The future matters

Group Responsible Business Report 2021

SKIPTON
BUILDING SOCIETY
Since 1853

Our role.
Our vision.
Our responsibility.

Contents

Introduction

For a mutual like Skipton, society extends far beyond our business and a home extends beyond bricks and mortar. We've a role to play in protecting our planet and the people and communities within it. This is a role we're dedicating more of our time and resources to than ever before.

2021 saw us further evolve our organisational strategy, weaving sustainability through every part. We've looked beyond the core Society and out into the larger Skipton Group. We've set ourselves challenging environmental, social and governance (ESG) targets and ambitions over the short, medium and longer terms. Against our vision of building a better, more sustainable Society, we're continually reassessing our understanding of the issues and the action we're taking to drive progress forward.

2021 was 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. Against such a substantial changing social and environmental backdrop, I'm delighted to announce Skipton became a signatory to the United Nations Principles for Responsible Banking, joining a movement within financial services committed to a sustainable future for all.

In doing so we've made a commitment to aligning our strategic efforts with the United Nations Sustainable Development Goals (SDGs) and the 2015 Paris Climate Agreement.

So, it's with great pleasure that I share with you our Group Responsible Business Report, which outlines our sustainability commitments progress and ambitions. Here you can see some of the work we've done in 2021, together with how the wider Skipton Group is preparing for and responding to climate change.

Skipton Building Society is the parent organisation to several subsidiaries, including the UK's largest estate agency, Connells Group. While our subsidiary businesses have their own individual corporate strategies, management structures and sustainability commitments, we feel it's right that we come together as a Group – which collectively employs over 16,400 people – to share with you our efforts in anticipating and responding to the impacts of climate change. Going forwards all major subsidiaries within the Skipton Group will report their progress and targets so that we can come together as one Group to make more positive change than we could individually.

Society quite rightly challenges businesses to innovate, collaborate and ultimately to do more as the ongoing impact of the global pandemic, together with the severity and significance of climate change demands our attention. We'll keep you regularly updated on how we're doing and the positive impact we're making. We'll also keep reviewing our goals to ensure they evolve to meet the current and future needs of our colleagues, customers and society, so we can play our part in building a sustainable future for all.

Ian Cornelius
Commercial & Strategy Director
18 March 2022

Sustainability Strategy

Since we opened our doors more than 169 years ago, building a better Society has been at the very heart of what we do. Back in 1853, our aim was to help local communities and now, as we've grown, corporate social responsibility has become core to our purpose.

Sustainability Strategy

As a mutual that was established 169 years ago to help local communities, philanthropy and corporate social responsibility (CSR) has always been core to the Society's purpose.

Yet against a backdrop of profound social and environmental change, we're acutely aware of the challenges facing our planet and we recognise the urgency of these issues.

In recent years we've grown our understanding of the risks and opportunities they present to our colleagues, our customers and to the wider society.

By embracing sustainability and staying true to our mutuality, we're:

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

The need and urgency for global social and environmental change continued to intensify in 2021.

Our vision is to build a better, more sustainable Society and to deliver against stretching environmental, social and governance (ESG) targets.

We've now embedded sustainability across our organisational strategy.

We firmly believe a better society is one that is more sustainable – socially, financially and environmentally. One that helps people today and thinks of their needs tomorrow. For us, helping people find their good place means building a better place for everyone.

United Nations Sustainable Development Goals

The Sustainable Development Goals (SDGs) are a globally recognised plan to end poverty, fight inequality and stop climate change by 2030.

For us, this means doing the right thing for our colleagues and our customers in the communities and environment we serve.

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

Goal 8
Decent Work and Economic Growth

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

Goal 11
Sustainable Cities and Communities

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

Goal 12
Responsible Consumption and Production

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

Goal 16
Peace, Justice and Strong Institutions

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

United Nations Principles for Responsible Banking

To align our sustainability strategy, our commitments to the United Nations Sustainable Development Goals (SDGs) and the 2015 Paris Climate Agreement, in 2021 we became a signatory of the United Nations Principles for Responsible Banking (PRBs).

The PRBs provide the framework for a sustainable banking system. There are six principles:

- Alignment
- Impact & Target Setting
- Clients & Customers
- Stakeholders
- Governance & Culture
- Transparency & Accountability

We're committing to these principles and undertaking an impact analysis to understand the positive and negative impacts of our products, services, procedures and policies.

We're identifying where we can have the most impact, further embed sustainability throughout the Society, and continue to deliver best sustainable practice for our customers and wider society.

The PRBs have clear benefits that align to our vision of building a better, more sustainable Society. They'll provide stretch and further impetus for us to achieve our ESG targets, our commitments to the SDGs and our progress towards becoming a net zero business. We'll report on our progress through our PRB journey in our subsequent Group Responsible Business Reports.

Customer Insight

In 2021 we carried out comprehensive sustainability research, combining an online customer survey with telephone interviews. In total, 696 of our customers took part to help inform our sustainability strategy.

Our online customer survey shows 79% of respondents said Skipton has a responsibility to make a positive contribution to society and 76% of customers said Skipton has a responsibility to make a positive contribution to the environment. Two in five customers chose 'ethical' brands in the last 12 months to adopt a more sustainable lifestyle, and 31% of our customers say they often seek out financial services providers with strong sustainability/ethical values.

This has strengthened our commitment to take positive action and we'll continue to engage with and involve our customers to ensure we're meeting their evolving sustainability needs.

Some of our 2021 Society Highlights

We signed the Principles for Responsible Banking, joining the largest international coalition of financial services organisations that place sustainability at the heart of their business

We were carbon neutral for our scope 1, 2 and in our grey fleet, business air and rail journeys scope 3 emissions through verified carbon offsetting

We completed our first Disability Smart Audit with the Business Disability Forum, receiving a Bronze award for our work on improving accessibility and inclusivity for our customers and colleagues

1,500

We trained over 1,500 of our colleagues with Communication Access UK. This is helping them better support customers who have communication difficulties

£430,000

We donated over £430,000 to our charity partner Mental Health UK over the last two years

88

We became the first building society to launch an on-demand video relay service for the British Sign Language (BSL) community in all of the Society's 88 UK branches

£236,764

Skipton Building Society's Charitable Foundation donated £236,764 to 111 charities that support children, young people and the elderly

£35,000

We gave £35,000 to support the Skipton Building Society Camerata and the Craven and Harrogate Citizens' Advice Bureau

£32,530

We donated £32,530 to foodbanks across the UK in 2021

266

We donated 266 laptops and 23 iPads to local schools and good causes

£15,342

We match-funded colleague fundraising efforts, giving £15,342 to 33 charities close to their hearts

17

We supported seven apprentices with paid work placements and welcomed ten colleagues through our graduate scheme.

£40,000

We gave £40,000 to 40 causes supporting housing and homelessness through our broker Community Giving programme

37%

We achieved our Women in Finance Charter target for women in leadership positions (37%)

23,800

We removed 19,000 sheets of paper and over 4,800 envelopes from our annual operations, helping reduce our carbon footprint by approximately 100 kgCO2e

85%

We achieved a very high colleague engagement score of 85%

99%

99% of our waste was diverted from landfill

86%

We achieved an excellent net customer satisfaction score of 86%

Awards Won

Out of 150 entries, Skipton was awarded Business Disability Forum's Disability Smart Customer Service Award 2021.

Skipton was named Best National Building Society for the eighth year running in the 2021 What Mortgage awards and Best Overall Mortgage Lender in the Personal Finance Awards 2020/21.

In 2021, Skipton was placed 7th in the UK's 25 Best Big Companies to Work For, and was awarded a 3-star accreditation from Best Companies.

Performance Against 2021 Targets

In 2021, we set ourselves short, medium and long-term sustainability targets. As a building society it's important to us that we demonstrate our mutual purpose, together with having stretching ambitions that specifically tackle evolving societal needs such as climate change, accessibility, and diversity. As a result, we created purposeful sustainability and ESG specific objectives.

Social Sustainability

Target	Progress	Next steps
Donate £500,000 to Mental Health UK by the end of 2022	We've 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 causes per year through our Community Giving programme.	We donated £40,000 to 40 housing and homeless causes in 2021. We also donated £32,530 to foodbanks across the UK	After supporting housing and homeless causes for three years donating £160,000, we're looking to focus on foodbanks 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 didn't achieve our volunteering target in 2021. We focused on virtual volunteering to ensure we keep our colleagues safe during the pandemic	We already have several initiatives lined up for our colleagues to achieve our target in 2022

Social Sustainability

How we're making this happen

Mental Health UK - our Corporate Charity Partner

Mental Health UK works to provide advice, support, training and information for people affected by poor mental health. We partnered with the charity in January 2020. Since then, we've worked together to help raise awareness, learn more about mental health and explore how we can better support our colleagues, our customers and our communities. We donated over £214,000 in 2021 to support the valuable work it does. Our donation has gone towards a dedicated online peer support service called Clic, which works to help reduce the loneliness and isolation experienced by people with mental health problems, as well as signposting to a hub of mental health information.

In 2021, we also teamed up with Mental Health UK to run a series of bespoke training sessions designed to help our colleagues start and hold conversations with others about mental health. The sessions focused on understanding what mental health is, the importance of supportive conversations and tips on how best to approach them. 77% of colleagues said they felt more confident about starting a conversation after the session and 85% were keen to develop their knowledge of mental health issues even more. We also continued to offer Mental Health First Aid training to all our leaders.

Community Giving

We donated £40,000 to 40 causes supporting housing and homelessness. These organisations were nominated by mortgage brokers and employees of intermediary firms, through our Community Giving programme. This popular programme enabled community groups and charities continue to deliver a host of vital services including serving hot meals, providing beds for the homeless each night and transforming spaces into homeless shelters. One charity to receive our donation provided 250,000 free meals in 2021 to homeless people in Barnsley and is still serving over 5,000 meals per week.

After receiving our donation, Centrepoint in Barnsley said:

"This money will go towards providing homeless young people with safe and stable accommodation as well as supporting homeless young people's physical and mental health and access to training and education."

Accessibility

From physical impairments, neurodiverse and long-term health conditions, through to diversity and inclusion, we're working towards building a Society that's fair and accessible to everyone. In August 2021, we hit our target of being audited by the Business Disability Forum and achieved a Bronze Award.

In the first half of the year we also successfully trained over 1,500 of our customer-facing colleagues with Communication Access UK so they're better able to support those who have communication difficulties. We also enhanced our British Sign Language translation offering so it's now instantly available for customers visiting all of our branches.

Colleague Engagement

In 2021, we were recognised as the UK's 7th Best Big Company to Work For. We also received a 3-star accreditation from Best Companies for our high levels of employee engagement. Colleague engagement remained high at 85%, with 92% of colleagues saying they are proud to work for Skipton.

7th place in the top 25 Best Big Companies to Work For in 2021.

THE UK'S 25 BEST BIG COMPANIES TO WORK FOR 2021 cert.b.co.uk

INVESTORS IN PEOPLE

Social Sustainability

Other areas of focus

Diversity and Inclusion

We're currently focussed on three key themes:

- Improving diversity of colleagues across the Society at all levels and in all roles.
- Creating an inclusive colleague environment and customer experience.
- Continuously improving diversity and inclusion practices and outcomes for our colleagues and customers.

We're pleased to be a signatory of the Women in Finance Charter, reaching our first target for women in leadership positions (37%) in 2021. But we remain very much focussed on progressing further. We've improved our processes for collecting and analysing diversity data, maintained gender balanced shortlists for recruitment into senior positions, and examined our role profiles for language that might contain unconscious bias.

We've also updated our framework for colleagues requiring reasonable adjustments or workplace adaptions. In doing so we're continually improving the experience of colleagues with disabilities or other adjustment needs, together with embracing flexibility and hybrid working across our workforce.

Early Careers

Our vision for early careers is 'to build a talented, diverse workforce which is fit for the future' and we run several programmes that support this vision. 2021 saw us recruit seven external apprentices for our specialised streams of our Connecting our Future apprenticeship programme including Data Science, Risk and Compliance. We also welcomed ten graduates into our Graduate Leadership Programme.

We're pleased to be a signatory of the Women in Finance Charter, reaching our first target for women in leadership positions (37%) in 2021. But we remain very much focussed on progressing further.

Environmental Sustainability

How we're bringing this to life

Target	Progress	Next steps
Take more carbon out of the atmosphere than we put into it by 2025	We reduced our carbon footprint by 1.9% in 2021 and offset all scope 1, 2 and scope 3 emissions from our grey fleet, 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've removed 30% of single use plastic since 2019	We aim to reduce single use plastics by 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

Carbon Neutral scope 1, 2 and business travel related scope 3

We've been procuring renewable electricity since 2019. Almost half of our branches use electricity as a primary heat source, and 83 out of our 88 branches use at least part LED lighting. Our head office building uses full LED lighting. Combined, this means our scope 1 and 2 emissions have reduced to 680.2 tCO2e. In addition to planting 15,000 trees in the UK with the Yorkshire Dales Millennium Trust, we fully offset these emissions through a Tanzanian reforestation project.

The Uchindile Mapanda Reforestation Project helps forests to regenerate. It plants a range of indigenous tree species and fruit crops, improving species diversity and ensures the health and resilience of existing and new forests. We selected this project, as like the Society, it supports the United Nations Sustainable Development Goals. In addition, the reforestation project is verified and has approval under both the Verified Carbon Standard and the Climate, Community and Biodiversity Standard.

We're aware that a large part of our scope 3 operational emissions stems from colleagues traveling, commuting and working from home. This is something we'll be actively targeting over the coming years as we continue our efforts to reduce our carbon footprint.

Looking ahead, we also intend to undertake a science-based target review of our financed scope 3 emissions to enable us to develop a robust net zero strategy.

Waste

In 2021 we diverted 99% from landfill, with 59% being recycled and 40% recovered. We also saw a reduction by 25 tonnes of waste produced, compared to 2019. With colleagues now returning to the office, we're aware we need to continue in our efforts to recycle more of our waste, while continuing to reduce the amount we produce.

Environmental Sustainability

How we're bringing this to life

Single Use Plastic

As an essential service that remained open on the front line throughout the pandemic, COVID-19 challenged our efforts to reduce single use plastic. This in part was due to us needing to quickly procure disposable Personal Protective Equipment (PPE) for our colleagues as well as us seeing an increased demand for other disposable items to reduce the risk of virus transmission. In 2021, we restarted our plastic reduction efforts, procuring reusable PPE and other disposable plastic alternatives. We've reduced use of single use plastics by 30% since 2019 and will continue in our efforts to drive down our need for it.

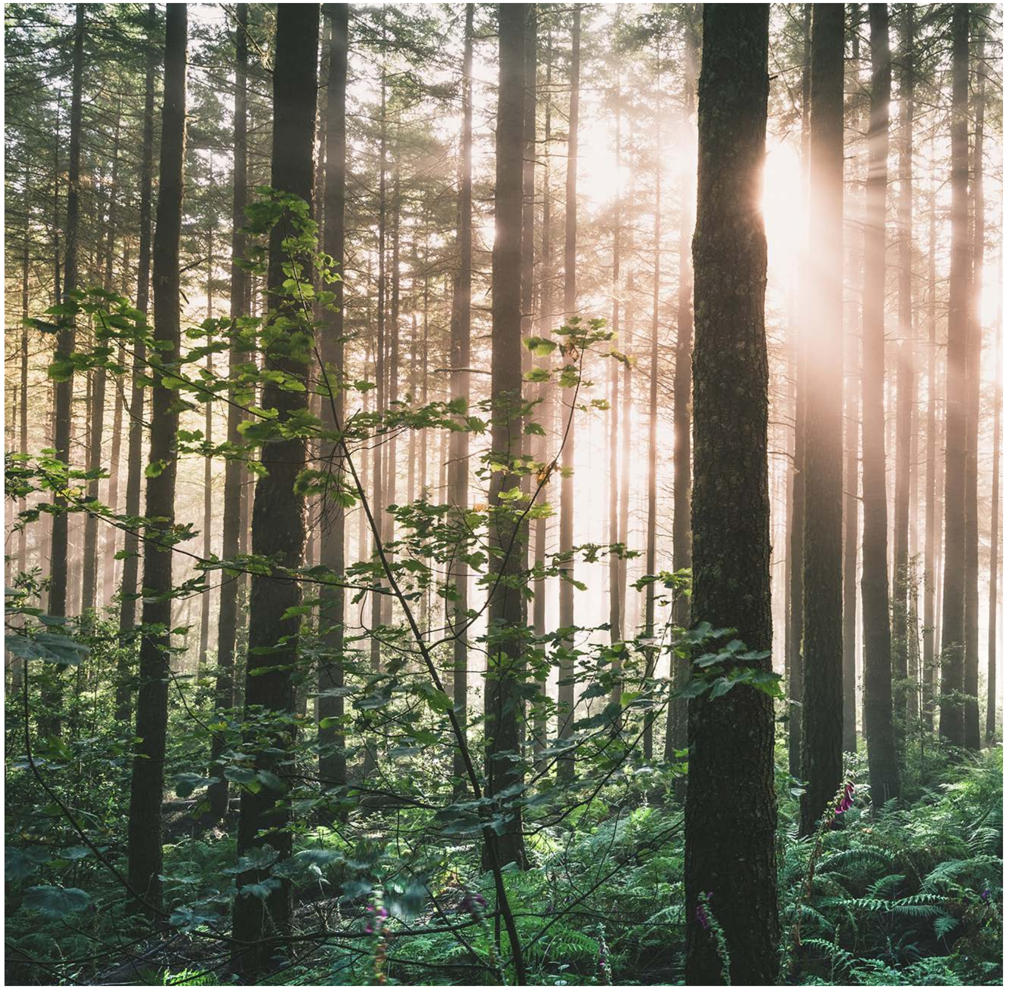
Tree Planting

In addition to offsetting our scope 1, 2 and some of our scope 3 carbon emissions through the Tanzanian reforestation project, we're also supporting the planting of UK woodland. Planting trees is an effective way to reduce flood risk, offset carbon emissions and improve the natural environment for the benefit of climate, wildlife and people. We've planted 30,000 native trees in the UK since 2019 and in June we teamed up with the Yorkshire Dales Millennium Trust to continue this work.

Reducing Paper

Many of our customer journeys see us following paper-based processes. Reducing our paper usage is important to us and we set the challenge to reduce operational mailings by 50% by 2023. In 2021 we reduced our paper usage by 100 kgCO2e, removing over 19,000 sheets of paper and over 4,800 envelopes from our operations.

While this work supports our ambition to digitise and optimise our key operational processes, as well as support our environmental goals, we understand there are customers who still require paper letters and we're mindful of this as we continue our efforts.



Financial Sustainability

Our financial sustainability priority ensures we deliver on our purpose for this generation of members and the next. We achieve this by maintaining our strong capital position and the result of sustainably growing our mortgage and savings balances, supplemented by dividends principally from our estate agency subsidiary. We also make sure we've strong cost control and a sensible approach to risk management.

Target	Progress	Next steps
Support one million savers and investors	We supported 867,573 customers to save and invest in 2021	We'll aim to support our customers with above market average savings rates. See Supporting our Savers on page 17 for more details.
Help more people to invest	Our financial advisers provided pensions and investments advice to over 4,800 customers	We'll work towards making financial advice more accessible and inclusive
Help 8,000 first-time buyers own homes in 2021	We provided mortgages to 7,893 first-time buyers in 2021 We're one of the UK's largest provider of Cash Lifetime ISAs (LISA), with over 156,000 customers using the account to buy their first home or save for their retirement	We'll help more first-time buyers get on the housing ladder

Financial Sustainability

How we're bringing this to life

Supporting our Savers

We grew our savings balances by over £1bn to £19.8bn in 2021. In line with our savings strategy goal to build deeper relationships with our savers, we continue to explore and bring to market new savings products that work for our customers and for us. We want to offer our savers good long-term value, and so we're pleased to report in 2021 Skipton paid an average savings rate of 0.65% to savers, 0.37% above the market average for UK banks and building societies.*

(Source: CACI Current Account & Savings Database, Stock, latest available comparable market data for the 12 months ended 31 December 2021.) In aggregate, this equates to an extra £70m in customers' pockets compared to market averages.

* Rest of market as defined in CACI Current Account and Savings Database, Stock, including fixed and variable rates. CACI is an independent company that provides financial benchmarking data from over 30 savings providers, who together hold £1,009tn of cash in savings accounts as at end December 2021.

First-Time Buyers

In 2021, we provided 7,893 first-time buyers with a mortgage and by the end of 2021, 156,000 customers were saving into their LISA. We also became one of the few lenders to enable customers to buy a new build home with just a 5% deposit. We continue to support first-home buyers through the provision of our LISA and a broad range of mortgage products to help make home ownership more accessible. These include offering mortgage products for participants of the Shared Ownership, Help to Buy, Low-cost Initiative for First-Time Buyers (LIFT), and First Homes schemes.

Financial Advice

We're developing our financial advice approach to extend our ESG proposition and offer customers a range of sustainable passive investment funds. While these funds are still in design phase, we'll seek to exclude holding shares in specific industries such as production of arms, tobacco or thermal coal. At the same time, we'll also look to include companies that work to enhance sustainability, such as companies with low carbon emissions or follow UN Global Compact rules.

Other areas of focus

Colleague Pensions

The Skipton Group Colleague Retirement Savings Plan is administered by Scottish Widows and designed by Mercer who ensure that investments consider Environmental, Social and Governance factors. The default pension fund has made a pledge to target net zero carbon emissions by 2050. This means that by 2050 the holdings within the fund will balance the amount of greenhouse gases they produce with the amount of greenhouse gases that are removed from the atmosphere.

Protecting our customers

Whether it's online, on the app, over the phone, in branch or in person, we're committed to helping customers protect themselves against fraud. The Stay Safe Hub on skipton.co.uk provides ways to recognise financial scams and what customers should do if they think they've been affected. We also run social media campaigns about how to stay safe from common scams such as romance fraud and holiday scams. Our colleagues receive regular updates on the latest industry scams and annual training to help them protect customers, themselves and their families.

Working with our suppliers

At the end of 2020 the Society became the first financial services provider to gain a 5 Star rating from Support the Goals for our efforts supporting the United Nation's Sustainable Development Goals. This was achieved through engaging and involving our suppliers in our sustainability efforts.

2022 ESG objectives and ambitions

We've identified the following areas the Society will pay attention to and where we can utilise our Group strength to challenge ourselves and collaborate on increasingly complex and far reaching social and environmental issues:

Environment - our target

We want to continually reduce our scope 1, 2 and 3 emissions

Environment – our 2022 objectives

- Maintain scope 1 and 2 carbon neutral operations through our carbon reduction and offsetting programme
- Develop net zero carbon reduction methodology and plans
- Reduce 2021's scope 1 and scope 2 carbon footprint by 10%
- Reduce single use plastic usage by 40% from our 2019 baseline
- Maintain 99% of waste not going to landfill
- Explore potential to achieve mortgage portfolio average Energy Performance Certificate rating of C by 2035 from 2021's start point of D+ as part of our net zero plans

Environment – our ambitions by 2026

- Reduce scope 1 and 2 emissions by 50% from 2021's reporting figures
- Offset all remaining scope 1, 2 and scope 3 operational emissions
- Support our colleague and customers to actively reduce their personal carbon footprints
- Become a paperless Society
- Establish impactful green propositions for colleagues and customers

2022 ESG objectives and ambitions

Social – our target

We want to be at the forefront of socially conscious and purpose driven businesses

Social – our 2022 objectives

- Help at least 10,000 first-time buyers
- Maintain colleague engagement at 85% or above
- Achieve our Women In Finance Charter target of 40%
- Give £50,000 to support 100 community foodbank initiatives and donate £200,000 to the Skipton Building Society Charitable Foundation
- Further develop and implement Skipton's Workforce of the Future strategy
- Maintain Investors In People platinum status
- Further develop Skipton's support for vulnerable customers
- Launch social mobility working group

Social – our ambitions by 2026

- Be at the forefront of corporate social best practice
- Have a clear and loud public voice on behalf of our customers using the Skipton Group's UK housing market footprint to positively influence government policy
- Be at the forefront of monitoring and acting on a broad range of diversity and inclusion targets
- Supporting strong local economies and community initiatives

Governance – our target

We want to be a leader in best practice ESG strategy integration and governance

Governance – our 2022 objectives

- Implement the UN Principles for Responsible Banking framework
- Issue our first 2021 Group Responsible Business Report including our reporting for the Task Force on Climate-Related Financial Disclosures (TCFD)
- Rollout of climate risk requirements into our risk framework
- Develop and implement Group ESG and audit plans
- Deliver annual Board and colleague ESG training
- Explore opportunities for a Skipton Group ESG rating
- Build further ESG components into the Executive Remuneration Scheme
- Develop a treasury social and green funding strategy and framework

Governance – our ambitions by 2026

- To embed and deliver best in class governance

Climate-Related Financial Disclosures

This section of the report presents the climate-related financial disclosures of Skipton Building Society (the 'Society') and its subsidiaries (the 'Group') as at 31 December 2021. The disclosures have been prepared following the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD) and in line with the regulatory expectations set out in 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'.

Climate-Related Financial Disclosures

Climate change presents both risks and opportunities to the Society, our members and the wider Group.

Risks arise from both the potential impacts of climate change and how society responds. Climate risk can take many forms including the impact on traditional risk categories such as credit risk, operational risk and market risk.

Also, climate change presents risks and opportunities for our business model, driven by changing customer and investor sentiments, regulatory expectations and government policy intervention.

We've made good progress embedding our approach to managing the risks from climate change, with focus on four key pillars:

- governance
- risk management
- scenario analysis
- disclosures.

Looking ahead to 2022, we're making provision for regulatory developments, changing customer sentiment and emerging market practice in our ambitions **to mitigate our carbon footprint and manage our climate risk exposures, while helping our customers transition to a better, greener future.**

Overview

Key achievements with respect to the identification, management and monitoring of climate risk are summarised below, along with areas of focus for 2022 and beyond.

	Governance	Strategy	Risk Management	Metrics and Targets
Key progress to date	• 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.	• 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.	• 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.	• 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, 2 and grey fleet, air and rail journeys through our carbon neutral offsetting programme throughout the year. • We've continued to develop our capabilities to measure our carbon footprint across the Group.
Future Focus	• 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.	• 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.	• 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.	• 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. • Reduce scope 1 and 2 emissions by 50% from 2021's reporting figures. • Offset all remaining scope 1, 2 and scope 3 operational emissions. • Ensuring Group subsidiaries develop their own environmental and net zero strategy.

Governance

Climate Governance

Oversight and management of climate change is embedded within our governance structure as follows:

Formal Board Committees

The Board

The Board is responsible for the long-term strategy of the Skipton Group and oversight of the major risks run by the Society and Group, in part through the work of the respective Board Committees.

Remuneration Committee

Responsible for the design of, and targets for, long-term incentive arrangements, and set the relevant targets for performance-related schemes. This includes setting ESG goals for the Executives.

Board Risk Committee

Responsible for ensuring that the Group maintains an effective risk governance structure, including the review of the financial and operational risks arising from climate change and management strategy to mitigate these risks.

ESG Special Interest Group

Supports the Board in considering environmental and social governance matters from a business-wide perspective.

Commercial & Strategy Director

Accountability for sustainability activities and Chair of the Sustainability Steering Group.

Chief Financial Risk & Data Officer (CFR&DO)

Accountability for identifying and managing financial risks from climate change and Chair of the Climate Change Risk Forum.

Sustainability Steering Group

Provides a central point of governance for setting and monitoring the sustainability strategy, which outline the steps being taken to ensure that we're acting responsibly in our individual response to climate change.

Climate Change Risk Forum (CCRF)

The CCRF supports the CFR&DO in their responsibilities for identifying and managing financial risks from climate change. It also provides central oversight and coordination for climate risk activities.

Further details on the senior management responsibilities and activities are set out in the Corporate Governance Report of the Group's 2021 Annual Report and Accounts.

Board Oversight

Board Risk Committee

The Board has delegated oversight of climate risk management to the Board Risk Committee, although ultimate responsibility continues to reside with the Board.

The Board Risk Committee receives regular updates on climate-related risk via several mechanisms including the quarterly Chief Financial Risk & Data Officer's Report and bespoke training.

Recent areas of focus of the Board Risk Committee include assessment of:

- Our Climate Risk Strategy.
- Our Climate Risk Governance Framework.
- Climate change stress and scenario analysis (reviewed in January 2022).
- Our climate-related financial disclosures, in line with the TCFD recommendations.

The responsibilities of the Board Risk Committee are delegated by the Board and are set out in its written terms of reference, which are available on our website at www.skipton.co.uk/about-us/governance/board-committees.

ESG Special Interest Group

The Society believes strongly that Environmental, Social and Governance (ESG) requires a dedicated forum for discussion and oversight at the highest level of the business. While not a formally required committee, the ESG Special Interest Group was set up in 2021 with representation from Non-Executive Directors and members of the Society's Executive Committee. Since then, the ESG Special Interest Group has supported the Society's sustainability strategy across the business and provided steer and challenge for group-wide sustainability performance

Remuneration Committee

The Remuneration Committee oversaw the review of senior management's remuneration for the 2021 financial year, which included some ESG team objectives. The targets and measures have been reviewed for 2022 and ESG continues to be a focus. Further information on the Remuneration Committee's responsibilities can be found in the Group's 2021 Annual Report and Accounts.

Executive & Management Responsibilities

Climate Change Risk Forum

To support the Chief Financial Risk & Data Officer with climate-related risk responsibilities, we established the Climate Change Risk Forum.

This group meets regularly and is chaired by the Chief Financial Risk & Data Officer. The Forum includes senior representation from around the business to coordinate activity associated with the identification, assessment, management and monitoring of climate risk across the Group.

During 2021, the Climate Change Risk Forum has:

- Overseen our progress to achieve compliance with climate risk-related regulatory expectations.
- Reviewed and helped to inform our climate risk strategy.
- Assessed the key physical and transition risks to which the Society is exposed.
- Provided input and review of the climate risk scenario analysis activity, including review of the stress scenarios and assumptions.

Sustainability Steering Group

The Sustainability Steering Group was established to create a central point for overseeing and guiding our approach to sustainability. The group meets bi-monthly and is chaired by the Commercial & Strategy Director. The group works to set, approve and monitor progress against the Society's Sustainability Strategy and to drive delivery of our vision to build a better Society.

On the environmental side of its remit, in 2021, the Sustainability Steering Group has:

- Overseen creation of a Society carbon reduction roadmap.
- Set environmental impact reduction targets.
- Developed an ESG risks matrix to which the Society is exposed.
- Reviewed the Society's sustainability policy in line with best practice environmental considerations.

Board Training

To enable the Board to provide effective oversight of our response to climate-related risks, dedicated ESG and climate risk training, sessions led by internal and external specialists were held during 2021.

Climate Strategy

Our strategic climate risk vision is to mitigate our carbon footprint and manage our climate risk exposures, while helping our customers transition to a better, greener future.

Our climate ambitions

Our purpose is to build a better Society and effective management, mitigation and resiliency towards climate-related risk plays a big part in that.

The impact of climate change on our customers, their homes and the financial stability of the business has the potential to be significant. Therefore, we recognise the importance of supporting them and our other stakeholders, limiting our impact on the environment, and managing the associated risks effectively.

In order to achieve our vision and manage the impacts of climate change, we've taken a strategic approach which is closely integrated with our broader ESG agenda, with risks and opportunities considered during the corporate planning process. There are a range of opportunities where we can make progress.

Our Green Proposition

UK homes account for around 20% of all UK carbon emissions. We know that homeowners will need support transitioning to a greener future. We want to play a leading role in greening the UK housing market and have set up the Green Lending Working Group to work on initiatives that can help us do that. Our first step was to support our customers in making their homes more energy efficient by launching a range of Green Additional Borrowing products in January 2022.

In November 2021 we commissioned research with our customers and brokers, to understand current sentiment when it comes to greening UK homes and what support they would like from us as their lender of choice. The findings concluded there is definite commitment from both our customers and brokers in making positive changes to improve their carbon footprint and that of their property. The challenge is a lack of awareness when it comes to the potential solutions in transitioning to a greener future.

That's why a key focus for 2022 is raising awareness of the role we can all play in considering our carbon footprint, along with offering tangible solutions to support our customers in reducing the environmental impact of their homes. We've engaged with brokers to support them in providing the best sustainability advice to their clients.

Another key area of focus for us is reviewing our lending policy, making sure we support and simplify green considerations within the mortgage market. Successes delivered so far include aligning the maximum Loan-to-Value for both new and existing homes to a maximum of 95%.

As it stands, new homes are typically more energy efficient than older properties. It was important to us that those customers wishing to purchase a new build property with a 5% deposit weren't disadvantaged.

We expect to deliver a number of improvements and enhancements for customers, brokers and other partners throughout 2022 and beyond. 2022 will see us develop our green mortgage proposition, with innovation to cater for our customers' evolving needs.

Our Partners

Our focus on supporting the UN Sustainable Development Goals has further increased following the Society signing the United Nations' Principles for Responsible Banking in 2021. In being a member of both, we can now be more actively involved in the United Nations Environment Programme Finance Initiative (UNEPFI), the Net-Zero Banking Alliance, and the Glasgow Financial Alliance for Net-Zero (GFANZ).

To support our assessment and management of climate change risk, we're working with Ambiental Technical Solutions Ltd and Rightmove Group Limited (Rightmove) to source physical and transitional risk data.

Climate Strategy

Our People

Throughout 2021, a group of colleagues on Skipton's Aspiring Leaders development programme were set a challenge to consider how they could help the Society to become more sustainable. Alongside developing key leadership skills, the Aspiring Leaders researched, identified and launched several opportunities to further embed sustainability across the business.

In September 2021, we launched the "Green Team", a network of colleagues from across the business who are passionate about the environment and want to be involved in creating change and helping us reach our environmental goals.

The Green Team gives the opportunity for colleagues to be at the forefront of one of the biggest and important challenges we all face. They can share ideas and successes in our aims to reduce:

- single use plastic consumption
- the waste we produce
- our carbon emissions.

Our Environmental Impact

Scope 1

emissions are direct emissions from owned or controlled sources – such as natural gas or company cars.

Scope 2

emissions are indirect emissions from purchased sources – such as electricity.

Scope 3

emissions are other indirect emissions that occur in our value chain – such as business travel by grey fleet. It excludes scope 3 financed emissions which we'll be exploring with science based target work throughout 2022.

Skipton's energy and greenhouse gas emissions are independently calculated by Envantage Ltd for the Society and Skipton Business Finance.

As well as our overall strategy for carbon reduction, we also plant trees to help offset our emissions. Planting trees reduces flood risk and improves the natural environment for the benefit of climate, wildlife and people. It's recommended planting four trees to offset each tonne of CO2. Skipton has planted 30,000 trees since 2019.

The Society is carbon neutral (scope 1 and 2), which is a result of offsetting emissions together with purchasing certified carbon credits (see Our Metrics and Targets section for more details). Now, our efforts are focused on eliminating emissions from across the Society and delivering on our carbon reduction roadmap.

Sustainable supply chain

We're working with our suppliers to improve sustainability throughout our supply chain. We've a dedicated code of conduct for our suppliers, which outlines the sustainability standards we expect them to follow and share with their suppliers. In doing so, they'll also contribute to the United Nations Sustainable Development Goals.

2022 will see us broadening this work, reviewing our suppliers and their sustainability practices and collaborating to further improve sustainability throughout our supply chain.

Climate Strategy

Understanding our climate-related risks

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

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

During 2021, we've completed an assessment to identify and better understand the key climate-related risks to which we're exposed. This assessment considered the following high-level risk categories. See the Risk Management section on page 31 for further detail on those risks to which the Group is exposed, expressed in terms of traditional risk categories, **including Credit Risk, Operational Risk and Market Risk**.

Physical Risks

Mortgage asset damage	Impact on businesses	Business continuity/ operational risk	Health impacts	Market risk

Transition Risks

Sector transition	Re-development needs	Business model transition	Regulation changes
Varied locale effects	Changes in taxes and levies	Changes in customer behaviours	Pace of change (affects all risks)

While climate risk may impact our business model in a range of ways, the most material potential impact relates to credit risk in our residential mortgage portfolio.

Changes in climate have the potential to increase the frequency and severity of physical risks, leading to a potential decrease in the valuation of the property being used as collateral to mitigate mortgage credit risk. In addition, transitional risks associated with progress towards a net zero economy could lead to reduced property valuations or affect a borrower's ability to service their mortgage loan.

Climate Strategy

Climate change scenario analysis

To help inform our strategic planning and determine the impact of the financial risks from climate change on our overall risk profile and business strategy, we performed dedicated climate risk stress and scenario testing using the three scenarios published by the Bank of England in the Climate Biennial Exploratory Scenario (CBES).

The Society is not required by the regulator to participate in the CBES, but the scenarios were used as a starting point for analysing climate-related risks for the Group. Details of the three scenarios are as follows:

- **Early policy action** sees early and decisive government policy intervention to reduce emissions in a measured way, leading to a relatively orderly transition to a net zero carbon economy by 2050 and global warming below 2°C.
- **Late policy action** assesses the impact of late, and therefore more punitive, government intervention in seeking to achieve the 2050 net zero target. Greenhouse gas emissions are limited to keep global warming below 2°C, but due to government policy intervention being delayed until 2030, the transition is disorderly leading to greater transition risks for households and businesses and a macroeconomic shock occurring in 2031 to 2035.
- **No additional policy action** envisages a situation in which the government takes no targeted actions to reduce greenhouse gas emissions, resulting in rising global temperatures over 3°C and severe physical risks.

The severity of the physical risks used in the three scenarios is defined by Representative Concentration Pathways (RCPs). RCPs are four greenhouse gas concentration trajectories adopted by the Intergovernmental Panel on Climate Change (IPCC) for its Fifth Assessment Report (AR5) in 2013. The RCP scenarios are described as follows:

- RCP 2.6 Low emissions: requires emissions (carbon dioxide) to start declining by 2020 and go to zero by 2100 (estimated global average temperature rise of 1.6°C by 2100).
- RCP 4.5 Low-Medium emissions: emissions peak around 2040, then decline.
- RCP 6.0 Medium emissions: emissions peak around 2080, then decline.
- RCP 8.5 High emissions: emissions continue to rise throughout the 21st century (estimated global average temperature rise of 4.3°C by 2100).

Transition risk in the early policy action and late policy action scenarios were assessed, with higher transition risk being observed in the late policy action scenario as the transition to a net zero carbon economy is delayed and disorderly. There are assumed to be no transition risks in the no additional policy action scenario. The CBES sets out that this is primarily a physical risk scenario where no new climate policies are introduced beyond those already implemented. Since Skipton's scenario analysis only considers one transition risk, property retrofitting, for simplicity it's assumed that no transition occurs.

The Society's climate change scenario analysis covered detailed quantitative analysis on the credit risk impacting the Society's residential mortgages and high-level qualitative analysis where appropriate for less material exposures and the wider Group. Skipton's scenario analysis methodology is a first iteration which will continue to develop as our knowledge and experience of climate change risk increases.

The approach to assessing the physical risks on the Society's residential mortgage portfolio involved using forecast data from Ambiental Technical Solutions Limited (Ambiental).

The damage to Skipton's mortgage assets is the key physical risk from climate change considered in the scenario analysis. The physical risk perils included are flood risk, subsidence risk and coastal erosion. Physical risk peril data at specific property level has been sourced from Ambiental.

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

In the no additional policy action scenario, global warming relative to pre-industrial times reaches 3.3°C by 2050. Climate scientists' projections conditioned on no further policy action suggest, however, that temperature increases as significant as these would only be likely to occur later in the century. As such, the no additional policy action scenario has been calibrated so that the physical risks which might be expected to materialise in the period from 2050 to 2080 are considered in the period from 2020 to 2050. This is consistent with regulatory guidance provided in the CBES.

Climate Strategy

Climate change scenario analysis continued

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

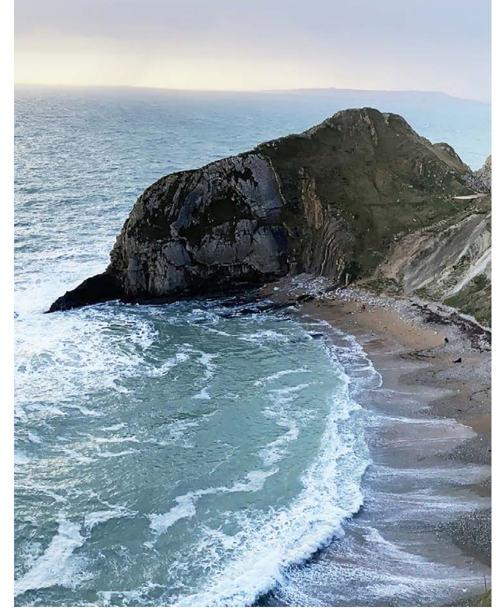
Subsidence risk focuses on the hazard of shrink-swell, which is the impact of absorption and loss of water from clay minerals in soil which creates expansion and contraction in the ground. This shrink-swell variation can cause ground movement which can impact building foundations causing the most common form of subsidence. Climate change in the UK is expected to create wetter winters and drier summers increasing the likelihood of shrink-swell. Ambiental create a subsidence risk score based on GeoClimate data from the British Geological Survey which identifies the potential for clay shrink-swell to occur at a given location, during a given future time period, based on a combination of geological, hydrological and climate projection data. Subsidence risk has been applied to the property valuation based on the likelihood of the event occurring to uninsured properties based on an assumed cost to remediation works.

The risk from coastal erosion is modelled by Ambiental based on identifying the current distance to the coast and calculating the annual erosion rate based on the climate scenario and shoreline management plan. For this scenario analysis, Skipton have taken the conservative view that if any coastal erosion risk exists in the forecast outcome year, then a total loss is incurred. It's assumed that home insurance will lapse due to increasing premiums or no cover being offered, and as the event becomes inevitable over time, the property price will be impacted well in advance of the event.

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

The key transition risk considered at this point is from retro-fitting UK properties to improve energy efficiency. Actual and modelled Energy Performance Certificate (EPC) data has been sourced from Rightmove. EPCs are currently the best source of information to assess the energy efficiency of UK properties, however they have several limitations, including properties without an EPC, and information not being updated unless another survey is carried out. A high proportion of Skipton residential properties have an actual EPC of 78%, while the remainder have been modelled. In line with regulatory guidance, Skipton has modelled this transition risk as an impact on property value. Assumptions such as transition costs and the government subsidy follow the key principles and methodologies set out by the CBES.

Skipton's close collaboration with Rightmove and Ambiental will enhance our understanding of the climate data available and will allow future enhancements to the scenario analysis methodology and approach to risk management.



Climate Strategy

Climate change scenario analysis continued

Scenario analysis outcomes

The Society has combined detailed quantitative analysis with qualitative assessments where appropriate for exposures regarded as less material. This is aligned to PRA expectations which note that a firm's approach to managing the financial risks from climate change should mature over time and be proportionate to the nature, scale and complexity of the business.

The credit risk outputs are detailed and provide indicative quantitative results to help us understand our climate risk over the short and long-term.

The outputs show that **transitional risks** rather than **physical risks** provide the greatest impact.

Transition risks potentially impact almost all properties, compared to the most severe physical risks (e.g. coastal erosion or the highest flood or subsidence risk) which impact small proportions of the book.

The no additional policy action scenario has been designed to focus on the physical risk, with no assumed transition risk occurring. The late policy action scenario in the 2030s results in the greatest impact and includes a macroeconomic stress which is a key driver of the outputs due to increased unemployment and reduced house prices as set out in the CBES. The climate risk effects compound this to create the largest impact of the three scenarios over two forecast time periods. The CBES macroeconomics are plausible representations of what might happen based on different future paths of government climate policy and are not directly aligned to the macroeconomic assumptions used in our Corporate Plan.

Sensitivities have been performed to understand the impact of larger property discounts from indirect flood risk and increasing the likelihood of subsidence occurring. In each case, there was not a material increase in the level of credit risk.

Informing our strategy

The quantitative and qualitative scenario analysis assessment didn't identify a significant risk to the Society's mortgage book or wider business model as a result of climate risk at this point in time.

The Society will continue to build on the approach to climate risk scenario analysis based on experience from this first analysis

as well as emerging regulatory expectations and industry practice. Plans are being developed for our stress testing approach and management of climate risk, including reviewing how climate-related risks are incorporated into our lending decisions, whilst ensuring we balance the requirement to improve our resiliency towards climate-related financial risks with the need to ensure that we continue to support our customers.

Forecasting climate change risk is an emerging area of analysis and insight. The methodology for the scenario analysis will continue to evolve in the coming years, developing a greater understanding of the risks and how best to manage them.

Risk Management

Identification of climate-related risks

In 2021, we completed an assessment to identify our key climate-related risks. The assessment involved relevant subject matter experts from across the Group and considered the likelihood of risk crystallisation and potential risk impact to the Group and our customers. This cross-functional qualitative exercise was overseen by the Climate Change Risk Forum.

An overview of key climate-related risks is provided and expressed in terms of traditional risk categories.

Risk	Potential impact on the Group and our customers	Expected time horizon*
Credit Risk		
Transition	Progress towards a net zero economy has the potential to increase the risk of customer default and loss to the Society. Potential risk drivers include: • Disruption to certain employment sectors due to changing technology, government policy, consumer and investor sentiment. • Impacts of government policy on property valuation and/or increases in costs of home ownership for less energy efficient properties.	Medium term
Physical	Potential for damage to mortgage assets caused by increased severity and frequency of physical risk perils such as flooding, subsidence or coastal erosion, leading to a decrease in property values.	Medium – Long term

Risk	Potential impact on the Group and our customers	Expected time horizon*
Operational Risk		
Transition	Higher supply chain costs as suppliers pass on the impacts of the transition to a greener economy. Switching costs and potential for disruption to the provision of goods and services if there's a requirement to transition to a supplier with a lower carbon footprint.	Short – Medium term
Physical	Damage to branches, offices or systems caused by increased severity and frequency of physical risk peril events, such as flooding, leading to operational disruption with: • Customers being unable to interact with us. • Colleagues being prevented from accessing the office or branches. • Colleagues unable to work remotely due to infrastructure damage impacting system access. Physical risk peril events causing disruption to our suppliers and delays in the provision of goods and services.	Medium – Long term

Risk Management

Risk	Potential impact on the Group and our customers	Expected time horizon*
Reputational Risk		
Transition	If we're unable to keep pace with changing societal and consumer sentiment with respect to climate change, this presents the following potential risks: • Our proposition may become less attractive to existing and potential customers. • Our ability to attract and retain colleagues may suffer. • Investor sentiment may be negatively impacted, leading to a reduced ability to attract wholesale funding.	Short – Medium term
Market, Liquidity & Wholesale Funding Risk		
Transition	The risk of a reduction in financial asset values, a breakdown in correlation between assets and/ or a change in market liquidity for certain assets. Inability to access wholesale funding should investor sentiments change.	Medium – Long term
Transition and Physical	Transition and physical risk events could lead to adverse movements in market interest rates, therefore negatively impacting our proposition and financial sustainability.	Long term

Risk	Potential impact on the Group and our customers	Expected time horizon*
Business Risk		
Transition	Potential increase in business costs as regulatory expectations change and green policies and possible tax / levies are introduced for businesses. Increased competition from new entrants or existing financial service organisations offering green product innovations.	Short – Medium term
Physical	Increased costs and decrease in revenue due to physical impacts on the business, for example increased insurance premiums and repair costs.	Medium – Long term
Legal and Conduct Risk		
Transition	Potential for climate-related litigation due to, for example, perceived mis-selling of green products.	Medium term
Pension Obligation Risk		
Transition and Physical	Transition and physical risk events could impact pension asset valuations.	Long term

*Expected time horizon: Short term (1-5 years), Medium term (10 years) and Long term (30 years)

Risk Management

In 2021, we developed a climate risk operational governance framework to support the effective identification, management and monitoring of climate risk.

Our approach to managing risks from climate change

This framework sets out the roles and responsibilities for managing climate risk across the Group and is integrated within our wider governance processes and the three lines of defence approach to risk management.

- The **first line of defence** in the context of climate risk represents a range of business areas, including Credit Risk, Operational Risk and Market Risk with operational responsibility for the identification, assessment, management and monitoring of climate risks. Consideration of climate risk is incorporated into relevant first line processes, risk appetites and control frameworks. With respect to mortgage credit risk, identified as our key climate-related risk, our current controls for managing new lending include conducting a physical inspection of the property for higher loan to values, where any known flood risk or risk of coastal erosion will be reflected in the valuation. Skipton's loan conditions require insurance at the point of completion which provides assurance that the property is insurable at that point in time.

  Our distribution strategy via intermediaries is UK-wide, but our regional concentration is limited which significantly mitigates geographical loan concentration risk.

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

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

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

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

Metrics and Targets

Skipton's carbon emissions

In 2021, the Society commissioned a full carbon footprint report of our operational emissions. This has enabled us to better identify and scrutinise the different areas of our carbon footprint. Our report revealed that of our total scope 1 and 2 emissions, 83% came from heating our sites. While we've been procuring renewable electricity since 2019, in February 2022, we also switched our head office building to green gas, which comes from renewable sources. This will further reduce our carbon emissions going forward.

The Society is carbon neutral for its scope 1, 2 and selected scope 3 emissions (grey fleet, air and rail journeys) due to our offsetting programme with the Uchindile Mapanda Reforestation Project in Tanzania. Forest ecosystems can capture and store carbon, however many are under threat due to deforestation. Between 1990 and 2005, Tanzania lost over six million hectares of its forest cover. By offsetting our emissions with this project, we're helping bolster the world's natural carbon sinks through reforesting the Southern Highlands of Tanzania, together with helping the local communities surrounding the forests with economic and social support. Looking forwards at how we reduce our carbon emissions, we're aware that a large part of our scope 3 operational emissions comes from colleagues traveling, commuting and working from home. This is something we will be focussing on in 2022. Areas being investigated include carrying out colleague surveys to understand and accurately estimate home working carbon emissions; colleague commuting and the Society's provision of a car-share and electric vehicle charging scheme; together with exploring the introduction of other low carbon colleague benefits.

For further information on the Society's ESG targets, please see page 18.

Metrics and Targets

Skipton Building Society and Skipton Business Finance[5] (2020 and 2021 figures)

These carbon emissions have been independently calculated by Envantage using the Greenhouse Gas (GHG) Protocol methodology across all Skipton and Skipton Business Finance sites for the period from 1 January to 31 December 2021.

Gas usage has increased and is the main source of our GHG emissions. Usage and fuel for company cars reduced by 50.5% in 2021, in part due to reductions in our car fleet. Electricity emissions have remained low due to the purchase of Renewable Energy Guarantee of Origin backed electricity. In addition to this, Skipton's head office electricity consumption reduced by 45% in the final five months of 2021.

Indirect scope 3 2021 emissions are not available for this report and will be calculated by Envantage during 2022. This includes colleagues working from home, commuting, business air and rail travel, waste, water and WTT emissions. Excluding these, there has been an overall reduction of 1.9% of Skipton's scope 1, 2 and grey fleet emissions.

Emissions Scope	Source	2020 (tCO2e)*	2021 (tCO2e)*
Scope 1 - direct emissions from owned or controlled sources	Natural gas & company cars (SBS)	658	666
Scope 2 - indirect emissions from purchased energy	Electricity (SBF)[1]	14	14
Scope 3 - other indirect emissions that occur in an entity's value chain	Grey fleet (SBS)	25	3
Scope 3[2] - other indirect emissions that occur in an entity's value chain	Working from home, business air and rail travel, commuting, waste, water, and Well-to-Tank emissions (SBS)	3419	n/a[3]
Total emissions		4115	683
Emissions intensity ratio	Scope 1, 2[4] and grey fleet tCO2e/ £m turnover	3	2

[1] The 2020 electricity emissions have been restated following a review of the methodology. The emissions were previously reported using the location-based methodology and are now reported using the market-based methodology. 99% of Skipton Building Society's electricity consumption is from REGO-backed sources, the resulting emissions calculated using the market-based method are zero for these supplies. The other 1% accounts for 13.7 tCO2e, from the landlord controlled SBF sites.

[2] Relevant additional scope 3 sources such as investments and supply chain emissions will be measured in 2022.

[3] 2021 scope 3 calculations will be calculated for the same categories as 2020 during H1 of 2022.

[4] Calculated using the market-based methodology for the electricity emissions.

[5] Including SBF electricity usage which represents 1% of the totals in this table.

*tCO2e = tonnes of carbon dioxide equivalent.

Metrics and Targets

Our Group emissions

This section includes Connells group, Jade Software Corporation, Skipton Business Finance and Skipton International Limited.

We've taken the decision to measure and publish our Group emissions so that we can develop robust carbon footprint and reduction strategies across all our businesses. This is the first time we've taken such steps, and while each subsidiary business is run independently from the Society and captures their carbon emissions differently – together with having different organisational environmental commitments and priorities – we've committed to collating our total carbon emissions going forward, together with each of our subsidiaries producing their own annual report outlining their carbon reduction strategies and targets.

All scope 3 emissions reported are own operations and do not currently cover scope 3 financed emissions. Going forward we've prioritised proactively and transparently sharing our total emissions, together with adopting a common methodology as we all work to understand and reduce our collective footprint.

Connells group

Emissions Scope	Source	Tonnes of carbon dioxide equivalent (tCO2e) 2021
Scope 1 - direct emissions from owned or controlled sources	Natural gas & company cars	5,369
Scope 2 - indirect emissions from purchased energy	Electricity[6]	4,824
Scope 3 - other indirect emissions that occur in an entity's value chain*	Grey fleet[7]	442
Total emissions		10,635
Emissions intensity ratio	Scope 1, 2 and grey fleet tCO2e / £m turnover	11

[6] Connells electricity consumption for November and December 2021 has been estimated using previous 12-months billing consumption.

[7] Scope 3 emissions include only Countrywide Grey fleet emissions. Connells group are evolving their approach to capture their scope 3 emissions data to allow these to be reported in the 2022 Responsible Business Report.

*Connells group emissions have been calculated independently by Catalyst Digital Energy for the periods from 1 January to 31 December 2021. Countrywide emissions have been calculated by British Independent Utilities (BiU) for the same period. Scope 3 emissions are reflective of Countrywide grey fleet emissions only.

Metrics and Targets

Skipton International Limited

Emissions Scope	Source	Tonnes of carbon dioxide equivalent (tCO2e) 2021
Scope 1 - direct emissions from owned or controlled sources	Natural gas[8] & company cars	0.2
Scope 2 - indirect emissions from purchased energy	Electricity[9]	16
Scope 3 - other indirect emissions that occur in an entity's value chain	Business air and rail travel, employee commuting, and working from home	38
Total emissions		54
Emissions intensity ratio	Scope 1, 2 and grey fleet tCO2e / £m turnover	1.5

[8] SIL does not use gas for heating hence the scope 1 emissions are reflective of the company car use only. Natural gas has been included to maintain consistency across the tables.

[9] This is the carbon intensity of delivered electricity, taking into account the full lifecycle emissions of each electricity source, which includes emissions associated with: materials used for plant constructions; embodied carbon for each type of generation technology (including GEL owned and for imported electricity); on-site operations; the supply chain of fuels; and transmission and distribution losses.

Skipton International Limited has internally calculated its GHG emissions for the period from 1 January to 31 December 2021 using the UK BEIS conversion factors. These emissions have been independently assessed and certified by the Carbon Footprint Standard.

Skipton Business Finance

Emissions Scope	Source	Tonnes of carbon dioxide equivalent (tCO2e) 2021
Scope 1 - direct emissions from owned or controlled sources	Natural gas & company cars	0
Scope 2 - indirect emissions from purchased energy	Electricity[10]	14
Scope 3 - other indirect emissions that occur in an entity's value chain	Grey fleet	23
	Business air and rail travel, employee commuting, and working from home	98
Total emissions		135
Emissions intensity ratio	Scope 1, 2 and grey fleet tCO2e / £m turnover	3

[10] Repeated from the SBS and SBF table.

Skipton Business Finance (SBF) has internally calculated its scope 1 and 3 GHG emissions for the first time for the period from 1 January to 31 December 2021. Scope 2 GHG emissions have been independently calculated for all SBF sites by Envantage. Gas usage has not been included as the supplier bills were unavailable and built into monthly landlord charges

Metrics and Targets

Jade

Emissions Scope	Source	2020 (tCO2e)*	2021 (tCO2e)*
Scope 1 - direct emissions from owned or controlled sources	Natural gas & company cars[11]	3	3
Scope 2 - indirect emissions from purchased energy	Electricity	61	62
Scope 3 - other indirect emissions that occur in an entity's value chain	Business air travel	72	27
	Working from home and waste	n/a	35
Total emissions	Scope 1, 2 and grey fleet tCO2e / £m turnover	136	126
Emissions intensity ratio		4	4

[11] Jade does not use gas for heating hence the scope 1 emissions are reflective of the company car use only. Natural gas has been included to maintain consistency across the tables.

Jade began calculating their CO2 emissions in 2019. The calculations have been prepared internally with publicly available methodologies. The figures have not been independently verified. The key external reference is Toitū, a New Zealand based carbon consultancy licensed by the UK Environment Agency as a Carbon Trust Equivalent scheme. Jade's emissions profile is largely due to electricity and air travel, with staff working from home considered for the first time.

*tCO2e = tonnes of carbon dioxide equivalent.

Metrics and Targets

Physical risk metrics

The current physical risks on the Skipton Residential Mortgage Portfolio are low. The worst-case climate no additional action scenario (RCP 8.5) is presented to demonstrate the most severe view of the physical climate risk of the Skipton Mortgage Portfolio. The flood and coastal erosion exposures increase but overall remain relatively low, with the greatest movement in the subsidence risk. Future climate change forecasts identified large areas of London, the South East and the Midlands as having a greater risk of shrink-swell because they are predominantly clay soils. As detailed in the climate change scenario analysis section on page 28, the subsidence risk score is calculated from British Geological Survey data which identifies the potential for clay shrink-swell to occur at a given location, during a given future time period, based on a combination of geological, hydrological and climate projections. However, this score does not include the mitigating factor that a property's foundations may be built to withstand movement due to shrink-swell.

All climate risk exposures will be monitored to enhance our understanding of the risks and mitigants to shape our assumptions in future scenario analysis.

Current Physical Risk

Residential Mortgages	As at 31 December 2021		
	Number	Exposure £bn	% Book
Properties classed in the highest flood risk category[1]	2,396	0.26	1.25
Properties classed in the highest subsidence risk category[2]	1,032	0.16	0.73
Properties at risk of being impacted by coastal erosion[3]	0	-	-

[1] Ambiental Current Flood Risk Rating 81-100
[2] Ambiental Current Subsidence Score 81-100
[3] Ambiental Current Coastal Erosion risk

Physical Risk under RCP 8.5 scenario

Representative Concentration Pathway (RCP 8.5) is the most severe view of physical climate risk and was used in the 'no additional action' stress scenario analysis. It assumes emissions continue to rise throughout the 21st century (estimated global average temperature rise of 4.3°C by 2100).

Residential Mortgages	As at 31 December 2021		
	Number	Exposure £bn	% Book
Properties classed in the highest flood risk category[4]	6,166	0.67	3.15
Properties classed in the highest subsidence risk category[5]	21,150	4.23	19.97
Properties at risk of being impacted by coastal erosion[6]	15	0	0.01

[4] Ambiental Flood Risk Rating 81-100 at the end of the 30 year calibrated no additional action scenario
[5] Ambiental Subsidence Score 81-100 at the end of the 30 year calibrated no additional action scenario
[6] Ambiental Probability of Coastal Erosion > 0% at the end of the 30 year calibrated no additional action scenario

Note: 8,821 properties with a balance of £1.49bn have no physical risk data, either due to use of data as at 30 September 2021 or the property not being address matched.

Reducing Waste

For information and metrics on our waste management, please see page 14.

Metrics and Targets

Transitional Risk metrics

The impact of improving energy efficiency of existing house stock is a transition risk which may have an impact on future house prices for properties where no improvements are made. This is one of the main transition risks identified in the CBES which is relevant to our strategy.

As described in the climate change scenario analysis section on page 28, the impact of this transition risk has been assessed in the scenario analysis. Actual EPC data has been used where it's available, with the remainder modelled by Rightmove. The following table includes actual and modelled current EPCs.

Residential Mortgages	As at 31 December 2021		
	Number	Exposure £bn	% Book
Current EPC Rating A/B/C	56,508	8.03	37.94
Current EPC Rating D/E	94,666	11.47	54.14
Current EPC Rating F/G	3,994	0.59	2.80
Unmatched EPC Rating	6,017	1.08	5.12

Note: 6,017 properties with a balance of £1.08bn have not been address matched because the EPC data is from September 2021. Due to rounding, some totals may not correspond with the sum of the separate figures.

Metrics and Targets

Climate metrics

This report and the information contained within it has been prepared on the following basis:

- The preparation of this report requires the application of a number of key judgements and also requires assumptions and estimates to be made. The key areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to this report, include: sustainable financing, carbon emissions and measurement of climate risk. There is a risk that the judgement exercised, or the estimates or assumptions used, may subsequently turn out to be incorrect.
- Reported numbers and projections reflect the best estimates and judgements made in good faith at the date of this report and forward-looking metrics in particular will be inherently uncertain and subject to external factors.
- This report uses models, external data and other sources/methodologies, each of which are subject to ongoing adjustment and modifications beyond our control.
- The outputs of these models, external data and other sources/methodologies can be materially affected by the quality of the underlying data used and a lack of high-quality historical and current data on emissions is currently a challenge. They may, therefore, be subject to uncertainties affecting the accuracy of their outputs.
- There's a risk that the outputs may be misinterpreted or misused when dealing with concepts which are being developed and updated by regulators, governments and industry bodies, such as climate-related disclosures and other environmental, social and governance data points. This is due to the lack of established market standards, historical data/reference points and benchmark data as in the case of climate change and its evolution.
- The quality of the data relied upon in ESG reporting is often not yet of the same standard as more traditional financial reporting and therefore presents an inherent limitation to the ESG performance reported in this report.
- ESG reporting is not yet subject to the same accounting rigour or globally accepted principles and rules as financial reporting. Accordingly, there is a lack of commonly accepted reporting practices to follow or align to. Regular review of the available data sources will be conducted in order to enhance our methodology and processes to improve the robustness of the performance disclosed over time.
- This report and the information contained within it is unaudited.
- Changes and the development of accounting and/or reporting standards could materially impact the performance metrics, data points and targets contained in this report.
- As standards and practices evolve, it may mean subsequent reports do not allow a reader to compare performance metrics, data points or targets from one reporting period to another, on a direct like-by-like basis.

Other Information

Set out on the following pages are the definitions of terms used within the Group Responsible Business Report to assist the reader.

Glossary

Carbon Terms	
Carbon capture	Capturing CO2, transporting it to a storage site and depositing it where it cannot re-enter the atmosphere.
Carbon credits	A permit which allows an organisation to produce a certain amount of carbon emissions and can be traded if the full allowance is not used. Part of a 'cap and trade' system for carbon pricing.
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.
Carbon pricing	A cost applied to carbon to encourage polluters to reduce their GHG emissions (i.e. tax or 'cap and trade').
Carbon tax	A fee imposed for the emission of CO2 into the atmosphere.
Carbon zero	No carbon is emitted, so no carbon needs to be captured/offset.
Financed emission	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 a company's buildings.
tCO2e	Tonnes (t) of carbon dioxide (CO2) equivalent (e).

Glossary

Green Finance Terms	
Green bonds	Bonds where the funds raised are allocated to environmental uses or projects (including climate bonds). Although not mandatory, the Green Bond Principles provide guidance for issuers of green bonds to ensure consistency and avoid greenwashing.
Green Finance	Any financial initiative, strategy, product or service designed to protect the natural environment and support the transition to a sustainable, low-carbon world; and/or manage climate-related and other environmental risks impacting finance and investment.
Green loans	A loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible green products. Although not mandatory, the Green Loan Principles provide guidance to lenders to ensure consistency and avoid greenwashing.
Greenwashing	Making false, misleading or unsubstantiated claims about the positive environmental impact of a product, service of activity.
Sustainability-Linked Loans (SLLs) and Sustainability-Linked Bonds (SLBs)	Financial instruments that reward companies for meeting sustainability targets and sometimes penalising them for failing to do so (varying interest rate margins/fees).
Sustainable Finance	Making activities and operations within Financial Services more sustainable, and financing ESG objectives as set out in UN SDGs.
Transition Finance	Finance that supports the transition of sectors and firms from high-carbon business models to environmentally sustainable alternatives.

Glossary

Climate-related Risk Terms	
Climate-related risk	Climate-related risk refers to the potential negative impact that climate and environmental changes present to our business model.
Physical risks	Physical risk arises from the impact of extreme weather events (e.g. flooding) or longer-term shifts in the climate. It is widely accepted that climate change will accelerate these risks.
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.
Scenario analysis	Scenario analysis is the process of identifying and assessing the potential impact of outcomes of future events
Transition risks	Transition risk arises from the process of adjusting to a low carbon economy impacting, for example, financial asset values, policy, regulation and technology.