlined above, the assessment of whether credit risk has significantly increased since initial recognition includes the degree by which the remaining lifetime PD at the reporting date has increased compared to initial estimates. This sensitivity shows the impact of simultaneously reducing each multiplier threshold by 25%.
3. 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.
4. 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. This sensitivity was not presented in previous years and therefore comparatives are not shown.

Commercial

Assumption	Change to current assumption	Group and Society 2021 £m	Group and Society 2020 £m
		Increase / (decrease) in impairment allowance	
Downside scenario weighting (note 1)	Absolute increase of 10%	**1.5**	1.8
Significant increase in credit risk criteria (note 2)	5% of Stage 1 balances added to watchlist / 5% of Stage 2 balances removed from watchlist	**0.1 / (0.6)**	0.1 / (0.7)
Future commercial property price growth	+ / - 0.5% pa	**(0.3) / 0.3**	(0.4) / 0.4

Notes

1. This sensitivity shows the impact of an increase of 10% to the probability weighting assigned to the downside scenario, from 35% to 45% (2020: from 40% to 50%), with a relative decrease to the probability weighting assigned to each of the base case and upside scenarios.
2. As outlined in note 1g), the assessment of whether credit risk has significantly increased since initial recognition is based on accounts being placed on a watchlist or being in arrears of at least 50% of the contractual monthly payment. This sensitivity shows the impact of management identifying an additional 5% of Stage 1 gross loan balances to be placed on a watchlist and, separately, the impact of management identifying 5% 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 2021, the relative weightings assigned to each scenario were 95% for the central scenario and 5% for the downside scenario (2020: 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 2021	Group 2020	Society 2021	Society 2020
		Increase / (decrease) in impairment allowance			
		£m	£m	£m	£m
Downside scenario weighting	Absolute increase of 10%	0.1	0.1	0.1	0.1
Downside scenario weighting	Increase to 100%	0.8	0.8	0.7	0.8

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, decrease or a move to long term care) and market driven yield curves.

Some of the factors are based on market expectations (e.g. market-implied RPI swap prices are used to construct a forward-looking inflation curve in order to forecast future expected cash flows receivable from the portfolio), whilst others are derived from historical trends on the portfolio (e.g. anticipated future voluntary redemptions). However, where market prices are not available and historical trends are not deemed to be appropriate the Group uses management judgement; this is the case for future house price index (HPI) growth and property price volatility. Management has reviewed these expectations during the year with due consideration to the economic uncertainties surrounding the COVID-19 pandemic.

The expectations of the economic inputs that require management judgement are in line with the economic environment that forms the central scenario as outlined on pages 144 to 146; 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% (2020: 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.

The following table outlines the impact of reasonably possible alternative assumptions of key inputs which rely on management judgement and are not market observable.

Assumption	Change to current assumption	Group and Society 2021	Group and Society 2020
		(Decrease) / increase in fair value of portfolio	
		£m	£m
Redemption rates	+ / - 1% pa	(10.0) / 11.2	(11.7) / 13.2
Illiquidity premia	+ / - 0.2%	(9.2) / 9.6	(10.6) / 10.9
HPI forecast	+ / - 0.5% pa	8.2 / (8.8)	8.8 / (9.4)
Property volatility	+ / - 1%	(4.9) / 4.8	(5.4) / 5.3

For each of the above sensitivities, there would be a corresponding charge / credit to the Income Statement within the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Equity release portfolio' line arising from the decrease / increase in the fair value of the portfolio.

The sensitivities are calculated by comparing the fair value of the portfolio, as reported within the Statement of Financial Position, to the value of the portfolio at the reporting date when each input is adjusted as listed above, as per the valuation model. Each sensitivity shown considers one change in isolation and the combined impact on the valuation of the portfolio of all sensitivities occurring would not necessarily be the sum of the impact of the individual sensitivities.

Scenario analysis has been undertaken to identify the impact of climate-related risks on the Group's equity release portfolio. This includes assessing the potential impact of alternative paths for the key inputs of the HPI forecast and yield curves. 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 is deceased) that are based on historical data (reviewed periodically against actuals) and published mortality tables. These redemption profiles are not market observable, therefore an element of management judgement is applied based on historical performance of redemptions.

In order to value these derivatives, the Group uses market-implied RPI swap prices to construct a forward looking inflation curve to forecast future expected cash flows relating to these derivatives. The model used to value the derivatives incorporates multiple scenarios for RPI in order to take account of the uncertainty and volatility of future RPI rates. The range of multiple scenarios used is based on management judgement and so is not market observable. The Group has robust control procedures in place regarding the inputs to the valuation that are based on management judgement.

The effect on the fair value of these derivatives of reasonably possible alternative assumptions is outlined below.

Assumption	Change to current assumption	Group and Society 2021	Group and Society 2020
		(Decrease) / increase in liability	(Decrease) / increase in liability
		£m	£m
Redemption rates (note 1)	+ / - 1% pa	(11.5) / 12.9	(14.3) / 16.2
RPI volatility (note 1)	+ / - 0.5% pa	(6.4) / 5.8	(4.4) / 3.5

Note

1. There would be a corresponding credit / charge to the Income Statement within the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Derivatives associated with equity release portfolio' line arising from the decrease / increase in the fair value of the derivative liabilities.

Any change in fair value of the derivative liabilities is offset to some extent by a corresponding but opposite change in the value of the equity release portfolio. The characteristics and the valuation requirements differ slightly between the derivatives and the equity release portfolio resulting in the changes in fair value not offsetting completely.

Subsidiary management incentive scheme

In 2014 or in 2019, depending on scheme eligibility, 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 remaining options issued in 2014 were fully exercised during 2021. In respect of the options issued in 2019 that remain, 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 2021	Group 2020
		Increase / (decrease) in liability*	Increase / (decrease) in liability*
		£m	£m
Connells group EBITDA	10% increase / decrease (note 1)	0.5 / (0.5)	1.9 / (1.9)

* With a corresponding increase / decrease in the charge to the Income Statement.

Note

1. As described above, the estimate of the liability is dependent on the assumptions of future EBITDA and cash flows of the Connells group over the period to exercise. The above sensitivity outlines the increase / decrease to the liability that would result if it was assumed that Connells' forecast EBITDA was 10% higher / lower each year (from 2022 to the periods of exercise) than that included in its corporate plans.

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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

The future cash flows of the cash generating units (CGUs) are based on the latest detailed five year corporate plans available and are sensitive to assumptions regarding the long-term growth pattern thereafter. The cash flows reflect management's view of future business prospects at the time of the assessment which reflect the most recent view of key economic indicators as well as wider prevailing circumstances. Further details on the key drivers of these cash flows over the Group's corporate planning period, for each of the Group's reporting segments, 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 CGU (see note 21) and can have a significant effect on the valuation of a CGU. The cost of capital is derived from a weighted average cost of capital calculation which incorporates a number of inputs including the risk-free interest rate and a premium to reflect the inherent risk of the business being evaluated. These variables are subject to fluctuations in external markets and economic conditions which are out of management's control and therefore are established on the basis of management judgement.

Profit and cash flow forecasts are subject to inherent uncertainties, such as Brexit, the impact of COVID-19, and 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 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 2021 (year ended 31 December 2020: 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 2021 (Decrease) / increase in liabilities £m**	Group 2020 (Decrease) / increase in liabilities £m	**Society 2021 (Decrease) / increase in liabilities £m**	Society 2020 (Decrease) / increase in liabilities £m
Discount rate	+ / -0.25% pa	**(11.9) / 12.6**	(12.0) / 14.9	**(6.6) / 7.0**	(6.7) / 8.3
Rate of inflation	+ / -0.5% pa	**11.2 / (10.6)**	13.1 / (10.2)	**5.7 / (5.4)**	6.8 / (5.2)
Rate of salary growth	+ / -0.5% pa	**-**	-	**-**	-
Commutation allowance	+ / -10% pa	**(2.8) / 2.8**	(3.8) / 3.8	**(1.3) / 1.3**	(1.8) / 1.8
Life expectancy	+ / -1 year	**11.1 / (10.9)**	12.1 / (9.7)	**6.1 / (6.0)**	6.6 / (5.3)

The rate of salary growth has no impact on the pension liabilities as the schemes are closed to future accrual of benefit.

Notes to the Accounts (continued)

2. Interest receivable and similar income

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
On financial assets held at amortised cost:				
On loans fully secured on residential property	**508.8**	495.7	**437.7**	417.4
On other loans and advances:				
To subsidiary undertakings	**-**	-	**29.0**	33.1
Other	**9.5**	10.0	**3.3**	4.2
On other liquid assets	**3.3**	5.0	**3.0**	4.9
	521.6	510.7	**473.0**	459.6
On financial assets held at fair value through other comprehensive income:				
On debt securities	**10.9**	14.7	**11.8**	15.4
On financial instruments held at FVTPL:				
Net expense on derivative financial instruments held to hedge assets in qualifying hedge accounting relationships	**(75.2)**	(83.7)	**(75.2)**	(83.6)
Interest receivable accounted for using the effective interest rate method	**457.3**	441.7	**409.6**	391.4
On financial instruments held at FVTPL:				
On loans and advances to customers	**0.1**	0.1	**0.1**	0.1
On equity release portfolio	**21.8**	14.8	**21.8**	14.8
On debt securities	**-**	-	**-**	0.2
Net expense on derivative financial instruments held to hedge assets in non-qualifying hedge accounting relationships	**(24.8)**	(17.0)	**(22.0)**	(14.0)
Other interest and similar income	**(2.9)**	(2.1)	**(0.1)**	1.1
	454.4	439.6	**409.5**	392.5

3. Interest payable and similar charges

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
On financial liabilities held at amortised cost:				
On shares held by individuals	**126.4**	171.9	**126.4**	171.9
On shares held by others	**0.8**	1.3	**0.8**	1.3
On subscribed capital	**4.5**	4.5	**4.5**	4.5
On deposits and other borrowings:				
Subordinated liabilities	**7.3**	1.8	**7.3**	1.8
Subsidiary undertakings	**-**	-	**0.1**	0.4
Wholesale and other funding	**24.2**	37.0	**12.8**	19.6
Lease liabilities	**1.8**	1.3	**0.2**	0.2
	165.0	217.8	**152.1**	199.7
On financial instruments held at FVTPL:				
Net income on derivative financial instruments held for hedging liabilities	**(7.4)**	(16.1)	**(19.8)**	(28.3)
Finance charge on put option liability	**0.1**	-	**-**	-
Deemed loans from Group undertakings	**-**	-	**31.2**	38.9
	157.7	201.7	**163.5**	210.3

4. Fees and commissions

a) Fees and commissions receivable

The tables below provide further information regarding the nature, amount and timing of fees and commissions receivable. IFRS 15 requires that revenue is recognised by the Group in a way that depicts the transfer of goods or services to customers; some revenue is therefore recognised at a point in time and some revenue is recognised over a period of time. Further details as to the revenue recognition policies applied to fees and commissions receivable by the Group are set out in note 1n).

Group	2021			2020		
	Products and services transferred at a point in time £m	Products and services transferred over time £m	Total £m	Products and services transferred at a point in time £m	Products and services transferred over time £m	Total £m
Mortgage origination fees	**81.8**	**12.8**	**94.6**	38.0	10.6	48.6
Other mortgage related fees	**2.9**	**-**	**2.9**	2.0	-	2.0
General insurance income	**69.2**	**1.1**	**70.3**	41.3	1.2	42.5
Commissions earned on property sales	**351.1**	**-**	**351.1**	133.6	-	133.6
Commissions earned on property lettings	**183.0**	**-**	**183.0**	58.9	-	58.9
Commercial property services fees	**44.4**	**34.9**	**79.3**	-	-	-
Survey and valuation fees	**123.1**	**-**	**123.1**	44.1	-	44.1
Asset management commission	**9.5**	**0.1**	**9.6**	9.3	0.2	9.5
Conveyancing fees	**68.0**	**-**	**68.0**	27.6	-	27.6
Financial advice fees	**32.2**	**-**	**32.2**	25.2	-	25.2
Software and consultancy fees	**-**	**14.9**	**14.9**	0.3	14.6	14.9
Factoring and invoice discounting services	**11.1**	**-**	**11.1**	9.6	-	9.6
Other fees and commissions	**13.9**	**0.5**	**14.4**	3.7	0.6	4.3
	990.2	**64.3**	**1,054.5**	393.6	27.2	420.8

Society	2021			2020		
	Products and services transferred at a point in time £m	Products and services transferred over time £m	Total £m	Products and services transferred at a point in time £m	Products and services transferred over time £m	Total £m
Mortgage related fees	**2.7**	**-**	**2.7**	1.8	-	1.8
General insurance income	**-**	**0.9**	**0.9**	-	1.0	1.0
Financial advice fees	**31.0**	**-**	**31.0**	23.9	-	23.9
Other fees and commissions	**0.6**	**-**	**0.6**	0.5	-	0.5
	34.3	**0.9**	**35.2**	26.2	1.0	27.2

Notes to the Accounts (continued)

4. Fees and commissions (continued)

The table below provides a reconciliation of fees and commissions receivable by the Group to the amounts presented by reportable segment in note 42:

Group	2021				
	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Mortgage origination fees	-	95.8	-	(1.2)	94.6
Other mortgage related fees	2.9	-	-	-	2.9
General insurance income	0.9	69.4	-	-	70.3
Commissions earned on property sales	-	351.1	-	-	351.1
Commissions earned on property lettings	-	183.0	-	-	183.0
Commercial property services fees	-	79.3	-	-	79.3
Survey and valuation fees	-	132.0	-	(8.9)	123.1
Asset management commission	-	9.6	-	-	9.6
Conveyancing fees	-	68.7	-	(0.7)	68.0
Financial advice fees	32.2	-	-	-	32.2
Software and consultancy fees	-	-	16.4	(1.5)	14.9
Factoring and invoice discounting services	-	-	11.1	-	11.1
Other fees and commissions	0.6	13.9	-	(0.1)	14.4
Fees and commissions receivable	36.6	1,002.8	27.5	(12.4)	1,054.5
Other	(2.8)	(2.7)	(0.4)	0.1	(5.8)
Net non-interest income	33.8	1,000.1	27.1	(12.3)	1,048.7

Group	2020				
	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Mortgage origination fees	-	49.5	-	(0.9)	48.6
Other mortgage related fees	2.0	-	-	-	2.0
General insurance income	1.0	41.5	-	-	42.5
Commissions earned on property sales	-	133.6	-	-	133.6
Commissions earned on property lettings	-	58.9	-	-	58.9
Survey and valuation fees	-	51.6	-	(7.5)	44.1
Asset management commission	-	9.5	-	-	9.5
Conveyancing fees	-	28.6	-	(1.0)	27.6
Financial advice fees	25.2	-	-	-	25.2
Software and consultancy fees	-	-	15.9	(1.0)	14.9
Factoring and invoice discounting services	-	-	9.6	-	9.6
Other fees and commissions	0.6	4.0	-	(0.3)	4.3
Fees and commissions receivable	28.8	377.2	25.5	(10.7)	420.8
Other	(4.3)	(1.5)	(0.7)	0.2	(6.3)
Net non-interest income	24.5	375.7	24.8	(10.5)	414.5

b) Fees and commissions payable

The total shown in the Income Statement for fees and commissions payable includes £1.3m for the Group (2020: £1.8m) and £nil for the Society (2020: £nil) relating to financial assets not measured at FVTPL. These figures exclude amounts which are incorporated in determining the effective interest rate on such financial assets.

5. Administrative expenses

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Employee costs:				
Wages and salaries	636.7	295.3	89.0	80.3
Social security costs	67.1	30.7	9.1	7.9
Pension costs:				
Defined contribution arrangements (note 31)	22.4	12.9	6.4	6.2
Past service costs	-	1.5	-	0.7
Settlement loss	0.7	-	0.7	-
	726.9	340.4	105.2	95.1
Government grants	-	(21.2)	-	-
Other administrative expenses	398.2	187.1	60.5	58.0
Central administrative costs recharged to Group undertakings	-	-	(4.8)	(4.0)
	1,125.1	506.3	160.9	149.1
Other administrative expenses comprise:				
Depreciation and amortisation (notes 18, 19, 20 and 21)	107.1	38.1	8.4	8.5
Impairment of property, plant and equipment, right-of-use assets and investment property (notes 18, 19 and 20)	1.3	2.6	0.9	1.2
Impairment (credit) / losses on trade receivables (note 40c))	(0.2)	0.9	-	0.1
Lease expense – items exempt from IFRS 16:				
Short-term leases	1.1	1.0	0.6	0.8
Lease expense – IFRS 16 leases:				
Variable lease payments not included in measurement of lease liability	0.1	0.1	-	-
Other property and establishment costs	31.4	12.8	5.4	5.5
Postage and communications	47.0	19.9	6.0	6.7
IT costs	29.0	12.7	12.3	11.0
Marketing and advertising	45.8	17.6	7.8	5.7
Insurance	9.9	4.5	3.1	1.6
Legal, professional and consultancy	27.5	17.4	12.1	12.5
Training, recruitment and other employee related costs	32.2	10.6	2.9	2.5
Costs of Connells' management incentive scheme (note 28)	15.5	1.2	-	-
Other	50.5	47.7	1.0	1.9
	398.2	187.1	60.5	58.0

Amounts recognised within government grants in the prior year reflect assistance claimed by Connells in 2020 under the Government's Coronavirus Job Retention Scheme.

Connells have taken business rates relief in the year of £4.8m (2020: £3.7m) which was automatically applied by the Government for retail, hospitality and leisure businesses; this relief has reduced the expense presented within 'other administrative expenses: other property and establishment costs'.

Notes to the Accounts (continued)

5. Administrative expenses (continued)

Included within legal, professional and consultancy costs above are amounts relating to external auditor remuneration. The remuneration of the Group's external auditor, EY, is set out below (excluding VAT) and includes the impact in 2021 of the Countrywide acquisition:

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Audit of the Society and Group Annual Accounts	**0.8**	0.6	**0.8**	0.6
Audit of the Group's subsidiary undertakings' accounts pursuant to legislation	**2.5**	0.7	**-**	-
Audit-related assurance services	**0.1**	0.1	**0.1**	0.1
Other non-audit services	**-**	0.1	**-**	0.1
	3.4	1.5	**0.9**	0.8

6. Employee numbers

The average number of full and part-time persons employed during the year (including Executive Directors) was as follows:

	Group 2021	Group 2020	Society 2021	Society 2020
Society principal office	**1,783**	1,789	**1,783**	1,789
Society branches	**484**	502	**484**	502
Subsidiary undertakings	**14,133**	7,167	**-**	-
	16,400	9,458	**2,267**	2,291

7. Directors' emoluments

Directors' emoluments are set out within the Directors' Remuneration Report on pages 82 to 103.

Total Directors' emoluments for 2021 amounted to £3.6m (2020: £2.3m).

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	2021 £m	2020 £m
Salary, benefits and annual performance pay	**4.6**	3.1
Employer pension contributions	**0.3**	0.3
	4.9	3.4

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:

	2021 £000	2020 £000
Mortgage loans outstanding at 31 December	**312**	845
Savings balances at 31 December	**2,371**	2,650

Interest receivable and payable on the above accounts during the year was as follows:

	2021 £000	2020 £000
Interest receivable	**7**	10
Interest payable	**23**	25

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 2021 there were five (2020: nine) outstanding mortgage loans granted in the ordinary course of business amounting in aggregate to £312,113 (2020: £844,668) to three (2020: six) 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 £68.2m (2020: £29.4m) and £29.3m (2020: £19.8m) respectively to pension schemes, which are classified as related parties.

Related party transactions

During the year the Society had the following related party transactions with subsidiary undertakings:

	2021 £m	2020 £m
Rendering and receiving of services	**0.2**	0.2
Recharges of central costs	**4.8**	4.0
Interest receivable	**29.0**	33.3
Interest payable	**(31.3)**	(39.3)
Mortgage referral, valuation and legal fees (note 1)	**(9.6)**	(8.5)
Other income	**6.8**	7.1
Collateral transferred to funding vehicles	**682.6**	1,174.4
Collateral transferred from funding vehicles	**(164.4)**	(38.5)
Repayment of debt securities	**(92.9)**	(26.5)

Note

1. These are fees payable by the Society to Connells for the above services, which are amortised through net interest receivable in the Society's books on an effective interest basis.

All the above transactions were entered into on an arm's-length basis. For details of the relationship between the Society and its principal subsidiary undertakings see note 17a).

As disclosed in note 17b), Connells Limited acquired the entire share capital of Countrywide plc on 8 March 2021. 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 2021, the outstanding amount due from Connells to the Society in respect of this loan was £128.2m.

At 31 December 2021 the Society owed £835.9m (2020: £1,276.1m) to subsidiary undertakings and was owed £257.0m (2020: £731.3m) by subsidiary undertakings. The total amount owed by subsidiary undertakings as at 31 December 2021 includes the £128.2m outstanding in respect of the loan to Connells, as described above. Interest on intra-Group borrowings is charged at an appropriate market rate. As at 31 December 2021 the Society recognised no impairment loss allowance in respect of loans to subsidiary undertakings, on the grounds of immateriality (2020: £nil).

As disclosed in note 17b)(v), the operations of the Group's specialist lending businesses, Amber Homeloans Limited and North Yorkshire Mortgages Limited, were hived-up into the Society with effect from 1 June 2021. Details of how these hive-ups impact the financial position and financial performance of the Group and of the Society for the year ended 31 December 2021 are included in note 17b)(v).

As disclosed in note 17a), the Society has for the year ended 31 December 2021 provided guarantees over the liabilities of Skipton Investments Limited and of Jade Software Corporation UK Limited.

Notes to the Accounts (continued)

8. Related party transactions (continued)

On 10 June 2021, the Trustee of the Holmesdale Building Society Pension Scheme (a small hybrid scheme assumed by the Society following its merger with Holmesdale Building Society in 2018) triggered the wind-up of that scheme and member benefits have now been discharged from the scheme. This resulted in a settlement loss of £0.7m, which is included in the Income Statement for the year within 'Administrative expenses'. Further details are included in note 31.

During the year the Group had the following related party transactions with joint ventures and associates:

	2021 £m	2020 £m
Services provided to the Group	**0.7**	3.2
Services provided by the Group	**0.6**	2.3

At 31 December 2021 the Group was owed £nil (2020: £0.7m) by joint ventures and owed £nil (2020: £nil) to joint ventures.

There were no provisions in respect of sales of goods and services or in respect of outstanding loans between the Group or Society and its related parties as at 31 December 2021 or 31 December 2020.

9. Tax expense

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Current tax	**58.5**	22.1	**34.1**	6.7
Deferred tax (note 30)	**(2.6)**	(0.3)	**(0.7)**	0.4
	55.9	21.8	**33.4**	7.1

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 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Profit before tax	**271.8**	118.8	**235.5**	52.8
Share of profits from joint ventures, net of tax	**(1.2)**	(3.4)	**-**	-
	270.6	115.4	**235.5**	52.8
Tax calculated at standard UK corporation tax rate of 19.0% (2020: 19.0%)	**51.4**	21.9	**44.7**	10.0
Effects of:				
Expenses not deductible for tax purposes	**5.6**	3.2	**3.5**	0.7
Adjustment to tax expense in respect of prior periods	**(0.4)**	(0.8)	**-**	(1.0)
Non-taxable dividend income	**-**	-	**(22.0)**	(2.3)
Other non-taxable income	**(6.3)**	(0.2)	**(0.1)**	(0.1)
Corporation tax rate change	**(2.8)**	(0.4)	**(1.9)**	(0.2)
Lower tax rates in other jurisdictions (see below)	**(2.4)**	(2.0)	**-**	-
Banking companies surcharge	**9.1**	1.1	**9.1**	1.1
Deferred tax not previously recognised on brands	**1.6**	-	**-**	-
Other	**0.1**	(1.0)	**0.1**	(1.1)
Tax expense	**55.9**	21.8	**33.4**	7.1

The effective tax rate for the Group for the year ended 31 December 2021 is 20.7% (2020: 18.9%) compared with the standard rate of UK corporation tax of 19.0% (2020: 19.0%). The Group's effective rate is higher than the standard rate due mainly to the impacts of expenditure disallowable for tax purposes and the banking companies surcharge. This is partly offset by the impacts of non-taxable income, future corporation tax rate changes and the lower tax rate in Guernsey which applies to the taxable profits of Skipton International Limited. For 2021, expenditure disallowable for tax purposes includes the £15.5m charge (2020: £1.2m charge) for the Connells management incentive scheme (see note 28) and non-taxable income includes the £26.9m fair value gains (2020: £nil) on step-acquisition of Group undertakings (see note 17b)).

The effective tax rate for the Society for the year ended 31 December 2021 is 14.2% (2020: 13.4%). The Society's taxable profits above £25m are subject to an 8% banking companies surcharge. The effective rate of tax is also impacted by non-taxable dividend income of £115.6m (2020: £12.4m), expenditure disallowable for tax purposes and future corporation tax rate changes. For 2021, expenditure disallowable for tax purposes includes the £15.2m impairment charge (2020: £nil) against the carrying amount of the Society's investments in Amber and NYM following the hive-up of those subsidiaries in June 2021 (see note 17b)(v)).

10. Loans and advances to credit institutions

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Gross carrying amount	**468.7**	724.7	**386.4**	615.0
Loss allowance	**-**	-	**-**	-
Net carrying amount	**468.7**	724.7	**386.4**	615.0

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 2021 £m	Group 2020 Re-presented* £m	**Society 2021 £m**	Society 2020 Re-presented* £m
Repayable on demand:				
Cash and cash equivalents	**134.7**	148.3	**47.0**	40.4
Cash pledged as collateral	**-**	1.3	**-**	1.3
	134.7	149.6	**47.0**	41.7
In not more than three months:				
Cash and cash equivalents	**0.5**	1.6	**-**	-
Cash pledged as collateral	**3.0**	-	**-**	-
Other loans and advances to credit institutions	**0.4**	-	**-**	-
	3.9	1.6	**-**	-
In more than three months but not more than one year:				
Other loans and advances to credit institutions	**0.3**	-	**-**	-
	0.3	-	**-**	-
In more than one year but not more than five years:				
Other loans and advances to credit institutions	**0.3**	-	**-**	-
	0.3	-	**-**	-
No specified maturity:				
Cash pledged as collateral	**329.5**	573.5	**339.4**	573.3
	329.5	573.5	**339.4**	573.3
Total loans and advances to credit institutions	**468.7**	724.7	**386.4**	615.0
Total included within cash and cash equivalents	**135.2**	149.9	**47.0**	40.4

* Following a review of the maturity presentation for items with no specified contractual maturity, certain amounts previously allocated to maturity periods based on management judgement are now separately presented as 'no specified maturity'. This revised presentation is to align with the contractual maturities presented in note 38 (see note 38 for details). There is no impact on total amounts presented.

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.

Notes to the Accounts (continued)

10. Loans and advances to credit institutions (continued)

Non-standardised and some legacy derivatives are collateralised based on bilateral Credit Support Annex (CSA) agreements. Under the terms of a CSA, collateral is passed between parties to mitigate the credit risk of counterparties which is inherent in the outstanding derivative contracts. Standardised derivatives are cleared with a central clearing counterparty in accordance with the European Market Infrastructure Regulation (EMIR). Under the arrangements for cleared derivatives, additional collateral is required to protect the central clearing house against credit risk of the counterparties and to cover intra-day market movements and variations in valuation of the derivative contracts. At 31 December 2021 the Group and Society pledged £199.8m (2020: £186.7m) 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 36 years (2020: 37 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 2021 the Group has no cash (2020: £nil) pledged as collateral in repurchase arrangements.

Total on-balance sheet cash pledged as collateral against derivative contracts at 31 December 2021 is £329.5m for the Group (2020: £574.8m) and £339.4m for the Society (2020: £574.6m). Off-balance sheet cash held against derivative contracts at 31 December 2021 is £146.3m (2020: £5.3m) for the Group and £146.3m (2020: £27.7m) for the Society.

Cash pledged as collateral by the Group also includes £3.0m (2020: £nil) relating to amounts placed in security deposits by the Estate Agency division. In addition, cash and cash equivalents in the Group includes £4.3m (2020: £nil) relating to Estate Agency division deposits that can 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	**2021**	2020
	FVOCI and Total	FVOCI and Total
	£m	£m
Gilts	**366.5**	303.2
Certificates of deposit	**334.9**	-
Fixed rate bonds	**757.6**	599.2
Floating rate notes	**283.9**	229.6
Treasury bills	**20.0**	12.5
Covered bonds	**260.3**	202.8
Residential mortgage backed securities	**170.0**	157.7
	2,193.2	1,505.0
Debt securities have remaining maturities as follows:		
In not more than three months	**159.0**	138.0
In more than three months but not more than one year	**468.6**	74.2
In more than one year but not more than five years	**1,190.0**	1,066.5
In more than five years	**375.6**	226.3
	2,193.2	1,505.0
Transferable debt securities comprise:		
Listed on a recognised investment exchange	**1,858.3**	1,505.0
Unlisted	**334.9**	-
	2,193.2	1,505.0

Society	**2021**			2020		
	FVOCI £m	**FVTPL £m**	**Total £m**	FVOCI £m	FVTPL £m	Total £m
Gilts	**286.8**	**-**	**286.8**	303.2	-	303.2
Certificates of deposit	**314.9**	**-**	**314.9**	-	-	-
Fixed rate bonds	**757.6**	**-**	**757.6**	599.2	-	599.2
Floating rate notes	**193.3**	**-**	**193.3**	204.6	-	204.6
Covered bonds	**260.3**	**-**	**260.3**	202.8	-	202.8
Residential mortgage backed securities	**256.7**	**63.9**	**320.6**	300.1	97.8	397.9
	2,069.6	**63.9**	**2,133.5**	1,609.9	97.8	1,707.7
Debt securities have remaining maturities as follows:						
In not more than three months	**139.0**	**-**	**139.0**	152.5	36.9	189.4
In more than three months but not more than one year	**423.5**	**-**	**423.5**	74.2	-	74.2
In more than one year but not more than five years	**1,131.5**	**63.9**	**1,195.4**	1,156.9	60.9	1,217.8
In more than five years	**375.6**	**-**	**375.6**	226.3	-	226.3
	2,069.6	**63.9**	**2,133.5**	1,609.9	97.8	1,707.7
Transferable debt securities comprise:						
Listed on a recognised investment exchange	**1,754.7**	**63.9**	**1,818.6**	1,609.9	97.8	1,707.7
Unlisted	**314.9**	**-**	**314.9**	-	-	-
	2,069.6	**63.9**	**2,133.5**	1,609.9	97.8	1,707.7

The tables below provide further detail on the movement in debt securities during the year.

Group	**2021**	2020
	FVOCI and Total	FVOCI and Total
	£m	£m
At 1 January	**1,505.0**	2,182.9
Additions	**1,795.4**	2,414.6
Maturities and disposals	**(1,074.0)**	(3,107.6)
Changes in fair value	**(33.1)**	14.7
Other	**(0.1)**	0.4
At 31 December	**2,193.2**	1,505.0

Society	**2021**			2020		
	FVOCI £m	**FVTPL £m**	**Total £m**	FVOCI £m	FVTPL £m	Total £m
At 1 January	**1,609.9**	**97.8**	**1,707.7**	1,996.5	36.0	2,032.5
Additions	**1,360.0**	**-**	**1,360.0**	2,225.3	66.6	2,291.9
Maturities and disposals	**(867.2)**	**(37.0)**	**(904.2)**	(2,627.2)	-	(2,627.2)
Changes in fair value	**(33.1)**	**3.1**	**(30.0)**	15.3	(4.8)	10.5
At 31 December	**2,069.6**	**63.9**	**2,133.5**	1,609.9	97.8	1,707.7

Notes to the Accounts (continued)

11. Debt securities (continued)

The tables below provide further detail on the movement in the impairment loss allowance held in respect of debt securities during the year. There were no amounts written off by the Group or Society during the current or prior year.

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Loss allowance at 1 January	**-**	0.1	**0.1**	0.2
Increases due to origination, acquisition and additions	**0.3**	-	**0.3**	-
Decrease due to derecognition, repayments and disposals	**-**	(0.1)	**-**	(0.1)
Loss allowance at 31 December	**0.3**	-	**0.4**	0.1

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 2021 £25.0m (2020: £0.5m) of debt securities have been pledged by the Group, and £324.1m (2020: £464.4m) 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 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Gilts	**24.6**	-	**24.6**	198.0
Fixed rate bonds	**0.4**	0.5	**198.4**	169.9
Residential mortgage backed securities	**-**	-	**101.1**	96.5
Total on-balance sheet debt securities pledged as collateral	**25.0**	0.5	**324.1**	464.4

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 2021, the Group's repurchase agreements have a contractual period of up to three months (2020: two months).

There were no debt securities held by the Group or the Society at the end of 2021 or 2020 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	**2021 £m**	2020 £m
Carrying value of assets	**170.0**	157.7
Cumulative unrealised losses recognised in fair value reserve	**0.6**	0.8
Maximum exposure to loss at 31 December	**170.6**	158.5

During the year, the Group and Society received interest income of £0.9m (2020: £1.2m) from its investments in unconsolidated structured entities and incurred impairment charges of £nil (2020: £nil). In addition, £0.2m of unrealised gains were recognised through the fair value reserve (2020: £0.4m of unrealised gains).

No collateral has been received by the Group in respect of the above third party funding entities. The total size of unconsolidated structured entities as shown in the table above is determined by reference to the Group's total notional exposure to the unconsolidated structured entities in question.

The Group did not provide any non-contractual support, nor any contractual guarantees, during the current or prior year to unconsolidated structured entities and currently has no intentions to provide any such support. The Group is not required to absorb losses of any unconsolidated structured entities before other parties and the Group did not act as a sponsor to any unconsolidated structured entities during the current or prior year. The Group would, in general, be regarded as a sponsor of an unconsolidated structured entity if market participants would reasonably associate the entity with the Group.

At 31 December 2021 the Society also held £86.7m (2020: £142.4m) of residential mortgage backed securities held at FVOCI and £63.9m (2020: £97.8m) 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 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Loans fully secured on residential property	**22,844.3**	21,355.7	**21,191.7**	19,276.6
Other loans:				
Loans fully secured on land	**178.8**	201.2	**178.8**	201.2
Other loans and advances	**184.9**	155.9	**-**	-
Fair value adjustment for hedged risk	**(183.2)**	152.2	**(182.3)**	151.7
	23,024.8	21,865.0	**21,188.2**	19,629.5
The remaining maturity of loans and advances to customers from the reporting date is as follows:				
On call and at short notice	**116.3**	81.5	**2.1**	0.5
In not more than three months	**32.2**	22.9	**31.2**	17.2
In more than three months but not more than one year	**54.4**	49.5	**53.4**	39.7
In more than one year but not more than five years	**663.4**	599.4	**643.2**	514.8
In more than five years	**22,186.6**	21,153.6	**20,485.3**	19,087.5
	23,052.9	21,906.9	**21,215.2**	19,659.7
Less: Impairment (note 14)	**(28.1)**	(41.9)	**(27.0)**	(30.2)
	23,024.8	21,865.0	**21,188.2**	19,629.5

Included in loans fully secured on residential property is a £10.4m adjustment for Group (2020: £22.9m) and a £26.2m adjustment for Society (2020: £38.3m) due to applying the effective interest method of accounting for these mortgages. A critical factor in calculating this adjustment, which determines the overall carrying value of these mortgages and associated interest income recognised, is the expected life of the relevant mortgages; the total interest income expected to be received is spread over this expected life using the effective interest method. Further details can be found in note 1w).

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. A further SPV of the Group, Darrowby No. 4 plc, ceased during 2021 following repayment of its outstanding debt.

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.

Notes to the Accounts (continued)

13. Transfers of financial assets (continued)

At 31 December 2021, loans and advances to customers held at amortised cost include £3,163.4m (2020: £3,406.4m) 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 (£453.4m; 2020: £578.4m), Skipton Covered Bonds LLP (£2,710.0m; 2020: £2,710.2m) and Darrowby No. 4 plc (£nil; 2020: £117.8m). These loans secure £2,195.9m (2020: £2,354.7m) 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 2021 the balance on the deemed loan repayable to Darrowby No. 5 plc (and in 2020 Darrowby No. 4 plc), which represents the proceeds received for the transferred financial assets, included in 'Amounts owed to other customers' in the Society was £453.4m (2020: £696.2m).

At 31 December 2021, 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 2021 was £1,834.1m (2020: £1,812.0m).

The Group's accounting policies for the derecognition of financial assets held at amortised cost are set out in note 1h). During the year, no gains or losses arose in respect of loans and advances to customers held at amortised cost that were derecognised by the Group or Society.

14. Impairment losses on loans and advances to customers

Group	**Loans fully secured on residential property £m**	**Loans fully secured on land £m**	**Other loans and advances £m**	**Total £m**
Loss allowance as at 1 January 2021	**23.1**	**17.8**	**1.0**	**41.9**
Amounts written off during the year, net of recoveries	**(0.8)**	**-**	**(0.1)**	**(0.9)**
Income statement (credit) / charge for the year	**(11.4)**	**(1.6)**	**0.1**	**(12.9)**
Loss allowance as at 31 December 2021	**10.9**	**16.2**	**1.0**	**28.1**

	Loans fully secured on residential property £m	Loans fully secured on land £m	Other loans and advances £m	Total £m
Loss allowance as at 1 January 2020	9.6	6.5	0.8	16.9
Amounts written off during the year, net of recoveries	(0.2)	(0.2)	(0.3)	(0.7)
Income statement charge for the year	13.7	11.5	0.5	25.7
Loss allowance as at 31 December 2020	23.1	17.8	1.0	41.9

Society	**Loans fully secured on residential property £m**	**Loans fully secured on land £m**	**Total £m**
Loss allowance as at 1 January 2021	**12.4**	**17.8**	**30.2**
Amounts written off during the year, net of recoveries	**(0.5)**	**-**	**(0.5)**
Income statement credit for the year	**(5.5)**	**(1.6)**	**(7.1)**
Hive-up of subsidiaries	**4.4**	**-**	**4.4**
Loss allowance as at 31 December 2021	**10.8**	**16.2**	**27.0**

	Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m
Loss allowance as at 1 January 2020	4.3	6.5	10.8
Amounts written off during the year, net of recoveries	-	(0.2)	(0.2)
Income statement charge for the year	8.1	11.5	19.6
Loss allowance as at 31 December 2020	12.4	17.8	30.2

15. Equity release portfolio held at FVTPL

Movements during the year in the equity release portfolio are outlined below.

	Group and Society	
	2021 £m	2020 £m
At 1 January	**433.8**	410.0
Redemptions	**(6.5)**	(3.7)
Further advances	**-**	0.1
Movements in fair value	**(27.3)**	19.7
Realised losses on redemption	**(0.5)**	(0.1)
Accrued interest	**7.1**	7.8
At 31 December	**406.6**	433.8

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 1w).

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 £32.8m gain (2020: £22.4m loss) and is included in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Derivatives associated with equity release portfolio'. This total gain of £32.8m includes a £10.8m gain that arose in September 2021 due to the novation and restructure of one of these derivatives.

The equity release portfolio comprises loans against which collateral is held in the form of property in the UK. As at 31 December 2021 this collateral was valued at £570.7m (2020: £564.8m).

Notes to the Accounts (continued)

16. Loans and advances to customers held at FVTPL

Movements during the year are outlined below.

	Group and Society	
	2021	2020
	£m	£m
At 1 January	**1.3**	1.5
Repayments	**(0.2)**	(0.3)
Accrued interest	**0.1**	0.1
At 31 December	**1.2**	1.3

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 2021 at £7.2m (2020: £7.2m).

17. Investments in Group undertakings

a) Subsidiary undertakings

The net movement in investments in subsidiary undertakings during the year was as follows:

Society	Shares in subsidiary undertakings		Loans to subsidiary undertakings		Total	
	2021	2020	**2021**	2020	**2021**	2020
	£m	£m	**£m**	£m	**£m**	£m
Cost						
At 1 January	**183.5**	183.5	**731.3**	777.9	**914.8**	961.4
Additions	**-**	-	**171.7**	71.1	**171.7**	71.1
Repayments	**-**	-	**(85.4)**	(117.7)	**(85.4)**	(117.7)
Hive-up of subsidiaries (see note 17b)(v))	**-**	-	**(560.6)**	-	**(560.6)**	-
At 31 December	**183.5**	183.5	**257.0**	731.3	**440.5**	914.8
Provisions						
At 1 January	**62.9**	62.9	**-**	-	**62.9**	62.9
Provided in the year (see note 17b)(v))	**15.2**	-	**-**	-	**15.2**	-
At 31 December	**78.1**	62.9	**-**	-	**78.1**	62.9
Net book value at 31 December	**105.4**	120.6	**257.0**	731.3	**362.4**	851.9

In respect of loans provided by the Society to its subsidiary undertakings, limits in place define the maximum amount that can be advanced to each subsidiary and any changes to these limits are required to be pre-approved by the Group Wholesale Credit Committee.

At the end of the current and preceding financial year the Group held a controlling interest in the following principal trading subsidiary undertakings:

Name of subsidiary undertaking	Principal business activity	Registered office	Percentage of ownership interest 2021	2020
Amber Homeloans Limited	Former lending body (see note 17b))	The Bailey, Skipton, North Yorkshire, BD23 1DN	**100.0**	100.0
Connells Limited and subsidiary undertakings*	Estate agency and related businesses	Cumbria House, 16-20 Hockliffe Street, Leighton Buzzard, Bedfordshire, LU7 1GN	**99.9**	99.8
Darrowby No. 4 plc	Former funding vehicle	40a Station Road, Upminster, Essex, RM14 2TR	**(See below)**	(See below)
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, New Zealand	**100.0^**	99.98
North Yorkshire Mortgages Limited	Former lending body (see note 17b))	The Bailey, Skipton, North Yorkshire, BD23 1DN	**100.0**	100.0
Northwest Investments NZ Limited	Provider of software development services	C/- Bell Gully, Level 22 Vero Centre, 48 Shortland Street, Auckland, New Zealand	**100.0**	100.0
Skipton Business Finance Limited	Provider of debt factoring services	The Bailey, Skipton, North Yorkshire, BD23 1DN	**100.0**	100.0
Skipton Covered Bonds Limited Liability Partnership	Mortgage acquisition and guarantor of covered bonds	The Bailey, Skipton, North Yorkshire, BD23 1DN	**(See below)**	(See below)
Skipton Financial Services Limited	Financial adviser	The Bailey, Skipton, North Yorkshire, BD23 1DN	**100.0**	100.0
Skipton Group Holdings Limited (SGHL)	Intermediate holding company	The Bailey, Skipton, North Yorkshire, BD23 1DN	**100.0**	100.0
Skipton International Limited (SIL)	Offshore deposit taker and lender	Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 6DS	**100.0**	100.0
Skipton Trustees Limited	Provider of will writing services	The Bailey, Skipton, North Yorkshire, BD23 1DN	**100.0**	100.0

* Indicates where an option to purchase non-controlling interests in the future exists.

^ On 14 May 2021 the Group acquired the remaining minority shareholding in Jade for a nominal sum.

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 2021, the Society has provided guarantees over the liabilities of Skipton Investments Limited and of Jade Software Corporation UK Limited. These subsidiary undertakings are thereby exempt from audit for the year ended 31 December 2021, as permitted by Section 479A of the Companies Act 2006.

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.

Darrowby No. 4 plc was a securitisation vehicle until its cessation in February 2021.

The Society has no contractual arrangements or intention to provide additional financial or other support to these SPVs.

Notes to the Accounts (continued)

17. Investments in Group undertakings (continued)

b) Acquisitions

i) Acquisition of Countrywide

On 8 March 2021, Connells acquired the entire issued share capital of Countrywide plc (now Countrywide Limited) for £3.95 per share for total cash consideration of £131.8m.

The table below sets out the fair values of the identifiable assets and liabilities acquired. In accordance with IFRS 3 *Business Combinations*, the acquisition accounting is subject to finalisation within 12 months of the acquisition date; the amounts shown below have been updated from the provisional values that were reported in the Group's half-yearly report for the period ended 30 June 2021.

	Book value at 8 March 2021	Fair value adjustments	Accounting policy adjustments	Fair value at 8 March 2021
	£m	£m	£m	£m
Assets				
Loans and advances to credit institutions (note 1)	21.5	-	-	**21.5**
Trade and other receivables	77.5	3.7	(1.0)	**80.2**
Property, plant and equipment (note 2)	45.4	14.1	(8.5)	**51.0**
Intangible assets (note 3)	56.9	113.9	(10.5)	**160.3**
Investments (notes 4 to 6)	3.3	31.6	-	**34.9**
Deferred tax assets (note 7)	20.4	11.1	3.8	**35.3**
Total assets	225.0	174.4	(16.2)	**383.2**
Liabilities				
Trade and other payables	109.6	(0.1)	-	**109.5**
Corporation tax	1.3	-	-	**1.3**
Provisions	18.8	0.5	-	**19.3**
Amounts owed to credit institutions (note 8)	94.0	-	-	**94.0**
Deferred tax liabilities (note 9)	8.5	22.4	-	**30.9**
Retirement benefit obligations	0.9	(0.8)	-	**0.1**
Other liabilities	1.8	-	-	**1.8**
Lease liabilities (note 10)	65.7	10.7	-	**76.4**
Total liabilities	300.6	32.7	-	**333.3**
Net assets / (liabilities)	(75.6)	141.7	(16.2)	**49.9**
Fair value of net assets acquired				**49.9**
Goodwill arising on acquisition				**81.9**
Total consideration				**131.8**

Notes

1. With respect to 'Loans and advances to credit institutions', amounts acquired on 8 March 2021 of £21.5m includes cash and cash equivalents of £10.8m.
2. The fair value adjustment of £14.1m relates to right-of-use assets (see note 10 below). The accounting policy adjustment of £(8.5)m is to align with the Group's existing capitalisation policies.
3. The total fair value of intangible assets represents amounts in respect of brands £54.7m, sales pipeline £28.5m, customer contracts and relationships £74.5m and computer software £2.6m. The fair value adjustments totalling £113.9m reflect management's assessments, using methodologies that are in line with industry best practice. The accounting policy adjustment of £(10.5)m is to align with the Group's existing capitalisation policy for computer software. Brands are judged by management to have an indefinite life; the amounts in respect of other intangibles will be amortised over periods of up to five years (sales pipeline: less than one year; customer contracts and relationships: one to five years; computer software: three to five years).
4. The book value of investments acquired includes £3.2m in respect of Countrywide's 33.3% shareholding as at 8 March 2021 in TM Group (UK) Limited (TMG). This investment was deemed to have a fair value at that date of £29.3m, based on sale proceeds which the Group subsequently received on disposal of this investment; a fair value adjustment of £26.1m is therefore recognised at acquisition. In addition, Connells separately held an existing 33.3% shareholding in TMG; prior to 8 March 2021, the Group accounted for this investment as a joint venture using the equity accounting method. Immediately following the acquisition of Countrywide on 8 March 2021, the Group held a combined shareholding in TMG of 66.6%; management judged that control of TMG was acquired by the Group with effect from that date such that TMG became a subsidiary undertaking. The acquisition of TMG as a subsidiary undertaking was achieved in stages (a 'step-acquisition') and, in accordance with IFRS 3 Business Combinations, the Group remeasured its previously held 33.3% shareholding in TMG to fair value as at 8 March 2021; the Group assessed this fair value to be £29.3m, based on sale proceeds which the Group subsequently received on disposal of this investment, and the resulting gain of £27.1m is recognised in the Income Statement for the year (included within the line item 'Fair value gains on step-acquisition of Group undertakings'). Also on 8 March 2021, the Group disposed of a 1.9% shareholding in TMG for sale proceeds of £0.6m; the cash proceeds for this disposal were received in July 2021. On 8 July 2021 the Group disposed of its remaining 64.7% shareholding in TMG for sale proceeds of £58.0m (see note 17b)(ii) to the Accounts).
5. The book value of investments acquired also includes £0.1m in respect of Countrywide's 15.4% shareholding as at 8 March 2021 in Vibrant Energy Matters Limited (VEM). This investment was deemed to have a fair value at that date of £0.3m; a fair value adjustment of £0.2m is therefore recognised at acquisition. In addition, Connells separately held an existing 46.1% shareholding in VEM; prior to 8 March 2021, the Group accounted for this investment as a joint venture using the equity accounting method. Following the acquisition of Countrywide, the Group held a combined shareholding in VEM of 61.5% as at 8 March 2021; management judged that control of VEM was acquired by the Group with effect from that date such that VEM became a subsidiary undertaking. The acquisition of VEM as a subsidiary undertaking was achieved in stages and, in accordance with IFRS 3 Business Combinations, the Group remeasured its previously held 46.1% shareholding in VEM to fair value as at 8 March 2021; the Group assessed this fair value to be £0.5m and the resulting loss of £0.2m is recognised in the Income Statement for the year (included within the line item 'Fair value gains on step-acquisition of Group undertakings'). On 24 June 2021 the Group acquired a further 12.6% shareholding in VEM for cash consideration of £0.6m. Following a minor capital restructure by VEM in June 2021, the Group's resulting shareholding in VEM as at 31 December 2021 was 78.44%.
6. The fair value of investments includes £5.1m in respect of Countrywide's equity share investment as at 8 March 2021 in Tactile Limited (trading as Fixflo), which was disposed of by the Group on 21 May 2021 for sale proceeds of £5.1m. The book value of this investment as at 8 March 2021 was £nil and therefore a fair value adjustment of £5.1m is recognised at acquisition to reflect the amount subsequently received on disposal. In addition, Connells separately held an existing shareholding in Fixflo which was also disposed of by the Group on 21 May 2021 for sale proceeds of £2.7m; total sale proceeds received by the Group for its combined shareholding in Fixflo were therefore £7.8m.
7. At 8 March 2021 Countrywide had unused tax losses of £64.4m for which the related deferred tax assets had not been recognised; Countrywide had not recognised these assets due to uncertainties regarding the entity's future profitability. Management's latest trading forecasts indicate it is likely that the tax losses could be utilised within three to five years. A fair value adjustment is therefore made to recognise deferred tax assets of £12.2m in respect of these tax losses. In addition, there are further fair value adjustments of £(1.1)m that relate to several minor items, taking the total to £11.1m as shown above. The accounting policy adjustment of £3.8m relates to the deferred tax impacts of the other accounting policy adjustments shown in the table above.
8. Amounts owed to credit institutions consist of £1.0m of non-interest bearing loans and a £93.0m rolling credit facility.
9. The fair value adjustment of £22.4m relates to the deferred tax impact of amounts recognised at acquisition in respect of intangible assets (see note 3 above).
10. The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition, resulting in a fair value adjustment to increase lease liabilities by £10.7m. The related right-of-use assets were measured at an amount equal to the lease liabilities, adjusted for favourable/unfavourable lease terms relative to market terms, and impairment was assessed by reference to branch-level cash generating units; this resulted in fair value adjustments to increase right-of-use assets by £14.1m (per note 2 above).

At the acquisition date, the contractual amount outstanding of trade and other receivables was £83.1m; the best estimate of amounts not expected to be collected was £2.9m. The goodwill arising on the acquisition of Countrywide is mainly attributable to expected cash flows from new customers and significant synergies which are expected to be realised. The goodwill arising on acquisition is not expected to be deductible for tax purposes.

From the date of acquisition, the acquired Countrywide business contributed total income of £516.1m and profit before tax of £60.9m to the Skipton Group's consolidated Income Statement for the year ended 31 December 2021; these amounts exclude the impact of Group-level items relating to this acquisition, including an accounting adjustment to charge £52.4m of amortisation during the year against intangible assets recognised on acquisition. If the results of Countrywide were consolidated for the full financial year, as if the acquisition had taken place at 1 January 2021, the Skipton Group's total income for the year ended 31 December 2021 would have been £1,488.6m and Skipton Group profit before tax for the year ended 31 December 2021 would have been £267.9m; these amounts have been determined assuming all other things being equal, including an assumption that the fair values of assets acquired would not be materially different if the acquisition date had been 1 January 2021.

Transaction costs of £2.8m were incurred by the Group in 2021 in relation to the acquisition. These costs were expensed to the Income Statement as incurred and are included within 'Administrative expenses'.

ii) Acquisition of TM Group (UK)

TM Group (UK) Limited (TMG), a provider of property searches and services, became a subsidiary undertaking on 8 March 2021. For details of this acquisition, which was achieved in stages (a 'step-acquisition'), see footnote 4 to the table shown in note 17b)(i) above.

TMG was acquired exclusively with a view to subsequent disposal and therefore, in accordance with IFRS 5 *Non-current Assets Held for Sale*, the Group's interest in TMG was classified at 8 March 2021 as held for sale. The Group's interest in TMG was measured to fair value at 8 March 2021, when TMG became a subsidiary undertaking, and amounts were based on the expected sale proceeds. Following a minor disposal on 8 March 2021, the Group disposed of its remaining interest in TMG on 8 July 2021 for cash consideration of £58.0m; as the Group's interest in TMG was held at fair value, there was no gain or loss on disposal. For further details, see footnote 4 to the table shown in note 17b)(i) above.

Notes to the Accounts (continued)

17. Investments in Group undertakings (continued)

iii) Acquisition of Vibrant Energy Matters

Vibrant Energy Matters Limited (VEM), a provider of home energy, property and eco services, became a subsidiary undertaking on 8 March 2021. For details of this acquisition, which was achieved in stages (a 'step-acquisition'), see footnote 5 to the table shown in note 17b)(i) above.

iv) Acquisitions of other businesses

During 2021, Connells Limited purchased a number of small businesses for total consideration of £1.7m (of which £0.4m is deferred), generating goodwill of £0.7m. In the prior year Connells Limited purchased a number of small businesses for total consideration of £1.3m (with a further £0.2m deferred consideration), generating goodwill of £0.8m.

v) Hive-up of Amber Homeloans and North Yorkshire Mortgages

The activities of the Group's existing specialist lending businesses, Amber Homeloans Limited (Amber) and North Yorkshire Mortgages Limited (NYM), were hived-up into the Society with effect from 1 June 2021. Both these businesses had ceased lending in 2008; the existing mortgage books, previously serviced externally, are now managed by the Society.

From the perspective of the Group as a whole, the hive-ups had no impact on the Group's consolidated financial position as at 31 December 2021 or on the Group's consolidated financial performance for the year ended 31 December 2021.

From the perspective of the Society, the hive-ups were transacted at book value by adjustment through intercompany accounts. The residual reserves of each of Amber and NYM were remitted to the Society in November 2021 by way of ordinary dividends totalling £12.5m and £16.1m respectively. As a consequence of the hive-ups, the Society has further impaired the carrying amount of its investment in Amber by £0.4m and in NYM by £14.8m.

c) Disposals

The profit on disposal of subsidiary undertakings for the year was £0.5m for the Group (2020: £0.8m) and £nil for the Society (2020: £nil).

i) Disposal of TM Group (UK)

As set out in note 17b)(ii) above, during the year the Group disposed of its interest in TMG and there was no resulting gain or loss on disposal.

ii) Disposal of Homeloan Management

In 2014, the Group sold its then subsidiary Homeloan Management Limited (HML). The sale of HML to Computershare included contingent consideration dependent on HML's performance over a period following the disposal and this resulted in amounts being receivable by the Group of £32.5m between 2018 and 2022.

The fourth instalment was received by the Group in May 2021 in the amount of £6.4m (May 2020: £6.4m) and the discounted contingent consideration asset stands at £6.3m at 31 December 2021 (2020: £12.3m). The profit recognised in the Income Statement in relation to the HML disposal during the year of £0.5m (2020: £0.8m) is included in the 'Profit on disposal of subsidiary undertakings' line in the Income Statement.

d) Joint ventures

At 31 December 2021, the Group held interests in the following companies that are classed as joint ventures:

Name of investment	Principal business activity	Registered office	Class of shares held	Percentage of ownership interest 2021	2020
TM Group (UK) Limited	Property search services	1200 Delta Business Park, Swindon, Wiltshire, SN5 7XZ	Ordinary	**note 1**	33.3
Cybele Solutions Holdings Limited	Conveyancing services	Bickerton House, Lloyd Drive, Ellesmere Port, Cheshire, CH65 9HQ	Ordinary	**50.0**	50.0
Vibrant Energy Matters Limited	Home energy, property and eco services	2 Foxes Lane, Oakdale Business Park, Blackwood, Gwent, NP12 4AB	Ordinary	**note 2**	46.1

Notes
1. As set out in note 17b)(ii) above, TMG became a subsidiary undertaking on 8 March 2021 and was subsequently disposed of by the Group on 8 July 2021.
2. As set out in note 17b)(iii) above, VEM became a subsidiary undertaking on 8 March 2021.

The Group's combined share of net assets and the Group's combined share of profit after tax for the above joint ventures are as shown within the Statement of Financial Position and Income Statement respectively. The Directors reviewed the carrying value of joint ventures during the year and considered that no adjustment for impairment was required (2020: £1.5m impairment charge, of which £1.0m related to Cybele Solutions Holdings Limited). Any such impairment charge is recognised in the income statement within the line 'Impairment of Joint Ventures'.

e) Equity share investments mandatorily held at FVTPL

At 31 December 2021, the Group held interests in the following companies:

		Percentage of ownership interest		Carrying value	
		2021	2020	**2021**	2020
Name of investment	**Principal business activity**	**%**	%	**£m**	£m
Hearthstone Investments plc	Property fund management	**17.1**	17.1	**-**	-
OnTheMarket plc	Property search provider	**0.1**	0.3	**0.2**	0.3
Viewber Limited	Property viewings services	**3.2**	3.2	**0.4**	0.4
Tactile Limited	Software application provider	**-**	8.7	**-**	0.4
Global Property Ventures Limited	Property management services	**7.2**	5.7	**1.1**	0.6
Twenty7Tec Group Ltd	Software application provider	**2.0**	2.0	**-**	-
				1.7	1.7

Notes to the Accounts (continued)

17. Investments in Group undertakings (continued)

The movement during the year in the Group's equity share investments mandatorily held at FVTPL is analysed below:

	Group 2021 £m	Group 2020 £m
At 1 January	1.7	1.5
Additions	0.5	0.1
Acquired on acquisition of subsidiaries	5.4	-
Disposals (note 1)	(8.2)	-
Fair value gains recognised in Income Statement	2.3	0.1
At 31 December	1.7	1.7

Note

1. Disposals in 2021 relate primarily to sale by the Group of its investment in Tactile Limited (trading as Fixflo), details of which are set out in footnote 6 to the table shown in note 17b)(i) above.

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 2021 for each of these investments. The investment in Hearthstone Investments plc has been written down in full in previous years.

f) Equity share investments designated at FVOCI

At 31 December 2021, the Group held interests in the following companies:

Name of investment	Principal business activity	Percentage of ownership interest 2021 %	Percentage of ownership interest 2020 %	Carrying value 2021 £m	Carrying value 2020 £m
Bank North Limited	Financial Intermediary	13.2	-	8.5	-

The movement during the year in the Group's equity share investments designated at FVOCI is analysed below:

	Group 2021 £m	Group 2020 £m
At 1 January	-	-
Additions	6.0	-
Fair value gains recognised in Other Comprehensive Income	2.5	-
At 31 December	8.5	-

Unlisted investments

In August 2021 the Group invested £6.0m in a start-up challenger bank, Commercial and Northern Ltd (trading as Bank North). As outlined in note 1e) on page 129, the Group elected under IFRS 9 to designate this equity share investment to be held at FVOCI. Management has reviewed the carrying value of this investment and considers that £8.5m represents the best indication of fair value as at 31 December 2021; this takes into account the ongoing and expected future trading performance of Bank North, and also considers information from recent or ongoing capital issuances by Bank North to market participants. The resulting fair value gain of £2.5m is recognised through Other Comprehensive Income.

18. Property, plant and equipment

Group	2021 Land and buildings £m	2021 Equipment, fixtures and fittings £m	2021 Total £m	2020 Land and buildings £m	2020 Equipment, fixtures and fittings £m	2020 Total £m
Cost						
At 1 January	103.7	99.8	203.5	100.8	97.3	198.1
Additions	2.3	8.5	10.8	4.9	6.4	11.3
Disposals	(3.0)	(26.3)	(29.3)	(1.8)	(4.0)	(5.8)
Acquisition of subsidiary undertakings	1.3	3.2	4.5	-	-	-
Foreign exchange movements on translation	-	(0.1)	(0.1)	-	0.1	0.1
Reclassification to investment property	-	-	-	(0.2)	-	(0.2)
At 31 December	104.3	85.1	189.4	103.7	99.8	203.5
Depreciation						
At 1 January	51.8	79.2	131.0	47.7	74.7	122.4
Charge for the year	5.2	8.5	13.7	5.5	8.0	13.5
Impairment charge	-	-	-	0.1	-	0.1
Disposals	(2.7)	(25.7)	(28.4)	(1.4)	(3.6)	(5.0)
Foreign exchange movements on translation	-	(0.1)	(0.1)	-	0.1	0.1
Reclassification to investment property	-	-	-	(0.1)	-	(0.1)
At 31 December	54.3	61.9	116.2	51.8	79.2	131.0
Net book value at 1 January	51.9	20.6	72.5	53.1	22.6	75.7
Net book value at 31 December	50.0	23.2	73.2	51.9	20.6	72.5

Notes to the Accounts (continued)

18. Property, plant and equipment (continued)

Society	2021			2020		
	Land and buildings £m	**Equipment, fixtures and fittings £m**	**Total £m**	Land and buildings £m	Equipment, fixtures and fittings £m	Total £m
Cost						
At 1 January	**56.1**	**41.4**	**97.5**	53.2	40.7	93.9
Additions	**1.2**	**1.9**	**3.1**	4.3	1.7	6.0
Disposals	**(2.5)**	**(23.0)**	**(25.5)**	(1.2)	(1.0)	(2.2)
Reclassification to investment property	**-**	**-**	**-**	(0.2)	-	(0.2)
At 31 December	**54.8**	**20.3**	**75.1**	56.1	41.4	97.5
Depreciation						
At 1 January	**22.1**	**34.7**	**56.8**	21.1	33.6	54.7
Charge for the year	**2.4**	**2.3**	**4.7**	2.2	2.1	4.3
Impairment charge	**-**	**-**	**-**	0.1	-	0.1
Disposals	**(2.5)**	**(23.0)**	**(25.5)**	(1.2)	(1.0)	(2.2)
Reclassification to investment property	**-**	**-**	**-**	(0.1)	-	(0.1)
At 31 December	**22.0**	**14.0**	**36.0**	22.1	34.7	56.8
Net book value at 1 January	**34.0**	**6.7**	**40.7**	32.1	7.1	39.2
Net book value at 31 December	**32.8**	**6.3**	**39.1**	34.0	6.7	40.7

The net book value of land and buildings comprises:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Freehold	**39.5**	41.3	**26.5**	27.5
Long leasehold	**2.7**	1.3	**0.8**	0.9
Short leasehold	**7.8**	9.3	**5.5**	5.6
	50.0	51.9	**32.8**	34.0

19. Right-of-use assets

Group	2021			2020		
	Land and buildings £m	**Equipment, fixtures and fittings £m**	**Total £m**	Land and buildings £m	Equipment, fixtures and fittings £m	Total £m
Cost						
At 1 January	**85.8**	**6.8**	**92.6**	77.4	6.6	84.0
Additions	**10.1**	**0.7**	**10.8**	9.6	0.6	10.2
Acquired on acquisition of subsidiary undertakings	**46.1**	**0.5**	**46.6**	-	-	-
Lease modifications and remeasurements	**7.8**	**-**	**7.8**	3.4	(0.2)	3.2
Disposals	**(6.6)**	**(0.4)**	**(7.0)**	(4.6)	(0.2)	(4.8)
Other movements	**0.1**	**-**	**0.1**	-	-	-
Foreign exchange movements on translation	**(0.1)**	**-**	**(0.1)**	-	-	-
At 31 December	**143.2**	**7.6**	**150.8**	85.8	6.8	92.6
Depreciation						
At 1 January	**30.2**	**1.5**	**31.7**	16.0	0.6	16.6
Charge for the year	**27.5**	**2.0**	**29.5**	15.7	1.3	17.0
Impairment charge	**0.4**	**-**	**0.4**	1.5	-	1.5
Disposals	**(6.2)**	**(0.4)**	**(6.6)**	(3.0)	(0.4)	(3.4)
At 31 December	**51.9**	**3.1**	**55.0**	30.2	1.5	31.7
Net book value at 1 January	**55.6**	**5.3**	**60.9**	61.4	6.0	67.4
Net book value at 31 December	**91.3**	**4.5**	**95.8**	55.6	5.3	60.9

Notes to the Accounts (continued)

19. Right-of-use assets (continued)

Society	2021			2020		
	Land and buildings £m	**Equipment, fixtures and fittings £m**	**Total £m**	Land and buildings £m	Equipment, fixtures and fittings £m	Total £m
Cost						
At 1 January	**16.3**	**0.2**	**16.5**	15.6	0.2	15.8
Additions	1.8	-	**1.8**	3.2	-	3.2
Disposals	(0.7)	-	**(0.7)**	(2.5)	-	(2.5)
Other movements	0.1	-	**0.1**	-	-	-
At 31 December	**17.5**	**0.2**	**17.7**	16.3	0.2	16.5
Depreciation						
At 1 January	**4.4**	**0.1**	**4.5**	3.0	0.1	3.1
Charge for the year	2.4	-	**2.4**	2.6	-	2.6
Impairment charge	-	-	**-**	0.1	-	0.1
Disposals	(0.7)	-	**(0.7)**	(1.3)	-	(1.3)
At 31 December	**6.1**	**0.1**	**6.2**	4.4	0.1	4.5
Net book value at 1 January	**11.9**	**0.1**	**12.0**	12.6	0.1	12.7
Net book value at 31 December	**11.4**	**0.1**	**11.5**	11.9	0.1	12.0

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 2021, 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 2021, other operating income includes £0.4m (2020: £0.3m) (Group) and £0.1m (2020: £0.1m) (Society) relating to the subleasing of properties accounted for as right-of-use assets.

For details of the Group's lease liabilities, see note 27. For further details of the Group's lease expenses in the year, see note 5.

20. Investment property

	Group and Society 2021 £m	Group and Society 2020 £m
Cost		
At 1 January	**25.1**	24.7
Additions	**-**	0.3
Disposals	**-**	(0.1)
Reclassification from property, plant and equipment	**-**	0.2
At 31 December	**25.1**	25.1
Depreciation		
At 1 January	**17.0**	15.3
Charge for the year	**0.6**	0.7
Impairment charge	**0.9**	1.0
Disposals	**-**	(0.1)
Reclassification from property, plant and equipment	**-**	0.1
At 31 December	**18.5**	17.0
Net book value at 1 January	**8.1**	9.4
Net book value at 31 December	**6.6**	8.1

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 (2020: £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 2021 £m	Group and Society 2020 £m
Market value of investment property	**7.9**	9.5

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 £0.9m should be recognised for the year (2020: £1.0m).

Notes to the Accounts (continued)

21. Intangible assets

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Goodwill	218.4	135.4	-	-
Other intangible assets	127.2	22.3	0.4	2.2
	345.6	157.7	0.4	2.2

Goodwill	Group 2021 £m	Group 2020 £m
Cost, less amortisation to 1 January 2004*		
At 1 January	147.1	147.2
Acquisitions of subsidiary undertakings and business units	82.6	0.8
Revaluation of put options	0.4	(0.9)
At 31 December	230.1	147.1
Impairment losses		
At 1 January	11.7	9.7
Impairment loss during the year	-	2.0
At 31 December	11.7	11.7
Net book value at 1 January	135.4	137.5
Net book value at 31 December	218.4	135.4

* Prior to the transition to IFRS on 1 January 2005 goodwill was held at cost less accumulated amortisation in line with UK GAAP. Goodwill arising on acquisitions before the transition to IFRS on 1 January 2005 has been retained at its previous UK GAAP amount, as described in note 1d).

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit (operating segment) that is expected to benefit from that business combination. The carrying value of goodwill has been allocated as follows:

Operating segment	Group 2021 Cost of goodwill £m	Group 2021 Accumulated impairment £m	Group 2021 Carrying value £m	Group 2020 Cost of goodwill £m	Group 2020 Accumulated impairment £m	Group 2020 Carrying value £m
Mortgages and Savings	2.9	0.1	2.8	2.9	0.1	2.8
Estate Agency	218.8	6.7	212.1	135.8	6.7	129.1
Investment Portfolio	8.4	4.9	3.5	8.4	4.9	3.5
Total goodwill	230.1	11.7	218.4	147.1	11.7	135.4

The following table provides a breakdown of the carrying value of goodwill and brands (which are deemed to have an indefinite useful life) within the Estate Agency division:

Cash generating unit	2021 Goodwill £m	2021 Brands £m	2021 Total £m	2020 Goodwill £m	2020 Brands £m	2020 Total £m
Connells group	42.4	-	42.4	42.4	-	42.4
Sequence (UK) Limited	40.8	-	40.8	40.4	-	40.4
Connells Residential	6.5	-	6.5	6.1	-	6.1
Sharman Quinney Holdings Limited	6.1	-	6.1	5.8	-	5.8
Peter Alan Limited	5.8	2.3	8.1	5.8	2.3	8.1
Gascoigne Halman Group Limited	6.2	3.0	9.2	6.2	3.0	9.2
RMS Estate Agents Limited	0.3	1.2	1.5	0.3	1.2	1.5
The Asset Management Group Limited	8.4	-	8.4	8.4	-	8.4
The New Homes Group Limited	13.2	-	13.2	13.2	-	13.2
Connells Survey & Valuation	0.5	-	0.5	0.5	-	0.5
*Countrywide Estate Agents	27.4	42.6	70.0	-	-	-
*Countrywide Surveyors Limited	31.3	-	31.3	-	-	-
*Lambert Smith Hampton Group Limited	14.6	12.1	26.7	-	-	-
*Mortgage Intelligence Limited	5.4	-	5.4	-	-	-
*The Buy to Let Business Limited	0.9	-	0.9	-	-	-
*IAM Advisors Limited	2.3	-	2.3	-	-	-
Total goodwill and brands	212.1	61.2	273.3	129.1	6.5	135.6

* On acquisition of Countrywide plc in March 2021, six separate cash-generating units were identified for the purpose of assessing the carrying value of goodwill and brands.

Based upon the Directors' assessment of recoverable amounts, the Directors have concluded that no impairment of goodwill is required to be recognised in 2021 (2020: £2.0m in respect of goodwill within the Estate Agency division). Sensitivity disclosures are provided below.

The recoverable amounts of the operating segments are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding cash flows, discount rates and growth rates.

The cash flows are derived from the most recent corporate plans for the next five years, which take into account the risks inherent in each of the businesses. The cash flows are extrapolated for subsequent years indefinitely (or a specific number of years where circumstances dictate), to reflect that the subsidiary undertakings are held for long term investment, based on a long-term growth rate of 2.5% (2020: 2.5%) or specific growth rates where circumstances dictate.

The cash flows from the corporate plans are based upon the following key drivers:

Operating segment	Key drivers
Mortgages and Savings	Volume of new business, recurring income and FTSE Levels
Estate Agency	Volume of UK property transactions, house price inflation, level of unemployment and interest rates
Investment Portfolio	Volume of new business, level of unemployment and interest rates

Notes to the Accounts (continued)

21. Intangible assets (continued)

In addition to the key drivers outlined above, the preparation of the corporate plans of the Estate Agency division, where the majority of goodwill is present in the Group, require the Directors to take into account various other factors underpinning the UK housing market. These include, but are not limited to, the impact of government support and initiatives provided to the housing market, including for instance throughout the COVID-19 pandemic, expectations of the Connells group's future market share, and projected average fees achievable in relation to second hand house sales. Connells' corporate plans are subject to robust scrutiny and challenge by the Connells 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 cash generating unit.

The pre-tax discount rates are as follows:

Operating segment	Group 2021 %	Group 2020 %
Mortgages and Savings	**12**	12
Estate Agency	**14**	14
Investment Portfolio	**10**	10

Sensitivity disclosures

The impairment assessment is carried out at a cash generating unit (CGU) level. The impairment test compares the carrying value of the CGU against the higher of its fair value less costs to sell and its value in use, which is determined by discounting the forecast future cash flows of the CGU to present value.

There is significant headroom in relation to the majority of the CGUs shown on page 181. The CGU where headroom is lowest is The Asset Management Group Limited. An increase to the discount rate used for The Asset Management Group of 2.5% (e.g. from 10% to 12.5%) would result in impairment of £1.1m (31 December 2020: £1.2m). A decrease to the long term growth rate of 2.5% would result in impairment of £0.1m (31 December 2020: £1.5m), whilst a decrease to the long term growth rate of 5% would result in impairment of £1.9m (31 December 2020: £3.2m).

For all other CGUs within the Estate Agency division, and also in respect of goodwill held in the Mortgages and Savings division and Investment Portfolio, headroom is significant and no reasonably possible alternative assumptions in relation to any of the key inputs used would result in impairment.

Other intangible assets	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Cost				
At 1 January	**100.5**	95.7	**21.2**	21.5
Acquisition of subsidiary undertakings	**162.0**	-	**-**	-
Acquisition of other business assets	**0.2**	0.7	**-**	-
Additions	**7.2**	3.9	**-**	0.3
Foreign exchange movements on translation	**(1.0)**	0.8	**-**	-
Disposals	**(4.1)**	(0.6)	**(2.2)**	(0.6)
At 31 December	**264.8**	100.5	**19.0**	21.2
Amortisation and impairment				
At 1 January	**78.2**	70.6	**19.0**	18.1
Amortisation charge for the year	**63.3**	6.9	**0.7**	0.9
Foreign exchange movements on translation	**(0.8)**	0.7	**-**	-
Disposals	**(3.1)**	-	**(1.1)**	-
At 31 December	**137.6**	78.2	**18.6**	19.0
Net book value at 1 January	**22.3**	25.1	**2.2**	3.4
Net book value at 31 December	**127.2**	22.3	**0.4**	2.2

The net book value of other intangible assets comprises:

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Brands	**61.2**	6.5	**-**	-
Customer contracts and relationships	**52.8**	3.0	**-**	-
Computer software and databases	**13.2**	12.8	**0.4**	2.2
	127.2	22.3	**0.4**	2.2

22. Other assets

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Trade receivables	**71.1**	27.8	**1.5**	1.8
Prepayments	**27.4**	14.1	**11.2**	8.9
Accrued income	**11.9**	5.5	**0.8**	0.9
Contingent consideration	**6.3**	12.3	**-**	-
Share warrants	**11.0**	6.5	**-**	-
Other	**8.1**	4.9	**0.5**	0.6
	135.8	71.1	**14.0**	12.2

Further details regarding trade receivables are included in note 40c).

23. Shares

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Held by individuals	**19,619.1**	18,547.1	**19,619.1**	18,547.1
Other shares	**173.5**	158.2	**173.5**	158.2
Fair value adjustment for hedged risk	**(32.8)**	4.1	**(43.3)**	19.9
	19,759.8	18,709.4	**19,749.3**	18,725.2

A maturity analysis of shares is included in note 38.

24. Amounts owed to credit institutions

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Amounts owed to subsidiary undertakings	**-**	-	**197.8**	389.6
Other	**2,203.4**	2,149.2	**2,202.4**	2,149.2
	2,203.4	2,149.2	**2,400.2**	2,538.8

A maturity analysis of amounts owed to credit institutions is included in note 38.

Notes to the Accounts (continued)

25. Amounts owed to other customers

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Amounts owed to subsidiary undertakings	-	-	638.1	886.5
Other	2,249.2	2,129.8	118.4	110.5
Fair value adjustment for hedged risk	-	0.5	-	-
	2,249.2	2,130.3	756.5	997.0

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 2021 the amount of such deposits included above, net of fair value adjustment for hedged risk, is £2,051.1m (2020: £1,937.9m).

Amounts owed to subsidiary undertakings by the Society include £453.4m 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) (2020: £696.2m of which £578.4m related to Darrowby No.5 plc and £117.8m related to Darrowby No.4 plc which was fully repaid in February 2021). 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 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Certificates of deposit	5.0	14.1	5.0	14.1
Senior unsecured debt	66.6	66.5	66.6	66.5
Covered bonds	1,890.5	1,889.7	1,839.7	1,895.5
Securitisation	305.4	465.0	-	-
Fair value adjustment for hedged risk	(49.4)	17.2	-	0.6
	2,218.1	2,452.5	1,911.3	1,976.7

A maturity analysis of debt securities in issue is included in note 38.

Group debt securities in issue include £2,195.9m (2020: £2,354.7m) 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 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
At 1 January	62.5	66.6	12.2	12.5
Additions	9.6	10.3	1.9	3.2
Acquired on acquisition of subsidiaries	76.4	-	-	-
Modifications / remeasurements of existing lease liabilities	8.8	3.4	0.1	-
Interest charged	1.8	1.3	0.2	0.2
Lease payments (including interest)	(44.3)	(17.6)	(2.9)	(2.6)
Disposals	(0.4)	(1.5)	-	(1.1)
At 31 December	114.4	62.5	11.5	12.2

A maturity analysis of lease liabilities is included in note 38.

For details of the Group's right-of-use assets, see note 19. For further details of the Group's lease expenses in the year, see note 5.

28. Other liabilities

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Trade payables	14.7	4.7	0.1	2.1
Fair value of put option obligation	8.6	6.9	-	-
Fair value of liability of subsidiary management incentive scheme	19.1	4.4	-	-
VAT and employment taxes	39.7	19.2	2.2	3.8
Other	32.1	15.7	7.0	5.6
	114.2	50.9	9.3	11.5

Put option obligation

The movement in the fair value of the put option obligation is summarised below:

	Group 2021 £m	Group 2020 £m
At 1 January	6.9	7.5
Unwind of the discount factor	0.1	0.2
Revaluation of market values and changes to future exercise dates	1.6	(0.8)
At 31 December	8.6	6.9

Subsidiary management incentive scheme

In 2014 or in 2019, depending on scheme eligibility, 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 2021, the final options in respect of the shares issued in 2014 were exercised. As at 31 December 2021 two options remain outstanding, with the maximum option length being six years from 31 December 2021. In accordance with IFRS 2 *Share-based Payment*, this is a cash-settled scheme in the Group Accounts, with the fair value of the liability being spread over the period to exercise. The fair value of the liability is subsequently remeasured at each reporting date with any changes in fair value recognised in the Income Statement.

The movement in the fair value of the liability of the subsidiary management incentive scheme is summarised below:

	Group 2021 £m	Group 2020 £m
At 1 January	4.4	3.8
Exercise of share options during the year	(0.8)	(0.6)
Movement in fair value of the liability recognised in the Income Statement	15.5	1.2
At 31 December	19.1	4.4

Notes to the Accounts (continued)

29. Provisions for liabilities

The movements in provisions for liabilities during the year were as follows:

Group 2021	**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	**1.3**	**12.5**	**4.2**	**0.6**	**0.3**	**18.9**
Acquired on acquisition of subsidiaries	**10.7**	**1.7**	**5.4**	**-**	**1.5**	**19.3**
(Credit) / charge for the year	**(0.4)**[1]	**13.1**[2]	**(0.8)**[1]	**0.4**[1]	**0.4**[1]	**12.7**
Utilised during the year	**(0.6)**	**(12.3)**	**(1.2)**	**(0.2)**	**(0.2)**	**(14.5)**
At 31 December	**11.0**	**15.0**	**7.6**	**0.8**	**2.0**	**36.4**

Group 2020	Provision for the costs of surplus properties £m	Commission clawbacks £m	Survey and valuation claims £m	Customer compensation £m	Other provisions £m	Total £m
At 1 January	1.5	13.9	4.0	0.7	3.6	23.7
(Credit) / charge for the year	(0.2)[1]	9.1[2]	0.3[1]	0.6[1]	(0.9)[1]	8.9
Utilised during the year	-	(10.5)	(0.1)	(0.7)	(2.4)	(13.7)
At 31 December	1.3	12.5	4.2	0.6	0.3	18.9

Society 2021	**Commission clawbacks £m**	**Customer compensation £m**	**Other provisions £m**	**Total £m**
At 1 January	**0.2**	**0.5**	**0.2**	**0.9**
Charge for the year	**-**	**0.3**[1]	**-**	**0.3**
Utilised during the year	**(0.1)**	**(0.1)**	**-**	**(0.2)**
At 31 December	**0.1**	**0.7**	**0.2**	**1.0**

Society 2020	Commission clawbacks £m	Customer compensation £m	Other provisions £m	Total £m
At 1 January	0.3	0.5	0.2	1.0
Charge for the year	-	0.5[1]	-	0.5
Utilised during the year	(0.1)	(0.5)	-	(0.6)
At 31 December	0.2	0.5	0.2	0.9

Notes

1. The charge / (credit) for the year is recognised within the 'Provisions for liabilities' line in the Income Statement.
2. The provision for commission clawbacks include an expected future clawback on insurance commissions in the event of early termination by the customer. Insurance commission income is recognised net of these provisions, and therefore the charge for the year of £13.1m (2020: £9.1m) 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 the Estate Agency division and the financial advice activities of the Group. These are estimated based upon anticipated cancellation rates and arise in the normal course of business.

Survey and valuation claims

Provision is made for professional indemnity claims and potential claims that arise during the normal course of business in relation to surveys and valuations carried out by the Connells group. The provision is based upon the expected level of future professional indemnity claims relating to services already provided and the value provided on each claim is the lower of the professional indemnity insurance excess per claim or the estimated exposure. To assess the level of future claims, analysis is performed on the number of preliminary notifications expected to turn into future claims and on historical claim trends to forecast the number of future claims where a notification is yet to be received. Historical data on claims success frequency and value is also used to estimate the size of the liability.

The professional indemnity claim provision is stated at the Directors' best estimate of the eventual liability, based on the information available at the time. Whilst the level of future claims is uncertain, the Group has robust processes in place that aim to restrict the number and magnitude of these.

Due to the nature of the professional indemnity claims it is difficult to indicate approximate payment timescales or claims received in future years. The provision will be utilised as individual claims are settled.

Customer compensation

The customer compensation provision includes provisions for claims on payment protection insurance (PPI) of £0.1m (2020: £0.2m).

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 when these differences reverse, which in general is 33% (2020: 27%) for the Society and 25% (2020: 19%) 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 £25m are subject to an 8% banking companies surcharge.

Legislation to increase the standard rate of corporation tax in the UK to 25% from 1 April 2023 was enacted during the year. Any deferred tax assets and liabilities that are expected to reverse after 1 April 2023 have been remeasured at this new rate.

The UK Government further announced on 27 October 2021 its intention to reduce the banking companies surcharge from 8% to 3% from 1 April 2023. As this change was not substantively enacted at the year end, deferred tax in the Society has been calculated in general based on the prevailing rate of 33%. The reduction in the banking companies surcharge became substantively enacted on 2 February 2022 and the estimated impact of the new 28% rate (25% plus 3% banking companies surcharge) on the Society's deferred tax asset would be a £2.1m decrease.

The movement during the year in the net deferred tax asset was as follows:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
At 1 January	**45.2**	36.9	**29.9**	26.3
Income Statement credit / (charge) (note 9)	**2.6**	0.3	**0.7**	(0.4)
Items taken directly to other comprehensive income	**(19.3)**	8.1	**(15.3)**	4.0
Hive-up of subsidiaries	**-**	-	**0.3**	-
Acquired on acquisition of subsidiaries	**4.5**	(0.1)	**-**	-
At 31 December	**33.0**	45.2	**15.6**	29.9

The adoption of IFRS 9 in 2018 resulted in an adjustment to the deferred tax asset in the Group of £12.9m and in the Society of £13.3m, which is being released to the Income Statement over a 10 year period as permitted by the financial reporting standard.

Notes to the Accounts (continued)

30. Deferred tax (continued)

Deferred tax assets and liabilities are attributable to the following items:

Deferred tax assets

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Fixed asset temporary differences	15.5	2.7	0.4	0.8
Intangible asset temporary differences (note 1)	(21.9)	(0.2)	-	-
Derivatives and loans	13.8	13.9	10.4	9.9
Pension obligations	13.3	24.4	7.0	15.8
Provisions	4.7	1.8	1.2	0.3
Corporation tax losses	13.1	0.6	-	-
Contingent consideration (note 1)	(1.0)	(1.9)	-	-
Financial assets held at FVTPL (note 1)	(0.8)	-	-	-
Financial assets held at FVOCI (note 1)	(2.7)	(1.7)	(2.8)	(1.7)
Cash flow hedges (note 1)	(2.0)	5.6	(0.7)	4.8
Cost of hedging reserve	1.8	1.3	-	-
Gain deferred by rollover relief (note 1)	(0.9)	-	-	-
Other	0.2	(0.1)	0.1	-
	33.1	46.4	15.6	29.9

Note

1.Deferred tax assets and liabilities relating to the same taxation authority are offset within the Statement of Financial Position where there is a legally enforceable right of offset and the intention is to settle tax liabilities and assets on a net basis.

Deferred tax liabilities	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Fixed asset temporary differences	0.1	0.2	-	-
Intangible asset temporary differences	-	0.9	-	-
Other	-	0.1	-	-
	0.1	1.2	-	-
Net deferred tax asset	33.0	45.2	15.6	29.9

The deferred tax (credit) / charge in the Income Statement comprises the following:

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Fixed asset temporary differences	(1.9)	(0.5)	0.4	-
Intangible asset temporary differences	(5.5)	0.2	-	-
Provisions	(2.6)	0.1	(0.8)	-
Derivatives and loans	0.2	0.3	(0.2)	0.4
Contingent consideration	(0.9)	(0.6)	-	-
Corporation tax losses	4.6	-	-	-
Other	3.5	0.2	(0.1)	-
	(2.6)	(0.3)	(0.7)	0.4

Deferred tax has not been recognised in relation to certain losses carried forward at 31 December 2021, which comprises the following:

- Trading losses of £11.1m for the Group (2020: £10.7m) and £nil for the Society (2020: £nil);
- Capital losses of £56.8m for the Group (2020: £nil) and £nil for the Society (2020: £nil); and
- Other tax losses of £1.7m for the Group (2020: £nil) and £nil for the Society (2020: £nil).

Unrecognised deferred tax assets based on the above losses have increased materially during the year following the acquisition of Countrywide in March 2021.

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 and stakeholder pension arrangements is the contribution payable in the year. The total pension cost charged to the Income Statement amounted to £22.4m for the Group (2020: £12.9m) and £6.4m for the Society (2020: £6.2m).

b) Defined benefit schemes

During 2021 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 Holmesdale Building Society Pension Scheme (the 'Holmesdale Scheme') – a hybrid arrangement (with a funded defined benefit element). In June 2021 benefits for the membership of this scheme were secured outside of the scheme. The Trustee triggered wind-up on 10 June 2021 and member benefits were discharged from the scheme; the scheme terminated with effect from 30 June 2021 and was wound-up in January 2022.
- The Countrywide plc Pension Scheme (the 'Countrywide Scheme') - a hybrid scheme (with a funded defined benefit element). Connells assumed responsibility for this scheme following its acquisition on 8 March 2021 of Countrywide (see note 17b)(i)).

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 – 719 members
- Connells (2014) Scheme – 969 members
- Countrywide Scheme – 176 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 (and also the now terminated Holmesdale 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.

Notes to the Accounts (continued)

31. Pensions (continued)

- 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.

Following a joint tendering process between the sponsoring employers and Trustee of the Skipton (2015) Scheme and of the Connells (2014) Scheme, BlackRock were appointed as fiduciary manager to set and deliver the investment strategy on behalf of the Trustee. 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 actuarial valuations for each of the schemes showed the following:

Scheme	Valuation date	Surplus / (deficit) £m	Recovery period	Annual contribution 2022 (estimate) £m
Skipton (2015)	31 December 2019	(59.1)	7 years	1.7
Connells (2014)	30 April 2020	(64.1)	7 years	2.9
Countrywide	5 April 2021	(4.5)	3 years	2.0

The actuarial valuations of the above schemes each showed a deficit. The Group has 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. The current best estimate of contributions to be paid by the Group to the schemes for the year commencing 1 January 2022 is £6.6m (see page 195 and page 198 for further details).

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 2021. 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 2021 %	2020 %
Retail price inflation (RPI)	**3.40**	3.00
Consumer price inflation (CPI)	**2.90**	2.50
Discount rate	**1.80**	1.45
Increases to pension payment:		
in line with RPI, subject to a max of 5% pa	**3.30**	2.95
in line with RPI, subject to a min of 3% and max of 5% pa	**3.70**	3.52
in line with RPI, subject to a min of 4% and max of 5% pa	**4.25**	n/a
in line with RPI, subject to a max of 2.5% pa	**2.27**	2.15
in line with CPI, subject to a max of 5% pa	**2.86**	2.50
in line with CPI, subject to a min of 3% and max of 5% pa	**3.48**	3.33
in line with CPI, subject to a max of 3% pa	**2.38**	2.16
in line with CPI, subject to a max of 2.5% pa	**2.12**	1.95
Fixed 4.00% pa	**4.00**	n/a
Rate of increase for deferred pensions (in line with CPI, subject to a max of 5% pa)	**2.90**	2.50
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 2021, this has been based on mortality rates that are 98% of the standard S3PxA tables, with an allowance for projected improvements in mortality in line with CMI 2020 improvements with a 1% per annum long-term rate of convergence. The tables adopted imply the following life expectancy:

	Life expectancy at age 65 (years) 2021	2020
Male retiring in the current year	**22.1**	22.1
Female retiring in the current year	**24.4**	24.3
Male retiring in 15 years' time	**22.7**	22.8
Female retiring in 15 years' time	**25.2**	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, it was concluded that no explicit allowances were required in this respect.

As at 31 December 2021 the Statements of Financial Position include amounts relating to defined benefit schemes as set out below:

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Within liabilities				
Retirement benefit obligations (see part i) below)	**(30.1)**	(96.4)	**(17.2)**	(51.1)
Within assets				
Retirement benefit surplus (see part ii) below)	**1.2**	-	**-**	-

Notes to the Accounts (continued)

31. Pensions (continued)

i) Retirement benefit obligations

For the Society, amounts presented within retirement benefit obligations relate to the Skipton (2015) Scheme (and previously also included the Holmesdale Scheme which terminated with effect from 30 June 2021). For the Group, the amounts presented also include the Connells (2014) Scheme.

The table below shows the net pension liability recognised within the Statement of Financial Position:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Fair value of plan assets	**255.0**	210.3	**136.8**	116.1
Present value of defined benefit obligations	**(285.1)**	(306.4)	**(154.0)**	(166.9)
Impact of asset ceiling	**-**	(0.3)	**-**	(0.3)
Net pension liability	**(30.1)**	(96.4)	**(17.2)**	(51.1)

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.

The table below sets out a reconciliation of the present value of the defined benefit obligation for the year:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
At 1 January	**306.4**	270.6	**166.9**	145.4
Interest expense	**4.4**	5.4	**2.4**	2.9
Remeasurement losses / (gains) arising from changes in:				
Scheme experience	**(3.1)**	1.6	**(1.4)**	2.9
Demographic assumptions	**(0.4)**	(1.1)	**(0.2)**	(0.4)
Financial assumptions	**(8.8)**	38.8	**(5.2)**	21.0
Actual benefit payments	**(13.0)**	(10.4)	**(8.1)**	(5.6)
Past service costs	**-**	1.5	**-**	0.7
Settlement payments	**(1.1)**	-	**(1.1)**	-
Settlement losses	**0.7**	-	**0.7**	-
At 31 December	**285.1**	306.4	**154.0**	166.9

Settlements during the year relate to the Holmesdale scheme which, as noted above, terminated with effect from 30 June 2021. There have been no other settlements, plan amendments or curtailments in the year.

The estimated average duration of the defined benefit obligation as at 31 December 2021 is 18 years (2020: 18 years).

The table below sets out the reconciliation of the fair value of scheme assets for the year:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
At 1 January	**210.3**	183.8	**116.1**	96.8
Interest income	**3.3**	3.7	**1.8**	2.0
Return on plan assets (excluding amounts included in interest income)	**9.7**	16.7	**5.2**	9.3
Contributions by employer	**45.8**	16.5	**22.9**	13.6
Benefits paid	**(13.0)**	(10.4)	**(8.1)**	(5.6)
Settlements paid	**(1.1)**	-	**(1.1)**	-
At 31 December	**255.0**	210.3	**136.8**	116.1

The actual return on the scheme assets, including interest income on plan assets, over the year ended 31 December 2021 was as follows:

- Group £13.0m (2020: £20.4m)
- Society £7.0m (2020: £11.3m)

The table below sets out the fair value of the scheme assets by each major category:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Diversified growth fund (note 1)	**22.7**	109.5	**12.3**	58.6
Liability driven investments (note 2)	**77.6**	90.6	**42.4**	47.5
Equities	**74.3**	-	**42.5**	-
Cash	**25.5**	9.6	**8.1**	9.4
Corporate bonds	**43.7**	0.3	**25.1**	0.3
Government bonds	**11.2**	0.3	**6.4**	0.3
	255.0	210.3	**136.8**	116.1

Notes

1. Diversified growth funds (DGF) target equity-like returns with lower volatility which is achieved through dynamic diversification. Funds are invested in a diversified range of assets, including equities, bonds, property and cash and the allocation between these asset classes is actively managed by a fund manager reflecting the changing correlations and risk characteristics.
2. Liability driven investments (LDI) are investments in assets which are expected to behave in a similar manner to liabilities and therefore aim to provide a better match against liability movements than conventional bonds or gilts.

Each of the schemes invests in an LDI fund which aims to provide protection against interest rate and inflation movements. The 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.

Notes to the Accounts (continued)

31. Pensions (continued)

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.
- 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.

The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the scheme's investment managers and are monitored by the Trustee by regular reviews of the investment portfolios.

Credit risk

The schemes invest in pooled investment vehicles and are therefore directly exposed to credit risk in relation to the pooled investment vehicles and are indirectly exposed to credit risks arising on the financial instruments held by the vehicles.

The schemes' holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The investment manager carries out its own due diligence checks before a new pooled fund is invested in, and on an ongoing basis monitors any changes to the regulatory and operating environment of the underlying pooled investment managers.

Indirect credit risk arises in relation to underlying investments held in the LDI pooled investment vehicles, as well as DGF pooled investment vehicles due to the bond holdings within these funds.

The LDI funds use robust collateralisation management procedures so as to mitigate the impact of credit risk.

Market risk

Currency risk

The schemes do not take explicit unhedged positions in overseas investments through their investment strategy, either directly or indirectly via pooled investment vehicles.

The DGF managers' default position is that any investment in overseas assets is hedged back to Sterling in order to reduce currency risk. The DGF managers may from time to time take unhedged overseas investment positions in pursuit of growth opportunities or to reduce overall fund risk. Overall, however, their neutral position is considered to be 100% Sterling.

Interest rate risk

The schemes' assets are subject to indirect interest rate risk through their LDI pooled investment vehicles, as well as DGF pooled investment vehicles due to the bond holdings within these funds.

The schemes' liabilities are exposed to a significant level of interest rate movement and for this reason it is desirable for the assets to also be exposed to interest rate risk. The schemes manage interest rate risk by considering the net risk when taking account of the liabilities valued.

Other price risk

Other price risk arises principally in relation to the schemes' return seeking portfolio which includes DGFs held in pooled investment vehicles, as well as the LDI pooled investment vehicles due to the inflation sensitive elements of the fund. The scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

The table below sets out the amounts which have been recognised within the Income Statement. The service costs are recognised within 'Administrative expenses', whilst the net interest expense is recognised within 'Other income'.

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Service costs				
Past service costs	**-**	1.5	**-**	0.7
Settlement losses	**0.7**	-	**0.7**	-
Net interest expense	**1.1**	1.7	**0.6**	0.9
Total recognised in Income Statement	**1.8**	3.2	**1.3**	1.6

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.

The table below sets out the remeasurements of retirement benefit obligations which have been recognised within the Statement of Comprehensive Income:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Remeasurements of retirement benefit obligations:				
Actuarial (losses) / gains arising from:				
Experience adjustments	**3.1**	(1.6)	**1.4**	(2.9)
Demographic assumptions	**0.4**	1.1	**0.2**	0.4
Financial assumptions	**8.8**	(38.8)	**5.2**	(21.0)
Impact of asset ceiling	**0.3**	(0.1)	**0.3**	(0.1)
Return on plan assets (excluding amounts included in net interest expense)	**9.7**	16.7	**5.2**	9.3
Total amount recognised in Other Comprehensive Income	**22.3**	(22.7)	**12.3**	(14.3)

The table below sets out the Group's estimate of the aggregate contributions expected to be paid into the schemes during the year ending 31 December 2022, based on the most recent actuarial valuations.

	Group 2022 £m	**Society 2022 £m**
Estimated employer contributions		
Ongoing	**4.6**	**1.7**
Estimated total contributions	**4.6**	**1.7**

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 190. Following completion of the most recent actuarial valuations carried out on the Skipton and Connells Schemes, a new schedule of deficit contributions payable by the Group was agreed with the Trustees. With respect to the Skipton Scheme, the Group agreed to pay £30.0m in lump sums (£9.5m paid in December 2020 and £20.5m paid during 2021), reducing its ongoing deficit contributions to £1.7m per annum. With respect to the Connells Scheme, the Group agreed to pay £20.0m in lump sums during 2021 and to continue its ongoing deficit contributions of £2.9m per annum.

Notes to the Accounts (continued)

31. Pensions (continued)

ii) Retirement benefit surplus

Amounts presented by the Group within retirement benefit surplus relate to the Countrywide Scheme; as noted above, Connells assumed responsibility for this scheme following the acquisition of Countrywide on 8 March 2021. The Countrywide scheme is a well-funded hybrid scheme. As noted in the Strategic Report on page 39, the scheme is expected to progress towards buy-out in the near future.

IAS 19 allows an employer to recognise a surplus as an asset to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme, even if the refunds may only be available at some distant time in the future, such as after the last benefit has been paid. The Countrywide scheme is in surplus on an IAS 19 basis and the amount recognised in the Statement of Financial Position is limited to the asset ceiling. The asset ceiling is the present value of any economic benefits available to the entity in the form of a refund or a reduction in future contributions. The application of the asset ceiling has not impacted the amount of surplus that can be recognised by the Group as at 31 December 2021 in respect of the Countrywide Scheme and therefore the full surplus is recognised.

The table below shows the net pension asset recognised within the Statement of Financial Position:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Fair value of plan assets	**51.8**	-	**-**	-
Present value of defined benefit obligations	**(50.6)**	-	**-**	-
Impact of asset ceiling	**-**	-	**-**	-
Net pension asset	**1.2**	-	**-**	-

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, as described on page 192.

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 surplus shown above is that recognised within the Statement of Financial Position.

The table below sets out a reconciliation of the present value of the defined benefit obligations for the year:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
At 1 January	**-**	-	**-**	-
Acquisition of subsidiary undertaking	**51.6**	-	**-**	-
Interest expense	**0.7**	-	**-**	-
Remeasurement losses / (gains) arising from changes in:				
Scheme experience	**0.7**	-	**-**	-
Financial assumptions	**(0.2)**	-	**-**	-
Actual benefit payments	**(2.2)**	-	**-**	-
At 31 December	**50.6**	-	**-**	-

There have been no settlements, plan amendments or curtailments in the year.

The estimated average duration of the accrued liabilities as at 31 December 2021 is 12 years.

The table below sets out the reconciliation of the fair value of scheme assets for the year:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
At 1 January	**-**	-	**-**	-
Acquisition of subsidiary undertaking	**51.5**	-	**-**	-
Interest income	**0.7**	-	**-**	-
Return on plan assets (excluding amounts included in interest income)	**2.1**	-	**-**	-
Benefits paid	**(2.2)**	-	**-**	-
Expenses paid	**(0.3)**	-	**-**	-
At 31 December	**51.8**	-	**-**	-

The actual return on the scheme assets, including interest income on plan assets, over the year ended 31 December 2021 was £2.8m.

The table below sets out the fair value of the scheme assets by each major category:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Diversified growth fund	**3.6**	-	**-**	-
Liability driven investments	**4.4**	-	**-**	-
Insured pensioners (annuities)	**36.9**	-	**-**	-
Index-linked gilts	**1.4**	-	**-**	-
Other bonds	**4.8**	-	**-**	-
Cash	**0.7**	-	**-**	-
	51.8	-	**-**	-

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group. All of the scheme's assets have a quoted market price with the exception of the annuities.

It is the policy of the Trustee and the Group to review the investment strategy at the time of each funding valuation. The Trustee invests the assets of the scheme in line with the scheme's Statement of Investment Principles.

The scheme is exposed to risks that include the following:

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. The longevity risk of the Scheme has been mitigated by securing a proportion of the Scheme's benefits for members with insurance companies.

Investment / interest rate risk: The Scheme's invested assets include some allocation to growth assets, while for IAS 19 the discount rate relates to corporate bond yields. Therefore, the liabilities and assets may react differently to changes in investment market conditions. The interest rate risk of the Scheme has been mitigated by securing a proportion of the Scheme's benefits for members with insurance companies and investing in LDIs and other bond funds.

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. The inflation risk of the Scheme has been mitigated by securing a proportion of the Scheme's benefits for members with insurance companies and investing in LDIs and other bond funds.

Other risks include risks from resource and environmental issues, pension scheme operational risk, member option risk, pension funding risk and regulatory risk.

Notes to the Accounts (continued)

31. Pensions (continued)

The table below sets out the amounts which have been recognised within the Income Statement. The administration cost is recognised within 'Administrative expenses'.

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Administration cost	0.3	-	-	-
Total recognised in Income Statement	0.3	-	-	-

The table below sets out the remeasurements of retirement benefit obligations which have been recognised within the Statement of Comprehensive Income:

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Remeasurements of retirement benefit obligations:				
Actuarial (losses) / gains arising from:				
Experience adjustments	(0.7)	-	-	-
Financial assumptions	0.2	-	-	-
Return on plan assets (excluding amounts included in net interest expense)	2.1	-	-	-
Total amount recognised in Other Comprehensive Income	1.6	-	-	-

The table below sets out the Group's estimate of the aggregate contributions expected to be paid into the scheme during the year ending 31 December 2022, based on the most recent actuarial valuations.

	Group 2022 £m	Society 2022 £m
Estimated employer contributions	2.0	-

The results of the most recent triennial valuation of the Countrywide scheme are set out on page 190, following completion of which a new schedule of deficit contributions payable by the Group was agreed with the Trustees; in addition to the £2.0m contribution that was paid by the Group in January 2022, the Group agreed to pay future recovery plan contributions of £1.3m in January 2023 and £1.2m in January 2024.

The Group's estimate of the aggregate contributions expected to be paid into the Countrywide Scheme during the year ending 31 December 2022, as set out in the schedule of contributions agreed in 2019 with the Trustees and Countrywide plc, is £2.0m.

32. Subordinated liabilities

	Group and Society 2021 £m	Group and Society 2020 £m
Fixed rate notes:		
Senior non-preferred (SNP) notes 2026	351.7	350.7
	351.7	350.7
Unamortised discount on issue	(0.9)	(0.4)
Fair value adjustment for hedged risk	(14.5)	(0.6)
	336.3	349.7

The fixed rate notes are denominated in Sterling. Coupons are paid on a fixed basis semi-annually.

The notes have a maturity date of 2 October 2026 and an optional redemption date of 2 October 2025; the optional redemption, at 100% of the principal amount plus accrued and unpaid interest to (but excluding) the date of redemption, is subject to conditions including regulatory approval. The note holders' rights are subordinate to those of depositors and other creditors.

Amounts shown in the above table represent the nominal value plus accrued interest, except for 'Unamortised discount on issue' which is the difference between face values and current book values.

Senior non-preferred notes contribute to meeting the Society's MREL requirements.

33. Subscribed capital

	Group and Society 2021 £m	Group and Society 2020 £m
8.500% Sterling Permanent Interest Bearing Shares	15.2	15.2
12.875% Sterling Permanent Interest Bearing Shares	26.4	26.4
	41.6	41.6

All Permanent Interest Bearing Shares are unsecured and rank pari passu with each other. They are deferred shares of the Society and rank behind the claims against the Society of all subordinated note holders, depositors, payables and investing members of the Society. These shares are measured at amortised cost.

34. Cash flows from financing activities

For the purposes of the Statements of Cash Flows, put option obligations, the subsidiary management incentive scheme, lease liabilities, subordinated liabilities and subscribed capital are classified as liabilities arising from financing activities. The table below provides a reconciliation of movements in liabilities arising from financing activities:

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Balance at 1 January	465.1	119.5	403.5	54.1
Changes from financing cash flow:				
Proceeds from issuances	-	348.6	-	348.6
Payments made	(43.3)	(16.9)	(2.7)	(2.4)
Interest paid	(13.6)	(5.9)	(12.0)	(4.8)
Total changes from financing cash flow	(56.9)	325.8	(14.7)	341.4
Changes in fair value	3.2	(0.2)	(13.9)	(0.6)
Liability-related changes:				
Interest expense	13.7	7.6	12.0	6.5
Lease modifications	8.8	3.4	0.1	-
Lease additions	9.6	10.3	1.9	3.2
Lease disposals	(0.4)	(1.5)	-	(1.1)
Leases acquired on acquisition of subsidiaries	76.4	-	-	-
Total liability-related changes	108.1	19.8	14.0	8.6
Other non cash flow changes:				
Unwind of discount	(0.4)	0.2	(0.5)	-
Other	0.9	-	1.0	-
Total other changes	0.5	0.2	0.5	-
Balance at 31 December	520.0	465.1	389.4	403.5

The Group balance at 31 December 2021 in the table above consists of £8.6m (2020: £6.9m) of put option obligations, a £19.1m (2020: £4.4m) subsidiary management incentive scheme liability, £114.4m (2020: £62.5m) of lease liabilities, £336.3m (2020: £349.7m) of subordinated liabilities and £41.6m (2020: £41.6m) of subscribed capital.

The Society balance at 31 December 2021 in the table above consists of £11.5m (2020: £12.2m) of lease liabilities, £336.3m (2020: £349.7m) of subordinated liabilities and £41.6m (2020: £41.6m) of subscribed capital.

Notes to the Accounts (continued)

35. Tax effects relating to each component of other comprehensive income

	Group					
	2021			2020		
	Before- tax amount £m	Tax (expense) / benefit £m	Net-of-tax amount £m	Before-tax amount £m	Tax (expense) / benefit £m	Net-of-tax amount £m
Financial assets held at FVOCI	4.5	(1.1)	3.4	4.5	(1.8)	2.7
Cash flow hedges	26.7	(7.6)	19.1	(16.1)	4.3	(11.8)
Cost of hedging reserve	(0.5)	0.5	-	0.9	(0.1)	0.8
Remeasurements of defined benefit obligations	23.9	(3.1)	20.8	(22.7)	7.1	(15.6)
Translation of foreign operations	(0.4)	-	(0.4)	0.4	-	0.4
Other comprehensive income	54.2	(11.3)	42.9	(33.0)	9.5	(23.5)

	Society					
	2021			2020		
	Before- tax amount £m	Tax (expense) / benefit £m	Net-of-tax amount £m	Before-tax amount £m	Tax (expense) / benefit £m	Net-of-tax amount £m
Financial assets held at FVOCI	2.0	(1.0)	1.0	5.2	(2.0)	3.2
Cash flow hedges	19.7	(5.4)	14.3	(14.0)	3.8	(10.2)
Cost of hedging reserve	-	-	-	-	(1.4)	(1.4)
Remeasurements of defined benefit obligations	12.3	(2.2)	10.1	(14.3)	4.7	(9.6)
Other comprehensive income	34.0	(8.6)	25.4	(23.1)	5.1	(18.0)

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.

37. Derivative financial instruments

The Group uses derivative financial instruments (derivatives) to manage the risks arising from its operations.

The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks in accordance with Section 9A(4) of the Building Societies Act 1986 and derivatives are used by the Group for economic hedging purposes only. The Group does not run a trading book.

The principal derivatives used by the Group are interest rate swaps, index swaps and cross currency swaps that are used to hedge Group exposures arising from fixed rate lending and savings products, funding and investment activities. The accounting policies for derivatives are described in note 1e) to the Accounts.

For the purpose of assessing hedge effectiveness, the Group determines the economic relationship between the hedged item and the hedging instrument by comparing the terms of each item, including reference rate, notional amount and maturity.

Risk management strategy

The Group has a formal structure for managing risk, including established risk limits, reporting requirements, mandates and other control procedures. This structure is reviewed regularly by the Asset & Liability Committee (ALCO).

Interest rate risk

The main market risk faced by the Group is interest rate risk. Interest rate risk is the risk that the fair values of financial assets or financial liabilities, or future cash flows receivable or payable on financial assets or financial liabilities, fluctuate as a result of changes in market interest rates.

Interest rate risk predominantly arises on the fixed rate mortgages and savings products offered by the Group. Further detail on the Group's exposure to interest rate risk is found in note 39.

The Group uses the following derivatives to hedge its exposure to interest rate risk:

Fair value hedges of interest rate risk

Portfolio hedging

The Group manages the interest rate risk arising from fixed rate mortgages and savings by entering into swaps on a frequent basis. The level of exposure from the mortgage portfolio frequently changes due to new loans being originated, contractual customer repayments and early customer repayments. As a result, the Group adopts a dynamic hedging strategy to hedge the interest rate risk component within the exposure profile by entering into new swap agreements each month. The Group uses a portfolio of fair value hedges of interest rate risk to recognise fair value changes related to changes in interest rate risk on fixed rate mortgages and savings products, to therefore reduce the profit or loss volatility that would otherwise occur from changes in the fair value of the interest rate swaps alone.

The hedge relationship is reassessed prospectively each month in order that the ratio between the notional value of the hedged items and the notional value of the hedging instruments is recalibrated to be close to 100%, thereby reducing hedge ineffectiveness.

Occasionally hedge ineffectiveness can arise, i.e. the derivative fails to hedge the interest rate risk to the extent that is expected. The Group assesses hedge ineffectiveness on an ongoing basis. Where the Group assesses that the hedge relationship has changed to such an extent that the existing hedge ratio is no longer suitable, the hedging relationship would be rebalanced to ensure hedge effectiveness.

The main sources of ineffectiveness in fair value hedges of interest rate risk are:

- Differences between the expected and actual volume of customer prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- Differences in the timing of cash flows from the mortgage loans and the interest rate swaps; and
- Differences in the maturities of the interest rate swap and the mortgage loans.

Micro hedging

Fair value hedge relationships are also designated for hedging the interest rate risk component arising from the Group's liquidity portfolio and Medium Term Note (MTN) liabilities. For these items, a hedge is taken out specifically for the individual asset or liability, and therefore critical terms of the hedged item and hedging instrument match. Where critical terms match, the fair value adjustment on the hedged item offsets exactly the change in fair value of the hedging instrument.

The Group assesses all of its micro fair value hedges of interest rate risk to have a hedge effectiveness ratio of 100%, as all derivatives hedge an amount of underlying instrument equal to the notional amount.

Hedge ineffectiveness could potentially arise if amendments were made to either the hedged item or the hedging instrument, or if there were significant changes in the credit rating of the hedged item or hedging instrument's counterparties; the Group has assessed the likelihood of this to be low.

Cash flow hedges of interest rate risk

The Group also has exposure to interest rate risk arising from its free reserves portfolio, which is composed of reserves held in excess of required reserves. The Group uses derivatives to hedge this risk component and accounts for these derivatives as cash flow hedges against variable rate instruments. The aim of cash flow hedging is to reduce the exposure to variability in cash flows arising from a financial asset or liability. The variable rate on the hedging instrument, i.e. the swap, offsets the hedged items, which are SONIA-linked financial assets or liabilities.

Hedge ineffectiveness for cash flow hedges is assessed using the 'hypothetical derivative' method and ineffectiveness has been assessed as £nil (2020: £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 a cross-currency swap agreement to hedge the foreign currency risk and interest rate risk components arising from the Society's Euro covered bond issuances. Fixed rate Euro-denominated receipts are swapped to floating rate Sterling payments through these derivatives. The derivative is entered into by the LLP, with the hedged item being the term advance from the Society to the LLP, which mirrors the bond issued by the Society, effectively hedging the debt issued by the Society. Foreign currency basis spread is priced into the derivative but is excluded from the hedging relationship and any gain or loss arising from this is recognised directly in reserves in the cost of hedging reserve, as permitted by IFRS 9.

Notes to the Accounts (continued)

37. Derivative financial instruments (continued)

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 202 to 206. Further information on the derivatives held to hedge this portfolio can be found on page 167.

Other derivatives not held in an accounting hedge

Certain other derivatives cannot be accounted for in a fair value or cash flow hedge as the economic hedging relationship does not meet the criteria set out by IFRS 9. These derivatives are held at FVTPL and their change in fair value is included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Hedging instruments and hedged items' line in the Income Statement.

Hedging instruments

The following table sets out the maturity profile and average price and rate of the hedging instruments used in the Group's hedge accounting strategies.

Group	2021				2020			
	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)	-	-	1,423.0	30.0	-	-	671.0	321.0
Weighted average fixed interest rate (%)	-	-	0.3%	0.8%	-	-	0.0%	0.1%
Fair value hedges								
Interest rate swaps								
Notional (£m)	1,230.6	6,036.2	14,351.7	888.3	1,659.5	5,365.8	12,535.2	356.0
Weighted average fixed interest rate (%)	0.6%	0.4%	0.5%	0.7%	0.8%	0.7%	0.6%	0.4%
Cross currency swaps								
Notional (£m)	-	-	891.6	-	-	-	891.6	-
Weighted average fixed interest rate (%)	-	-	0.26%	-	-	-	0.3%	-

Society	2021				2020			
	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)	-	-	1,644.2	30.0	-	115.0	857.8	325.0
Weighted average fixed interest rate (%)	-	-	0.4%	0.8%	-	0.0%	0.0%	0.1%
Fair value hedges								
Interest rate swaps								
Notional (£m)	1,365.5	6,171.9	15,250.3	890.5	1,716.9	5,545.4	13,440.0	361.6
Weighted average fixed interest rate (%)	0.6%	0.4%	0.5%	0.7%	0.8%	0.7%	0.6%	0.5%

The table below provides further detail on the Group's fair value hedges used in hedge accounting relationships:

2021		Carrying amount (note 1)		Change in fair value (charge) / credit (note 2)	Hedge ineffectiveness charge (note 3)
	Notional	Assets	Liabilities		
Group	**£m**	**£m**	**£m**	**£m**	**£m**
Interest rate swaps	**22,506.8**	**195.5**	**(66.9)**	**342.8**	**5.0**
Cross currency swaps	**891.6**	**-**	**(54.5)**	**(66.0)[4]**	**0.1**
Society					
Interest rate swaps	**23,678.2**	**199.9**	**(75.7)**	**316.7**	**5.2**
2020					
Group					
Interest rate swaps	19,916.5	42.2	(256.4)	(137.1)	(0.8)
Cross currency swaps	891.6	12.0	-	52.8[4]	-
Society					
Interest rate swaps	21,063.9	64.9	(257.4)	(122.2)	(1.2)

Notes

1. The Statement of Financial Position lines that includes these items are 'Derivative financial instruments'.
2. The change in fair value during the period that was used as the basis for calculating hedge ineffectiveness and which was recognised in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Hedging instruments and hedged items' line in the Income Statement.
3. The amount of hedge ineffectiveness recognised in the Income Statement during the period. The Income Statement line that includes the hedge ineffectiveness recognised during the period is 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Hedging instruments and hedged items'.
4. In addition, £0.5m of fair value losses (2020: £0.9m gains) 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.

2021		Carrying amount (note 1)		Change in fair value (charge) / credit (note 2)	Gains reclassified from OCI to Income Statement
	Notional	Assets	Liabilities		
Group	**£m**	**£m**	**£m**	**£m**	**£m**
Interest rate swaps	**1,453.0**	**23.9**	**(11.1)**	**13.8**	**(0.1)**
Society					
Interest rate swaps	**1,674.2**	**24.1**	**(16.3)**	**7.7**	**(0.1)**
2020					
Group					
Interest rate swaps	992.0	0.3	(1.3)	(5.7)	3.2
Society					
Interest rate swaps	1,297.8	1.4	(1.3)	(4.0)	3.2

Notes

1. The Statement of Financial Position lines that includes these items are 'Derivative financial instruments'.
2. The change in fair value during the period that was used as the basis for calculating hedge ineffectiveness and is recognised within the 'Movement in cashflow hedging reserve: (Losses) / gains taken to equity' line of the Statement of Comprehensive Income.

There was no hedge ineffectiveness recognised during either 2021 or 2020 in respect of the Group or Society's cashflow hedges.

Notes to the Accounts (continued)

37. Derivative financial instruments (continued)

Hedged items

The tables below provide further detail on the Group's hedged items:

Group 2021	Carrying amount Assets £m	Carrying amount Liabilities £m	Fair value adjustments on hedged item (note 1) £m	SOFP line	Change in fair value credit / (charge) (note 2) £m	Amount remaining on items de-designated from hedge relationship (note 3) £m
Cash flow hedges						
Floating rate assets	778.6	-	n/a	Note 4	n/a	(6.9)
Floating rate liabilities	-	674.4	n/a	Note 5	n/a	0.2
Fair value hedges						
Fixed rate mortgages	16,492.3	-	(196.5)	Note 6	(348.7)	-
Debt securities	872.4	-	(21.8)	Note 4	(34.6)	-
Fixed rate savings	-	6,246.3	(54.8)	Note 7	59.4	-
Covered bonds	-	792.6	(49.4)	Note 5	66.0	-
Debt securities in issue	-	66.8	-	Note 5	0.6	-
Subordinated liabilities	-	351.7	(14.5)	Note 5	13.9	-

Group 2020	Carrying amount Assets £m	Carrying amount Liabilities £m	Fair value adjustments on hedged item (note 1) £m	SOFP line	Change in fair value credit / (charge) (note 2) £m	Amount remaining on items de-designated from hedge relationship (note 3) £m
Cash flow hedges						
Floating rate assets	154.2	-	n/a	note 4	n/a	(20.9)
Floating rate liabilities	-	837.8	n/a	note 5	n/a	1.1
Fair value hedges						
Fixed rate mortgages	13,239.9	-	152.2	note 6	94.5	-
Debt securities	901.1	-	12.8	note 4	10.1	-
Fixed rate savings	-	3,647.9	4.6	note 7	(2.3)	-
Covered bonds	-	915.0	16.6	note 5	(52.2)	-
Debt securities in issue	-	66.5	0.6	note 5	(1.0)	-
Subordinated liabilities	-	350.7	(0.6)	note 8	0.6	-

Society 2021	Carrying amount Assets £m	Carrying amount Liabilities £m	Fair value adjustments on hedged item (note 1) £m	SOFP line	Change in fair value credit / (charge) (note 2) £m	Amount remaining on items de-designated from hedge relationship (note 3) £m
Cash flow hedges						
Floating rate assets	788.4	-	n/a	Note 4	n/a	(7.0)
Floating rate liabilities	-	885.8	n/a	Note 5	n/a	1.4
Fair value hedges						
Fixed rate mortgages	16,492.3	-	(182.3)	Note 6	(334.0)	-
Debt securities	872.4	-	(21.8)	Note 4	(34.6)	-
Fixed rate savings	-	6,375.7	(43.3)	Note 7	63.2	-
Debt securities in issue	-	66.8	-	Note 5	0.6	-
Subordinated liabilities	-	351.7	(14.5)	Note 5	13.9	-

Society 2020	Carrying amount Assets £m	Carrying amount Liabilities £m	Fair value adjustments on hedged item (note 1) £m	SOFP line	Change in fair value credit / (charge) (note 2) £m	Amount remaining on items de-designated from hedge relationship (note 3) £m
Cash flow hedges						
Floating rate assets	330.0	-	n/a	note 4	n/a	(20.9)
Floating rate liabilities	-	967.8	n/a	note 5	n/a	3.2
Fair value hedges						
Fixed rate mortgages	13,394.7	-	151.7	note 6	100.1	-
Debt securities	901.1	-	12.8	note 4	10.1	-
Fixed rate savings	-	4,640.4	19.9	note 7	(19.7)	-
Debt securities in issue	-	66.5	0.6	note 5	(1.0)	-
Subordinated liabilities	-	350.7	(0.6)	note 8	0.6	-

Notes

1. Fair value adjustments on hedged items are included within the Statement of Financial Position as adjustments to the relevant SOFP line; see below notes for details.
2. The change in fair value during the period that is used as the basis for calculating hedge ineffectiveness and is recognised within the 'Movement in cashflow hedging reserve: (Losses) / gains taken to equity' line of the Statement of Comprehensive Income.
3. The accumulated amount of fair value hedge adjustments remaining (in the Statement of Financial Position for fair value hedges; in the cash flow hedging reserve for cash flow hedges) for any hedged items that have ceased to be adjusted for hedging gains and losses.
4. The Statement of Financial Position line that includes these items is 'Debt securities'.
5. The Statement of Financial Position line that includes these items is 'Debt securities in issue'.
6. The Statement of Financial Position line that includes these items is 'Loans and advances to customers'.
7. The Statement of Financial Position line that includes these items is 'Shares' and 'Amounts owed to other customers' in Group and 'Shares' in Society.
8. The Statement of Financial Position line that includes these items is 'Subordinated liabilities'.

Notes to the Accounts (continued)

37. Derivative financial instruments (continued)

Group 2021	Notional £m	Carrying amount Assets £m	Liabilities £m	Change in fair value recognised in OCI: credit / (charge) £m	Amount reclassified from OCI to Income Statement £m
Cross currency swaps	891.6	-	(54.5)	(0.5)	-
2020					
Cross currency swaps	891.6	12.0	-	0.9	-

The table below provides an analysis of amounts recognised in other comprehensive income resulting from hedge accounting during the period:

Group	2021 Cash flow hedging reserve £m	Cost of hedging reserve £m	Total £m	2020 Cash flow hedging reserve £m	Cost of hedging reserve £m	Total £m
Balance at 1 January	(15.1)	(3.5)	(18.6)	(3.3)	(4.3)	(7.6)
Change in fair value of derivatives in effective hedging relationships:						
Held to hedge interest rate risk	13.6	(0.5)	13.1	(4.3)	0.9	(3.4)
Net amounts reclassified to profit or loss from derivatives:						
Held to hedge interest rate risk	13.1	-	13.1	(11.8)	-	(11.8)
Tax on movements in reserves during the period	(7.6)	0.5	(7.1)	4.3	(0.1)	4.2
Balance at 31 December	4.0	(3.5)	0.5	(15.1)	(3.5)	(18.6)

Society	2021 Cash flow hedging reserve £m	Cost of hedging reserve £m	Total £m	2020 Cash flow hedging reserve £m	Cost of hedging reserve £m	Total £m
Balance at 1 January	(12.9)	-	(12.9)	(2.7)	1.4	(1.3)
Change in fair value of derivatives in effective hedging relationships:						
Held to hedge interest rate risk	7.6	-	7.6	(2.9)	-	(2.9)
Net amounts reclassified to profit or loss from derivatives:						
Held to hedge interest rate risk	12.1	-	12.1	(11.1)	-	(11.1)
Tax on movements in reserves during the period	(5.4)	-	(5.4)	3.8	(1.4)	2.4
Balance at 31 December	1.4	-	1.4	(12.9)	-	(12.9)

Interest rate benchmark reform (IBOR reform)

In 2020, the Group early adopted *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*. These amendments relate to the reporting of financial assets and liabilities in the period in which the interest rate benchmark is replaced.

The Group has no outstanding exposure to the benchmark interest rate LIBOR, having used other benchmarks for hedging purposes for a number of years and also having carried out an exercise to close out existing LIBOR interest rate swaps for its mortgage and savings products. There is also no wholesale funding issuance or bonds in the liquidity portfolio that references LIBOR. A small portfolio of LIBOR mortgages had their last rate fixing in the final quarter of 2021 and become Bank Base Rate tracker mortgages at their natural rate fixing date in the first quarter of 2022.

As a result, the project that was established to manage the transition has now closed.

38. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost. It is an inherent part of the Group's business as long term mortgages are funded mainly by shorter term retail customer balances. Mortgages can have a contractual maturity date of, for example, 25 years but in practice are frequently repaid early; conversely retail deposits, nominally repayable on demand or with short notice periods, frequently remain with the Group beyond their contractual notice. It is this mismatch in the maturity profiles of retail assets and liabilities that creates liquidity risk.

The Group's liquidity policy is designed to ensure the maintenance of sufficient liquid assets to cover statutory, regulatory and operational requirements. This is achieved through maintaining a sufficient level of liquid assets in realisable form to ensure the Group is able to meet its liabilities as they arise and to absorb potential cash flow requirements created by the maturity mismatches referred to above or by a liquidity stress scenario. ALCO manages liquidity under delegated authority, within risk appetite limits established by the Board, and also monitors the composition of liquidity in line with risk management objectives.

The Group's liquidity is managed as follows:

- the Board establishes limits over the quantity and quality of the Group's portfolio of liquid assets. The portfolio is managed by the Treasury function, monitored by the Market & Liquidity Risk function and overseen by ALCO under a series of delegated authorities;
- the Group's Market & Liquidity Risk function conducts a series of daily, weekly and monthly stress tests that are designed to ensure that the Group's liquidity is sufficient to meet its cash flow needs under any one of a number of adverse scenarios should they arise. The scenarios include both Group specific and general market events, and incorporate both severe retail savings outflows and the unavailability of wholesale funding; and
- under the Regulatory liquidity regime, the Group is required to hold highly liquid assets (such as government and supranational debt securities and cash) to satisfy the Liquidity Coverage Ratio (LCR).

There are two measures that the Group considers key to monitoring its liquidity position:

- LCR – which analyses daily the amount of high quality liquidity that it is necessary to hold; and
- liquidity stress tests – whereby, as noted above, the Group models how far its liquid asset holdings would fall under a number of different stress scenarios.

Notes to the Accounts (continued)

38. Liquidity risk (continued)

The tables below analyse the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining maturity period at the reporting date to the contractual maturity. In practice, customer deposits, i.e. shares, amounts owed to credit institutions and amounts owed to other customers, are likely to be repaid later than on the earliest date on which repayment can be required.

Group				**2021**			
	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	2,345.8	-	-	-	-	87.8	**2,433.6**
Loans and advances to credit institutions	134.7	3.9	0.3	0.3	-	329.5	**468.7**
Debt securities	-	159.0	468.6	1,190.0	375.6	-	**2,193.2**
Derivative financial instruments	-	1.5	7.4	189.8	29.2	-	**227.9**
Loans and advances to customers held at amortised cost	116.2	32.2	54.3	662.6	22,159.5	-	**23,024.8**
Loans and advances to customers held at FVTPL	1.2	-	-	-	-	-	**1.2**
Equity release portfolio at FVTPL	-	3.0	12.5	63.5	327.6	-	**406.6**
Equity share investments at FVTPL	-	-	-	-	-	1.7	**1.7**
Equity share investments at FVOCI	-	-	-	-	-	8.5	**8.5**
Trade receivables	35.0	36.1	-	-	-	-	**71.1**
Contingent consideration	-	-	6.3	-	-	-	**6.3**
Share warrants	11.0	-	-	-	-	-	**11.0**
Other assets	-	8.2	-	-	-	-	**8.2**
Total financial assets	**2,643.9**	**243.9**	**549.4**	**2,106.2**	**22,891.9**	**427.5**	**28,862.8**
Liabilities							
Shares	5,290.9	11,461.4	1,367.3	1,627.6	12.6	-	**19,759.8**
Amounts owed to credit institutions	27.6	27.4	146.8	2,000.6	1.0	-	**2,203.4**
Amounts owed to other customers	691.8	640.0	827.0	90.4	-	-	**2,249.2**
Debt securities in issue	-	0.1	71.6	2,146.4	-	-	**2,218.1**
Derivative financial instruments	-	8.1	18.4	154.4	111.2	-	**292.1**
Lease liabilities	-	4.9	22.0	70.6	16.9	-	**114.4**
Trade payables	-	14.7	-	-	-	-	**14.7**
Fair value of put option obligation	-	-	7.5	1.1	-	-	**8.6**
Subordinated liabilities	-	-	-	336.3	-	-	**336.3**
Subscribed capital	-	-	-	-	-	41.6	**41.6**
Total financial liabilities	**6,010.3**	**12,156.6**	**2,460.6**	**6,427.4**	**141.7**	**41.6**	**27,238.2**
Net liquidity gap	**(3,366.4)**	**(11,912.7)**	**(1,911.2)**	**(4,321.2)**	**22,750.2**	**385.9**	**1,624.6**

Group				2020 Re-presented*			
	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	3,165.9	-	-	-	-	71.9	3,237.8
Loans and advances to credit institutions	149.6	1.6	-	-	-	573.5	724.7
Debt securities	-	138.0	74.2	1,066.5	226.3	-	1,505.0
Derivative financial instruments	-	4.7	5.7	45.0	8.7	-	64.1
Loans and advances to customers held at amortised cost	81.3	22.9	49.4	598.3	21,113.1	-	21,865.0
Loans and advances to customers held at FVTPL	1.3	-	-	-	-	-	1.3
Equity release portfolio at FVTPL	-	3.3	12.7	60.4	357.4	-	433.8
Equity share investments at FVTPL	-	-	-	-	-	1.7	1.7
Trade receivables	16.4	11.4	-	-	-	-	27.8
Contingent consideration	-	-	6.4	5.9	-	-	12.3
Share warrants	6.5	-	-	-	-	-	6.5
Other assets	-	1.4	-	-	-	-	1.4
Total financial assets	3,421.0	183.3	148.4	1,776.1	21,705.5	647.1	27,881.4
Liabilities							
Shares	5,139.9	9,086.8	3,356.8	1,116.3	9.6	-	18,709.4
Amounts owed to credit institutions	24.0	22.0	252.9	1,850.3	-	-	2,149.2
Amounts owed to other customers	558.4	529.1	869.8	173.0	-	-	2,130.3
Debt securities in issue	-	64.9	2.0	2,385.6	-	-	2,452.5
Derivative financial instruments	-	7.6	36.3	253.1	148.9	-	445.9
Lease liabilities	-	4.0	9.9	36.7	11.9	-	62.5
Trade payables	-	4.7	-	-	-	-	4.7
Fair value of put option obligation	-	-	1.3	5.6	-	-	6.9
Subordinated liabilities	-	-	-	349.7	-	-	349.7
Subscribed capital	-	-	-	-	-	41.6	41.6
Total financial liabilities	5,722.3	9,719.1	4,529.0	6,170.3	170.4	41.6	26,352.7
Net liquidity gap	(2,301.3)	(9,535.8)	(4,380.6)	(4,394.2)	21,535.1	605.5	1,528.7

* Following a review of the maturity presentation for items with no specified contractual maturity, certain amounts which were previously allocated to maturity periods based on management judgement are now correctly re-presented as 'no specified maturity'. Previously these balances were presented as 'repayable on demand' or, for Equity share investments at FVTPL and for Subscribed capital, as 'over 5 years'. There is no impact on total amounts presented.

Notes to the Accounts (continued)

38. Liquidity risk (continued)

Society	2021						
	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	2,345.8	-	-	-	-	87.8	**2,433.6**
Loans and advances to credit institutions	47.0	-	-	-	-	339.4	**386.4**
Debt securities	-	139.0	423.5	1,195.4	375.6	-	**2,133.5**
Derivative financial instruments	-	1.9	7.8	193.7	26.3	-	**229.7**
Loans and advances to customers held at amortised cost	2.1	31.2	53.3	642.4	20,459.2	-	**21,188.2**
Loans and advances to customers held at FVTPL	1.2	-	-	-	-	-	**1.2**
Equity release portfolio at FVTPL	-	3.0	12.5	63.5	327.6	-	**406.6**
Loans to subsidiary undertakings	257.0	-	-	-	-	-	**257.0**
Trade receivables	1.1	0.4	-	-	-	-	**1.5**
Total financial assets	**2,654.2**	**175.5**	**497.1**	**2,095.0**	**21,188.7**	**427.2**	**27,037.7**
Liabilities							
Shares	5,290.9	11,461.4	1,367.3	1,627.6	2.1	-	**19,749.3**
Amounts owed to credit institutions	27.6	225.2	146.8	2,000.6	-	-	**2,400.2**
Amounts owed to other customers	202.3	97.1	11.5	445.6	-	-	**756.5**
Debt securities in issue	-	-	71.6	1,839.7	-	-	**1,911.3**
Derivative financial instruments	-	8.2	18.4	113.9	111.2	-	**251.7**
Lease liabilities	-	0.6	1.7	6.8	2.4	-	**11.5**
Trade payables	-	0.1	-	-	-	-	**0.1**
Subordinated liabilities	-	-	-	336.3	-	-	**336.3**
Subscribed capital	-	-	-	-	-	41.6	**41.6**
Total financial liabilities	**5,520.8**	**11,792.6**	**1,617.3**	**6,370.5**	**115.7**	**41.6**	**25,458.5**
Net liquidity gap	**(2,866.6)**	**(11,617.1)**	**(1,120.2)**	**(4,275.5)**	**21,073.0**	**385.6**	**1,579.2**

Society	2020 Re-presented*						
	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	3,165.9	-	-	-	-	71.9	3,237.8
Loans and advances to credit institutions	41.7	-	-	-	-	573.3	615.0
Debt securities	-	189.4	74.2	1,217.8	226.3	-	1,707.7
Derivative financial instruments	-	5.0	6.4	55.4	9.1	-	75.9
Loans and advances to customers held at amortised cost	0.5	17.2	39.6	514.0	19,058.2	-	19,629.5
Loans and advances to customers held at FVTPL	1.3	-	-	-	-	-	1.3
Equity release portfolio at FVTPL	-	3.3	12.7	60.4	357.4	-	433.8
Loans to subsidiary undertakings	731.3	-	-	-	-	-	731.3
Trade receivables	1.3	0.5	-	-	-	-	1.8
Total financial assets	3,942.0	215.4	132.9	1,847.6	19,651.0	645.2	26,434.1
Liabilities							
Shares	5,144.2	9,094.4	3,359.7	1,117.3	9.6	-	18,725.2
Amounts owed to credit institutions	46.3	389.2	252.9	1,850.4	-	-	2,538.8
Amounts owed to other customers	202.4	212.6	14.0	568.0	-	-	997.0
Debt securities in issue	-	7.1	2.0	1,967.6	-	-	1,976.7
Derivative financial instruments	-	7.8	37.0	253.3	144.4	-	442.5
Lease liabilities	-	0.6	1.7	6.8	3.1	-	12.2
Trade payables	-	2.1	-	-	-	-	2.1
Subordinated liabilities	-	-	-	349.7	-	-	349.7
Subscribed capital	-	-	-	-	-	41.6	41.6
Total financial liabilities	5,392.9	9,713.8	3,667.3	6,113.1	157.1	41.6	25,085.8
Net liquidity gap	(1,450.9)	(9,498.4)	(3,534.4)	(4,265.5)	19,493.9	603.6	1,348.3

* Following a review of the maturity presentation for items with no specified contractual maturity, certain amounts which were previously allocated to maturity periods based on management judgement are now correctly re-presented as 'no specified maturity'. Previously these balances were presented as 'repayable on demand' or, for Subscribed capital, as 'over 5 years'. There is no impact on total amounts presented.

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.

Group debt securities in issue include £305.4m (2020: £465.0m) of funding obtained through the Group's securitisation issuances carried out through Darrowby No. 5 plc (and in 2020 Darrowby No. 4 plc). The final maturity dates of the securitisation notes are significantly out into the future, however the Group can exercise call options to repurchase the outstanding notes at dates within the next 5 years and these are expected to be exercised. As a result, all such amounts have been shown within less than 5 years in the tables above. The final maturity date of the subordinated liabilities is six years from the date of issue, however the Group can call to repurchase the outstanding debt at five years, when this is expected to be exercised. As a result, such amounts have also been shown within less than 5 years in the table above.

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	2021				
	Up to 3 months £m	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Shares	16,752.3	1,371.9	1,658.4	12.6	**19,795.2**
Amounts owed to credit institutions, other customers and debt securities in issue	1,288.3	1,094.7	4,350.7	-	**6,733.7**
Derivative financial instruments	17.0	57.0	248.0	175.8	**497.8**
Lease liabilities	5.2	23.4	73.4	22.6	**124.6**
Trade payables	14.7	-	-	-	**14.7**
Fair value of put option obligation	-	7.7	1.1	-	**8.8**
Subordinated liabilities	-	7.0	371.0	-	**378.0**
Subscribed capital	1.6	2.9	18.0	see note	**22.5**
	18,079.1	**2,564.6**	**6,720.6**	**211.0**	**27,575.3**

Group	2020 Re-presented (see note)				
	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Shares	14,239.6	3,375.8	1,150.0	9.6	18,775.0
Amounts owed to credit institutions, other customers and debt securities in issue	1,233.9	1,130.3	4,428.2	-	6,792.4
Derivative financial instruments	22.7	84.4	187.0	165.1	459.2
Lease liabilities	4.0	10.8	38.0	17.6	70.4
Trade payables	4.7	-	-	-	4.7
Fair value of put option obligation	-	1.3	5.7	-	7.0
Subordinated liabilities	-	7.0	378.0	-	385.0
Subscribed capital	1.6	2.9	18.0	see note	22.5
	15,506.5	4,612.5	6,204.9	192.3	26,516.2

Note

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 208 and 209), it is not possible to calculate the total amount of undiscounted gross interest that is payable beyond 5 years (i.e. into perpetuity); the comparative amounts shown above for the year ended 31 December 2020 have therefore been re-presented on this basis (the amount previously reported as payable 'over 5 years' was £44.9m). 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 211 are exercised.

The final maturity date of the subordinated debt is October 2026; however, the Group has an option to exercise call options to repurchase the outstanding notes in October 2025. As a result, all such amounts have been shown within less than 5 years in the tables above.

The Group has off-balance sheet exposure from commitments to lend where a mortgage has been offered but not yet completed. The total amount of such loan commitments at 31 December 2021 is £1,647.9m (2020: £1,382.3m) which are due within 3 months.

Society	2021				
	Up to 3 months £m	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Shares	16,752.3	1,371.9	1,658.4	2.1	**19,784.7**
Amounts owed to credit institutions, other customers and debt securities in issue	527.3	276.2	4,323.0	-	**5,126.5**
Derivative financial instruments	15.9	36.4	71.4	107.6	**231.3**
Lease liabilities	0.7	1.9	7.2	2.5	**12.3**
Trade payables	0.1	-	-	-	**0.1**
Subordinated liabilities	-	7.0	371.0	-	**378.0**
Subscribed capital	1.6	2.9	18.0	see note	**22.5**
	17,297.9	**1,696.3**	**6,449.0**	**112.2**	**25,555.4**

Society	2020 Re-presented (see note)				
	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Shares	14,239.6	3,375.8	1,150.0	9.6	18,775.0
Amounts owed to credit institutions, other customers and debt securities in issue	867.4	274.0	4,399.2	-	5,540.6
Derivative financial instruments	24.8	86.6	197.8	165.4	474.6
Lease liabilities	0.6	1.8	7.3	3.1	12.8
Trade payables	2.1	-	-	-	2.1
Subordinated liabilities	-	7.0	378.0	-	385.0
Subscribed capital	1.6	2.9	18.0	see note	22.5
	15,136.1	3,748.1	6,150.3	178.1	25,212.6

Note

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 210 and 211), it is not possible to calculate the total amount of undiscounted gross interest that is payable beyond 5 years (i.e. into perpetuity); the comparative amounts shown above for the year ended 31 December 2020 have therefore been re-presented on this basis (the amount previously reported as payable 'over 5 years' was £44.9m). 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 211 are exercised.

The final maturity date of the subordinated liabilities is October 2026; however, the Society has an option to exercise call options to repurchase the outstanding notes in October 2025. As a result, all such amounts have been shown within less than 5 years in the tables above.

The Society has off-balance sheet exposure from commitments to lend where a mortgage has been offered but not yet completed. The total amount of such loan commitments at 31 December 2021 is £1,574.1m (2020: £1,331.8m) which are due within 3 months.

Notes to the Accounts (continued)

39. Market risk

Market risk is the risk that the value of, or income arising from, the Group's assets and liabilities changes as a result of changes in market prices, the principal elements being interest rate risk (including the use of derivatives) and foreign currency risk.

The Group's Treasury function is responsible for managing the Group's exposure to all aspects of market risk within the operational limits set out in the Group's Treasury policy, which is reviewed and recommended by ALCO and approved by the Board. The Group's Market & Liquidity Risk function measures and monitors adherence to the Treasury policy and reports regularly on all aspects of market risk exposure, including interest rate risk and foreign currency risk.

a) Interest rate risk

The main market risk faced by the Group is interest rate risk.

The Group uses a number of different metrics to monitor interest rate risk and details of these are set out below.

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

Other interest rate risk metrics employed by the Group incorporate earnings-at-risk and market value methodologies. The market value exposure position is calculated using at least 250 monthly yield curve movements from, approximately, the last seven years. The earnings-at-risk methodology is calculated using at least 100 stochastically (randomly) generated rate paths. Both of these approaches employ 95% confidence intervals. The outputs of these interest rate risk measurement methodologies are compared to their respective Board limits and operational triggers at least weekly and are reported to ALCO and the Board monthly. All these measures are used to guide interest rate risk management decisions.

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 2021 £m	**Average 2021 £m**	**High 2021 £m**	**Low 2021 £m**	As at 31 December 2020 £m
Static earnings-at-risk	**3.8**	**4.0**	**15.0**	**0.4**	0.4
Historical value-at-risk	**1.2**	**3.5**	**5.1**	**1.2**	1.1
2% parallel interest rate shift	**7.0**	**13.8**	**28.6**	**0.6**	1.2

Although these measures provide valuable insights into the market risk to which the Group is exposed, they need to be viewed in the context of the following limitations:

- Historical data is not necessarily the best guide to future events, but is a reasonable proxy;
- The use of 95% confidence levels, by definition, does not take account of changes that may occur beyond this level of confidence and therefore may not fully take into account the most extreme events; and
- Exposures are calculated on static Statement of Financial Position positions and therefore future changes in the structure of the Statement of Financial Position are ignored.

Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics, for example SONIA and Bank of England Base Rate), are also monitored closely and regularly reported to ALCO.

b) Currency risk

The currency risk appetite of the Group is low and any funding issues denominated in foreign currency are immediately swapped into Sterling.

The Group has two regulated covered bonds in Euros totalling €1,000m (2020: two bonds, €1,000m). The exposure to foreign currency fluctuations on these bonds are fully hedged as derivative contracts were taken out to swap the Euros into Sterling on issuance of the bonds.

The Group has investments in its subsidiary undertakings Jade Software Corporation Limited and Northwest Investments NZ Limited, which are denominated in New Zealand Dollars. The foreign currency fluctuations in relation to these investments are not hedged and are recognised in the Group's translation reserve.

In addition, a number of the Group's businesses undertake transactions denominated in foreign currency as part of their normal business. Any amounts outstanding at 31 December 2021 are not material.

c) Other price risk

The Group also has exposure to market risk arising from the movement in the Retail Price Index and house price indices. In particular, movements in these indices impact on the valuation of the equity release portfolio, as outlined further on page 150.

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 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 £183.2m (2020: £152.2m debit) for the Group and £182.3m (2020: £151.7m debit) 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 2021 is £1,647.9m (2020: £1,382.3m) for the Group and £1,574.1m (2020: £1,331.8m) for the Society and the impairment loss allowance held against these commitments is £0.1m (2020: £0.1m) 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.

Notes to the Accounts (continued)

40. Credit risk (continued)

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 (see note 17b)(v)). 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.

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	**2021**				
	Gross carrying amount	**ECL allowance (note 14)**	**Fair value adjustment for hedged risk**	**Carrying amount**	
	£m	**£m**	**£m**	**£m**	**%**
Residential mortgages	**22,855.2**	**(10.9)**	**(183.2)**	**22,661.1**	**98.4**
Loans fully secured on land^	**195.0**	**(16.2)**	**-**	**178.8**	**0.8**
Other lending:					
Debt factoring advances	**120.5**	**(1.0)**	**-**	**119.5**	**0.5**
Other loans	**65.4**	**-**	**-**	**65.4**	**0.3**
	23,236.1	**(28.1)**	**(183.2)**	**23,024.8**	**100.0**

Group	2020				
	Gross carrying amount	ECL allowance (note 14)	Fair value adjustment for hedged risk	Carrying amount	
	£m	£m	£m	£m	%
Residential mortgages	21,378.8	(23.1)	152.2	21,507.9	98.4
Loans fully secured on land^	219.0	(17.8)	-	201.2	0.9
Other lending:					
Debt factoring advances	86.0	(1.0)	-	85.0	0.4
Other loans	70.9	-	-	70.9	0.3
	21,754.7	(41.9)	152.2	21,865.0	100.0

Society	**2021**				
	Gross carrying amount	**ECL allowance (note 14)**	**Fair value adjustment for hedged risk**	**Carrying amount**	
	£m	**£m**	**£m**	**£m**	**%**
Residential mortgages	**21,202.5**	**(10.8)**	**(182.3)**	**21,009.4**	**99.2**
Loans fully secured on land^	**195.0**	**(16.2)**	**-**	**178.8**	**0.8**
	21,397.5	**(27.0)**	**(182.3)**	**21,188.2**	**100.0**

Society	2020				
	Gross carrying amount	ECL allowance (note 14)	Fair value adjustment for hedged risk	Carrying amount	
	£m	£m	£m	£m	%
Residential mortgages	19,289.0	(12.4)	151.7	19,428.3	99.0
Loans fully secured on land^	219.0	(17.8)	-	201.2	1.0
	19,508.0	(30.2)	151.7	19,629.5	100.0

^ Also known as commercial mortgages.

For details on how the Group assesses ECLs see note 1g).

Notes to the Accounts (continued)

40. Credit risk (continued)

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:

	2021							
	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	22,326.2	381.0	10.5	**22,717.7**	20,676.9	379.9	10.5	**21,067.3**
Up to 30 days past due	-	46.7	2.9	**49.6**	-	45.2	2.9	**48.1**
31 to 60 days past due	-	22.1	4.5	**26.6**	-	22.1	4.5	**26.6**
61 to 90 days past due	-	9.1	6.2	**15.3**	-	8.4	6.2	**14.6**
Over 90 days past due	-	-	46.0	**46.0**	-	-	45.9	**45.9**
	22,326.2	**458.9**	**70.1**	**22,855.2**	**20,676.9**	**455.6**	**70.0**	**21,202.5**

	2020							
	Group				Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Not past due	19,119.6	2,074.5	8.5	21,202.6	17,314.5	1,874.5	6.0	19,195.0
Up to 30 days past due	-	69.1	1.4	70.5	-	32.2	0.5	32.7
31 to 60 days past due	-	30.1	3.5	33.6	-	18.6	2.4	21.0
61 to 90 days past due	-	10.7	5.8	16.5	-	6.1	4.0	10.1
Over 90 days past due	-	-	55.6	55.6	-	-	30.2	30.2
	19,119.6	2,184.4	74.8	21,378.8	17,314.5	1,931.4	43.1	19,289.0

The tables below provide information on movements in the gross carrying amount of residential loans and advances to customers during the year:

	2021							
	Group				**Society**			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount as at 1 January	19,119.6	2,184.4	74.8	**21,378.8**	17,314.5	1,931.4	43.1	**19,289.0**
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(136.7)	130.3	-	**(6.4)**	(108.8)	102.7	-	**(6.1)**
From stage 1 to stage 3	(3.2)	-	2.9	**(0.3)**	(2.5)	-	2.2	**(0.3)**
From stage 2 to stage 1	1,513.2	(1,572.1)	-	**(58.9)**	1,434.8	(1,493.3)	-	**(58.5)**
From stage 2 to stage 3	-	(13.9)	13.8	**(0.1)**	-	(8.3)	8.2	**(0.1)**
From stage 3 to stage 2	-	8.4	(8.6)	**(0.2)**	-	7.2	(7.4)	**(0.2)**
From stage 3 to stage 1	2.3	-	(2.7)	**(0.4)**	2.3	-	(2.7)	**(0.4)**
Modification of contractual cashflows	3.0	(12.3)	6.6	**(2.7)**	(0.1)	(10.0)	6.4	**(3.7)**
Hive-up of subsidiaries	-	-	-	**-**	351.6	180.4	33.7	**565.7**
Increases due to origination	5,275.4	3.8	0.2	**5,279.4**	4,907.4	3.8	0.2	**4,911.4**
Decrease due to derecognition and repayments	(3,440.3)	(266.8)	(14.9)	**(3,722.0)**	(3,214.8)	(255.0)	(11.6)	**(3,481.4)**
Written off	(0.1)	(0.2)	(2.4)	**(2.7)**	(0.1)	(0.2)	(2.3)	**(2.6)**
Other movements	(7.0)	(2.7)	0.4	**(9.3)**	(7.4)	(3.1)	0.2	**(10.3)**
Gross carrying amount as at 31 December	**22,326.2**	**458.9**	**70.1**	**22,855.2**	**20,676.9**	**455.6**	**70.0**	**21,202.5**

	2020							
	Group				Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount as at 1 January	19,012.0	534.4	76.0	19,622.4	17,151.6	413.7	48.8	17,614.1
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(1,826.7)	1,771.1	-	(55.6)	(1,673.5)	1,618.8	-	(54.7)
From stage 1 to stage 3	(5.9)	-	5.9	-	(3.3)	-	3.2	(0.1)
From stage 2 to stage 1	122.0	(126.7)	-	(4.7)	108.4	(113.0)	-	(4.6)
From stage 2 to stage 3	-	(16.3)	16.6	0.3	-	(5.2)	5.3	0.1
From stage 3 to stage 2	-	14.3	(14.8)	(0.5)	-	7.5	(8.0)	(0.5)
From stage 3 to stage 1	0.9	-	(1.0)	(0.1)	0.9	-	(1.0)	(0.1)
Modification of contractual cashflows	(19.6)	16.8	1.1	(1.7)	(15.2)	11.2	1.7	(2.3)
Increases due to origination	4,290.2	51.8	1.1	4,343.1	3,973.7	51.9	1.1	4,026.7
Decrease due to derecognition and repayments	(2,455.9)	(63.7)	(7.2)	(2,526.8)	(2,230.0)	(56.6)	(6.3)	(2,292.9)
Written off	(0.3)	(0.8)	(3.3)	(4.4)	-	(0.2)	(1.9)	(2.1)
Other movements	2.9	3.5	0.4	6.8	1.9	3.3	0.2	5.4
Gross carrying amount as at 31 December	19,119.6	2,184.4	74.8	21,378.8	17,314.5	1,931.4	43.1	19,289.0

The amounts included in the tables above represent the movement in the gross carrying amount between each reporting period end and not the balance as at the date of the movement.

Notes to the Accounts (continued)

40. Credit risk (continued)

As shown in the tables above, during 2021 there was a net decrease in stage 2 loans of £1,725.5m for the Group and £1,475.8m for the Society. As outlined in note 1w), during 2021 the Group has revised its view on forward-looking economic indicators to a more positive outlook than the view applied by the Group as at 31 December 2020; as a result, a number of accounts which were previously held in stage 2 were assessed to no longer meet the 'significant increase in credit risk' criteria and were thus transferred back 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 2021, stage 3 loans include £19.2m for the Group (2020: £14.3m) and £19.2m for the Society (2020: £8.7m) 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:

	2021							
	Group				Society			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Loss allowance as at 1 January attributable by stage	3.3	12.2	6.0	**21.5**	2.7	5.9	2.4	**11.0**
Additional provision for payment deferrals (note 1)				**1.6**				**1.4**
Loss allowance as at 1 January				**23.1**				**12.4**
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(0.1)	0.4	-	**0.3**	0.1	0.3	-	**0.4**
From stage 1 to stage 3	-	-	0.1	**0.1**	-	-	-	**-**
From stage 2 to stage 1	0.4	(5.7)	-	**(5.3)**	0.2	(4.4)	-	**(4.2)**
From stage 2 to stage 3	-	(0.5)	0.9	**0.4**	-	-	0.6	**0.6**
From stage 3 to stage 2	-	0.1	(0.3)	**(0.2)**	-	0.1	(0.3)	**(0.2)**
Remeasurements within existing stage	(0.8)	(2.2)	0.2	**(2.8)**	(0.6)	0.2	1.1	**0.7**
Hive-up of subsidiaries	-	-	-	**-**	0.3	1.8	2.3	**4.4**
Increases due to origination	1.1	-	-	**1.1**	1.1	-	-	**1.1**
Decrease due to derecognition and repayments	(0.5)	(1.2)	(1.5)	**(3.2)**	(0.5)	(0.9)	(1.1)	**(2.5)**
Changes due to modification without derecognition	-	(0.8)	-	**(0.8)**	-	(0.7)	0.4	**(0.3)**
Written off	-	-	(0.5)	**(0.5)**	-	-	(0.5)	**(0.5)**
	3.4	**2.3**	**4.9**	**12.2**	**3.3**	**2.3**	**4.9**	**11.9**
Decrease in additional provision for payment deferrals (note 1)				**(1.3)**				**(1.1)**
Loss allowance as at 31 December				**10.9**				**10.8**

	2020							
	Group				Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance as at 1 January	2.2	3.8	3.6	9.6	1.2	1.4	1.7	4.3
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(0.6)	7.5	-	6.9	(0.2)	4.1	-	3.9
From stage 1 to stage 3	-	-	0.2	0.2	-	-	0.1	0.1
From stage 2 to stage 1	0.1	(0.2)	-	(0.1)	-	(0.1)	-	(0.1)
From stage 2 to stage 3	-	(0.5)	1.2	0.7	-	(0.1)	0.2	0.1
From stage 3 to stage 2	-	0.3	(0.3)	-	-	0.1	(0.1)	-
Remeasurements within existing stage	1.0	1.3	0.9	3.2	1.0	0.3	0.2	1.5
Increases due to origination	0.8	0.2	0.3	1.3	0.8	0.2	0.3	1.3
Decrease due to derecognition and repayments	(0.2)	(0.2)	(0.2)	(0.6)	(0.1)	(0.1)	(0.2)	(0.4)
Changes due to modification without derecognition	-	0.2	0.8	1.0	-	0.1	0.4	0.5
Written off	-	(0.2)	(0.5)	(0.7)	-	-	(0.2)	(0.2)
	3.3	12.2	6.0	21.5	2.7	5.9	2.4	11.0
Additional provision for payment deferrals (note 1)				1.6				1.4
Loss allowance as at 31 December				23.1				12.4

Note

1. An additional provision for credit losses has been recognised to reflect the estimated impact on ECLs of payment deferrals granted in response to the COVID-19 pandemic where no other indicator of significant increase in credit risk has occurred. The additional provision at 31 December 2021 is £0.3m for Group (2020: £1.6m) and £0.3m for Society (2020: £1.4m). This additional provision has not been allocated to the underlying loans nor has it been attributed to stages but is shown in the total column of the table. Further details are included in note 1w).

The loss allowance as at 31 December 2021 includes post model adjustments totalling £4.5m (2020: £9.3m) for the Group and totalling £4.5m (2020: £4.1m) for the Society. Details of these post model adjustments are set out in note 1w).

Notes to the Accounts (continued)

40. Credit risk (continued)

The tables below provide information on residential loans and advances to customers grouped by credit risk rating (probability of default). For further details on how the probability of default (PD) affects the Group's assessment of ECLs, see note 1g) and note 1w). 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				**2021**				
	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%	1,271.9	0.7	-	**1,272.6**	0.1	-	-	**0.1**
0.15% - <0.25%	4,576.3	0.2	-	**4,576.5**	0.6	-	-	**0.6**
0.25% - <0.5%	11,542.4	0.8	-	**11,543.2**	1.8	-	-	**1.8**
0.5% - <0.75%	3,906.2	1.5	-	**3,907.7**	0.6	-	-	**0.6**
0.75% - <2.5%	1,023.2	10.4	-	**1,033.6**	0.3	-	-	**0.3**
2.5% - <10%	6.2	107.8	0.4	**114.4**	-	0.1	-	**0.1**
10% - <100%	-	337.5	0.1	**337.6**	-	2.2	-	**2.2**
Default	-	-	69.6	**69.6**	-	-	4.9	**4.9**
	22,326.2	458.9	70.1	**22,855.2**	3.4	2.3	4.9	**10.6**
Additional provision for payment deferrals								**0.3**
								10.9
ECL coverage by stage (%)					**0.02%**	**0.50%**	**6.99%**	**0.05%**

Group				2020				
	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%	952.8	0.9	-	953.7	0.1	-	-	0.1
0.15% - <0.25%	2,768.3	0.6	-	2,768.9	0.3	-	-	0.3
0.25% - <0.5%	9,677.2	2.3	-	9,679.5	1.3	-	-	1.3
0.5% - <0.75%	4,410.9	1.7	-	4,412.6	0.9	-	-	0.9
0.75% - <2.5%	1,304.7	73.8	-	1,378.5	0.7	-	-	0.7
2.5% - <10%	5.7	1,069.5	-	1,075.2	-	1.6	-	1.6
10% - <100%	-	1,035.6	-	1,035.6	-	10.6	-	10.6
Default	-	-	74.8	74.8	-	-	6.0	6.0
	19,119.6	2,184.4	74.8	21,378.8	3.3	12.2	6.0	21.5
Additional provision for payment deferrals								1.6
								23.1
ECL coverage by stage (%)					0.02%	0.56%	8.02%	0.11%

Society				**2021**				
	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%	1,271.9	0.7	-	**1,272.6**	0.1	-	-	**0.1**
0.15% - <0.25%	4,576.3	0.2	-	**4,576.5**	0.6	-	-	**0.6**
0.25% - <0.5%	10,680.7	0.8	-	**10,681.5**	1.7	-	-	**1.7**
0.5% - <0.75%	3,118.6	1.5	-	**3,120.1**	0.6	-	-	**0.6**
0.75% - <2.5%	1,023.2	10.4	-	**1,033.6**	0.3	-	-	**0.3**
2.5% - <10%	6.2	107.8	0.4	**114.4**	-	0.1	-	**0.1**
10% - <100%	-	334.2	0.1	**334.3**	-	2.2	-	**2.2**
Default	-	-	69.5	**69.5**	-	-	4.9	**4.9**
	20,676.9	455.6	70.0	**21,202.5**	3.3	2.3	4.9	**10.5**
Additional provision for payment deferrals								**0.3**
								10.8
ECL coverage by stage (%)					**0.02%**	**0.50%**	**7.00%**	**0.05%**

Society				2020				
	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%	950.2	0.7	-	950.9	0.1	-	-	0.1
0.15% - <0.25%	2,765.0	0.6	-	2,765.6	0.3	-	-	0.3
0.25% - <0.5%	8,737.9	2.3	-	8,740.2	1.1	-	-	1.1
0.5% - <0.75%	3,716.5	1.7	-	3,718.2	0.8	-	-	0.8
0.75% - <2.5%	1,140.1	72.5	-	1,212.6	0.4	-	-	0.4
2.5% - <10%	4.8	1,052.5	-	1,057.3	-	1.5	-	1.5
10% - <100%	-	801.1	-	801.1	-	4.4	-	4.4
Default	-	-	43.1	43.1	-	-	2.4	2.4
	17,314.5	1,931.4	43.1	19,289.0	2.7	5.9	2.4	11.0
Additional provision for payment deferrals								1.4
								12.4
ECL coverage by stage (%)					0.02%	0.31%	5.57%	0.06%

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	2021 Gross carrying amount £m	2021 ECL allowance £m	2021 ECL coverage %	2020 Gross carrying amount £m	2020 ECL allowance £m	2020 ECL coverage %
Over 30 days past due	31.2	0.6	1.9%	40.8	1.6	3.9%
In forbearance	7.8	-	0.0%	15.7	-	-
In arrears	43.6	0.2	0.5%	67.2	1.6	2.4%
Term expired	22.0	0.1	0.5%	19.5	0.1	0.5%
Increase in PD since origination	354.3	1.4	0.4%	2,041.2	8.9	0.4%
	458.9	**2.3**	**0.5%**	2,184.4	12.2	0.6%

Stage 2 analysis Society	2021 Gross carrying amount £m	2021 ECL allowance £m	2021 ECL coverage %	2020 Gross carrying amount £m	2020 ECL allowance £m	2020 ECL coverage %
Over 30 days past due	30.5	0.6	2.0%	24.7	0.6	2.4%
In forbearance	6.8	-	0.0%	10.2	-	-
In arrears	42.1	0.2	0.5%	30.4	0.3	1.0%
Term expired	22.0	0.1	0.5%	14.7	-	-
Increase in PD since origination	354.2	1.4	0.4%	1,851.4	5.0	0.3%
	455.6	**2.3**	**0.5%**	1,931.4	5.9	0.3%

The tables below provide further information on the types of lending and geographical split:

Group	2021 Stage 1 £m	2021 Stage 2 £m	2021 Stage 3 £m	2021 Total £m	2020 Stage 1 £m	2020 Stage 2 £m	2020 Stage 3 £m	2020 Total £m
Prime:								
Residential	16,802.7	302.3	43.1	**17,148.1**	15,161.0	922.8	43.9	16,127.7
Buy-to-let	5,264.6	64.7	5.7	**5,335.0**	3,717.4	1,085.5	8.1	4,811.0
Self build	10.7	1.8	0.5	**13.0**	22.8	11.1	1.5	35.4
Fast track	18.1	1.5	0.3	**19.9**	20.2	4.7	0.4	25.3
Self certified	182.6	64.1	14.6	**261.3**	154.6	108.8	13.2	276.6
Sub-prime^:								
Residential	7.6	4.9	1.9	**14.4**	8.5	8.9	2.0	19.4
Buy-to-let	13.3	1.1	0.1	**14.5**	12.1	6.9	0.4	19.4
Self build	-	-	-	**-**	0.2	0.3	-	0.5
Self certified	26.6	18.5	3.9	**49.0**	22.8	35.4	5.3	63.5
	22,326.2	**458.9**	**70.1**	**22,855.2**	19,119.6	2,184.4	74.8	21,378.8

Society	2021 Stage 1 £m	2021 Stage 2 £m	2021 Stage 3 £m	2021 Total £m	2020 Stage 1 £m	2020 Stage 2 £m	2020 Stage 3 £m	2020 Total £m
Prime:								
Residential	15,941.7	300.4	43.0	**16,285.1**	14,238.9	879.4	37.4	15,155.7
Buy-to-let	4,477.0	63.3	5.7	**4,546.0**	3,040.6	1,043.5	5.0	4,089.1
Self build	10.7	1.8	0.5	**13.0**	8.6	3.1	0.1	11.8
Fast track	18.1	1.5	0.3	**19.9**	20.2	4.7	0.4	25.3
Self certified	181.9	64.1	14.6	**260.6**	6.2	0.7	0.2	7.1
Sub-prime^:								
Residential	7.6	4.9	1.9	**14.4**	-	-	-	-
Buy-to-let	13.3	1.1	0.1	**14.5**	-	-	-	-
Self-certified	26.6	18.5	3.9	**49.0**	-	-	-	-
	20,676.9	**455.6**	**70.0**	**21,202.5**	17,314.5	1,931.4	43.1	19,289.0

^ 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 (see note 17b)(v)).

Notes to the Accounts (continued)

40. Credit risk (continued)

Group	2021				2020			
Region	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
North	782.1	16.6	2.9	**801.6**	706.8	77.0	4.5	788.3
Yorkshire	1,914.9	46.5	6.6	**1,968.0**	1,713.7	187.9	6.9	1,908.5
East Midlands	1,558.6	34.7	5.7	**1,599.0**	1,342.0	159.5	5.3	1,506.8
East Anglia	676.7	11.0	1.5	**689.2**	578.9	66.4	1.2	646.5
London	3,807.7	67.3	9.7	**3,884.7**	2,962.2	447.6	11.0	3,420.8
South East	4,401.3	93.1	13.7	**4,508.1**	3,675.9	431.5	12.8	4,120.2
South West	2,210.2	41.6	5.7	**2,257.5**	1,908.5	207.6	7.2	2,123.3
West Midlands	1,673.6	35.9	4.9	**1,714.4**	1,408.8	162.4	5.3	1,576.5
North West	2,074.1	52.5	9.7	**2,136.3**	1,782.7	215.5	10.5	2,008.7
Wales	699.8	19.3	2.1	**721.2**	632.6	71.9	1.9	706.4
Scotland	1,595.2	34.2	5.7	**1,635.1**	1,454.8	144.8	6.8	1,606.4
Northern Ireland	16.5	4.0	1.8	**22.3**	16.8	7.2	1.2	25.2
Channel Islands	915.5	2.2	0.1	**917.8**	935.9	5.1	0.2	941.2
	22,326.2	**458.9**	**70.1**	**22,855.2**	19,119.6	2,184.4	74.8	21,378.8

Society	2021				2020			
Region	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
North	779.0	16.6	2.9	**798.5**	694.8	68.5	3.1	766.4
Yorkshire	1,902.6	46.5	6.6	**1,955.7**	1,679.9	167.5	5.1	1,852.5
East Midlands	1,552.4	34.7	5.7	**1,592.8**	1,314.2	142.4	2.6	1,459.2
East Anglia	667.9	11.0	1.5	**680.4**	558.9	59.4	0.4	618.7
London	3,320.5	67.3	9.7	**3,397.5**	2,533.2	397.0	3.7	2,933.9
South East	4,323.2	92.2	13.7	**4,429.1**	3,544.6	383.0	6.4	3,934.0
South West	2,188.5	41.6	5.7	**2,235.8**	1,863.4	189.7	4.8	2,057.9
West Midlands	1,639.5	35.9	4.9	**1,680.3**	1,362.6	143.5	3.2	1,509.3
North West	2,010.0	52.3	9.7	**2,072.0**	1,713.5	185.2	6.8	1,905.5
Wales	697.3	19.3	2.1	**718.7**	609.7	57.5	1.2	668.4
Scotland	1,579.5	34.2	5.7	**1,619.4**	1,427.6	134.5	5.7	1,567.8
Northern Ireland	16.5	4.0	1.8	**22.3**	12.1	3.2	0.1	15.4
	20,676.9	**455.6**	**70.0**	**21,202.5**	17,314.5	1,931.4	43.1	19,289.0

Indexed loan-to-value information on the Group's residential loan portfolio is set out below:

Group	2021				2020			
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%	5,080.8	117.7	14.1	**5,212.6**	3,638.3	509.8	11.8	4,159.9
40% - 50%	4,032.0	83.5	10.0	**4,125.5**	3,121.0	439.0	11.3	3,571.3
50% - 60%	4,252.7	101.1	17.4	**4,371.2**	3,638.2	482.8	16.7	4,137.7
60% - 70%	3,930.4	94.3	17.3	**4,042.0**	3,513.2	429.8	16.3	3,959.3
70% - 80%	3,266.6	49.2	6.2	**3,322.0**	2,945.3	239.7	8.7	3,193.7
80% - 90%	1,340.9	9.4	2.2	**1,352.5**	2,108.1	67.2	5.3	2,180.6
90% - 100%	414.1	1.4	0.6	**416.1**	145.3	8.0	1.6	154.9
>100%	8.7	2.3	2.3	**13.3**	10.2	8.1	3.1	21.4
	22,326.2	**458.9**	**70.1**	**22,855.2**	19,119.6	2,184.4	74.8	21,378.8

Society	2021				2020			
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%	4,816.7	117.2	14.1	**4,948.0**	3,398.4	483.3	9.1	3,890.8
40% - 50%	3,750.9	83.0	9.9	**3,843.8**	2,865.5	407.5	7.2	3,280.2
50% - 60%	3,875.0	99.9	17.4	**3,992.3**	3,255.3	422.7	9.8	3,687.8
60% - 70%	3,512.9	94.1	17.3	**3,624.3**	3,044.3	361.9	7.0	3,413.2
70% - 80%	3,022.7	48.6	6.2	**3,077.5**	2,630.7	192.8	5.3	2,828.8
80% - 90%	1,284.8	9.1	2.2	**1,296.1**	1,983.1	55.3	2.1	2,040.5
90% - 100%	405.2	1.4	0.6	**407.2**	132.1	4.0	0.7	136.8
>100%	8.7	2.3	2.3	**13.3**	5.1	3.9	1.9	10.9
	20,676.9	**455.6**	**70.0**	**21,202.5**	17,314.5	1,931.4	43.1	19,289.0

In 2020 the Society placed restrictions on higher loan-to-value lending in response to uncertainties caused by the COVID-19 pandemic. During 2021 the Society re-introduced higher loan-to-value lending and this, coupled with the strong house price growth seen in the year, has resulted in changes in the loan-to-value profiles shown in the tables above.

For the year ended 31 December 2021, the Group indexed UK property prices using the quarterly Halifax regional non-seasonally adjusted index (in January 2022 the Group changed the index used in its models to the ONS index, as noted in note 1w)). The Group's policy for new mortgage lending is currently a maximum loan-to-value ratio of 95% 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). In 2020 lending policies varied due to a scale back of high LTV lending; many of these products were re-introduced during 2021.

At 31 December 2021, 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 42.8% (2020: 44.8%) and for Society residential mortgages was 42.4% (2020: 44.2%).

Forbearance

Where appropriate for customers, the Group applies a policy of forbearance. This may be applied where the actual or apparent financial stress of the customer is considered to be short term with a potential to be recovered. Forbearance may involve arrears capitalisation, a reduction in the monthly payment (known as a concession), a conversion to interest only or a mortgage term extension. Forbearance is undertaken in order to achieve the best outcome for both the customer and the business through dealing with repayment difficulties at an early stage.

Possession is generally considered only as a last resort, once all other options for the customer have been exhausted. Possession balances represent loans against which the Group has taken ownership of properties pending their sale. The Group does not occupy repossessed properties for business use or use assets acquired in its operations. All customer accounts are monitored to ensure that these strategies remain appropriate.

In addition to our regular forbearance activity, residential borrowers financially affected by the COVID-19 pandemic were supported in 2020 and 2021 through payment deferrals. Further details of this support are provided below.

Support for residential borrowers impacted by COVID-19

During 2021 the Group continued to offer mortgage payment deferrals to customers who experienced payment difficulties caused by COVID-19. In accordance with regulatory guidance, these payment deferrals were not automatically included within the forbearance population and do not automatically have an impact on the reported staging of balances except where credit risk is judged to have significantly increased since the loan was initially recognised.

Applications for new COVID-19 payment deferrals closed on 31 March 2021, with all outstanding payment deferrals ending on or before 31 July 2021.

Possessions

For the Group, at 31 December 2021 the balance of residential loans where the property has been taken into possession was £2.1m and represents less than 0.1% of total outstanding loans (2020: £1.1m; less than 0.1%). For the Society, at 31 December 2021 the balance of residential loans where the property has been taken into possession was £2.1m and represents less than 0.1% of total outstanding loans (2020: £0.5m; 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 2021, 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).

Notes to the Accounts (continued)

40. Credit risk (continued)

For the purposes of the tables below, the following loans are thus regarded as being in forbearance as at 31 December 2021:

- 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 2021); and
- any loan to which forbearance measures were applied and which remains on renegotiated terms at 31 December 2021 (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 2021	**Total £m**	**Capitalisation £m**	**Reduced payment £m**	**Transfer to interest only £m**	**Term extension £m**	**Total renegotiations £m**	**%**
Stage 1							
Not past due	22,326.2	-	24.4	11.8	1.0	37.2	0.2
	22,326.2	**-**	**24.4**	**11.8**	**1.0**	**37.2**	**0.2**
Stage 2							
Not past due	381.0	0.1	20.6	7.1	0.3	28.1	7.4
Past due up to 30 days	46.7	-	11.7	0.6	0.2	12.5	26.8
Over 30 days past due	31.2	-	9.2	0.5	-	9.7	31.1
	458.9	**0.1**	**41.5**	**8.2**	**0.5**	**50.3**	**11.0**
Stage 3							
Not past due	10.5	-	3.8	0.5	-	4.3	41.0
Past due up to 90 days	13.6	-	3.7	1.2	0.2	5.1	37.5
Over 90 days past due	46.0	0.1	17.4	1.8	0.2	19.5	42.4
	70.1	**0.1**	**24.9**	**3.5**	**0.4**	**28.9**	**41.2**
Gross carrying amount	**22,855.2**	**0.2**	**90.8**	**23.5**	**1.9**	**116.4**	**0.5**
Loss allowance	**(10.9)**	**-**	**(2.0)**	**(0.1)**	**-**	**(2.1)**	**19.3**
	22,844.3	**0.2**	**88.8**	**23.4**	**1.9**	**114.3**	**0.5**

Group 2020	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Term extension £m	Total renegotiations £m	%
Stage 1							
Not past due	19,119.6	-	11.9	6.5	0.7	19.1	0.1
	19,119.6	-	11.9	6.5	0.7	19.1	0.1
Stage 2							
Not past due	2,074.5	0.2	29.4	13.1	0.7	43.4	2.1
Past due up to 30 days	69.1	-	7.7	0.8	0.2	8.7	12.6
Over 30 days past due	40.8	-	7.6	0.9	-	8.5	20.8
	2,184.4	0.2	44.7	14.8	0.9	60.6	2.8
Stage 3							
Not past due	8.5	-	1.8	0.7	-	2.5	29.4
Past due up to 90 days	10.7	-	3.8	0.6	0.3	4.7	43.9
Over 90 days past due	55.6	-	16.2	2.7	1.3	20.2	36.3
	74.8	-	21.8	4.0	1.6	27.4	36.6
Gross carrying amount	21,378.8	0.2	78.4	25.3	3.2	107.1	0.5
Loss allowance	(23.1)	-	(2.5)	(0.2)	(0.3)	(3.0)	13.0
	21,355.7	0.2	75.9	25.1	2.9	104.1	0.5

Society 2021	**Total £m**	**Capitalisation £m**	**Reduced payment £m**	**Transfer to interest only £m**	**Term extension £m**	**Total renegotiations £m**	**%**
Stage 1							
Not past due	20,676.9	-	24.4	11.8	1.0	37.2	0.2
	20,676.9	**-**	**24.4**	**11.8**	**1.0**	**37.2**	**0.2**
Stage 2							
Not past due	379.9	0.1	20.6	6.1	0.3	27.1	7.1
Past due up to 30 days	45.2	-	11.7	0.6	0.2	12.5	27.7
Over 30 days past due	30.5	-	9.2	0.5	-	9.7	31.8
	455.6	**0.1**	**41.5**	**7.2**	**0.5**	**49.3**	**10.8**
Stage 3							
Not past due	10.5	-	3.8	0.5	-	4.3	41.0
Past due up to 90 days	13.6	-	3.7	1.2	0.2	5.1	37.5
Over 90 days past due	45.9	0.1	17.4	1.8	0.2	19.5	42.5
	70.0	**0.1**	**24.9**	**3.5**	**0.4**	**28.9**	**41.3**
Gross carrying amount	**21,202.5**	**0.2**	**90.8**	**22.5**	**1.9**	**115.4**	**0.5**
Loss allowance	**(10.8)**	**-**	**(2.0)**	**(0.1)**	**-**	**(2.1)**	**19.4**
	21,191.7	**0.2**	**88.8**	**22.4**	**1.9**	**113.3**	**0.5**

Society 2020	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Term extension £m	Total renegotiations £m	%
Stage 1							
Not past due	17,314.5	-	7.2	6.5	0.6	14.3	0.1
	17,314.5	-	7.2	6.5	0.6	14.3	0.1
Stage 2							
Not past due	1,874.5	0.1	16.1	9.9	0.4	26.5	1.4
Past due up to 30 days	32.2	-	6.3	0.8	0.2	7.3	22.7
Over 30 days past due	24.7	-	6.4	0.9	-	7.3	29.6
	1,931.4	0.1	28.8	11.6	0.6	41.1	2.1
Stage 3							
Not past due	6.0	-	1.1	0.7	-	1.8	30.0
Past due up to 90 days	6.9	-	2.8	0.6	0.3	3.7	53.6
Over 90 days past due	30.2	-	10.9	2.7	1.1	14.7	48.7
	43.1	-	14.8	4.0	1.4	20.2	46.9
Gross carrying amount	19,289.0	0.1	50.8	22.1	2.6	75.6	0.4
Loss allowance	(12.4)	-	(1.1)	(0.2)	(0.2)	(1.5)	12.1
	19,276.6	0.1	49.7	21.9	2.4	74.1	0.4

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.

Notes to the Accounts (continued)

40. Credit risk (continued)

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 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Stage 1	22,324.2	19,116.2	20,675.0	17,313.1
Stage 2	458.7	2,182.8	455.4	1,930.6
Stage 3	69.3	74.1	69.2	42.9
	22,852.2	21,373.1	21,199.6	19,286.6
Gross loan balances	22,855.2	21,378.8	21,202.5	19,289.0
Negative equity	3.0	5.7	2.9	2.4
Capped collateral held in respect of possessions (included within stage 3 above)	1.9	1.1	1.9	0.5

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 2021 is £53,425.3m (2020: £47,735.2m) and for the Society is £49,962.3m (2020: £43,619.6m).

At 31 December 2021 the contractual amount outstanding on loans written off during the year due to there being no reasonable expectation of recovery, but which remain subject to enforcement activity, is £0.8m (2020: £0.8m) for the Group and £0.8m (2020: £0.2m) for the Society. The amount shown for the Society as at 31 December 2021 includes amounts relating to loans previously held by the Group's specialist lending businesses Amber and NYM, following hive-up of those businesses into the Society with effect from 1 June 2021 (as described in note 17b)(v)).

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.

	2021 Group and Society				2020 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	33.5	136.1	1.8	171.4	35.9	141.3	5.8	183.0
Up to 30 days	0.1	6.4	-	6.5	0.1	4.2	-	4.3
31 to 60 days	-	3.7	-	3.7	-	13.8	0.3	14.1
61 to 90 days	-	1.2	-	1.2	-	2.6	0.8	3.4
Over 90 days	-	-	12.2	12.2	-	-	14.2	14.2
	33.6	147.4	14.0	195.0	36.0	161.9	21.1	219.0

The table below provides information on movements in the gross carrying amount of commercial loans during the year.

	2021 Group and Society				2020 Group and Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount as at 1 January	36.0	161.9	21.1	219.0	204.6	26.5	5.6	236.7
Transfers due to changes in credit risk:								
From stage 1 to stage 2	-	-	-	-	(119.6)	114.3	-	(5.3)
From stage 1 to stage 3	-	-	-	-	(1.2)	-	1.2	-
From stage 2 to stage 1	-	-	-	-	0.1	(0.1)	-	-
From stage 2 to stage 3	-	-	-	-	-	-	-	-
From stage 3 to stage 2	-	0.2	(0.2)	-	-	-	-	-
Modification of contractual cashflows	1.0	1.3	(6.1)	(3.8)	(39.9)	21.4	16.3	(2.2)
Decrease due to derecognition and repayments	(3.4)	(16.0)	(0.8)	(20.2)	(8.0)	(0.2)	(2.0)	(10.2)
Gross carrying amount as at 31 December	33.6	147.4	14.0	195.0	36.0	161.9	21.1	219.0

The amounts included in the table above represent the movement in the gross carrying amount between each reporting period end and not the balance as at the date of the movement.

Gains and losses arising during the year from loan modifications that did not result in derecognition were not significant. Amounts written off are in accordance with the Group's accounting policy for write-offs (see note 1g)).

The table below provides information on movements in the impairment loss allowance for commercial loans during the year.

	2021 Group and Society				2020 Group and Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance as at 1 January	-	13.5	4.3	17.8	0.2	5.2	1.1	6.5
Transfers due to changes in credit risk:								
From stage 1 to stage 2	-	-	-	-	(0.1)	7.2	-	7.1
From stage 1 to stage 3	-	-	-	-	-	-	-	-
From stage 3 to stage 2	-	0.1	-	0.1	-	-	-	-
Remeasurements within existing stage	-	(0.6)	0.2	(0.4)	-	0.4	-	0.4
Decrease due to derecognition and repayments	-	(0.6)	-	(0.6)	(0.1)	-	(0.2)	(0.3)
Changes due to modification without derecognition	-	(0.4)	(0.3)	(0.7)	-	0.7	3.4	4.1
Loss allowance as at 31 December	-	12.0	4.2	16.2	-	13.5	4.3	17.8
ECL coverage (%)	0.00%	8.14%	30.00%	8.31%	0.00%	8.34%	20.38%	8.13%

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.

Notes to the Accounts (continued)

40. Credit risk (continued)

Industry analysis	2021 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	2020 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Leisure and hotels	-	11.8	6.6	**18.4**	-	12.2	7.3	19.5
Retail	0.3	4.1	0.3	**4.7**	0.3	4.7	0.4	5.4
Nursing / residential homes	9.7	-	0.4	**10.1**	10.2	1.0	0.4	11.6
Offices	-	2.1	-	**2.1**	-	2.5	-	2.5
Commercial and industrial units	22.3	127.8	6.7	**156.8**	23.8	140.1	12.7	176.6
Miscellaneous	1.3	1.6	-	**2.9**	1.7	1.4	0.3	3.4
	33.6	**147.4**	**14.0**	**195.0**	36.0	161.9	21.1	219.0

Geographical analysis	2021 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	2020 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
North	3.2	4.9	1.0	**9.1**	3.1	5.2	2.2	10.5
Yorkshire	2.6	10.8	5.5	**18.9**	2.4	12.0	6.8	21.2
East Midlands	2.0	12.6	1.7	**16.3**	2.2	13.0	2.7	17.9
East Anglia	0.8	2.9	-	**3.7**	0.9	3.3	0.1	4.3
London	2.2	38.2	2.4	**42.8**	2.1	43.2	3.9	49.2
South East	8.8	29.2	1.2	**39.2**	9.9	32.4	2.5	44.8
South West	3.0	16.9	0.5	**20.4**	3.3	18.9	0.1	22.3
West Midlands	7.0	7.0	-	**14.0**	8.3	7.6	0.1	16.0
North West	2.3	18.3	1.6	**22.2**	2.3	19.1	2.4	23.8
Wales	0.8	3.9	0.1	**4.8**	0.6	4.4	0.3	5.3
Scotland	0.9	2.7	-	**3.6**	0.9	2.8	-	3.7
	33.6	**147.4**	**14.0**	**195.0**	36.0	161.9	21.1	219.0

Loan-to-value	2021 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	2020 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<40%	8.4	29.0	0.3	**37.7**	7.4	32.2	1.0	40.6
40% - 50%	6.1	20.0	3.3	**29.4**	4.6	22.2	6.5	33.3
50% - 60%	5.2	29.3	0.5	**35.0**	6.9	32.0	0.7	39.6
60% - 70%	8.6	24.1	-	**32.7**	8.8	23.9	0.7	33.4
70% - 80%	2.1	9.6	-	**11.7**	2.7	15.6	1.1	19.4
80% - 90%	1.1	7.1	-	**8.2**	4.0	11.4	-	15.4
90% - 100%	0.9	7.0	0.3	**8.2**	0.4	5.0	0.3	5.7
>100%	1.2	21.3	9.6	**32.1**	1.2	19.6	10.8	31.6
	33.6	**147.4**	**14.0**	**195.0**	36.0	161.9	21.1	219.0

At 31 December 2021 the average loan-to-value of commercial mortgages on a valuation weighted basis (calculated as the total outstanding balance divided by the total value of collateral held) was 48.5% (2020: 48.7%). 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 2021 the balance of commercial mortgages where the property has been taken into possession was £nil for the Group and Society (2020: £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 2021, 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 227 and 228.

Group and Society 2021	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Total renegotiations £m	%
Stage 1						
Not past due	33.5	-	3.2	-	3.2	9.6
Past due up to 30 days	0.1	-	0.1	-	0.1	100.0
	33.6	**-**	**3.3**	**-**	**3.3**	**9.8**
Stage 2						
Not past due	136.1	0.2	24.0	0.6	24.8	18.2
Past due up to 30 days	6.4	-	6.3	-	6.3	98.4
Over 30 days past due	4.9	-	4.9	-	4.9	100.0
	147.4	**0.2**	**35.2**	**0.6**	**36.0**	**24.4**
Stage 3						
Not past due	1.8	-	-	-	-	-
Past due up to 90 days	-	-	-	-	-	-
Over 90 days past due	12.2	-	10.5	-	10.5	86.1
	14.0	**-**	**10.5**	**-**	**10.5**	**75.0**
Gross carrying amount	195.0	0.2	49.0	0.6	49.8	**25.5**
Loss allowance	(16.2)	-	(6.1)	(0.1)	(6.2)	**38.3**
	178.8	**0.2**	**42.9**	**0.5**	**43.6**	**24.4**

Group and Society 2020	Total £m	Reduced payment £m	Transfer to interest only £m	Total renegotiations £m	%
Stage 1					
Not past due	35.9	1.8	-	1.8	5.0
Past due up to 30 days	0.1	0.1	-	0.1	100.0
	36.0	1.9	-	1.9	5.3
Stage 2					
Not past due	141.3	14.2	0.7	14.9	10.5
Past due up to 30 days	4.2	4.2	-	4.2	100.0
Over 30 days past due	16.4	16.1	-	16.1	98.2
	161.9	34.5	0.7	35.2	21.7
Stage 3					
Not past due	5.8	1.5	-	1.5	25.9
Past due up to 90 days	1.1	1.1	-	1.1	100.0
Over 90 days past due	14.2	13.8	-	13.8	97.2
	21.1	16.4	-	16.4	77.7
Gross carrying amount	219.0	52.8	0.7	53.5	24.4
Loss allowance	(17.8)	(6.7)	-	(6.7)	37.6
	201.2	46.1	0.7	46.8	23.3

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.

Notes to the Accounts (continued)

40. Credit risk (continued)

Fair value of capped collateral held

An analysis of capped collateral, where the collateral is capped to the lower of the value of the property and the amount outstanding on an individual loan basis, is shown below.

	Group and Society 2021 £m	Group and Society 2020 £m
Stage 1	**33.4**	36.0
Stage 2	**141.9**	157.2
Stage 3	**11.3**	18.8
	186.6	212.0
Gross loan balances	**195.0**	219.0
Negative equity	**8.4**	7.0
Capped collateral held in respect of possessions (included within stage 3 above)	**-**	-

The fair value of commercial property used to derive the figures in the table above is determined by reference to the latest external valuation of the properties in question. The total fair value of collateral held in respect of commercial loans for the Group and the Society at 31 December 2021 is £402.2m (2020: £450.1m).

At 31 December 2021 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 (2020: £nil) for the Group and the Society.

iii) Other lending

Other lending comprises the following:

	Group					
	2021			2020		
	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	120.5	(1.0)	**119.5**	86.0	(1.0)	85.0
Other loans	65.4	-	**65.4**	70.9	-	70.9
	185.9	**(1.0)**	**184.9**	156.9	(1.0)	155.9

The table below provides information on movements in the gross carrying amount of other loans and advances during the year.

	Group							
	2021				2020			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount as at 1 January	152.4	4.5	-	**156.9**	162.5	3.2	-	165.7
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(0.5)	0.5	-	**-**	(3.1)	3.1	-	-
From stage 2 to stage 1	0.5	(0.5)	-	**-**	1.7	(1.7)	-	-
From stage 2 to stage 3	-	(0.1)	0.1	**-**	-	(0.2)	0.2	-
Increases due to origination	59.8	1.3	-	**61.1**	48.5	0.2	-	48.7
Decrease due to derecognition and repayments	(31.4)	(0.6)	-	**(32.0)**	(57.2)	(0.1)	-	(57.3)
Write-offs	-	-	(0.1)	**(0.1)**	-	-	(0.2)	(0.2)
Gross carrying amount as at 31 December	**180.8**	**5.1**	**-**	**185.9**	152.4	4.5	-	156.9

The amounts included in the table above represent the movement in the gross carrying amount between each reporting period end and not the balance as at the date of the movement.

The table below provides information on movements in the impairment loss allowance for other loans and advances during the year.

	Group							
	2021				2020			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance as at 1 January	-	1.0	-	**1.0**	-	0.8	-	0.8
Transfers due to changes in credit risk:								
From stage 1 to stage 2	-	0.3	-	**0.3**	-	1.0	-	1.0
From stage 2 to stage 1	-	(0.1)	-	**(0.1)**	-	(0.5)	-	(0.5)
From stage 2 to stage 3	-	(0.1)	0.1	**-**	-	(0.2)	0.2	-
Remeasurements within existing stage	-	(0.1)	-	**(0.1)**	-	-	-	-
Changes due to update in the methodology for estimation	-	-	-	**-**	-	(0.1)	-	(0.1)
Write-offs	-	-	(0.1)	**(0.1)**	-	-	(0.2)	(0.2)
Loss allowance as at 31 December	**-**	**1.0**	**-**	**1.0**	-	1.0	-	1.0

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 2021 and 31 December 2020, 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					
	2021			2020		
	Stage 1 £m	Stage 2 £m	Total £m	Stage 1 £m	Stage 2 £m	Total £m
Not past due	65.4	-	**65.4**	70.6	0.3	70.9
	65.4	**-**	**65.4**	70.6	0.3	70.9

The other loans of £65.4m (2020: £70.9m) 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 £126.5m (2020: £121.6m).

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 2021 none of the Group or the Society's treasury assets were past due (2020: none past due). At 31 December 2021 the ECLs on the Group and the Society's treasury assets were all held as stage 1 (2020: all stage 1).

At 31 December 2021 all the Group and the Society's treasury investments were assessed to have a probability of default (PD) of less than 0.15% (2020: all 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 2021, 100.0% (2020: 99.9%) 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 99.8% (2020: 100.0%) were rated A3 or better. The table below provides further details of the credit ratings for both the Group and the Society's treasury investment portfolios:

Rating	Group 2021		Group 2020		Society 2021		Society 2020	
	£m	**%**	£m	%	**£m**	**%**	£m	%
Aaa	**1,263.0**	**24.8**	993.9	18.2	**1,322.9**	**26.7**	1,209.1	21.7
Aa1	**211.3**	**4.1**	197.8	3.6	**211.3**	**4.3**	197.8	3.6
Aa2	**23.0**	**0.5**	-	-	**3.0**	**0.1**	-	-
Aa3	**2,902.2**	**57.0**	3,599.3	65.9	**2,788.1**	**56.3**	3,540.2	63.6
A1	**370.6**	**7.3**	209.2	3.8	**292.9**	**5.9**	149.0	2.7
A2	**125.5**	**2.5**	0.5	-	**125.6**	**2.5**	-	-
A3	**-**	**-**	69.6	1.3	**-**	**-**	69.6	1.3
Baa2	**-**	**-**	2.4	-	**-**	**-**	-	-
Unrated:								
Building Societies	**-**	**-**	-	-	**9.9**	**0.2**	-	-
Other	**199.9**	**3.8**	394.8	7.2	**199.8**	**4.0**	394.8	7.1
	5,095.5	**100.0**	5,467.5	100.0	**4,953.5**	**100.0**	5,560.5	100.0

'Other' in the above analysis comprises an exposure to a central clearing house used to clear derivatives to manage interest rate risk, as required by regulation.

The Group also monitors exposure concentrations against a variety of criteria including industry sector / asset class and country of risk.

Industry sector / asset class	Group 2021		Group 2020		Society 2021		Society 2020	
	£m	**%**	£m	%	**£m**	**%**	£m	%
Cash in hand and balances with the Bank of England	**2,433.6**	**47.7**	3,237.8	59.2	**2,433.6**	**49.0**	3,237.8	58.1
Loans and advances to banks and building societies	**468.7**	**9.2**	724.7	13.3	**386.4**	**7.8**	615.0	11.1
Gilts	**366.5**	**7.2**	303.2	5.5	**286.8**	**5.8**	303.2	5.5
Certificates of deposit	**334.9**	**6.6**	-	-	**314.9**	**6.4**	-	-
Fixed rate bonds	**757.6**	**14.9**	599.2	11.0	**757.6**	**15.3**	599.2	10.8
Floating rate notes	**283.9**	**5.6**	229.6	4.2	**193.3**	**3.9**	204.6	3.7
Treasury bills	**20.0**	**0.4**	12.5	0.2	**-**	**-**	-	-
Covered bonds	**260.3**	**5.1**	202.8	3.7	**260.3**	**5.3**	202.8	3.6
Residential mortgage backed securities	**170.0**	**3.3**	157.7	2.9	**320.6**	**6.5**	397.9	7.2
	5,095.5	**100.0**	5,467.5	100.0	**4,953.5**	**100.0**	5,560.5	100.0

Geographical exposure	Group 2021		Group 2020		Society 2021		Society 2020	
	£m	**%**	£m	%	**£m**	**%**	£m	%
UK	**3,909.8**	**76.7**	4,587.8	83.9	**3,894.4**	**78.6**	4,755.2	85.5
Rest of Europe	**189.8**	**3.7**	167.9	3.1	**159.6**	**3.2**	167.9	3.0
Supranationals:								
Europe	**289.7**	**5.7**	187.0	3.4	**249.5**	**5.0**	187.0	3.4
Global	**342.0**	**6.7**	292.5	5.3	**326.9**	**6.6**	292.5	5.3
African	**29.3**	**0.6**	-	-	**29.3**	**0.6**	-	-
Asia	**136.9**	**2.7**	114.8	2.1	**111.8**	**2.3**	89.7	1.6
South America	**53.8**	**1.1**	46.6	0.9	**53.8**	**1.1**	46.6	0.8
North America	**71.7**	**1.4**	65.8	1.2	**58.2**	**1.2**	20.2	0.4
Rest of World	**72.5**	**1.4**	5.1	0.1	**70.0**	**1.4**	1.4	-
	5,095.5	**100.0**	5,467.5	100.0	**4,953.5**	**100.0**	5,560.5	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 2021	Group 2020	Society 2021	Society 2020
	£m	£m	**£m**	£m
Gross carrying amount	**75.5**	30.5	**1.7**	2.0
Loss allowance	**(4.4)**	(2.7)	**(0.2)**	(0.2)
Net carrying amount	**71.1**	27.8	**1.5**	1.8

	Group 2021	Group 2020	Society 2021	Society 2020
	£m	£m	**£m**	£m
Loss allowance as at 1 January	**2.7**	2.3	**0.2**	0.1
Net allowances made during the year	**(0.2)**	0.9	**-**	0.1
Hive-up of subsidiaries	**2.9**	-	**-**	-
Write-offs	**(1.0)**	(0.5)	**-**	-
Loss allowance as at 31 December	**4.4**	2.7	**0.2**	0.2

The table below provides information on the gross carrying amount of trade receivables by payment due status.

	Group 2021	Group 2020	Society 2021	Society 2020
	£m	£m	**£m**	£m
Not past due	**36.1**	11.4	**0.4**	0.5
Up to 30 days past due	**27.6**	12.0	**0.3**	0.4
31 to 120 days past due	**7.8**	4.3	**0.5**	0.3
Over 120 days past due	**4.0**	2.8	**0.5**	0.8
	75.5	30.5	**1.7**	2.0

No collateral is held against trade receivables. At 31 December 2021 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 (2020: £nil) for the Group and £nil (2020: £nil) for the Society.

Notes to the Accounts (continued)

40. Credit risk (continued)

d) Credit risk – derivative financial instruments

A credit exposure could arise in respect of derivative contracts entered into by the Group if the counterparty was unable to fulfil its contractual obligations. The Group addresses the risks associated with these activities by monitoring counterparty credit exposure and requiring additional collateral to be posted or returned as necessary. For all but two derivatives, the only form of collateral accepted by the Group in respect of derivatives is cash. Derivatives are either transacted under International Swaps and Derivatives Association (ISDA) Master Agreements or Cleared Derivatives Execution Agreements. For swaps that are cash collateralised, no Credit (CVA) or Debit (DVA) Value Adjustments have been made in respect of credit risk in determining the fair value of these derivatives as the risk is significantly mitigated. Credit Support Annexes executed with certain counterparties in conjunction with the ISDA Master Agreement require collateral to be posted regularly, as required by specific terms and conditions of the arrangements. Due to the frequency of the posting of collateral, there is no material exposure from these minimal timing differences that would require CVA or DVA adjustments. At 31 December 2021 the Group held two derivatives (2020: two) that are not fully collateralised for cash; CVA and DVA adjustments are made to the valuation of these derivatives.

Netting arrangements do not necessarily result in an offset of Statement of Financial Position (SOFP) assets and liabilities, as transactions are usually settled on a gross basis. The Group's legal documentation for derivative transactions does grant legal rights of set-off for those transactions with the same counterparty. Accordingly the credit risk associated with such contracts is reduced to the extent that negative mark to market valuations on derivatives will offset positive mark to market values on derivatives. The tables below provide further detail on the net exposure to derivative transaction counterparties.

Group	2021				2020			
	As reported within SOFP £m	Netting agree-ments £m	Cash collateral £m	Net amounts after off-setting £m	As reported within SOFP £m	Netting agree-ments £m	Cash collateral £m	Net amounts after off-setting £m
Financial assets								
Derivative financial instruments	227.9	(89.3)	(146.3)	(7.7)	64.1	(47.7)	(5.3)	11.1
Financial liabilities								
Derivative financial instruments	292.1	(89.3)	(129.7)	73.1	445.9	(47.7)	(388.1)	10.1

Society	2021				2020			
	As reported within SOFP £m	Netting agree-ments £m	Cash collateral £m	Net amounts after off-setting £m	As reported within SOFP £m	Netting agree-ments £m	Cash collateral £m	Net amounts after off-setting £m
Financial assets								
Derivative financial instruments	229.7	(84.5)	(146.3)	(1.1)	75.9	(48.8)	(27.7)	(0.6)
Financial liabilities								
Derivative financial instruments	251.7	(84.5)	(139.5)	27.7	442.5	(48.8)	(388.1)	5.6

In respect of the Group's derivative assets, the net amount after offsetting as at 31 December 2020 of £11.1m related mostly to the collateral arrangements for two of the Group's derivatives where the counterparty was not required to post collateral up to a threshold. As at 31 December 2021, these two derivatives are derivative liabilities (see below).In respect of the Group's derivative liabilities, there is a net amount after offsetting of £73.1m (2020: £10.1m) between the value of the derivatives and the cash collateral pledged. This relates partly to net amounts relating to two of the derivatives the Society holds to hedge its equity release portfolio. These derivatives are long dated and bespoke in nature. They contain optionality relating to the pool balance they are linked to and an RPI cap and floor. As a result, their valuation can vary significantly depending on the assumptions and modelling techniques used. Both swap counterparties arrive at valuations that are different to the Society's, resulting in this difference between the valuation and the collateral pledged. The net amount after offsetting also relates to the collateral arrangements for two of the Group's derivatives where the Group is not required to post collateral up to a threshold (at the prior year end these two derivatives were derivative assets, as noted above).

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	2021				2020			
	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	2,433.6	-	-	**2,433.6**	3,237.8	-	-	3,237.8
Loans and advances to credit institutions	468.7	-	-	**468.7**	724.7	-	-	724.7
Debt securities	-	2,193.2	-	**2,193.2**	-	1,505.0	-	1,505.0
Derivative financial instruments	-	-	227.9	**227.9**	-	-	64.1	64.1
Loans and advances to customers	23,024.8	-	1.2	**23,026.0**	21,865.0	-	1.3	21,866.3
Equity release portfolio	-	-	406.6	**406.6**	-	-	433.8	433.8
Equity share investments	-	8.5	1.7	**10.2**	-	-	1.7	1.7
Trade receivables	71.1	-	-	**71.1**	27.8	-	-	27.8
Contingent consideration	-	-	6.3	**6.3**	-	-	12.3	12.3
Share warrants	-	-	11.0	**11.0**	-	-	6.5	6.5
Other assets	-	-	1.9	**1.9**	-	-	1.4	1.4
Total financial assets	**25,998.2**	**2,201.7**	**656.6**	**28,856.5**	25,855.3	1,505.0	521.1	27,881.4
Other non-financial assets				**611.5**				382.0
Total assets				**29,468.0**				28,263.4
Shares	19,759.8	-	-	**19,759.8**	18,709.4	-	-	18,709.4
Amounts owed to credit institutions and other customers	4,452.6	-	-	**4,452.6**	4,279.5	-	-	4,279.5
Debt securities in issue	2,218.1	-	-	**2,218.1**	2,452.5	-	-	2,452.5
Derivative financial instruments	-	-	292.1	**292.1**	-	-	445.9	445.9
Lease liabilities	114.4	-	-	**114.4**	62.5	-	-	62.5
Trade payables	14.7	-	-	**14.7**	4.7	-	-	4.7
Fair value of put option obligation	-	-	8.6	**8.6**	-	-	6.9	6.9
Subordinated liabilities	336.3	-	-	**336.3**	349.7	-	-	349.7
Subscribed capital	41.6	-	-	**41.6**	41.6	-	-	41.6
Total financial liabilities	**26,937.5**	**-**	**300.7**	**27,238.2**	25,899.9	-	452.8	26,352.7
Other non-financial liabilities				**265.4**				205.0
Total liabilities				**27,503.6**				26,557.7

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	2021				2020			
	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	2,433.6	-	-	**2,433.6**	3,237.8	-	-	3,237.8
Loans and advances to credit institutions	386.4	-	-	**386.4**	615.0	-	-	615.0
Debt securities	-	2,069.6	63.9	**2,133.5**	-	1,609.9	97.8	1,707.7
Derivative financial instruments	-	-	229.7	**229.7**	-	-	75.9	75.9
Loans and advances to customers	21,188.2	-	1.2	**21,189.4**	19,629.5	-	1.3	19,630.8
Equity release portfolio	-	-	406.6	**406.6**	-	-	433.8	433.8
Loans to subsidiary undertakings	257.0	-	-	**257.0**	731.3	-	-	731.3
Trade receivables	1.5	-	-	**1.5**	1.8	-	-	1.8
Total financial assets	**24,266.7**	**2,069.6**	**701.4**	**27,037.7**	24,215.4	1,609.9	608.8	26,434.1
Other non-financial assets				**192.4**				223.9
Total assets				**27,230.1**				26,658.0
Shares	19,749.3	-	-	**19,749.3**	18,725.2	-	-	18,725.2
Amounts owed to credit institutions and other customers (note 1)	3,156.7	-	-	**3,156.7**	3,418.0	-	117.8	3,535.8
Debt securities in issue	1,911.3	-	-	**1,911.3**	1,976.7	-	-	1,976.7
Derivative financial instruments	-	-	251.7	**251.7**	-	-	442.5	442.5
Lease liabilities	11.5	-	-	**11.5**	12.2	-	-	12.2
Trade payables	0.1	-	-	**0.1**	2.1	-	-	2.1
Subordinated liabilities	336.3	-	-	**336.3**	349.7	-	-	349.7
Subscribed capital	41.6	-	-	**41.6**	41.6	-	-	41.6
Total financial liabilities	**25,206.8**	**-**	**251.7**	**25,458.5**	24,525.5	-	560.3	25,085.8
Other non-financial liabilities				**48.0**				76.1
Total liabilities				**25,506.5**				25,161.9

Note
1. In 2020, 'Amounts owed to credit institutions and other customers at FVTPL' of £117.8m related to a deemed loan repayable to the Group's SPV Darrowby No. 4 plc which, under IFRS 9, had been voluntarily designated as FVTPL (see note 1f)). All other financial assets and liabilities shown above as FVTPL are mandatorily held as such.

b) Valuation of financial instruments carried at fair value

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy as explained below.

Valuation techniques

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

Level 1

The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Group's Level 1 portfolio mainly comprises gilts, treasury bills, fixed rate bonds and floating rate notes for which traded prices are readily available.

Level 2

These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. Examples of Level 2 instruments are certificates of deposit and interest rate swaps.

Level 3

These are valuation techniques for which one or more significant inputs are not based on observable market data.

Valuation techniques include net present value by way of discounted cash flow models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, similar market products, foreign currency exchange rates and equity index prices. Critical judgement is applied by management in utilising unobservable inputs including expected price volatilities, expected mortality rates and prepayment rates, based on industry practice or historical observation. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants on an arm's-length basis.

Transfers between levels

The Group makes transfers between the different levels of the fair value hierarchy where the inputs used to measure the fair value of the financial instruments in question no longer satisfy the conditions required to be classified in a certain level within the hierarchy. Any such transfer between different levels of the fair value hierarchy is made at the date the event in question that results in a change in circumstances occurs. On 31 December 2021 the contingent consideration asset held by the Group was transferred from Level 3 to Level 2; this is on the grounds that the fair value of this asset, determined by calculating the present value of expected future cashflows, is no longer materially impacted by the discount rate applied. There were no other transfers between different levels of the fair value hierarchy during the year ended 31 December 2021 or the year ended 31 December 2020.

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	2021				2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Financial assets held at FVOCI								
Debt securities	1,858.3	334.9	-	**2,193.2**	1,505.0	-	-	1,505.0
Equity share investments	-	8.5	-	**8.5**	-	-	-	-
Financial assets at FVTPL:								
Equity share investments	0.2	-	1.5	**1.7**	0.3	-	1.4	1.7
Derivative financial instruments	-	221.5	6.4	**227.9**	-	59.6	4.5	64.1
Equity release portfolio	-	-	406.6	**406.6**	-	-	433.8	433.8
Loans and advances to customers	-	-	1.2	**1.2**	-	-	1.3	1.3
Contingent consideration	-	6.3	-	**6.3**	-	-	12.3	12.3
Share warrants	-	-	11.0	**11.0**	-	-	6.5	6.5
Other assets	-	-	1.9	**1.9**	-	-	1.4	1.4
	1,858.5	**571.2**	**428.6**	**2,858.3**	1,505.3	59.6	461.2	2,026.1
Financial liabilities								
Financial liabilities at FVTPL:								
Derivative financial instruments	-	135.0	157.1	**292.1**	-	260.1	185.8	445.9
Fair value of put option obligation	-	-	8.6	**8.6**	-	-	6.9	6.9
	-	**135.0**	**165.7**	**300.7**	-	260.1	192.7	452.8
	1,858.5	**436.2**	**262.9**	**2,557.6**	1,505.3	(200.5)	268.5	1,573.3

Notes to the Accounts (continued)

41. Fair values (continued)

Society	2021 Level 1 £m	2021 Level 2 £m	2021 Level 3 £m	2021 Total £m	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m
Financial assets								
Financial assets held at FVOCI:								
Debt securities	1,754.7	314.9	-	**2,069.6**	1,609.9	-	-	1,609.9
Financial assets at FVTPL:								
Derivative financial instruments	-	226.2	3.5	**229.7**	-	71.4	4.5	75.9
Debt securities	63.9	-	-	**63.9**	97.8	-	-	97.8
Equity release portfolio	-	-	406.6	**406.6**	-	-	433.8	433.8
Loans and advances to customers	-	-	1.2	**1.2**	-	-	1.3	1.3
	1,818.6	**541.1**	**411.3**	**2,771.0**	1,707.7	71.4	439.6	2,218.7
Financial liabilities								
Financial liabilities at FVTPL:								
Derivative financial instruments	-	94.6	157.1	**251.7**	-	261.2	181.3	442.5
Amounts owed to credit institutions and other customers	-	-	-	**-**	-	-	117.8	117.8
	-	**94.6**	**157.1**	**251.7**	-	261.2	299.1	560.3
	1,818.6	**446.5**	**254.2**	**2,519.3**	1,707.7	(189.8)	140.5	1,658.4

The tables below analyse the movements in the Level 3 portfolio during the year:

Group 2021	Equity share investments £m	Equity release portfolio £m	Loans and advances to customers £m	Derivative financial instruments £m	Fair value of put option obligation £m	Contingent consid-eration £m	Share warrants £m	Other assets £m	Total £m
At 1 January	1.4	433.8	1.3	(181.3)	(6.9)	12.3	6.5	1.4	**268.5**
Gain/(loss) recognised in Income Statement	2.3[1]	(27.3)[2]	-	32.8[3]	(0.1)[6]	0.5[4]	3.2[5]	-	**11.4**
Contingent consideration received	-	-	-	-	-	(6.5)	-	-	**(6.5)**
Revaluation of market values	-	-	-	-	(1.6)[6]	-	-	-	**(1.6)**
Accrued interest	-	7.1[7]	0.1[7]	(2.2)[7]	-	-	-	-	**5.0**
Repayments	-	(6.5)	(0.2)	-	-	-	-	-	**(6.7)**
Realised losses	-	(0.5)[8]	-	-	-	-	-	-	**(0.5)**
Additions/ other	(2.2)	-	-	-	-	(6.3)	1.3	0.5	**(6.7)**
At 31 December	**1.5**	**406.6**	**1.2**	**(150.7)**	**(8.6)**	**-**	**11.0**	**1.9**	**262.9**

Notes

1. These are unrealised gains and are included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Equity share investments' line in the Income Statement.
2. These are unrealised gains and are included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement.
3. These are unrealised losses and are included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Derivatives associated with equity release portfolio' line in the Income Statement.
4. Included in the 'Profit on disposal of subsidiary undertakings' line in the Income Statement.
5. Included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Share warrants' line in the Income Statement.
6. Included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Put options held by minority shareholders' line in the Income Statement.
7. Included in the 'Interest receivable and similar income' line in the Income Statement.
8. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.

Group 2020	Equity share investments £m	Equity release portfolio £m	Loans and advances to customers £m	Derivative financial instruments £m	Fair value of put option obligation £m	Contingent consid-eration £m	Share warrants £m	Other assets £m	Total £m
At 1 January	1.3	410.0	1.5	(210.6)	(7.5)	17.9	3.2	3.2	219.0
Gain/(loss) recognised in Income Statement	0.1[1]	19.7[2]	-	(22.4)[3]	-	0.8[4]	0.1[5]	-	(1.7)
Contingent consideration received	-	-	-	-	-	(6.4)	-	-	(6.4)
Revaluation of market values	-	-	-	-	0.6[6]	-	-	-	0.6
Accrued interest	-	7.8[7]	0.1[7]	0.4[7]	-	-	-	-	8.3
Cash paid on partial or full cancellation	-	-	-	51.3[8]	-	-	-	-	51.3
Repayments	-	(3.7)	(0.3)	-	-	-	-	-	(4.0)
Realised losses	-	(0.1)[9]	-	-	-	-	-	-	(0.1)
Additions/ other	-	0.1	-	-	-	-	3.2	(1.8)	1.5
At 31 December	1.4	433.8	1.3	(181.3)	(6.9)	12.3	6.5	1.4	268.5

Notes

1. These are unrealised gains and are included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Equity share investments' line in the Income Statement.
2. These are unrealised gains and are included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement.
3. These are unrealised losses and are included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Derivatives associated with equity release portfolio' line in the Income Statement.
4. Included in the 'Profit on disposal of subsidiary undertakings' line in the Income Statement.
5. Included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Share warrants' line in the Income Statement.
6. £0.9m is included in 'Intangible assets' (goodwill) within the Statement of Financial Position and £(0.3)m is included in the 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL: Put options held by minority shareholders' line in the Income Statement and arises from changes to assumptions regarding the market value of the put options.
7. Included in the 'Interest receivable and similar income' line in the Income Statement.
8. Cash paid on cancellation of derivatives relating to two transactions during the year; the first being a partial cancellation of a derivative financial instrument held to economically hedge part of the equity release portfolio to reduce a hedging mismatch. The other transaction is in relation to the cancellation of a LIBOR-linked derivative financial instrument also held to economically hedge part of the equity release portfolio; the cancelled swap was replaced with a SONIA linked swap. The cash paid was equal to the fair value of the liability extinguished on cancellation or partial cancellation.
9. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.

Notes to the Accounts (continued)

41. Fair values (continued)

Society	Equity release portfolio	Loans and advances to customers	Derivative financial instruments	Amounts owed to credit institutions and other customers	Total
2021	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January	433.8	1.3	(176.8)	(117.8)	**140.5**
Gain / (loss) recognised in Income Statement	(27.3)[1]	-	25.4[2]	-	**(1.9)**
Accrued interest	7.1[3]	0.1[3]	(2.2)[3]	-	**5.0**
Repayments	(6.5)	(0.2)	-	117.8	**111.1**
Realised losses	(0.5)[4]	-	-	-	**(0.5)**
At 31 December	**406.6**	**1.2**	**(153.6)**	**-**	**254.2**

Notes
1. Included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement.
2. £32.8m is included in the 'Fair value gains / (losses) gains on financial instruments mandatorily held at FVTPL: Derivatives associated with equity release portfolio' line in the Income Statement; the remaining £(7.4)m is included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Hedging instruments and hedged items' line in the Income Statement.
3. Included in the 'Interest receivable and similar income' line in the Income Statement.
4. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.

Society	Equity release portfolio	Loans and advances to customers	Derivative financial instruments	Amounts owed to credit institutions and other customers	Total
2020	£m	£m	£m	£m	£m
At 1 January	410.0	1.5	(210.7)	(150.1)	50.7
Gain / (loss) recognised in Income Statement	19.7[1]	-	(17.8)[2]	0.1[3]	2.0
Accrued interest	7.8[4]	0.1[4]	0.4[4]	-	8.3
Cash paid on partial cancelation	-	-	51.3[5]	-	51.3
Repayments	(3.7)	(0.3)	-	32.2	28.2
Realised losses	(0.1)[6]	-	-	-	(0.1)
Additions / further advances	0.1	-	-	-	0.1
At 31 December	433.8	1.3	(176.8)	(117.8)	140.5

Notes
1. Included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Equity release portfolio' line in the Income Statement.
2. £(22.4)m of this figure is included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Derivatives associated with equity release portfolio' line in the Income Statement; the remaining £4.6m is included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL: Hedging instruments and hedged items' line in the Income Statement.
3. Included in the 'Fair value gains / (losses) on deemed loans from subsidiary undertakings designated at FVTPL' line in the Income Statement and relates to fair value movements in the deemed loan repayable to the Group's securitisation entity Darrowby No. 4 plc, as outlined in note 1f).
4. Included in the 'Interest receivable and similar income' line in the Income Statement.
5. Cash paid on cancellation of derivatives relating to two transactions during the year; the first being a partial cancellation of a derivative financial instrument held to economically hedge part of the equity release portfolio to reduce a hedging mismatch. The other transaction is in relation to the cancellation of a LIBOR-linked derivative financial instrument also held to economically hedge part of the equity release portfolio; the cancelled swap was replaced with a SONIA linked swap. The cash paid was equal to the fair value of the liability extinguished on cancellation or partial cancellation.
6. Included in the 'Realised losses on equity release portfolio' line in the Income Statement.

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. However, the valuation of the Group's investment in Bank North is regarded as a Level 2 valuation technique; this is on the grounds that the valuation of this investment is based on latest available information that includes the ongoing and expected future trading performance of Bank North, and also considers information from recent or ongoing capital issuances by Bank North to market participants. Further details of the Group's equity share investments are found in note 17e) and note 17f).

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 1w).

Derivative financial instruments

The Level 3 derivative financial instruments included in the tables on pages 242 to 244 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 1w).

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 £5.5m credit (2020: £2.7m charge).

Loans and advances to customers

The valuation of these loans and advances to customers is regarded as a Level 3 valuation technique as certain inputs are not market observable. Further details are found in note 1e).

Contingent consideration

The valuation of the contingent consideration asset was previously regarded as a Level 3 valuation technique as certain inputs into the valuation are not market observable. On 31 December 2021 the contingent consideration asset was transferred from Level 3 to Level 2; this is on the grounds that the fair value of this asset, determined by calculating the present value of expected future cashflows, is no longer materially impacted by the discount rate applied. Further details are found in note 1e).

Share warrants and other assets

These assets relate to share warrants held in an unlisted entity and amounts recognised, where appropriate, for additional share warrants yet to be received. The valuation of these assets is regarded as a Level 3 valuation technique as certain inputs into the valuation are not market observable. Further details are found in note 1e).

Fair value of put option obligation

A key input into the calculation of the fair value of the put option obligation is the estimate of the market value of the non-controlling shareholding. As this input is based on the judgement of senior management, the valuation of the put option obligation is considered to be a Level 3 valuation technique.

Amounts owed to credit institutions and other customers

These balances related to the deemed loan payable by the Society to one of the Group's SPVs, Darrowby No. 4 plc. The amount represented the proceeds received by the Society for assets transferred to Darrowby No. 4 plc less repayments. The valuation was regarded as a Level 3 valuation technique as certain inputs were not market observable. Further details are found in note 13.

Notes to the Accounts (continued)

41. Fair values (continued)

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 2021 Carrying value £m	Group 2021 Fair value £m	Society 2021 Carrying value £m	Society 2021 Fair value £m
Financial assets				
Cash in hand and balances with the Bank of England	2,433.6	2,433.6	2,433.6	2,433.6
Loans and advances to credit institutions	468.7	468.7	386.4	386.4
Loans and advances to customers	23,024.8	23,303.3	21,188.2	21,396.1
Trade receivables	71.1	71.1	1.5	1.5
Loans to subsidiary undertakings	-	-	257.0	257.0
	25,998.2	**26,276.7**	**24,266.7**	**24,474.6**
Financial liabilities				
Shares	19,759.8	19,807.5	19,749.3	19,807.5
Amounts owed to credit institutions	2,203.4	2,203.4	2,400.2	2,400.2
Amounts owed to other customers	2,249.2	2,250.0	756.5	756.3
Debt securities in issue	2,218.1	2,232.6	1,911.3	1,927.1
Lease liabilities	114.4	114.4	11.5	11.5
Trade payables	14.7	14.7	0.1	0.1
Subordinated liabilities	336.3	352.6	336.3	352.6
Subscribed capital	41.6	77.5	41.6	77.5
	26,937.5	**27,052.7**	**25,206.8**	**25,332.8**

	Group 2020 Carrying value £m	Group 2020 Fair value £m	Society 2020 Carrying value £m	Society 2020 Fair value £m
Financial assets				
Cash in hand and balances with the Bank of England	3,237.8	3,237.8	3,237.8	3,237.8
Loans and advances to credit institutions	724.7	724.7	615.0	615.0
Loans and advances to customers	21,865.0	22,034.3	19,629.5	19,763.2
Trade receivables	27.8	27.8	1.8	1.8
Loans to subsidiary undertakings	-	-	731.3	731.3
	25,855.3	26,024.6	24,215.4	24,349.1
Financial liabilities				
Shares	18,709.4	18,828.4	18,725.2	18,828.4
Amounts owed to credit institutions	2,149.2	2,149.2	2,538.8	2,538.8
Amounts owed to other customers	2,130.3	2,137.2	879.2	882.6
Debt securities in issue	2,452.5	2,471.5	1,976.7	2,002.9
Lease liabilities	62.5	62.5	12.2	12.2
Trade payables	4.7	4.7	2.1	2.1
Subordinated liabilities	349.7	363.2	349.7	363.2
Subscribed capital	41.6	72.8	41.6	72.8
	25,899.9	26,089.5	24,525.5	24,703.0

Key considerations in the calculation of fair values of those financial assets and liabilities not presented within the Statement of Financial Position at fair value are set out below unless there is no significant difference between carrying value and fair value.

Loans and advances to customers

For fixed rate and tracker mortgage products, the Group has estimated the fair value of these products using discounted cash flows and has applied relevant current market product rates as discount rates in order to also incorporate an element of future expected credit losses. Incurred losses have also been included. Fixed rate and tracker mortgages have been discounted using current market product rates that are specific to the particular market to which they relate.

Market prices will generally have moved since the fixed or tracker rate was taken out, therefore the valuation of these products will change reflecting upwards or downwards movements in market rates. The valuation includes information and expectations regarding estimated redemption profiles which are regularly reviewed and updated in light of experience.

As these redemption profiles are not considered to be observable by the market, the fair value of loans and advances to customers is considered to be derived by using Level 3 valuation techniques.

For standard variable rate mortgage products, the interest rate on such products is equivalent to a current market product rate and as such the Group considers the fair value of these mortgages to be equal to their carrying value.

Shares

Savings products at variable rates are at current market rates and therefore the Group regards the fair value to be equal to the carrying value.

The fair value of fixed rate savings products has been determined using discounted cash flows, discounted using a combined yield curve of cash and swap term rates.

Changes in market prices since the product was taken out will result in increases or decreases in the fair value of the fixed rate savings products. Penalties for early withdrawal on notice accounts are such as to suggest a negligible early withdrawal rate and none has therefore been applied; as a result the valuation of shares is considered to be a Level 2 valuation technique.

Amounts owed to credit institutions and other customers

Balances in these categories are valued using discounted cash flows which use only observable market inputs consisting of the combined yield curve of cash and swap term rates. All inputs to this valuation technique are market observable and as such they are categorised within Level 2 of the fair value hierarchy.

Debt securities in issue

Where securities are actively traded in a recognised market, with readily available and quoted prices, these have been used to value the securities. These securities are therefore regarded as having Level 1 fair values. Where such prices are not available, discounted cash flows are used, again using only market observable inputs consisting of a combined yield curve of cash and swap term rates. As such, these securities are categorised as having Level 2 fair values.

Subordinated liabilities and subscribed capital

Prices are quoted for these instruments in actively traded markets and, as a result, these instruments are categorised as having Level 1 fair values.

d) Fair values of non-financial assets and liabilities not carried at fair value

The fair value of investment property, which is a non-financial asset, is disclosed in these financial statements. Note 20 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.

Notes to the Accounts (continued)

42. Group segmental reporting

The Group's structure and reportable segments are outlined in the Strategic Report on pages 18 and 19.

Transactions between the segments are on normal commercial terms and conditions. The accounting policies of the reportable segments are consistent with the Group's accounting policies. The Group has not aggregated any of its operating segments for the purposes of financial reporting.

No geographical analysis is presented because substantially all of the Group's activities are conducted within the UK. Of the total external income, £31.9m (2020: £34.5m) was generated outside the UK.

A breakdown of the allocation of goodwill to each segmental area is included within note 21.

	2021				
	Mortgages and Savings £m	**Estate Agency £m**	**Investment Portfolio £m**	**Sundry incl. inter-divisional adjustments £m**	**Total £m**
Net interest income	291.7	(6.2)	2.6	8.6	**296.7**
Net non-interest income	33.8	1,000.1	27.1	(12.3)	**1,048.7**
Fair value gains on hedged items and derivatives	33.3	-	-	-	**33.3**
Fair value losses on equity release portfolio	(27.3)	-	-	-	**(27.3)**
Fair value gains on share warrants	-	3.2	-	-	**3.2**
Fair value losses on put options held by minority shareholders	-	(1.3)	-	-	**(1.3)**
Fair value gains on equity share investments mandatorily held at FVTPL	-	2.3	-	-	**2.3**
Realised profits on treasury assets held at FVOCI	0.1	-	-	-	**0.1**
Profit on disposal of Group undertakings	-	-	-	0.5	**0.5**
Fair value gains on step-acquisition of Group undertakings	-	26.9	-	-	**26.9**
Share of profits from joint ventures	-	1.2	-	-	**1.2**
Total income	**331.6**	**1,026.2**	**29.7**	**(3.2)**	**1,384.3**
Administrative expenses	(172.8)	(915.6)	(24.1)	(12.6)	**(1,125.1)**
Realised losses on equity release portfolio	(0.5)	-	-	-	**(0.5)**
Impairment and provisions for liabilities	12.5	0.7	(0.1)	-	**13.1**
Profit / (loss) before tax	**170.8**	**111.3**	**5.5**	**(15.8)**	**271.8**
Taxation	(38.9)	(16.5)	(1.3)	0.8	**(55.9)**
Profit / (loss) after tax	**131.9**	**94.8**	**4.2**	**(15.0)**	**215.9**
Total assets	**29,036.4**	**693.8**	**141.7**	**(403.9)**	**29,468.0**
Total liabilities	**27,246.7**	**475.9**	**132.5**	**(351.5)**	**27,503.6**

Total income can be analysed as follows:

	2021				
	Mortgages and Savings £m	**Estate Agency £m**	**Investment Portfolio £m**	**Sundry incl. inter-divisional adjustments £m**	**Total £m**
External income	325.3	1,020.5	29.3	9.2	**1,384.3**
Income from other segments	6.3	5.7	0.4	(12.4)	**-**
Total income	**331.6**	**1,026.2**	**29.7**	**(3.2)**	**1,384.3**

	2020				
	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
Net interest income	228.7	(0.4)	2.1	7.5	237.9
Net non-interest income	24.5	375.7	24.8	(10.5)	414.5
Fair value losses on hedged items and derivatives	(22.5)	-	-	-	(22.5)
Fair value gains on equity release portfolio	19.7	-	-	-	19.7
Fair value losses on other financial instruments at FVTPL	-	(0.1)	-	-	(0.1)
Realised profits on treasury assets held at FVOCI	0.6	-	-	-	0.6
Profit on disposal of Group undertakings	-	-	-	0.8	0.8
Share of profits from joint ventures	-	3.4	-	-	3.4
Total income	251.0	378.6	26.9	(2.2)	654.3
Administrative expenses	(160.5)	(324.0)	(22.8)	1.0	(506.3)
Realised losses on equity release portfolio	(0.1)	-	-	-	(0.1)
Impairment and provisions for liabilities	(25.8)	(2.8)	(0.5)	-	(29.1)
Profit / (loss) before tax	64.6	51.8	3.6	(1.2)	118.8
Taxation	(11.2)	(10.9)	(0.8)	1.1	(21.8)
Profit / (loss) after tax	53.4	40.9	2.8	(0.1)	97.0
Total assets	28,012.4	348.2	108.6	(205.8)	28,263.4
Total liabilities	26,458.3	175.6	100.1	(176.3)	26,557.7

Total income can be analysed as follows:

	2020				
	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Sundry incl. inter-divisional adjustments £m	Total £m
External income	250.1	368.9	27.1	8.2	654.3
Income from other segments	0.9	9.7	(0.2)	(10.4)	-
Total income	251.0	378.6	26.9	(2.2)	654.3

Notes to the Accounts (continued)

43. Capital management

The components of the prudential group's capital and the associated regulatory framework are set out in the Strategic Report on pages 37 and 38, and this is followed by quantitative disclosure of the components of capital resources and capital requirements. The Group's capital management processes are set out in the Strategic Report on page 38. Throughout both the current year and the prior year, the Group complied with and maintained surplus capital above all externally imposed capital requirements.

44. Adoption of new and revised International Financial Reporting Standards

The Group early adopted during the year the following amendment to existing accounting standards, which did not have a material impact on these financial statements:

- *COVID-19 Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)*

Standards issued but not yet effective

A number of new and amended accounting standards and interpretations will be effective for future reporting periods, none of which has been early adopted by the Group in preparing these consolidated financial statements. These new and amended standards and interpretations, details of which are set out below, are not expected to have a material impact on the Group's consolidated financial statements:

- IFRS 17 *Insurance Contracts;*
- *Classification of Liabilities as Current or Non-current (Amendments to* IAS 1*);*
- *Onerous Contracts – Costs of Fulfilling a Contract* (Amendments to IAS 37);
- *Fees in the '10 per cent' test for derecognition of financial liabilities* (Amendments to IFRS 9);
- *Definition of Accounting Estimates* (Amendments to IAS 8);
- *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2); and
- *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (Amendments to IAS 12).

45. Subsequent events

There have been no material subsequent events between 31 December 2021 and the date of approval of this Annual Report and Accounts by the Board.

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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 31.12.21
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

Jade Software Corporation USA, previously a trading subsidiary, is in the process of being wound-up. A Certificate of Dissolution was issued in September 2021 and all remaining assets of that company have been distributed.

In addition, the Group holds a non-controlling interest of 17.7% in Wynyard Group Limited, which entered liquidation in February 2017 and which is incorporated in New Zealand.

Country by country disclosures

An analysis of turnover, which is regarded as total income as defined below (and which excludes dividend income from subsidiaries), profit before tax, the current tax charge, corporation taxes paid, public subsidies received and the average number of employees on a full-time equivalent basis is set out below. The information presented is at a full Group level of consolidation. Total income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable), together with all other components of operating income. Total gross income and total gross profit before tax, for each country, represents consolidated income or profit before tax for that country.

2021 £m	UK	Australia	Guernsey	New Zealand	Jersey	Total
Total income by country	1,335.8	2.6	34.7	11.7	-	**1,384.8**
Inter-country adjustments	(1.0)	-	1.0	(0.5)	-	**(0.5)**
Consolidated income	**1,334.8**	**2.6**	**35.7**	**11.2**	**-**	**1,384.3**
Profit before tax by country	246.4	0.2	25.5	(0.3)	-	**271.8**
Inter-country adjustments	1.0	0.9	0.4	(2.3)	-	**-**
Consolidated profit before tax	**247.4**	**1.1**	**25.9**	**(2.6)**	**-**	**271.8**

£m	UK	Australia	Guernsey	New Zealand	Jersey	Total
Current tax expense	**55.8**	**0.1**	**2.6**	**-**	**-**	**58.5**
Corporation taxes paid	**53.9**	**0.1**	**2.4**	**-**	**0.6**	**57.0**
Public subsidies received^	**-**	**-**	**-**	**0.2**	**-**	**0.2**
Average number of employees	**15,038**	**15**	**65**	**194**	**5**	**15,317**

2020 £m	UK	Australia	Guernsey	New Zealand	Jersey	USA	Total
Total income by country	612.1	3.0	28.6	10.9	-	0.2	654.8
Inter-country adjustments	(0.7)	-	0.7	(0.5)	-	-	(0.5)
Consolidated income	611.4	3.0	29.3	10.4	-	0.2	654.3
Profit before tax by country	99.0	0.2	19.9	(0.3)	-	-	118.8
Inter-country adjustments	0.3	0.9	1.3	(2.7)	-	0.2	-
Consolidated profit before tax	99.3	1.1	21.2	(3.0)	-	0.2	118.8

£m	UK	Australia	Guernsey	New Zealand	Jersey	USA	Total
Current tax expense	20.0	-	2.1	-	-	-	22.1
Corporation taxes paid	30.9	-	0.8	-	-	-	31.7
Public subsidies received^	22.0	-	-	0.1	-	-	22.1
Average number of employees	8,400	17	62	183	4	-	8,666

^ Public subsidies received relate to cash payments received from governments in the form of grants. In the UK total grants received in 2020 of £22.0m relate to Government assistance claimed by Connells under the Coronavirus Job Retention Scheme of £21.2m and under the Government's Retail Cash Grant Scheme of £0.8m. No such grants have been received in 2021.

Annual Business Statement

1. Statutory percentages

	As at 31 December 2021 %	Statutory Limit %
Lending limit	**3.27**	25.00
Funding limit	**19.79**	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

	2021 %	2020 %
As a percentage of shares and borrowings:		
(i) Gross capital	**8.86**	8.24
(ii) Free capital	**6.89**	7.07
(iii) Liquid assets	**19.28**	21.49
As a percentage of mean total assets:		
(i) Group profit after taxation	**0.75**	0.36
(ii) Group management expenses	**3.90**	1.88
(iii) Society management expenses	**0.60**	0.59
As a percentage of closing total assets:		
(i) Group profit after tax	**0.73**	0.34

These percentages form part of the audited Accounts.

Explanation

The above percentages have been calculated from the Group and Society Income Statements and Statements of Financial Position.

Shares, deposits and borrowings represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest and the fair value adjustments for hedged risk.

Gross capital represents the general reserve together with the fair value reserve, cash flow hedging reserve, cost of hedging reserve, translation reserve, subordinated liabilities and subscribed capital, as shown within the Group Statement of Financial Position.

Free capital represents gross capital, 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 2021 and 2020 total assets. Management expenses represent administrative expenses.

3. Information relating to Directors at 31 December 2021

The Board of Directors at 31 December 2021, their dates of birth and dates of appointment as a Director are as follows:

	Date of birth	Date of appointment
A P Bottomley*	12 July 1965	1 January 2016
A J Burton	3 January 1959	3 May 2016
J R Coates	26 September 1951	27 March 2017
I M Cornelius*	11 February 1969	11 June 2012
D J Cutter*	1 January 1962	1 January 2000
R D East	18 March 1960	29 November 2011
D A Hall	9 November 1955	27 March 2017
H L Jackson	23 August 1965	24 October 2018
M J Lund	1 July 1957	25 April 2016
P W Moore	5 January 1960	1 February 2021
R S D M Ndawula*	24 February 1974	23 February 2015
H C Stevenson	10 November 1960	1 March 2013

* Executive Directors

Documents may be served on any of the above named Directors at the following address: Addleshaw Goddard, 3 Sovereign Square, Sovereign Street, Leeds, LS1 4ER.

The Directors' business occupations and other directorships at 31 December 2021 were as follows:

A P Bottomley	Building Society Customer Director	New Homes Group Limited Skipton Financial Services Limited Skipton Group Holdings Limited
A J Burton	Non-Executive Director	Connells Limited Countryside Properties PLC Elevate Services Inc HSS Hire Group PLC Skipton Group Holdings Limited
J R Coates	Non-Executive Director	Skipton Group Holdings Limited TPT Retirement Solutions The Veterinary Defence Society Limited
I M Cornelius	Building Society Commercial and Strategy Director	BCHT Development Company Ltd Connells Limited Giggleswick School Incommunities Commercial Limited Incommunities Group Limited Incommunities Treasury Plc Lumia Homes Limited Jade Software Corporation Limited Skipton Group Holdings Limited Skipton Trustees Limited

Annual Business Statement (continued)

3. Information relating to Directors at 31 December 2021 (continued)

D J Cutter	Building Society Group Chief Executive	Bailey Computer Services Limited Connells Limited Countrywide Limited Leeds Share Shop Limited Moorlands Learning Trust Northwest Investments NZ Limited Skipton Group Holdings Limited Skipton Group Limited Skipton Investments Limited Skipton Limited Skipton Mortgage Corporation Limited Skipton Mortgages Limited Skipton Premier Mortgages Limited Skipton Premises Limited Skipton Share Dealing Services Limited Skipton Trustees Limited
R D East	Non-Executive Director & Chair	Hampshire Trust Bank PLC Provident Financial PLC RCWJ Limited Skipton Group Holdings Limited Vanquis Bank Limited
D A Hall	Non-Executive Director	Auxmoney Europe Holding Limited Cembra Money Bank Moneta Money Bank Skipton Group Holdings Limited
H L Jackson	Non-Executive Director	Ikano Bank AB JD Sports Fashion PLC Rothesay Life PLC Rothesay Limited Skipton Group Holdings Limited
M J Lund	Non-Executive Director	Coutts & Company Connells Limited Equiniti Financial Services Limited MyCSP Limited MyCSP Trustee Company Limited Skipton Group Holdings Limited
P W Moore	Non-Executive Director	Bank of Ireland (UK) PLC Codan Forsikring A/S Hart Learning Group (including North Hertfordshire College) Royal British Legion Skipton Group Holdings Limited Wesleyan Assurance Society
R S D M Ndawula	Building Society Group Finance Director	Leeds Share Shop Limited Skipton Financial Services Limited Skipton Group Holdings Limited Skipton Group Limited Skipton Limited Skipton Mortgage Corporation Limited Skipton Mortgages Limited Skipton Premier Mortgages Limited Skipton Premises Limited Skipton Share Dealing Services Limited Yorkshire Cancer Research
H C Stevenson	Non-Executive Director	Henley Business School IG Group Holdings PLC IG Index Limited IG Markets Limited NHW Consultancy Limited Reach PLC Skipton Group Holdings Limited The Wellington College International Limited XYZXYZ Limited

Messrs Bottomley, Cornelius, and Ndawula have service contracts entered into on 1 January 2016, 7 December 2012, and 25 February 2015 respectively which may be terminated by either party giving one year's notice. Mr Cutter will step down from the Board in April 2022.

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:

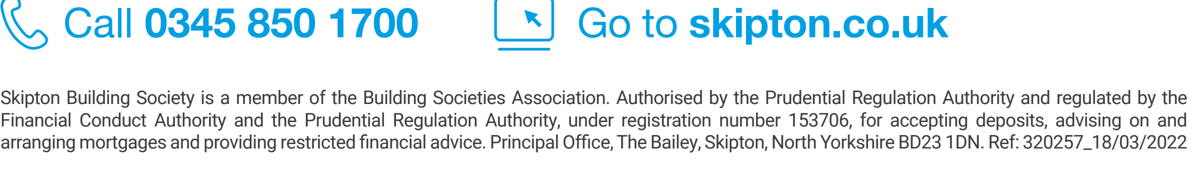
Term	Definition
Arrears	A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is overdue.
Asset backed securities (ABS)	An asset backed security is a security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. Typically these assets are pools of residential or commercial mortgages.
Buy-to-let mortgages	Mortgages offered to customers purchasing residential property to be rented to others to generate a rental income.
Common Equity Tier 1 capital	Common Equity Tier 1 (CET 1) capital primarily comprises internally generated capital from retained profits, less regulatory adjustments. CET 1 capital is fully loss absorbing.
Contractual maturity	The final payment date of a loan or other financial instrument, at which point the entire remaining outstanding principal and interest is due to be repaid.
Covered bonds	Debt securities backed by a portfolio of mortgages that are segregated from the issuer's other assets to be solely for the benefit of the holders of the covered bonds. The Group has established covered bonds as part of its funding activities. Covered bonds use retail / residential mortgages as the asset pool.
CRD V	CRD V became effective on 31 December 2020 and is made up of the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), as amended by the onshored provisions within CRR II regulation (EU) 2019/876 and the CRR 'Quick Fix' package.
Debt securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings.
Debt securities in issue	Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit.
Derivative financial instruments	A derivative financial instrument is a type of financial instrument (or an agreement between two parties) that has a value based on the underlying asset, index or reference rate it is linked to. The Group uses derivative financial instruments to hedge its exposures to market risks such as interest rate risk and currency risk.
Effective interest rate (EIR) method	The method used to measure the carrying value of a financial asset or liability measured at amortised cost and to allocate associated interest income or expense over the relevant period.
Expected Credit Loss (ECL)	The present value of all cash shortfalls over the expected life of the financial instrument to determine impairment loss allowances under IFRS 9.
Exposure at default (EAD)	The expected outstanding balance of an asset at the time of default.
Fair value	Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.
Financial Services Compensation Scheme (FSCS)	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry.
Forbearance strategies	Strategies to assist borrowers in financial difficulty, such as arrears capitalisation, a reduction in the monthly payment, a conversion to interest only or a mortgage term extension. Forbearance strategies aim, if possible, to avoid foreclosure or repossession.
Free capital	The aggregate of gross capital 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.
Gross capital	The aggregate of the general reserve, translation reserve, fair value reserve, cash flow hedging reserve, cost of hedging reserve, subordinated liabilities, subscribed capital and non-controlling interests.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's own assessment, as part of regulatory requirements, of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Group's own assessment that current and projected levels of liquidity are sufficient and appropriate for the Group's plans, under a variety of stress scenarios. It also details the Group's compliance with the PRA's regulatory requirements.
Internal Ratings Based approach (IRB)	An advanced approach to measuring capital requirements in respect of credit risk. The IRB approach may only be used with permission from the PRA.
International Swaps and Derivatives Association (ISDA) Master Agreement	A standardised contract developed by ISDA and used to enter into bilateral derivatives transactions.
Investment grade	The range of credit ratings from Aaa to Baa3, as measured by external credit rating agencies.
Lending limit	Measures the proportion of business assets not in the form of loans fully secured on residential property. The calculation of the lending limit is explained in the Annual Business Statement.
Leverage ratio	The ratio of Tier 1 capital divided by total exposure, which includes on and off balance sheet assets, after netting derivatives.
Liquid assets	The total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.
Liquidity Coverage Ratio	A measure designed to ensure that financial institutions have sufficient high quality assets available to meet their liquidity needs for a 30 day liquidity stress scenario.
Liquidity ratio	Liquid assets as a percentage of shares, deposits and borrowings.
Loan-to-value ratio (LTV)	A ratio which expresses the balance of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTVs on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in a house price index).
Loans past due / past due loans	Loans on which payments are overdue including those on which partial payments are being made.
Loss given default (LGD)	An estimate of the loss that would be incurred should a borrower default on their credit obligations.
Management expenses	Management expenses represent administrative expenses. The management expense ratio is management expenses expressed as a percentage of mean total assets.
Material Risk Takers (MRTs)	A group of employees to which the FCA's Remuneration Code applies. MRTs consist of Executive Directors, Non-Executive Directors and certain senior managers who could have a material impact on the firm's risk profile.
Mean total assets	Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
Medium term notes (MTN)	Corporate notes continuously offered by an entity to investors through a dealer.
Member	A person who has a share investment or a mortgage loan with the Society, or is the holder of a Permanent Interest Bearing Share in the Society.
Mortgage backed securities (MBS)	Assets which are backed by underlying mortgage collateral.
Net interest income	The difference between interest received on assets and interest paid on liabilities.
Net interest margin	Net interest income as a percentage of mean total assets.
Permanent Interest Bearing Shares (PIBS) or subscribed capital	Unsecured, deferred shares that are a form of Tier 1 capital. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing members of Skipton Building Society.
Prime	Prime mortgages are those granted to the most credit worthy category of borrower.
Probability of Default (PD)	An estimate of the probability that a borrower will default on their credit obligations.
Put option	Where the Group acquires a majority shareholding in a subsidiary undertaking, but grants the non-controlling shareholders an option to sell their shares to the Group at some future date(s), a put option obligation exists.
Renegotiated loans	Loans are classed as renegotiated, with the customer's consent, when their terms have changed during the year. Loans and advances may be renegotiated whether or not the customer is experiencing financial difficulty in repaying their loan with the Group.

Glossary (continued)

Repo / reverse repo	Short to medium term funding agreements which allow a borrower to sell a financial asset, such as an ABS or government bond, as security for cash. As part of the agreement the borrower agrees to repurchase the security at some later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo, which can typically be resold or repledged if desired.
Residential loans	Mortgage lending secured against residential property.
Residential mortgage backed securities (RMBS)	A category of ABS that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and / or principal).
Risk appetite	The articulation of the level of risk that the Group is willing to take in order to safeguard the interests of the Society's members whilst achieving business objectives.
Risk weighted asset (RWA)	The value of assets, after adjustment, under CRD V rules to reflect the degree of risk they represent.
Securitisation	A process by which a group of assets, usually loans, are aggregated into a pool which is used to back the issuance of new securities. A firm transfers these assets to a special purpose vehicle which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities. These securitisation structures use retail / residential mortgages as the asset pool.
Shares	Money deposited by non-corporate depositors in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.
Shares, deposits and borrowings	The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest and fair value adjustments for hedged risk.
Significant increase in credit risk	A significant increase in credit risk on a financial asset is judged to have occurred when an assessment using quantitative and qualitative factors identifies that the credit risk has increased significantly since the asset was originally recognised.
SPPI test	An assessment of whether the contractual terms of the financial asset give rise to cash flows that are in substance solely payments of principal and interest.
Stage 1 financial assets	Stage 1 financial assets are those which have not experienced a significant increase in credit risk since origination. 12 month ECLs are recognised and interest revenue is determined by the EIR on the gross carrying amount.
Stage 2 financial assets	Stage 2 financial assets have experienced a significant increase in credit risk since initial recognition. Lifetime ECLs are recognised and interest revenue is determined by the EIR on the gross carrying amount.
Stage 3 financial assets	Stage 3 financial assets are identified as in default and considered credit-impaired. Lifetime ECLs are recognised and interest revenue is determined by the EIR on the net carrying amount.
Subordinated debt / liabilities	A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors and investing members (other than holders of PIBS).
Sub-prime	Loans to borrowers typically having weakened credit histories that include payment delinquencies and in some cases potentially more severe problems such as court judgments and discharged bankruptcies.
Term Funding Scheme (TFS)	A scheme launched by the Bank of England in 2016 which allows qualifying financial institutions to borrow central Bank of England reserves in exchange for eligible collateral to provide access to cost effective funding to support lending to customers.
Term Funding Scheme with additional incentives for SMEs (TFSME)	A scheme allowing eligible banks and building societies to access four-year funding at rates very close to Bank Base Rate, designed to incentivise eligible participants to provide credit to businesses and households to bridge through the current period of economic disruption caused by COVID-19 - the scheme includes additional incentives to provide credit to SMEs.
Tier 1 capital	A measure of financial strength. Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital comprises general reserves from retained profits less regulatory adjustments. Qualifying capital instruments such as PIBS are included in other Tier 1 capital (i.e. not Common Equity Tier 1).
Tier 2 capital	Tier 2 capital comprises PIBS that have been transitioned out of additional Tier 1 capital – under CRD V all of the Society's PIBS will be phased out of Tier 1 capital as they fail to satisfy the CRD V requirements. However the Society's PIBS will continue to satisfy the criteria for Tier 2 capital and will therefore be phased into Tier 2.
Wholesale funding	Amounts owed to credit institutions, amounts owed to other customers and debt securities in issue excluding balances deposited by offshore customers.

Terms used within the Summary Group Responsible Business Report

Carbon neutral	A balance between the amount of CO2 emitted into and removed from the atmosphere.
Carbon offsets	Actions intended to compensate for CO2 emissions by reducing emissions elsewhere, or by reducing the carbon in the atmosphere through carbon capture or similar technology.
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.
Grey fleet	Grey fleet refers to vehicles owned and driven by employees for business purposes.
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.



Skipton Building Society is a member of the Building Societies Association. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, under registration number 153706, for accepting deposits, advising on and arranging mortgages and providing restricted financial advice. Principal Office, The Bailey, Skipton, North Yorkshire BD23 1DN. Ref: 320257_18/03/2022