SKIPTON BUILDING SOCIETY
Since 1853

Annual Report & Accounts 2022

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2022 Group Highlights

Financial Strength

£298.8m
Total Group profit before tax (PBT)
Total Group profit before tax (PBT) was £298.8m (2021: £271.8m)

£297.7m
Underlying Group PBT
Underlying Group PBT (as defined on page 25) was £297.7m (2021: £233.4m)

£1,030.3m
Connells group turnover
The Connells group achieved turnover of £1,030.3m (2021: £1,026.2m)

25.8%
Common Equity Tier 1 ratio
The Group Common Equity Tier 1 (CET 1) ratio reduced to 25.8% (2021: 44.6%) driven primarily by regulatory changes introduced from 1 January 2022 - see page 35 of the Strategic Report for further details

Members

1,137,560
Society membership
Society membership increased by 54,563 (5.0%) to 1,137,560 (2021: by 21,859 (2.1%) to 1,082,997)

85%
Customer satisfaction
Society net customer satisfaction was 85% (2021: 86%)

Colleagues

87%
Colleague engagement
Society colleague engagement was 87% (2021: 85%)

Mortgages

£2.2bn
Mortgage book growth
The Group mortgage book grew by £2.2bn to £25.5bn, an annual growth rate of 9.6% (2021: 6.8%)

£36.9bn
Lending generated by Connells
The total value of lending generated by Connells for UK mortgage providers in 2022 was £36.9bn (2021: £36.2bn)

Savings

£22.5bn
Savings balances
Society savings balances grew by £2.7bn to £22.5bn, an annual growth rate of 13.6% (2021: 5.8%)

2022 Awards

Winner Best National Building Society at the What Mortgage Awards

Winner High Street Savings Provider of the Year at the Moneyfacts Consumer Awards

Winner Best Cash ISA at the 25th Annual Personal Finance Awards 2022/2023

5 Star rating - mortgages Financial Adviser Service Awards 2022

3rd 'Best Big Company' to Work For 2022 and 3-star accreditation retained

Investors in People Platinum status retained

Performance & Strategy

Chair's Statement

"I am delighted to present my first Annual Report and Accounts as the Chair of Skipton Building Society. It has been a year in which the Society, supported by our Group companies has, again, performed strongly and generated record profits enabling us to better support our members, customers, colleagues and the communities we operate in."

I hope you will join me in celebrating a significant Anniversary. 1 May 2023 is the 170th Anniversary of the Skipton Building Society. In that time the Society has faced many challenges. Two world wars and the financial crisis of 2008 to name a few. Throughout, your Society has strived to make the right decisions to ensure the long term security of the business. It continues to make those long term decisions today.

2022's strong performance is testament to our dedicated colleagues, who have done a fantastic job supporting our members and customers and reflects our unwavering focus on staying true to our mutual purpose and living up to the trust our members place in us.

Purpose

2022 was a year of significant change and one that had a profound impact on our members, customers, colleagues and communities across the UK. The war in Ukraine, inflation over 10%, the Bank of England base rate increasing from 0.25% to 3.50% by the year-end, the cost of living crisis, a period of great financial market turbulence and the appointment of our third Prime Minister have all had a profound effect on the economy and on society.

The Society, like everybody else, has had to navigate such uncertainty and challenge. Importantly, being member-owned meant that we were able to do so with the long-term best interests of our savers and borrowers firmly in mind. The impact of these external events on members' ability to maintain living standards and the knock-on impact of rising bank base rate on mortgage rates has made the home ownership dream for many so much harder to achieve. Delivering on our purpose of *helping more people have a home, save for their life ahead, and supporting their long term financial wellbeing* is as important today as it was when the Society was established in 1853.

I am proud to lead a Board where the directors and senior management team are tireless in our efforts to support our members, customers and colleagues, having a positive impact on their lives. Unlike a PLC where profits are given to shareholders, as a mutual we share the Society's financial success with our members. Throughout the year we have continued with our strategy of paying savings rates well ahead of market average rates and this year enabled 29,244 people to remortgage or buy a new home including supporting 13,803 first time buyers. We have helped a further 13,894 younger people to save in a Lifetime ISA (LISA) for buying their first house or future retirement and provided financial advice to 7,835 customers and helped arrange 87,395 property sales through our estate agency business, Connells.

Strategy

The Board has refreshed the strategy for 2023 to leverage the collective power of the Skipton Group. The Board has set three priorities:

Helping People into Homes | **Making Money Work Harder** | **Making Membership Matter**

Details of this strategy are set out in the Strategic Report.

The current higher interest rate environment and cost of living crisis means adding value and giving back to members is more important than ever. We will utilise the power of the Group's diverse portfolio of businesses to explore and develop innovative opportunities to do this and support our members and customers. A recent example is where we have rolled out the EPC Plus product free of charge to all members and colleagues. This will allow a deeper understanding of their home's energy efficiency and provide suggestions on how it can be improved.

Underpinning these strategic objectives we will differentiate on service, seeking to provide our members with outstanding service at the moments that matter. The Board has recently approved significant investment in our savings proposition to ensure our savings members can access our products and services seamlessly across all digital and physical channels. This will bring together our savings and financial advice offering through our branch, telephone, webchat and video services, offering choice and flexibility to support members however they choose to do business with us.

Our Colleagues

The quality of the products and services we offer is attributable directly to our colleagues. It is their enthusiasm and drive to do the best for our members and Group customer base which makes the Skipton Group what it is. I've been impressed with how they have risen to the challenges of 2022 and how they have all worked to support our members and customers. It is my firm view that an engaged, valued and well-trained workforce is an essential basis for a successful organisation.

We also remain committed to being a diverse and inclusive organisation, one that reflects the communities in which we serve. I believe that having a diverse range of views provides the challenges and perspectives we need to continue performing strongly and be a welcoming and inclusive place to work. Whilst there remains more to do, we have a number of initiatives underway to further drive diversity in all forms. I am also pleased to see the Society now having 45% female representation across our combined Executive and Senior Leadership teams.

Sustainability

One of the many standouts during 2022 was producing our first Group Responsible Business Report, which shared our sustainability commitments, progress and ambitions for across the Skipton Group. It also detailed how we're preparing for and responding to climate change.

It is essential that businesses take action to help tackle the profound environmental and social challenges our country and our planet faces. This is a responsibility we place significant importance on, having set ourselves stretching environmental, social and governance (ESG) targets and having introduced Group ESG standards to hold ourselves to the highest levels of accountability.

Our approach to sustainability is shaped by the United Nations Sustainable Development Goals (SDGs) which have been established with the ambition of achieving prosperity for all whilst protecting our planet for future generations. The extreme weather changes seen across the world in 2022, and the very significant loss of life associated with this, emphasises our ethical responsibility to lead on this and make a difference. We focus on four of the seventeen goals where we can make a real impact and you can read all about this in our second Group Responsible Business Report published on our website.

Board Changes

I am pleased to announce that Stuart Haire joined the Board as Group Chief Executive at the end of 2022 following our previous Group Chief Executive, David Cutter, stepping down from his role at our last AGM. Stuart has joined us from HSBC and brings a wealth of financial services experience and a clear vision and plans to continue the Group's growth and development.

Ian Cornelius was, between April and December, Interim Group Chief Executive and I would like to take this opportunity to express my thanks to Ian for the diligence, professionalism and energy with which he led the Group during this period.

The year also saw the retirement of Robert East as Chair of the Board and Amanda Burton as Non-Executive Director, retiring at the AGM. To maintain continuity, Helen Stevenson, who had been Chair of the Society's Remuneration Committee and was also due to retire at the AGM, agreed to the Board's request to stay on until the end of December 2022 and has now retired after ten years' service. I thank each of them for their valued years of service.

I was delighted to welcome Iain Cummings to the Board in July as a Non-Executive Director. Subject to regulatory approval, Iain will take over as Chair of the Board Audit Committee in April when Richard Coates, the current Board Audit Committee Chair, takes his scheduled retirement from the Board. I also thank Richard for his selfless contribution to the Society.

In 2021 the Society aligned colleagues' pay to market median levels. In 2023 I will conduct the appropriate benchmarking to align the Non-Executive fees to market median. Subsequently, following any repositioning, Non-Executive fees will move in line with colleague annual reviews.

Outlook

As 2023 marks the Society's 170th year, my focus is firmly on moving forward at pace to continue meeting the changing needs of all our customers while providing compelling solutions that help secure their financial futures. We continue through 2023 against a backdrop of a cost of living crisis, changing interest rates, and pressures across every aspect of public spending and delivery. We understand the impact these challenging times are having on household finances. The Society will continue to step up, making membership matter through the challenging times ahead.

Gwyn Burr
Chair

28 February 2023

Performance & Strategy

Group Chief Executive's Report

"As Skipton Group's new Group Chief Executive, the attraction of this role was the opportunity to leverage Skipton's Group structure, unique business mix and mutual status to help support our Society members and Group customers now and in the future. Our performance in 2022 casts no doubt on just how valued member-ownership is, particularly during such unprecedented times for people."

In a year that saw the Bank of England's bank base rate increase to 3.50%, inflation climb above 10% and significant turbulence within the UK financial markets, 2022 saw more people turn to one of the UK's leading mutuals to help them buy a home and save for their future.

As a member-owned business, where the long-term best interests of members and customers are the priority, rather than profit maximisation for shareholders, the Society has shared more of its financial success with members, communities and colleagues than ever before.

Unlike other financial services businesses, in having the UK's largest estate agency network within our Group, the Skipton Group is uniquely positioned to play a leading role in enabling and supporting homeownership. We have unrivalled insight into the UK housing market, expertise in savings and financial advice, coupled with a financially strong, resilient, and growing core business. We also hold ourselves to the highest standards of personal accountability in authentically and impactfully steering positive social and environmental change; there's arguably never been a more pertinent time to showcase just what mutuality means and what it delivers for society.

In 2023 the Society will celebrate its 170th anniversary. This has been made possible by the sustainable value created across the blend and diversity of businesses.

Performance highlights in 2022

At a time when people needed trusted support more than ever to navigate the cost of living crisis, we saw Society membership grow by 54,563 to over 1,137,000. The Group has seen profit before tax (PBT) increase by £27.0m to £298.8m (31 December 2021: £271.8m), driven by strong growth and improved interest margins in the Society and Skipton International. Some highlights against the strategy our Chair headlined in her report are below.

Helping People into Homes:

Helping people realise their homeownership aspirations, with interest rates rising and the affordability of housing more challenging than ever, has never been more important. In 2022 the Society supported over 13,800 first time buyers by providing financing to get the keys to their first home. The Group grew its mortgage portfolio by 9.6% to £25.5bn (excluding fair value adjustments and impairment), with net lending accounting for 3.6% of the growth in the UK residential mortgage market compared to the Group's 1.5% stock share (source: Bank of England statistics, 'Lending secured on dwellings' for the 12 months to 31 December 2022). Other key highlights in this important area include:

- **Fair pricing:** The Bank of England increased bank base rate eight times in the year, from 0.25% at the start of the year to 3.50% at December 2022. Given the cost of living crisis for households, we passed on 1.50% of the 3.25% base rate increases to the Society's mortgage variable rate borrowers, saving them on average £1,300 per annum.
- **Supporting more members and customers:** The Society's focus on offering competitive mortgages for homebuyers saw records repeatedly broken - 2022 was the Society's largest ever year with nearly 30,000 completions and lending of over £5.8bn, including supporting over 17,000 customers switch their existing mortgage with us.
- **Prudent management:** The Group's UK residential mortgages in arrears by three months or more totalled 285 cases representing only 0.17% of mortgage accounts (2021: 371 cases, representing 0.23% of mortgage accounts), which compares very favourably to the UK Finance industry average (residential mortgages in arrears by more than three months) of 0.71% (2021: 0.83%); and is testament to our proactive credit management.

Our Estate Agency business, Connells group, continued to help people buy, sell and rent their houses. However, results across Connells reflect more challenging housing market conditions. The number of properties that the division exchanged contracts on during the year was 18% lower than in 2021, primarily due to the impact of disappointing pipeline conversion rates (due to market-wide delays in conveyancing), together with wider economic headwinds adversely affecting consumer confidence.

Making Money Work Harder:

Helping members make the most of their hard-earned savings is central to the Society's founding purpose. In 2022, as a result of the Society's competitive savings rates, we grew our savings balances by a record 13.6% to £22.5bn, paying an average savings rate of 1.16% to savers, 0.52% above the market average. This equates to an extra £104.7m in members' pockets (source: CACI Current Account & Savings Database, Stock). Other savings results include:

- **Fair pricing:** For savers, we have increased the rate of interest paid on all variable rate savings accounts paying a minimum rate of 1.75% at the year end (31 December 2021: 0.05%).
- **Supporting more members:** We saw record cash ISA transfer volumes across the tax year-end. In April, for new account openings, we secured a remarkable 13.8% share of deposits in the fixed rate cash ISA market and a 10.7% share of balances in the total cash ISA market (source: CACI Current Account & Savings Database).
- **Continued leadership:** • Being the UK's first and one of the biggest providers of the Cash Lifetime ISA (LISA), the Society now holds balances of £1.1bn for LISA customers saving hard for their first home or for later life; these members benefitted from Government bonuses in the year of £59.3m.

Making Membership Matter:

Working with Vibrant Energy, a Skipton Group company, we offered all borrowing members and Society colleagues a free Home Energy Efficiency Report (EPC Plus), helping them identify ways to increase the energy efficiency and reduce the carbon footprint of their homes. This reflects our ambition to play a leading role in helping green the UK's housing stock, a key issue facing homeowners. To support improving the energy efficiency of the private rental sector, we also made this offering available to our buy-to-let customers. Landlords can have up to ten properties assessed to support them on their journey to improving the energy efficiency of their property portfolios - even if only one of their properties is mortgaged through the Society. In January 2023 the free EPC Plus offer was extended to all Society savings and mortgage members. 2022 also saw us launch green additional borrowing products to help finance improvements, together with an improved sustainable investing passive fund.

During the year the Group made charitable donations of over £1.3m, primarily through support by Connells' group of £0.5m to the victims of the conflict in Ukraine, donations to the Skipton Building Society Charitable Foundation and through Skipton's Community Giving scheme. We also introduced a commitment to donate 1% of future Group profits to charities aligned with our values and purpose. This announcement further complements our existing social commitments.

Group Chief Executive's Report (continued)

Delivered by focusing on members and customer needs, with great colleagues and increasingly modern capability

Member and customer focus

We monitor our success in providing outstanding experience to our members and customers by measuring net customer satisfaction, which in 2022 was 85% for the Society (2021: 86%). Our commitment to our members through our products and services has been recognised by independent third parties - we received several awards during the year, including winner of the High Street Savings Provider of the Year at the Moneyfacts Consumer Awards (placed consistently in the top three since 2017).

We have demonstrated our commitment to members through our exclusive products. Our product range has been expanded to give our members flexibility on how they save, introducing changes to our Limited Access bond range allowing for 50% access throughout the term of the bond.

The service we provide through our mortgage intermediary partners was also recognised this year when we were awarded the 5* rating at the Financial Adviser Service Awards in the Mortgages category. During 2022 we were one of the few UK lenders to deliver an integrated end-to-end mortgage application journey for brokers through Twenty7Tec, creating a frictionless and speedier service.

Brilliant colleagues, fairly paid

Our aim remains to ensure our colleagues feel valued, respected and able to perform to their potential. We recognise that collaboration amongst colleagues is key to enabling our strategic initiatives and we are currently rolling-out more open and collaborative working spaces to drive greater innovation and teamwork. The investment we make in our colleagues and our culture is aligned to the delivery of our purpose and our vision, and is demonstrated by the Society's overall colleague engagement score of 87% (2021: 85%).

Already a living wage employer, in January 2022 the Society brought forward its annual pay review for colleagues (excluding the Executive Committee members), awarding on average a 12.9% increase to their pay, keeping pace with market benchmarks in a dynamic employment market, ensuring all colleagues are fairly rewarded for their role. In addition, to support colleagues with the increased cost of living, in September we made a one-off payment of £1,500 for each colleague below senior leader level.

The Society received recognition as the UK's 3rd best big company to work for in 2022 (7th in 2021), as part of the UK's Best Big Companies To Work For list, whilst proudly retaining our 3-star accreditation from Best Companies; and we have been an Investors In People accredited organisation for over 25 years and are one of the elite few organisations to achieve Platinum status, which we have maintained since 2017.

Powered by digital, technology and data

The Society's digital customer satisfaction score remains high at 82% (2021: 85%) and as we move through our transformation plan to enhance our service capabilities we aim to further improve the customer experience.

In 2022 we introduced our first paperless mortgage offers, supporting our green agenda and allowing distribution of key documents to customers in real time. We have also listened to our customers and launched an online help centre to assist them with basic queries and information, which further allows our colleagues to attend to other customers who have more complex queries.

Since the launch of our mobile app in July 2019, over 280,000 members have registered for the app. Our customer feedback is positive scoring 4.7 stars out of 5 stars on the iOS App store and 4.5 stars on the Google Play store as we continue to build out and enhance its functionality.

Financial strength

Mortgages and Savings shows the power of mutuality

The Mortgages and Savings division reported pre-tax profits of £220.1m (31 December 2021: £172.2m). Underlying PBT (as defined on page 25 of the Strategic Report) in the year was £229.9m (31 December 2021: £166.7m) - an increase of £63.2m, due principally to strong growth and improved interest margins. Skipton International Limited continues to make a strong contribution to the Group, with pre-tax profits of £39.9m (31 December 2021: £25.5m) and mortgages and savings balances of £2.0bn and £2.2bn respectively (31 December 2021: £1.7bn and £2.1bn respectively).

Financial strength (continued)

The Group's net interest margin, a key measure of performance, was 1.35% (31 December 2021: 1.03%). Following a prolonged period of record-low interest rates, in 2022 the Bank of England repeatedly raised Bank Base Rate in response to soaring inflation; this created opportunities for us to generate higher net income, whilst providing sustainable value to our members.

Key capital and liquidity ratios in respect of Skipton's prudential consolidation group, comprising the entire Group except Connells and a small number of other entities, at 31 December 2022 were as follows:

- The Common Equity Tier 1 ratio reduced to 25.8% (31 December 2021: 44.6%), driven primarily by the estimated impact of moving to hybrid internal ratings-based (IRB) models in response to regulatory changes introduced from 1 January 2022*;
- The leverage ratio remained stable at 6.8% (31 December 2021: 6.8%); and
- The Liquidity Coverage Ratio (LCR) was 175% as at 31 December 2022 (31 December 2021: 173%) - liquidity remained well above both the regulatory limit of 100% and the internal limit set by the Board throughout the year.

**The Society submitted updated IRB models to the Prudential Regulation Authority (PRA) in 2021; the process for review and approval is ongoing and therefore the models remain subject to change until the models are approved by the PRA. At present a temporary model adjustment has been applied to estimate what the final impact will be in moving to regulator approved hybrid IRB models.*

Further information on the performance of the Mortgages and Savings division can be found in the Strategic Report on page 31.

Estate Agency fares well amidst changing housing market conditions

The Group's Estate Agency division, Connells, generated PBT for the year of £67.5m (31 December 2021: £111.3m). Underlying pre-tax profits were £56.7m (31 December 2021: £78.9m). The higher profits in 2021 benefitted from exceptional housing market demand, fuelled by stamp duty relief and people's changing housing needs following the pandemic. The underlying result includes amortisation charges of £20.7m in relation to the intangible assets that were recognised on acquisition of Countrywide (31 December 2021: £52.4m).

Further information on the performance of the Estate Agency division can be found in the Strategic Report on pages 31 and 32.

Other businesses

Skipton Business Finance (SBF), a provider of debt factoring and invoice discounting to small and medium-sized enterprises (SMEs), recorded a PBT of £7.3m (2021: £5.4m).

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 our core database and software development language) made a PBT of £0.6m in the year (2021: broke even).

Further information on the performance of these subsidiaries can be found in the Strategic Report on page 32.

Conclusion and outlook

It is a privilege to lead a proven purpose-driven business. I cannot take any credit for the performance of the Skipton Group in 2022. However, I can wholeheartedly thank every one of our 18,000+ colleagues that has played their part in helping grow our business while successfully navigating these difficult times. Our Group has helped more people to save for their future, helped more people into homes, and it's also sharing the success of its efforts, giving more back with clear positive impact, and reinvesting in the future for the benefit of all.

Just two months into my role I can clearly see why more people are coming to Skipton and developing deeper relationships with us to help them secure their financial futures. I can also see opportunity to work with my colleagues across the Group to do even more, and for us to further harness the size, depth and experience of the Skipton Group, to be a powerful voice for driving positive societal change.

Stuart Haire
Group Chief Executive

28 February 2023

Performance & Strategy

Strategic Report

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

Our vision is "Together we're building 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 and shaped by members rather than shareholders. Being accountable to our members keeps front and centre our responsibility to continually deliver value to our members in a sustainable way.

The Society's business model is centred on providing a secure place for our members' savings and on providing loans to our borrowers to help people own their homes. We also 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 at home, offering guidance to our customers to support their long term financial well-being; this sets us apart from many of our peers. We source some of our funding from the wholesale markets, which diversifies our funding base and supports our financial stability.

The difference between the interest received from our borrowers and from 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 (such as the Connells group, the UK's largest estate agent), covers any impairment losses, provisions, tax expenses and operating costs, including paying our colleagues.

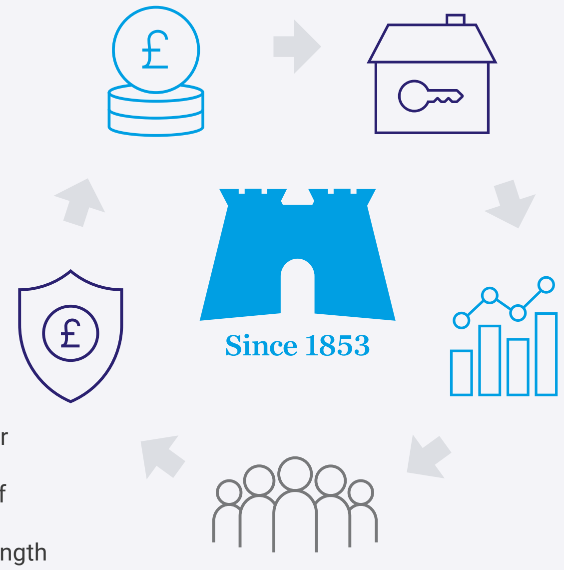
Our mutual status means we do not pay dividends, since we do not have external shareholders. Our profits are therefore reinvested into the Society for the long term benefit of our members and customers; to support growth, to help us maintain a sustainable business model, to modernise and remain relevant with new capabilities and propositions, and to preserve a strong capital position that supports and protects our members, customers and creditors through economic downturns. 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
- Member benefits

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 colleagues
- Property and operating costs
- Mortgage and other impairment losses
- Paying taxes

The Society is at the head of the Skipton Group, which comprises the divisions set out below; these divisions have been revised with effect from 1 January 2022 (see note 42 for details):

Mortgages and Savings division

The Mortgages and Savings division is the core of the Group's business model. It consists principally of the Society, together with Skipton International Limited (SIL); SIL carries out mortgage lending in the Channel Islands and UK and accepts deposits in Guernsey from an international customer base. The division also includes the Group's special purpose vehicles, formed to acquire funds from the wholesale markets.

Estate Agency division

The Society holds a significant presence in the estate agency sector through the Connells group (99.9% holding), whose activities include 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 Connells group also provides the Society with unique insights into the UK housing market and opportunities to provide other benefits to our members.

Investment Portfolio division

The Group also holds interests in a small number of other entities, 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.

Central division

The Central division is principally the intermediate holding company Skipton Group Holdings Limited (SGHL).

Strategic Report (continued)

Promoting long term success

The Board's approach

Policies and practices

The business model set out on pages 14 and 15 details how the Society generates long term value and preserves a strong capital position to protect our members. In order to achieve our purpose, in 2022 the Board set defined medium term objectives built around four strategic priorities that help it focus on the right areas. Throughout the year, 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 the 2022 four strategic priorities and how we delivered against these see pages 19 to 26.

The Board and senior management are committed to maintaining a strong inclusive culture where we continue to invest in our colleagues' skills, personal and career development and well-being. Our colleagues are critical to our success; by maintaining a strong inclusive culture and empowering decision making close to our members and customers, we can deliver on our purpose. Respect for our environment and the communities in which we operate is also a key part of delivering on our purpose.

Responsible and sustainable

As we look forward to Skipton Building Society's 170th birthday later in 2023, we continue to make sustainability, including climate resilience, central to our decision making. We also recognise that we have a unique opportunity with our Group structure to make a positive impact. That's why we'll continue to deliver our purpose whilst leveraging the power of the Group for the benefit of our members, customers, and our communities.

We have a clear strategy for making positive changes to society, aligned with the United Nations Sustainable Development Goals. We are 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 society, see our Summary Group Responsible Business Report on pages 38 to 45.

With respect to climate change, the Society has embedded 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 the Report is also aligned with the TCFD recommendations.

We work in partnership with, and closely monitor relationships with key suppliers. 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. 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 provide better than industry average payment terms and seek regular feedback from our suppliers. As a responsible business we aim to pay any small and medium supplier invoice within 10 days instead of our standard 30 day payment terms, 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 22 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 colleague, agent or other person or body acting on behalf of the Society. The policy is readily available for all colleagues to view on our 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 78 to 85.

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 page 65 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 in line with the Society's 'Principles of Governance', as set out on page 61 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 pages 79 and 80 of the Risk Management Report.

The Group's Corporate Plan is delivered in line with the risk management framework and was approved by the Board following a review of our strategic priorities. In setting our strategic priorities we engage with our customers to find out what is important to them and how we can best meet their needs. We use this knowledge and insight to inform and shape everything we do. These strategic priorities together with a number of key performance indicators, are key to the Board's management of the business and to its decision making process. The external environment continues to experience rapid change and the Society monitors material risks to business plans as detailed on page 81 of the Risk Management Report.

Strategy, priorities and objectives

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

Our priorities support our strategy 'to create outstanding experiences at the moments that matter'. For the year ended 31 December 2022 we have measured our performance against the four strategic priorities we set for 2022 (Absolute Customer Focus, Brilliant People, Digital, Technology and Data, Financial Strength); details of our performance against these priorities can be found on pages 19 to 26.

The 2023 strategy is about leveraging the power of the Skipton Group.

The economic environment creates increased uncertainty, and our diverse Group structure enables us to have a wider, more positive impact on society, helping people to have a home, save for their life ahead and support long term financial well-being.

We will use the additional capital generated by the Group to think innovatively about how we can make the biggest difference to support our Society members and Group customers now, and in the future, and by doing so we will build a stronger, more purposeful, and impactful Group.

The Board have approved three key priorities:

2023 Strategic Priorities

Helping People into Homes

Making Money Work Harder

Making Membership Matter

Strategic Report (continued)

Helping People into Homes

Members, and brokers on behalf of members, want us to provide finance to help them buy homes. We will invest to create innovative products to help those trying to get onto the housing ladder, specifically focusing on first time buyers. We aim to help 80,000 first time buyers access 50,000 homes by 2027.

Making Money Work Harder

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

The Board has recently approved significant investment in our savings proposition to ensure members can access products and services seamlessly across channels, enabling customers to do business with us how they choose.

Making Membership Matter

We have an ambition to play a leading role in greening the UK housing market and are committed to delivering value to our members and customers through innovative and rewarding products.

In 2022 we launched our EPC Plus proposition, partnering with Vibrant Energy, a Skipton Group company, to offer a free EPC Plus report which includes advice on how to improve the energy efficiency and carbon footprint of homes. Our aim is to complete 30,000 EPC plus reports within 2023 to help customers identify ways to increase energy efficiency and reduce their carbon footprint.

Economic and market background

Whilst 2020 and 2021 were dominated by the COVID-19 pandemic, the long-term effects of which continue to unfold, 2022 was heavily shaped by the events in Ukraine and exceptional price inflation. The combined impacts of these global shocks have been extensive, with profound and lasting effects both in the UK and across the world.

From an economic perspective, we face significant uncertainty as the UK sees escalating prices and a weakened growth outlook; the cost of living crisis is placing real pressure on households. There has also been political instability in the UK, with three different Prime Ministers within as many months and major shifts in fiscal policy. In attempts to curb inflation, the Bank of England has repeatedly raised interest rates since the end of 2021, increasing during 2022 from 0.25% to 3.50% at the year end.

In 2022 the housing market returned to more typical levels of activity, following the exceptional demand seen in 2021. However, there were signs of cooling by the end of the year as consumer confidence weakened amidst the growing cost of living crisis and emerging recession.

Whilst unemployment remains relatively low with some sectors struggling to fill vacancies, there is growing unrest amongst workers as wages fail to keep pace with inflation; industrial action is spreading within both public and private sector workforces. The impact of any recession will see job losses in certain sectors.

The sharp increases to interest rates in 2022 led to mortgage market volatility. This was exacerbated in September by adverse market reaction to the UK government's 'mini-budget'.

The Group's future performance will be impacted by the performance of the UK economy as events and conditions evolve. The Society remains robust, with strong capital and liquidity ratios, healthy and sustainable growth seen in mortgages and savings balances, good underlying profitability and a diversified business model. We are therefore well placed to serve both current and future members.

Performance in the year 2022

We monitor our progress against our vision and strategic goals that are set at the start of the year, using a number of key performance indicators (KPIs) aligned to each of our strategic priorities. These indicators are reported to the Board and senior management on an ongoing basis and are key to the Board's management of the business and to its decision making process. The Society's performance in 2022 is discussed on the pages that follow.

Absolute Customer Focus

Outstanding experiences and compelling propositions for our customers

Our 'Absolute Customer Focus' strategic priority centres on delivering an outstanding experience and innovative propositions that add value for our members. This is based on a deep understanding of our customers' needs, driven through insight which we use to continually 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 a home of their own.

One of the ways we monitor our success in providing outstanding experience to our Society members is by measuring net customer satisfaction (see page 20), which in 2022 was 85% (2021: 86%).

Sustainable growth in the Society's membership base is also demonstration of our success, bringing the benefits of membership to more people. In 2022, the Society's membership grew by 54,563 to reach 1,137,560.

Our core savings and investment customers are those saving and planning for their life ahead; we are focused on meeting their needs by offering a broad and attractive range of savings and investment products. We also provide financial advice and longer term investment planning for customers who want support with pensions, investments and inheritance tax planning.

During 2022, in line with evolving customer behaviours and expectations, the Society began a transformation programme to become a digital first, human touch Society. A Society that enables customers to interact with us however and whenever they choose, with the benefit of access to expert colleagues when the human touch is required. This approach includes utilising our online, mobile and web capabilities for account opening and servicing, and an increased social media presence. In 2022 we have designed and started to build the foundations to deliver a truly multi-channel experience for our members. In 2023 we will move into full implementation of a multi-year programme to transform our savings customer experience.

Throughout 2022, despite the rapidly changing economic environment, we remained committed to delivering on our purpose. We provided savers with competitive savings rates, paying above the market average, along with excellent customer service. We also continued to support our borrowers with propositions that meet their needs, including helping over 13,800 first time buyers into homes; we also support the rented housing sector by providing buy-to-let mortgages to landlords.

We have demonstrated our commitment to members through our exclusive products. Our product range has been expanded to give members flexibility on how they save. We introduced several limited access products, along with changes to our limited access bond range to allow 50% access throughout the term of the bond.

With the Bank of England increasing interest rates during the year from 0.25% to 3.50% we increased rates on all variable rate savings accounts paying a minimum rate of 1.75% at the year end (31 December 2021: 0.05%).

We paid on average 0.52% higher interest than the rest of market average for banks and building societies in the year (2021: 0.37%) (Source: CACI Current Account & Savings Database, Stock); this equates to £104.7m benefit to our savers.

We continued to support our borrowing members by offering great value mortgages, through the channel of their choice, direct, intermediary or online. Throughout 2022 we have focused on making lending available to more customers through a number of policy enhancements. In 2022, we also strengthened our commitment to first time buyers by joining the First Homes Scheme. For those already on the property ladder, we recognise the challenges of escalating energy costs and the need to reduce the carbon footprint of housing and therefore offered our mortgage homeowners and buy-to-let landlords a free EPC Plus home energy report to help them understand how they can improve the energy efficiency of their properties. This is an exciting initiative which we have continued to roll-out free to all members in 2023. For mortgage members coming to the end of a fixed rate deal we increased the switch window in which customers can pre-book their follow-on deal to six months.

Our great value products and strong mortgage proposition resulted in another year of growth:

- We grew Group mortgage balances by 9.6% (2021: 6.8%). Our mortgage growth in the year was significantly ahead of the UK residential mortgage market where net mortgage growth was 4.0% (Source: Bank of England statistics, December 2022).
- Gross mortgage advances across the Group totalled £6,304m (2021: £5,426m).
- Society savings balances grew by 13.6% (2021: 5.8%) compared to the UK savings market where net savings growth was 4.0% (Source: Bank of England statistics, December 2022).

Our products and services have been recognised by independent third parties a number of times throughout the year. This includes winner of the High Street Savings Provider of the Year at the Moneyfacts Consumer Awards (placed consistently in the top three since 2017), where we were also 'highly commended' in the First-Time Mortgage Buyers' Choice category.

The service we provide through our mortgage intermediary partners was also recognised this year when awarded the 5* rating at the Financial Adviser Service Awards in the Mortgages category. During 2022 we were one of the few UK lenders to deliver an integrated end to end mortgage application journey for brokers, creating a frictionless and speedier service.

Into 2023 we will continue on our transformation journey to become a digital first, human touch Society. We have a strong aspiration to deliver more value to our members through the products and services we offer; supporting our customers to understand the energy efficiency of their homes, helping more customers into their first homes and rewarding members for their loyalty.

Our expertise and human touch will remain key to supporting our members in the moments that matter to them, particularly as we face into challenging economic conditions.

Strategic Report (continued)

Absolute Customer Focus

Key Performance Indicator	Strategic Goal	Year	
Total member numbers (Society only)	To ensure we are attracting and retaining members	2022	1,137,560
		2021	1,082,997
		2020	1,061,138
Growth in membership numbers (Society only)*	To ensure we are attracting and retaining members	2022	54,563
		2021	21,859
		2020	14,844
Increase in member savings balances (Society only)	To help more members save for their future	2022	£2,690m
		2021	£1,087m
		2020	£1,343m
Group gross mortgage advances	To help us to meet our goal of helping more people into homes through prudent and controlled lending	2022	£6,304m
		2021	£5,426m
		2020	£4,472m
Group net mortgage growth	To help us to meet our goal of helping more people into homes through prudent and controlled lending	2022	£2,226m
		2021	£1,481m
		2020	£1,730m
Society net customer satisfaction score* (note 1)	To ensure we are putting the customer at the heart of our business	2022	85%
		2021	86%
		2020	85%
Society Financial Ombudsman Service (FOS) complaints - change in outcome rate (note 2)	To ensure we are treating customers fairly	2022	28%
		2021	26%
		2020	19%

*Included as a key measure in the Executive Directors' remuneration policy calculations. For further details see the Directors' Remuneration Report on pages 86 to 99.

Notes

1. As measured from an in-house survey of 6,925 Society customers. 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. As published by FOS in September 2022 in respect of the six month period to 30 June 2022 (data published every six months).

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 percentage of Society complaints referred to the FOS that have their outcomes changed. The Society's change in outcome rate for the first six months of 2022 was 28% (full year 2021: 26%). This compared favourably with the financial services industry average of 37% for the first six months of 2022, being the latest available comparable market data (Source: FOS complaints data (resolved cases)).

Brilliant People

A diverse and inclusive culture that supports our colleagues 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. We want to create a culture driven by growth mindsets, equipping leaders and colleagues to navigate uncertainty, drive transformation, and to increase productivity and motivation; this will improve the colleague experience, allowing more energy to be spent on activity that moves the Society forward. We're proud to have over 2,400 colleagues working together to deliver our purpose.

During 2022 we have further enhanced the provisions we make to support flexible and hybrid working, which helps us to retain our brilliant colleagues as well as attracting new talent. Our colleagues tell us that flexible working has become an increasingly valued aspect of their overall colleague experience and we have taken steps to enable this further.

We also recognise that collaboration amongst colleagues is key to enabling our strategic initiatives and we are currently rolling-out more open and collaborative working spaces to drive greater innovation and teamwork.

In 2022 we also migrated to a new IT platform for the Society's Colleague services and processes, which provides a more holistic and efficient colleague experience.

> **"£11.5m awarded to Society colleagues in increased pay and cost of living support, so they can stay focused on delivering for our members and customers."**

The investment we make in our colleagues 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 aim is to offer a fair and competitive reward package for all, encouraging the right behaviours and customer outcomes. This was demonstrated in January 2022 when we brought forward the Society's annual April pay review for colleagues (below Executive Committee level); we awarded on average a 12.9% increase to their pay, to keep pace with market benchmarks in a dynamic employment market and ensure all our colleagues are fairly rewarded for their role. In addition, to support colleagues with the increased cost of living, the Society made a payment in September of £1,500 for each colleague (below Senior Leader level).

As part of our commitment to develop and grow our people, we offer a number of Emerging Careers Programmes. In 2022 we recruited six new colleagues on the Society's Digital, Technology and Data Graduate Programme and eight colleagues to our Connecting Our Future apprenticeship programme; both are great ways for colleagues, regardless of their age or background, to kick start their Skipton careers. During 2022, 35 colleagues also started an apprenticeship programme.

Graduate Leadership Programme Cohort 2022

We have also gifted over £40,000 from our apprenticeship levy fund to other organisations to help them support the development of their own colleagues.

The Society once again has been named as one of the UK's best companies to work for, which reflects the views of surveyed colleagues, proudly achieving 3rd place in the 25 Best Big Companies To Work For 2022 list and retaining our three-star accreditation from Best Companies. The Society has been an Investors in People accredited organisation for over 25 years and are one of few organisations to achieve platinum status.

Looking ahead to 2023, the Society's focus will be the continuation of work initiated in 2022 to explore the culture we have today and how we want to enhance it for tomorrow. We will focus on five key areas:

- Cultural Clarity, Values and Behaviours
- Leadership Evolution
- Reward and Performance
- Talent, Capability and Development
- Colleague Experience and Inclusion.

Strategic Report (continued)

Brilliant People

Key Performance Indicator	Strategic Goal	
Employee engagement (Society only)* (note 1)	To ensure our people are passionate, loyal and committed	2022: 87% 2021: 85% 2020: 90%

*Included as a key measure in the Executive Directors' remuneration policy calculations. For further details see the Directors' Remuneration Report on pages 86 to 99.

Note

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

Our aim remains to further build on progress made to ensure our colleagues feel valued, respected and able to perform to their potential. We seek to provide a work environment that is safe and accessible, free from unfair treatment, discrimination and harassment and gives fair access to learning, development, reward and promotion opportunities. We have a range of policies and practices which support these aims and monitor their application. In relation to gender specifically, the Society would like to see a higher representation of women amongst its senior leaders, which is 45% at present (2021: 40%). 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 2022 report highlighted actions we've taken to increase the number of female applicants for senior roles, including the launch of our new 'Elevating Women into Leadership' programme. Other areas of investment and progress include our coaching practices and our diversity networks and communities.

The number of employees of each gender employed in the Society and the Group as at 31 December 2022 is outlined below:

Society	Male	Female	Total	Percentage male	Percentage female
Executive Directors	4	0	4	**100.0%**	**0.0%**
Other Society senior leaders	40	36	76	**52.6%**	**47.4%**
Senior leaders	**44**	**36**	**80**	**55.0%**	**45.0%**
Non-Executive Directors	5	2	7	**71.4%**	**28.6%**
Other employees	992	1,427	2,419	**41.0%**	**59.0%**
	1,041	**1,465**	**2,506**	**41.5%**	**58.5%**

Group	Male	Female	Total	Percentage male	Percentage female
Executive Directors (note 1)	4	0	4	**100.0%**	**0.0%**
Senior managers (note 2)	54	37	91	**59.3%**	**40.7%**
	58	**37**	**95**	**61.1%**	**38.9%**
Non-Executive Directors (note 1)	5	2	7	**71.4%**	**28.6%**
Other employees (note 3)	7,870	10,270	18,140	**43.4%**	**56.6%**
	7,933	**10,309**	**18,242**	**43.5%**	**56.5%**

Notes

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

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

Powered by Digital, Technology and Data

Have the right tools and infrastructure 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 experience.

Outstanding customer experience depends on two distinct elements of our technology approach. Firstly, our digital user interfaces must be engaging, feature rich and easy to use. Secondly, our technology infrastructure must be designed to support new capabilities and support colleagues to deliver an outstanding experience; it must also remain resilient against a myriad of threats.

Providing that digital capability and enhancing our processes will create opportunities to drive efficiencies through automation and to increase self-service activities, enabling us to give more back to our members in 2023 as we further combine digital with our human touch.

Where customers choose to interact with us digitally, our Customer Service teams respond to their needs with agility and innovation. However, in a changing world we recognise the need to continually build on our capability to keep pace with customer expectations, which is why we are committed through our transformation programme to developing our digital offering and to providing outstanding service with the human touch.

Our digital customer satisfaction score remains high at 82% (31 December 2021: 85%) and as we move through our transformation programme of further enhancing our capability we expect to continue to satisfy and delight our customers.

We launched our mobile app in July 2019 and since then 58% of online customers have registered. Customer feedback continues to be positive scoring 4.7 stars out of five on the iOS App store and 4.5 stars on the Google Play store.

We constantly strive to improve our digital experience. In 2022 we have introduced our first paperless mortgage offers, supporting our green agenda and allowing distribution of key documents to customers in real time.

We have also listened to our customers and launched an online help centre to assist them with basic queries and information, which further allows our colleagues to attend to other customers who are looking for expert support in those important moments.

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.

In 2023, the priority investment in our IT estate is to continue setting the foundations for our cloud transition, to utilise the benefits this will give us increasing agility and scalability; this multi-year transition is already underway. We are also implementing more 'software as a service' (SaaS) solutions as part of that journey, as we seek to digitise our technology platforms.

We are building on firm foundations and digital maturity, with a clear focus on targeted investment that will deliver benefits for our colleagues and members.

Powered by Digital, Technology and Data

Key Performance Indicator	Strategic Goal	
Percentage of online customers registered for the Skipton app	To ensure our customers have access to the best aspects of digital technology	2022: 58% 2021: 54% 2020: 47%

Strategic Report (continued)

Financial Strength

Creating mutual value today and for generations to come

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

£298.8m

Total Group profit before tax (PBT)

Total Group profit before tax (PBT) was £298.8m (2021: £271.8m)

Despite the heightened economic uncertainty, the Group achieved profits in 2022 of £298.8m (2021: £271.8m). The Group's results benefitted from the rising interest rate environment, which created opportunities for the Society to generate higher net interest income, whilst providing sustainable value to our members. The economic outlook declined during the year, leading to a £17.1m increase in loan impairment provisions (2021: £12.9m release). Our estate agency division saw the housing market return to more typical activity levels (following the exceptional demand seen in 2021), and pipeline conversion adversely impacted by industry-wide delays in conveyancing. Consequently, our estate agency division saw its profits before tax reduce to £67.5m (2021: £111.3m). Group profits in 2021 benefitted from one-off fair value gains totalling £37.7m which are not repeated in 2022.

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

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

Managing our cost base remains a key component of our strategy. For the Mortgages and Savings division, administrative expenses increased in 2022 by £31.1m to £202.6m (2021: £171.5m - restated). The increase is partly due to the significant cost inflation seen in 2022 and partly the investment that was paused during the pandemic and restarted in 2022. We have also invested purposefully in people and technology, to make us fit for the future.

For the Estate Agency division, administrative expenses increased in 2022 by £45.2m to £960.8m (2021: £915.6m). Excluding the impact of amortisation charges relating to the acquisition in March 2021 of Countrywide (2022: £20.7m; 2021: £52.4m), costs increased by £76.9m; this reflects the fact that 2022 includes the first full year of Countrywide (2021: Countrywide included from 8 March 2021). There is also the impact of cost inflation, offset in part by short term headcount savings.

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

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

Capital resources are in excess of regulatory requirements, with substantial buffers across risk-based and leverage frameworks. Skipton's Common Equity Tier 1 (CET 1) ratio reduced to 25.8% (31 December 2021: 44.6%), driven primarily by the estimated impact of moving to hybrid IRB models in response to regulatory changes introduced from 1 January 2022. Skipton's leverage ratio remained stable at 6.8% (31 December 2021: 6.8%).

Alternative performance measures

The Board monitors and reports profits at both a statutory level, governed by accounting standards and practices, and on 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 to not adjust for amortisation charges or acquisition costs when calculating underlying profits. Details of amortisation charges arising from the acquisition of Countrywide by Connells in March 2021 are discussed on page 31; these charges will not recur in the medium term.

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

The Group reports a cost income ratio at a Mortgages and Savings division level, as shown in the table on page 25. Any items excluded from underlying profit are also excluded from the calculation of this ratio in order that this measure too provides greater transparency of the performance of the division's ongoing trading activities and improves the comparability of information between reporting periods.

Financial Strength

Key Performance Indicator	Strategic Goal			Discussed further
Total Group profit before tax	To ensure we generate the necessary capital to grow the business	2022	£298.8m	Pages 28-32
		2021	£271.8m	
		2020	£118.8m	
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	2022	£297.7m	Pages 28-32
		2021	£233.4m	
		2020	£124.0m	
Group net interest margin (% of mean assets)	To manage the earnings of our core Mortgages and Savings division	2022	1.35%	Page 28
		2021	1.03%	
		2020	0.89%	
Mortgages and Savings division cost income ratio** (note 1)	To maintain a manageable cost base to ensure the business remains efficient	2022	45.0%	Page 31
		2021	52.6%	
		2020	62.8%	

Strategic Report (continued)

Financial Strength (continued)

Key Performance Indicator	Strategic Goal		Discussed further
Mortgages and Savings division cost to mean asset ratio^	To maintain a manageable cost base to ensure the business remains efficient	2022: 0.65% 2021: 0.56% 2020: 0.60%	Page 31
Group residential mortgages in arrears by three months or more (note 2)	To manage and monitor our arrears and credit risk management	2022: 0.16% 2021: 0.22% 2020: 0.28%	Page 33
Liquidity Coverage Ratio	To ensure we hold sufficient levels and quality of liquidity	2022: 175% 2021: 173% 2020: 194%	Page 32
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	2022: 78.9% 2021: 80.2% 2020: 79.0%	Page 34
Group Common Equity Tier 1 ratio (note 3)	To ensure the Group remains financially strong by having a strong (risk weighted) capital base	2022: 25.8% 2021: 44.6% 2020: 38.5%	Page 35
Group Leverage ratio (note 4)	To ensure the Group remains financially strong by having a strong (non-risk weighted) capital base	2022: 6.8% 2021: 6.8% 2020: 6.5%	Page 35

*Included as a key measure in the Executive Directors' remuneration policy calculations. For further details see the Directors' Remuneration Report on pages 86 to 99.

^The comparative figures for 2020 and 2021 are restated following a revision of the Group's reportable segments with effect from 1 January 2022 (see note 42). The Mortgages and Savings division cost income ratio was previously reported as 2020: 63.3% and 2021: 53.0%. The Mortgages and Savings division cost to mean asset ratio was previously reported as 2020: 0.60% and 2021: 0.61%. The cost to mean asset ratio was in previous periods named the management expense ratio; whilst the Group has updated the name of this ratio (to aid comparability and understanding), the method of calculation applied by the Group remains the same.

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 pages 25 and 27).
2. In line with regulatory guidance, customers granted mortgage payment deferrals in response to COVID-19 were not treated as in arrears (unless already in arrears) and therefore any impact of COVID-19 on arrears might have been suppressed in the short term. Applications for COVID-19 payment deferrals closed on 31 March 2021 and all outstanding payment deferrals ended on or before 31 July 2021.
3. This ratio applies IFRS 9 transitional arrangements; see pages 35 and 36 for further details. The ratio for 2020 is restated at 38.5% (previously reported in the Group's Annual Report and Accounts for the year ended 31 December 2020 as 39.7%).
4. This ratio represents the UK regulatory regime implemented on 1 January 2022, which excludes deposits with central banks from the leverage exposure measure, and which applies IFRS 9 transitional arrangements; see pages 35 and 36 for further details.

Financial performance

A summary Group Income Statement is set out below:

Group	2022 £m	2021 £m
Net interest income	**424.4**	296.7
Net non-interest income	**1,080.4**	1,048.7
Fair value gains on financial instruments mandatorily held at FVTPL	**11.1**	4.7
Fair value movements in relation to the equity release portfolio	**(9.8)**	5.5
Fair value gains on step-acquisition of Group undertakings	**-**	26.9
Profits on disposal of treasury assets	**-**	0.1
Profit on disposal of subsidiary undertakings	**0.1**	0.5
Share of profits from joint ventures	**1.4**	1.2
Total income	**1,507.6**	1,384.3
Administrative expenses	**(1,188.5)**	(1,125.1)
Operating profit before impairment losses and provisions	**319.1**	259.2
Impairment (losses) / credit on loans and advances to customers	**(17.1)**	12.9
Impairment gains / (losses) on liquid assets	**(0.1)**	(0.2)
Impairment of goodwill	**(0.8)**	-
Realised losses on equity release portfolio	**(0.7)**	(0.5)
Provisions for liabilities	**(1.6)**	0.4
Total Group profit before tax	**298.8**	271.8
Tax expense	**(67.8)**	(55.9)
Profit after tax	**231.0**	215.9

Underlying Group profit before tax for the year was £297.7m (2021: £233.4m) as shown below. Underlying PBT by division is shown on page 30.

Group	2022 £m	2021 £m
Total Group profit before tax	**298.8**	271.8
Less profit on disposal of subsidiary undertakings	**(0.1)**	(0.5)
Add back fair value losses / less fair value gains in relation to the equity release portfolio (note 1)	**9.8**	(5.5)
Add back impairment of goodwill	**0.8**	-
Less fair value gains on share warrants and equity share investments	**(11.6)**	(5.5)
Less fair value gains on step-acquisition of Group undertakings (note 2)	**-**	(26.9)
Underlying Group profit before tax	**297.7**	233.4

Notes

1. The £9.8m loss (2021: £5.5m gain) is comprised of fair value losses of £132.3m (2021: £27.3m losses) and fair value gains of £122.5m (2021: £32.8m gains) on the associated derivatives held to economically hedge these fair value movements, as shown in note 5a).
2. The 2021 amount comprised 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.

Strategic Report (continued)

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 £424.4m (2021: £296.7m). The Group net interest margin, a key performance indicator that measures net interest income as a percentage of mean total assets, increased to 1.35% (2021: 1.03%).

1.35%

Net interest margin

Group net interest margin increased to 1.35% (2021: 1.03%).

Following a prolonged period of record-low interest rates, in 2022 the Bank of England repeatedly raised Bank Base Rate in response to soaring inflation; base rates increased from 0.25% at the start of 2022 to 3.50% by the end of the year. This rising interest rate environment created opportunities for the Society to generate higher net income, through our competitive customer proposition, and to optimise our funding mix. However, the housing market was quieter compared with the exceptional demand seen in 2021 and competition in the mortgage market remained fierce, placing pressure on mortgage new business margins. Savings margins were impacted by the base rate changes, but to a lesser extent given the high levels of liquidity in the market as a result of savings built up during the pandemic. Taken together, these factors led to an overall increase in net interest margin for 2022.

Whilst retail savings remain the primary source of funding, we also make use of longer-term funding from the wholesale markets to minimise refinance risk, accessing funds from a number of diverse sources. In April 2022 the Society raised £500m of five year funding by issuing Covered Bonds through the wholesale markets.

Net non-interest income

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

Group	2022 £m	2021 £m
Mortgages and Savings	**36.3**	33.8
Estate Agency	**1,021.1**	1,000.1
Investment Portfolio	**33.1**	27.1
Central^	**(10.1)**	(12.3)
	1,080.4	1,048.7

^Central relates primarily to the elimination of inter-divisional trading.

The majority of the Group's other income is generated by the Estate Agency division (i.e. Connells). Details of Connells' performance can be found on pages 31 and 32.

The Mortgages and Savings division's net non-interest income relates mainly to financial advice activities, which increased in 2022, whilst funds under management at 31 December 2022 were £3.9bn.

The Investment Portfolio's net non-interest income was £33.1m (2021: £27.1m). Jade Software Corporation saw an increase of £4.3m due to significant new projects, whilst Skipton Business Finance also saw an increase of £1.6m.

Central division charges relate mainly to the elimination of intra-Group fees received by Connells for services provided to the Society and SIL.

Fair value movements in relation to the equity release portfolio

The Society's legacy equity release portfolio, which was acquired on merger with Scarborough Building Society in 2009, is held at fair value with any fair value gains or losses taken to the Income Statement. The Group holds derivatives to economically hedge these fair value movements, which are also held at fair value. As these derivatives cannot be designated under IFRS 9 as being in a hedge relationship for accounting purposes, fair value movements in the derivatives do not precisely offset the fair value movements in the portfolio; income statement volatility therefore arises. For the year there was a fair value loss of £132.3m on the portfolio and a £122.5m gain on the associated derivatives, resulting in a net fair value loss of £9.8m. The fair value movements are driven by changes in market expectations of long term interest rates, inflation and house price growth. The equity release portfolio is less sensitive to these movements than the associated derivatives as the mortgage cash flows are discounted more heavily than the associated derivatives, therefore creating volatility in the net fair value. The net fair value loss of £9.8m is excluded from underlying profit, as shown in the table on page 27.

Profit on disposal of subsidiary undertakings

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 fifth and final instalment of £6.4m was received by the Group in May 2022; the profit recognised in the year of £0.1m (2021: £0.5m) represents the final unwind of the contingent consideration asset.

Administrative expenses

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

Group	2022 £m	2021 Restated* £m
Mortgages and Savings	**202.6**	171.5
Estate Agency	**960.8**	915.6
Investment Portfolio	**29.0**	24.1
Central^	**(3.9)**	13.9
	1,188.5	1,125.1

*The comparative analyses by division are restated following a revision of the Group's reportable segments with effect from 1 January 2022 (see note 42). The impacts are presentational only and there is no impact on total Group amounts reported.

^Central includes SGHL and the elimination of inter-divisional trading. The results of SGHL include the impact of the Connells long-term management incentive scheme.

Administrative expenses across the Group increased by £63.4m to £1,188.5m (2021: £1,125.1m).

For the Mortgages and Savings division, administrative expenses in the year increased by £31.1m (18.1%) to £202.6m (2021: £171.5m restated). This increase reflects the significant cost inflation seen in 2022. Also, the Society made purposeful investments during the year in its people, such as the colleague pay awards discussed on page 21, and in technology, such as moving to cloud-based facilities. Taking account of these factors, the Society's cost to mean asset ratio increased to 0.66% (2021: 0.60%).

Connells' administrative expenses totalled £960.8m (2021: £915.6m); this includes amortisation charges in the year relating to the Countrywide acquisition of £20.7m (2021: £52.4m). Excluding the impact of these amortisation charges, expenses increased by £76.9m; the increase reflects that 2022 includes the first full year of Countrywide (acquired March 2021). There is also the impact of significant cost inflation during the year, offset in part by short term headcount savings.

The Central division includes the impact of the long-term management incentive scheme in place for Connells' senior management, being a £3.2m credit for the year (2021: £15.5m 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 Income Statement credit in 2022 reflects the impact of revised assumptions in the context of increased economic uncertainty. For further details of the incentive scheme calculation and assumptions, see note 1w) to the Accounts. The Central division also includes adjustments to eliminate the impact of intra-Group transactions.

Impairment on loans and advances to customers

During the year the Group recognised impairment losses on loans and advances to customers of £17.1m (2021: £12.9m credit), as set out below:

Group	2022 £m	2021 £m
Residential mortgages	**(21.8)**	11.4
Commercial mortgages*	**5.0**	1.6
Other loans	**(0.3)**	(0.1)
	(17.1)	12.9

*Also known as loans fully secured on land.

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

The impairment on residential loans and advances to customers for the Mortgages and Savings division was a £21.8m charge (2021: £11.4m credit). The key driver for this charge to profit for the year is revisions to the Group's forward-looking economic assumptions, which have been updated during the year to reflect changes in the external environment and increased uncertainties; full details can be found in note 1w) to the Accounts. The impact of this worsened economic outlook is that a number of residential loans previously held in stage 1, for which 12 month losses are held, have now moved to stage 2, for which lifetime losses are held. There is also a consequential increase in the level of post model adjustments held, as set out in note 1w) to the Accounts. Overall impairment coverage for the residential portfolio at 31 December 2022 was 0.13% (2021: 0.05%) (see note 40 to the Accounts).

The commercial lending portfolio has been closed to new business since 2008 and stands at £159.3m. Arrears levels within the portfolio remain low, having continued to stabilise during the year. Movements in the commercial loan impairment allowance during the year resulted in a credit to the Income Statement of £5.0m (2021: £1.6m credit); this benefit to the Income Statement reflects the improved arrears position, together with the impact of recent property valuations being more favourable than previously expected. Furthermore, the level of allowance required is reducing over time as this closed book continues to run-off. Whilst the Group's economic assumptions have been revised to reflect the adverse economic outlook, the impact on the commercial portfolio is limited due to the number of accounts already held in stage 2. Overall impairment coverage for the commercial portfolio at 31 December 2022 was 6.21% (2021: 8.31%).

Strategic Report (continued)

Taxation

The effective tax rate for the Society is 19.7% (2021: 14.2%). 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 2022 by £10.6m (2021: £9.1m); the impact of this surcharge is more significant in 2022 due to the higher profit before tax in the year 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 £62.0m (2021: £115.6m), future corporation tax rate changes, and expenditure disallowable for tax purposes.

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

UK taxes borne in the year	2022 £m	2021 £m
Corporation tax	**51.4**	62.2
Taxes on property	**16.5**	10.7
Employment taxes	**75.8**	66.8
Irrecoverable VAT	**13.2**	12.1
	156.9	151.8

More detailed tax disclosures are provided in notes 9 and 30 to the Accounts and in the Country by Country Reporting section on pages 248 and 249. Further details of the Group's taxation strategy can be found at www.skipton.co.uk/about-us/governance.

Other comprehensive income

During the year the Group recorded a net expense of £2.3m through other comprehensive income (net of tax) (2021: net income of £42.9m). The 2022 figure includes a £6.7m loss (before tax) (2021: £23.9m gain) from the re-measurement of retirement benefit obligations, with further details provided in note 31 to the Accounts.

The 2022 figure also includes a loss of £8.5m (2021: £2.5m gain) in respect of the Group's equity share investment in a start-up challenger bank, Commercial and Northern Limited (formerly Bank North Limited) ('Bank North'). In the second half of 2022, amidst the worsening economic and market conditions, Bank North was unable to raise the further funds required to obtain its full banking licence; as a result, Bank North commenced wind-down of its operations and subsequently entered liquidation in early 2023. The fair value of the Group's equity investment in Bank North was therefore reduced during 2022 to £nil. Further details are provided in note 17f) to the Accounts.

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

Performance by division

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

Group	2022 £m	2021 Restated* £m
Mortgages and Savings	**220.1**	172.2
Estate Agency	**67.5**	111.3
Investment Portfolio	**7.9**	5.5
Central^	**3.3**	(17.2)
Profit before tax	**298.8**	271.8

*The comparative analyses by division are restated following a revision of the Group's reportable segments with effect from 1 January 2022 (see note 42). The impacts are presentational only and there is no impact on total Group amounts reported.

^Central includes SGHL and the elimination of inter-divisional trading. The results of SGHL include the impact of the Connells long-term management incentive scheme (£3.2m credit; 2021: £15.5m charge) and also include additional profit on disposal recognised in relation to the sale in 2014 of HML (£0.1m; 2021: £0.5m).

Statutory profit before tax in the year was £298.8m, compared to £271.8m in 2021, 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:

Group	2022 £m	2021 Restated* £m
Mortgages and Savings	**229.9**	166.7
Estate Agency	**56.7**	78.9
Investment Portfolio	**7.9**	5.5
Central^	**3.2**	(17.7)
Underlying Group profit before tax	**297.7**	233.4

*The comparative analyses by division are restated following a revision of the Group's reportable segments with effect from 1 January 2022 (see note 42). The impacts are presentational only and there is no impact on total Group amounts reported.

^Central includes SGHL and the elimination of inter-divisional trading. The results of SGHL include the impact of the Connells long-term management incentive scheme (£3.2m credit; 2021: £15.5m charge).

The Group's underlying profit before tax in the year was £297.7m (2021: £233.4m). Divisional information is set out below.

Mortgages and Savings

The Mortgages and Savings division reported underlying pre-tax profits for the year of £229.9m (2021: £166.7m restated), reflecting an increase in net interest margins due principally to the rising interest rate environment seen since the end of 2021.

Our broad range of competitive mortgage products and strong intermediary partnerships have contributed to continued growth in our mortgage book during 2022 of 9.6% (2021: 6.8%), without compromising the quality of our mortgage assets.

The increases in 2022 to Bank Base Rate mean our savers have access to higher returns and we continue to offer rates above the market average. As a result we grew our retail savings balances during the year by £2.7bn (or 13.6%) to £22.5bn.

Our financial advice business generated £32.6m of income (2021: £32.2m), with funds under management totalling £3.9bn (2021: £4.1bn). Financial advice remains a valuable service to our members that supports the Society's purpose.

The division saw an increase in costs during the year of £31.1m to £202.6m as outlined on page 29. The cost income ratio, however, decreased in the year to 45.0% (2021: 52.6% restated) as a result of the growth in income. The cost to mean asset ratio was 0.65% (2021: 0.56% restated).

The mortgage impairment charge was £16.8m (2021: £13.0m credit) as discussed on page 29, and the provisions for liabilities charge for the division was £0.3m (2021: £0.3m 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 0.16% (2021: 0.22%).

The division's Channel Islands operation, SIL, had a very strong year, achieving profits of £39.9m (2021: £25.5m). This significant increase in profits reflects the benefits to income and margins from the rising interest rate environment. The quality of the SIL mortgage book remains good, with no cases in arrears by three months or more (2021: one case).

Estate Agency

The Group's estate agency operations are carried out through the Connells group. The division reported a profit before tax for the year of £67.5m (2021: £111.3m); this includes a full twelve months of Countrywide, which was acquired part-way through the comparative period on 8 March 2021.

Profits for the comparative period benefitted from one-off fair value gains of £26.9m on step-acquisition of two subsidiary businesses, one of which was subsequently sold, and also a £2.2m gain relating to an equity investment that was sold.

The division's underlying results for the year include amortisation charges of £20.7m (2021: £52.4m) against the intangible assets that were recognised on acquisition of Countrywide.

In 2022 the housing market has returned to more typical activity levels, following the exceptional conditions in 2021 where the combined impact of stamp duty concessions, low interest rates and pent-up demand led to record-high market transaction levels. The results for 2022 are characterised by changing housing market conditions, primarily the impact of disappointing pipeline conversion rates (due to market-wide delays in conveyancing that have increased the time taken between exchange and completion), together with wider economic headwinds adversely affecting consumer confidence.

The integration of Countrywide continues to progress well and enhances the value proposition for customers.

The number of properties that the division exchanged contracts on during the year was 18% lower than in 2021 reflecting the more challenging market conditions as the division maintained market share and branch footprint.

> "The Society adopts a responsible approach to mortgage lending. 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."

Strategic Report (continued)

Connells' financial services proposition continues to perform well. The number of mortgages arranged decreased by only 4% despite the reduction in the number of exchanges. The number of residential lettings properties under management was maintained during the year. The total number of surveys and valuations completed in 2022 decreased by 8% compared to 2021, as a result of the significantly lower volumes in Q4 2022 due to the economic headwinds.

£36.9bn

Lending generated by Connells

The total value of lending generated by Connells for UK mortgage providers in 2022 was £36.9bn (2021: £36.2bn)

The total value of lending generated for UK mortgage providers during 2022 was £36.9bn (2021: £36.2bn) 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.

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 2022, Connells had repaid £128.5m (51%) of this loan within less than two years. Further, Connells paid dividends during the year to SGHL (the intermediate holding company) totalling £35.0m (2021: £60.0m).

Investment Portfolio

The Investment Portfolio reported a profit of £7.9m during the year (2021: £5.5m).

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 £7.3m (2021: £5.4m).

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, made a pre-tax profit for the year of £0.6m (2021: broke even).

Central

The pre-tax contribution of the Central division was £3.3m (2021: £(17.2)m restated). This mainly comprises a £3.2m credit (2021: £15.5m charge) in respect of the Connells long-term management incentive scheme and a £0.1m profit (2021: £0.5m) in respect of the sale in 2014 of HML.

The Income Statement impact of 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 Income Statement credit in 2022 reflects the impact of revised assumptions in the context of increased economic uncertainty. During the year two managers in the scheme exercised a proportion of their options in line with the scheme rules, which resulted in payments of £8.9m being made. Further details regarding the calculation of this item and the assumptions used are included in note 1w) to the Accounts.

The fifth and final instalment of contingent consideration relating to the sale in 2014 of HML was received in the period.

Financial position

A summary Statement of Financial Position is set out below:

	2022 £m	2021 £m
Assets		
Liquid assets	**6,792.7**	5,095.5
Loans and advances to customers held at amortised cost	**24,452.3**	23,024.8
Loans and advances to customers held at FVTPL	**1.0**	1.2
Equity release portfolio held at FVTPL	**278.7**	406.6
Derivatives	**1,355.1**	227.9
Fixed and other assets	**691.5**	712.0
Total assets	**33,571.3**	29,468.0
Liabilities		
Shares	**22,349.6**	19,759.8
Borrowings	**7,894.1**	6,670.7
Derivatives	**415.6**	292.1
Other liabilities	**365.5**	403.1
Subordinated liabilities	**311.8**	336.3
Subscribed capital	**41.6**	41.6
Reserves	**2,192.9**	1,964.0
Non-controlling interests	**0.2**	0.4
Total liabilities and equity	**33,571.3**	29,468.0

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

Liquidity

The Group continues to hold strong levels of liquid assets to ensure it can meet its liabilities as they fall due and to help mitigate the current economic uncertainties. The Liquidity Coverage Ratio (LCR), a measure designed to ensure that financial institutions have sufficient high quality assets available to meet their liquidity needs for a 30 day liquidity stress scenario, was 175% at 31 December 2022 (2021: 173%).

The Group's liquidity levels are closely managed by senior management and have remained above internal and regulatory limits throughout the year. Liquid assets at 31 December 2022 were £6.8bn (31 December 2021: £5.1bn), providing the Group flexibility in an unpredictable market.

At 31 December 2022, the Society held £5.3bn (2021: £3.8bn) of High Quality Liquid Assets (HQLA) as analysed below:

	2022 £m	2021 £m
Balances with the Bank of England	**3,420.4**	2,343.3
Gilts	**234.8**	261.9
Treasury bills	**104.6**	-
Fixed rate bonds	**554.4**	559.4
Floating rate notes	**169.5**	193.3
Residential mortgage backed securities	**292.7**	136.1
Covered bonds	**561.1**	260.3
	5,337.5	3,754.3

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

	2022 £m	2021 £m
Certificates of deposit	**282.5**	314.9
Residential mortgage backed securities	**-**	30.8
	282.5	345.7

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 (£6.7bn; 2021: £5.0bn) 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% (2021: 100%) of the Group's treasury investments, excluding exposures to a central clearing house used to clear derivatives to manage interest rate risk in line with regulation, are rated A3 or better. The Group's policy is that initial investments in treasury assets are typically A3 or better (with the exception of some unrated building societies where separate credit analysis is undertaken).

The Net Stable Funding Ratio (NSFR) is a longer term stable funding metric, which measures the stability of our funding sources relative to the assets (e.g. mortgage balances) we are required to fund. The Group's NSFR (138.6% at 31 December 2022; 146.7% at 31 December 2021) is well in excess of the regulatory requirement of 100%, confirming that the Group holds sufficient stable funding to meet this requirement.

When measured as a percentage of shares, deposits and borrowings, the liquidity ratio remained strong at 22.5% compared with 19.3% at 31 December 2021. 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 in June 2021, in addition to its legacy commercial mortgage portfolio; these portfolios all ceased lending in 2008.

£2.2bn

Mortgage book growth

grew by £2.2bn to £25.5bn, an annual growth rate of 9.6% (2021: 6.8%)

The Group continues to grow its mortgage assets in a controlled manner, lending within clearly defined risk appetites through both the Society and SIL. The Group achieved strong net mortgage growth of 9.6%, with net mortgage lending totalling £2.2bn (excluding impairment and fair value adjustments for hedged risk) (2021: £1.5bn). The Group's new lending, delivered through both mortgage intermediaries and our own distribution channels, amounted to £6.3bn (2021: £5.4bn).

The Society's average residential loan-to-value (LTV) ratio (calculated on a valuation-weighted basis) on new lending has increased slightly to 57.5% (2021: 56.4%). The average valuation-weighted LTV on the Group residential mortgage book remained low at 40.9% (2021: 42.8%).

Our well-managed spread of risk ensures that the quality of the Group's lending remains high, such we are well placed to deal with uncertainty ahead. This is evidenced by our low proportion of residential mortgage accounts in arrears by three months or more which remained low at 0.16% (2021: 0.22%), or 0.17% (2021: 0.23%) excluding non-UK lending; this compares favourably with the industry average of 0.71% (2021: 0.83%) of UK mortgages in arrears by more than three months (Source: UK Finance).

Strategic Report (continued)

The Group's commercial mortgage portfolio reduced in the year by 18.3% to £159.3m. The average LTV of this portfolio reduced from 48.5% to 44.9% and the proportion of accounts in arrears by three months or more in this portfolio reduced to 0.92% (2021: 1.91%).

We support our customers who find themselves in financial difficulty and where appropriate we will apply a policy of forbearance which could include arrears capitalisation, a reduction in the monthly payment, a payment deferral, a conversion to interest only or a mortgage term extension, based on the customer's individual circumstances and needs. Ensuring a fair outcome for our customers is central to our strategy of forbearance, further details of which can be found in note 40 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 2022, 78.9% of our funding comes from retail savings (2021: 80.2%).

Retail funding

£22.5bn

Savings balances

grew by £2.7bn to £22.5bn, an annual growth rate of 13.6% (2021: 5.8%)

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 13.6% increase in retail savings balances during the year, as detailed on page 19.

In addition to our UK retail funding, the Group also accepts deposits through SIL (our Channel Islands based subsidiary). SIL increased its funding base to £2.2bn (2021: £2.1bn); these balances are included in 'Amounts owed to other customers' within the Group Statement of Financial Position.

Wholesale funding

At 31 December 2022, £5.7bn (2021: £4.6bn) of our funding came from the wholesale markets, as analysed below:

	2022 £m	2021 £m
Repo and other secured agreements	**1,914.1**	2,025.9
Deposits	**1,192.9**	374.6
Certificates of deposit	**-**	5.0
Senior unsecured funding	**-**	66.6
Covered bonds	**2,396.1**	1,890.5
Securitisation	**239.8**	305.4
Non-interest bearing loan	**-**	1.0
Fair value adjustments	**(44.3)**	(49.4)
	5,698.6	4,619.6

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

	2022 £m	2021 £m
Amounts owed to credit institutions	**2,963.3**	2,203.4
Amounts owed to other customers	**2,339.2**	2,249.2
Debt securities in issue	**2,591.6**	2,218.1
Less: SIL funding	**(2,195.5)**	(2,051.1)
	5,698.6	4,619.6

At 31 December 2022 the Society had £1.9bn outstanding under the Bank of England's 'Term Funding Scheme with additional incentives for SMEs' (TFSME) (2021: £2.0bn of TFSME outstanding), having repaid £0.1bn during the year.

The credit ratings of the Society are assigned by two major credit rating agencies, Fitch and Moody's. In November 2022 Fitch affirmed the Society's Long-Term Issuer Default Rating (IDR) at 'A-' with a Stable Outlook, Short-Term IDR at 'F1' and Viability Rating (VR) at 'a-'. In October 2022 Fitch also affirmed the Society's mortgage covered bonds at 'AAA' with a Stable Outlook. In January 2022 Moody's announced that the outlook on the Society's 'A2' long-term deposit and senior debt ratings is stable and also assigns 'Aaa' to the Society's Mortgage Covered Bonds. The ratings reflect the continued financial strength of the Society, which compares favourably to other large building societies. The Society's current credit ratings, which have not changed since 2021, are summarised in the table below:

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

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

Capital *(unaudited)*

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

We monitor our capital at a prudential consolidation group level and at a Society level by applying the Capital Requirements Directive V (CRD V) effective from 31 December 2020, and the UK Capital Requirements Regulation (UK CRR), as implemented in 2022.

The capital requirements under the prudential consolidation group are higher than for the Society. On the basis that the prudential consolidation group represents the lowest capital adequacy and leverage positions, and the same risk management framework is applied, the analysis throughout this Capital section has been disclosed at a prudential consolidation group level only.

Note that in the rest of this report the disclosures are for the entire Group. 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 £177.4m from 31 December 2021 to £1,992.9m as at 31 December 2022 (31 December 2021: £1,815.5m). 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 increased by £3,588.9m in the period to £7,573.6m (31 December 2021: £3,984.7m). This increase is principally driven by regulatory changes introduced in 2022. From 1 January 2022, new regulation, applicable to internal ratings-based (IRB) models, resulted in the Society applying a temporary model adjustment (TMA) to the Society's regulator-approved IRB model output. The TMA uplifts the expected loss and RWAs produced by the incumbent regulator-approved IRB model to the level expected once the model is finalised to meet the new regulation. This adjustment is applied at portfolio level. In the second half of the year, we revised our TMA to reflect the ongoing model development. This resulted in a further increase in RWAs. Until the IRB models are approved by the PRA, the TMA remains subject to change and may cause further movements in the capital metrics. There have not been, and the Society does not expect there to be, any material changes to the risk profile or strategy of the Society as a result of the revised TMA.

25.8%

CET 1 ratio

Common Equity Tier 1 (CET 1) ratio of 25.8% (2021: 44.6%)

The CET 1 ratio has reduced to 25.8% from 44.6% at 31 December 2021, driven primarily by the revised TMA described above.

6.8%

Leverage ratio

Leverage ratio of 6.8% (2021: 6.8%)

The leverage ratio has remained stable at 6.8% (31 December 2021: 6.8%).

Strategic Report (continued)

The following table shows the composition of the prudential group's regulatory capital as at 31 December 2022. IFRS 9 transitional arrangements are applied throughout.

Unaudited	2022 £m	2021 £m
Capital resources		
Common Equity Tier 1 capital	**1,952.9**	1,775.5
Total Tier 1 capital	**1,952.9**	1,784.5
Total Tier 2 capital	**40.0**	31.0
Total regulatory capital	**1,992.9**	1,815.5
Risk weighted assets	**7,573.6**	3,984.7
Capital and leverage ratios (note 1)		
Common Equity Tier 1 ratio	**25.8%**	44.6%
Tier 1 ratio	**25.8%**	44.8%
Total capital ratio	**26.3%**	45.6%
Leverage ratio (note 2)	**6.8%**	6.8%

Notes

1. The capital ratios are calculated as relevant capital divided by RWAs. The leverage ratio is calculated as Tier 1 capital of the prudential consolidation group divided by total exposure, less deposits with central banks and regulatory adjustments.
2. The leverage ratio represents the UK regulatory regime implemented on 1 January 2022, which excludes deposits with central banks from the leverage exposure measure. In the previous year, we also included a CRR leverage ratio disclosure, which included central bank exposures. The new UK regulatory regime implemented on 1 January 2022 resulted in the removal of the CRR leverage ratio disclosure, and the UK prefix that was included in 2021 to distinguish between the two ratios is no longer required.

Capital management

The Group is regulated by the PRA and is required to manage its capital in accordance with the rules and guidance issued by the PRA under CRD V and the UK CRR as implemented in 2022.

The Group completes an Internal Capital Adequacy Assessment Process (ICAAP) 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 need to have is linked to the resolution strategy chosen for each firm and has been 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.

At 31 December 2022, total MREL resources, including MREL eligible senior non-preferred debt, were 31.0% of RWAs (31 December 2021: 54.4%). The decrease in the period is mainly due to the increase in RWAs as a result of the application of the revised TMA as described above.

31.0% remains above the 2022 requirement of 18% of RWAs plus capital buffers issued by the Bank of England.

Regulatory changes from 1 January 2023 mean the MREL requirement increases to 2x (pillar 1 plus pillar 2A capital requirements). We remain compliant with MREL requirements at 1 January 2023. Compliance with MREL is reflected in the Society's Corporate Plan. Further information can be found in the Group's Pillar 3 Disclosures, which are published on the Society's website skipton.co.uk.

Pillar 1

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

Pillar 2A

The PRA requires the Group to hold additional Pillar 2A capital for risks not covered under Pillar 1 such as pension and interest rate risk. At 31 December 2022 this was £159.1m (31 December 2021: £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 and a hybrid scheme as described in note 31 to the Accounts. Using the methodology set out in IAS 19, the aggregate valuation of the three schemes at 31 December 2022 was a combined deficit of £29.6m (2021: £30.1m). In 2021 the hybrid scheme reported a small surplus of £1.2m reported separately from the above. The decrease in deficit in 2022 is largely due to the effect of changes to the financial assumptions; most notably the increase in the discount rate.

We continue to take steps to manage the deficit and all schemes are closed to new members and to future accrual of benefit. The actuarial valuation deficits, as described in note 31 to the Accounts, are used to judge the level of contributions that should be made and a schedule of deficit contributions has been agreed between the Trustees and the Group. 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.

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

The Group also operates defined contribution schemes into which eligible employees are automatically enrolled.

Non-financial information statement

The Society, although not required to follow the Companies Act 2006, has sought to 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	Pages 14 and 15
Key performance indicators	Pages 20, 22, 23 and 25-26
Key risks	Pages 78-85
Climate matters	Pages 16 and 38-45
Environmental matters	Pages 16 and 38-45
Colleagues	Page 55
Social matters	Pages 16 and 38-45
Respect for human rights	Page 55
Anti-corruption and anti-bribery matters	Page 16

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 78 to 85 and in notes 38 to 40 to the Accounts.

This Strategic Report was approved by the Board of Directors on 28 February 2023 and signed on behalf of the Board by:

Bobby Ndawula

Bobby Ndawula
Group Chief Financial Officer

28 February 2023

Performance & Strategy

Summary Group Responsible Business Report

Our 2022 ESG Strategy and Operating Model

Our continuing ESG journey

We have continued to make strong progress evolving our Environmental, Social and Governance (ESG) delivery across the Skipton Group.

2022 saw significant economic challenges for our customers, our colleagues and wider stakeholders, however we have continued to deliver robustly against our ESG targets. As a Group we are united by a common purpose to help people into homes, save for life ahead and create financial wellbeing. We believe that it is right to continue our focus on this as our best contribution to building a better, more sustainable society and future.

The past year has seen the environmental and social challenges in housing come to the fore as we face into rising energy costs and problems presented by an aging housing stock. That's why we will support customers with retrofitting and making homes more energy efficient in line with national Net Zero targets.

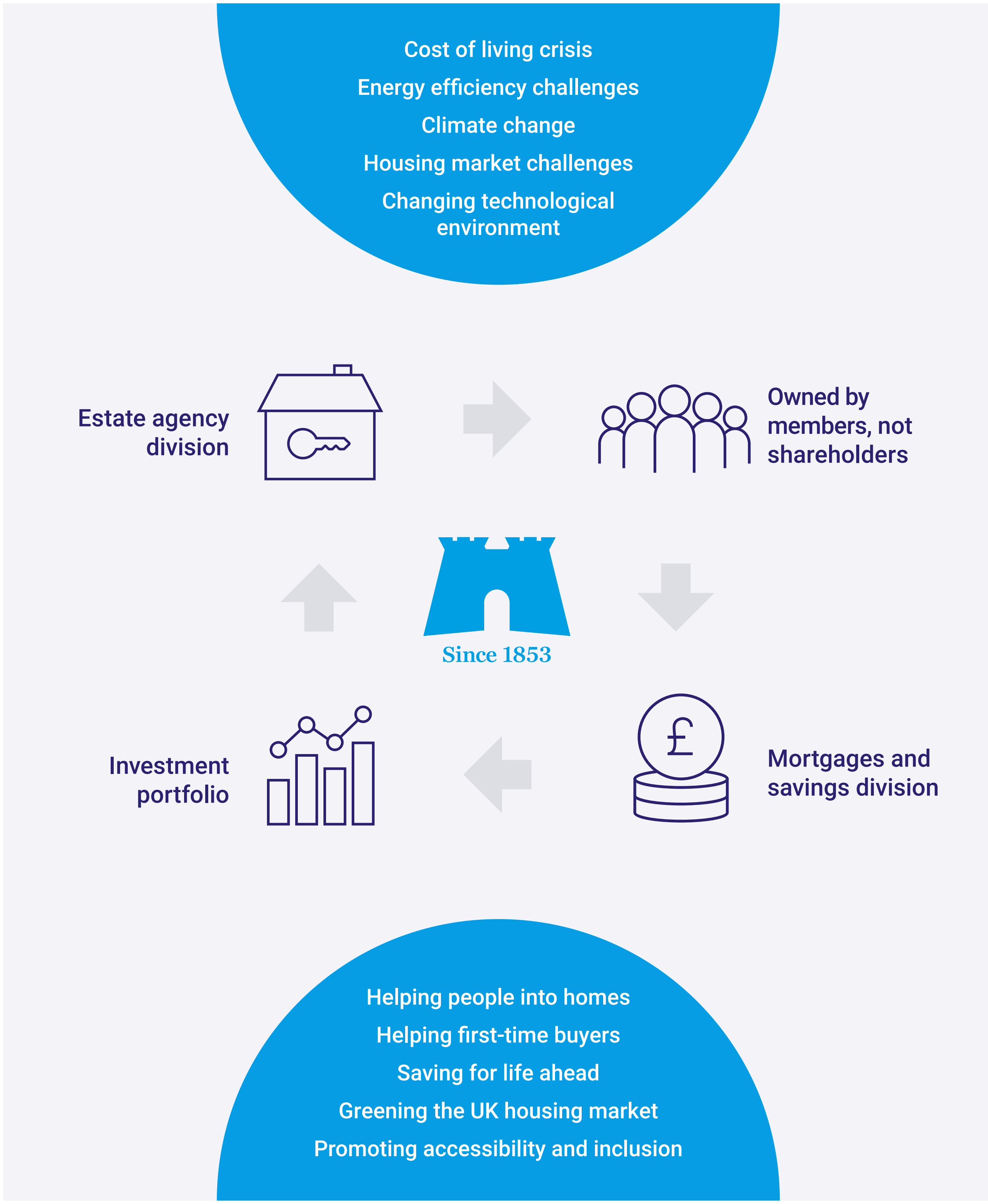
We've looked for new ways to help our customers green their homes and save on their energy bills. We've worked with our Skipton Group company, Vibrant Energy, to offer all of our Society colleagues and Society borrowers a free home energy report (an 'EPC Plus') helping them identify energy efficiency opportunities and funding options where available. The private rental sector continues to play a significant role in the UK housing mix, so we've also made this free offer available to our Society buy-to-let landlord customers. They can have up to ten reports to support them on their journey to retrofit their property portfolios – even if only one of their properties is mortgaged through Skipton.

In 2022 we also enhanced our environmental and social strategies, measuring our scope 3 financed carbon emissions to support effective net zero target setting, and pledging to donate 1% of Group profit-before-tax to charitable causes linked to our purpose. The Society also launched green additional borrowing products for mortgage customers and helped over 13,000 first time buyers into their homes. For our financial advice customers, we introduced an improved sustainable investing passive fund.

We have provided an update on Group achievements and our progress against the Society's 2022 ESG targets. We have also reported the Society's emissions footprint in line with Streamlined Energy and Carbon Reporting (SECR) and reviewed our alignment with Taskforce for Climate-related Financial Disclosures (TCFD) reporting.

UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

The Skipton Group's ESG strategy is underpinned by our alignment with the United Nations (UN) Principles for Responsible Banking. Our ESG strategy helps us to deliver on our purpose of helping more people to have a home, helping people to save for life ahead and supporting long term financial wellbeing.



Performance & Strategy

Summary Group Responsible Business Report

(continued)

Group Achievements in 2022

The Skipton Group have delivered strongly against our ESG strategy throughout 2022. Here is a summary of some of our top ESG achievements. A more detailed assessment of our performance can be found in our 2022 Group Responsible Business Report:

Environmental Achievements

EPC Plus

The Society and the Connells group launched an EPC Plus scheme, giving free home energy reports to Society mortgage customers and colleagues to help them on their journey towards more energy efficient homes. This is a critical milestone in helping to inform customers of their options when it comes to improving their home's energy efficiency, both from a cost saving but also environmentally responsible standpoint.

Financed emissions

The Society and others in the Group screened our scope 3 financed emissions to help measure our carbon emissions across the value chain.

Single use plastic reduction

The Society and Skipton Business Finance have reduced overall single use plastic wasted by 83% versus 2019 levels.

Carbon neutrality

The Society, Skipton Business Finance and Skipton International Limited maintained carbon neutral status for 2022 through a planned offsets programme, whilst also reducing emissions compared to the previous year through carbon reduction activities such as switching to green gas. We will continue to focus on genuine carbon reduction to achieve net zero, separate to any reliance on offsets.

Social Achievements

1% Group profit before tax (PBT) donated to charity

During the year the Group made charitable donations of over £1.3m, primarily through support by Connells' group of £0.5m to the victims of the conflict in Ukraine, donations to the Skipton Building Society Charitable Foundation and through Skipton's Community Giving scheme. We also introduced a commitment to donate 1% of future Group profits to charities aligned with our values and purpose.

Helping first time buyers

In 2022 the Society helped over 13,800 first time buyer customers get the keys to their first home.

Mind the Gap

Jade Software Corporation (Jade) became a founding contributor to the 'Mind the Gap' online directory for sharing gender pay gap data in New Zealand. In 2022 they reduced their gender pay gap to 1%.

3rd Best Big Company

Increased the Society's ranking from 7th to 3rd in the UK's Best Companies *Best Big Companies to Work For*, came in the top 5 for the *Best Financial Services Company* category and retained our 3-star accreditation.

Cost of living

The Society protected colleagues against the cost of living crisis with a one-off payment of £1,500 per colleague.

Accessibility Award

The Society retained their bronze Accessibility Award for our work to align with the principles of the Business Disability Forum.

Governance Achievements

UN Principles for Responsible Banking

The Society have completed our impact analysis as part of our work as signatories of the UN Principles for Responsible Banking. Skipton International Limited are currently undertaking their impact analysis to be completed in Q1 2023.

EcoVadis

The Society began working with EcoVadis who will conduct assessments on our suppliers on Environment, Labour and Human Rights, Ethics, and Sustainable Procurement, helping to embed ESG data into procurement strategies.

B-Corp

Jade committed to becoming a 'B-Corp' business in December 2022, identifying areas for changes and initiatives across the themes of the B-Corp framework: Governance, Workers, Community, Environment and Customers.

The Society's performance against 2022 sustainability targets

The following outlines the Society's progress against ESG targets in 2022. The progress of the rest of the Group is covered in our 2022 Group Responsible Business Report.

Performance Against Environmental Targets

2022 Targets	Progress and Next Steps
Maintain scope 1 and 2 carbon neutral operations through our carbon reduction and offsetting programme	Achieved - 2021 Scope 1 and 2 emissions were offset by purchase of Verified Standard Carbon Credits. 2022 emissions for Scope 1 and 2 have been offset by a reforestation project on degraded pasture land in Nicaragua (Gold Standard Registry project ID 4220), as noted in the 2022 Group Responsible Business Report
Develop net zero carbon reduction methodology and plans	In progress - Scope 3 financed emissions screened, next steps will be to set out our clear transition plan roadmap and science-based reduction targets
Reduce 2021's scope 1 and scope 2 carbon footprint by 10%	Achieved - by replacing natural gas with biogas since February 2022, absolute emissions for Scope 1 and 2 (when applying the market-based method of calculating emissions) results in an 84% reduction for Scope 1 and 2 emissions versus 2021
Reduce single use plastic (SUP) by 40% from our 2019 baseline	Achieved - we have surpassed this target achieving an 83% cumulative reduction on SUPs since 2019
Maintain 99% of waste not going to landfill	Achieved - we achieved 99% waste diversion from landfill in 2022
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	In progress - next steps will be assessing carbon reduction options to help our customers to reduce the carbon footprint of their homes

Summary Group Responsible Business Report
(continued)

Performance Against Social Targets

2022 Targets	Progress and Next Steps
Help at least 10,000 first-time buyers	Achieved - In 2022, we helped 13,803 customers get the keys to their first home
Maintain colleague engagement of 85% or above	Achieved - this has increased by 2% since 2021's results to 87%
Achieve our Women In Finance Charter target of 40%	Achieved - As at 31 December 2022, we had 45% female colleagues in senior leadership roles and above
Give £50,000 to support 100 community foodbank initiatives and donate £200,000 to Skipton Building Society Charitable Foundation	Achieved - During 2022, £50,000 was donated to foodbanks and over £350k was donated to the Skipton Building Society's Charitable Foundation. This went towards helping over 130 individual charities
Further develop and implement Skipton's Workforce of the Future strategy	Achieved - this strategy has now been embedded as part of business as usual
Maintain Investors in People platinum status	In progress - this will be assessed again in 2023
Further develop Skipton's support for vulnerable customers	Achieved - following a gap analysis, we have enhanced team resource supporting our vulnerable customers
Launch social mobility working group	Achieved - Launched in January 2022

Performance Against Governance Targets

2022 Targets	Progress and Next Steps
Implement the UN Principles for Responsible Banking Framework	Achieved - we have undertaken our self-assessment and identified the area where we can deliver the most impact. Next steps: set robust targets aligned to UN PRBs for 2023
Issue our first Group Responsible Business Report including our reporting for the Task Force on Climate-Related Financial Disclosures (TCFD)	Achieved - we are now issuing our second Group Responsible Business Report
Rollout of climate risk requirements into our risk framework	Achieved - we have updated our climate risk stress testing analysis and reviewed our Climate Change Risk Management Framework and climate risks facing the Group for 2022
Develop and implement Group ESG and audit plans	Achieved - we have integrated Group ESG activities within a Group governance framework and have engaged internal and external audit for assurance over 2023 reporting
Deliver annual Board and colleague ESG training	In progress - In 2022 we delivered a wide range of training on vulnerable customers and diversity and inclusion topics. We also delivered internal events such as our Sustainability Awareness Day in November to colleagues at branches and head office
Explore opportunities for a Skipton Group ESG rating	Achieved - the Society continues to engage with a credit rating agency to look into the benefits of acquiring additional ESG ratings
Build further ESG components into the Executive Remuneration Scheme	Achieved - a review of the Executive Remuneration Scheme included seven new measures linked to organisational ESG targets for 2023
Develop a treasury social and green funding strategy and framework	In progress - whilst the Society will continue to explore the opportunities of developing a sustainable finance framework, this has taken a lower priority. Instead we have chosen to focus on our existing social and environmental credentials and plans outlined elsewhere in this report.

Our performance against climate change

Annually, the Society and Connells group publish their energy consumption and emissions in line with the UK's Streamlined Energy and Carbon Reporting (SECR) requirements. The Society (including Skipton Business Finance's emissions - those generated at their premises in the Bailey and those at their regional sites)[1] publishes their emissions in the table below. Connells group publish theirs in their own Annual Report and Accounts, filed at Companies House. Moving forward, in line with a Group approach to reporting, we will include Connells' SECR KPIs alongside the Society's in an aggregated SECR table in the Group's 2023 Annual Report and Accounts.

The Society's other subsidiaries' emissions data (Skipton Business Finance, Skipton International Limited, Jade and Northwest Investments) are published in our 2022 Group Responsible Business Report, available on our website. None of these are required to disclose under SECR requirements so these are reported separately on a voluntary basis, and in line with separate Taskforce for Climate-related Financial Disclosures (TCFD) framework requirements.

The Society's energy and greenhouse gas (GHG) emissions data is compliant with SECR requirements and has been independently calculated by Envantage Ltd for the period 1 January to 31 December 2022 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 (personal vehicles used for business purposes). The table below details the regulated SECR energy and GHG emissions sources from the current and previous reporting periods for both the Society and Skipton Business Finance (SBF). SBF sites include the head office at the Bailey and their regional offices.

1. *SBF, due to the SECR definition of a large company are not presently required to comply with SECR reporting. The Society has included them as their shared use of the Head Office space results in some overlap of emissions, so they have been included on a voluntary reporting basis for completeness in energy and emissions data collection.*

		FY22	FY21	% change
Energy (kWh)				
	Natural gas/Biogas	2,767,768	3,414,398	-18.9%
	Company vehicles	449,471	167,309	168.6%
	Electricity	2,621,638	3,306,778	-20.7%
	Business travel	179,923	11,098	1,521.2%
	Total energy	**6,018,800**	**6,899,583**	**-12.8%**
Emissions (tCO_2e)				
Scope 1	Natural gas/Biogas	0.6	625.4	-99.9%
Scope 1	Company vehicles	112.9	41.1	174.7%
Scope 2	Electricity*	21.8	19.9**	9.5%
Scope 3	Business travel	44.4	2.7	1,544.4%
	Total SECR emissions (MBM)	**179.7**	**689.1**	**-73.9%**
Emission intensity ratio (Market Based)				
	Emissions intensity (tCO_2e / Intensity Metric (£m turnover))	**0.433**	**2.304**	**-81.3%**
Location based Totals				
	Scope 2 (LBM) Electricity	**507.0**	**702.1**	**-27.8%**
	Total SECR emissions (LBM)	**664.9**	**1,371.3**	**-51.5%**
	Emissions intensity (tCO_2e / Intensity Metric (£m turnover))	**1.601**	**4.585**	**-65.1%**

* GHG emissions associated with Scope 2 purchased electricity have been reported using market based methodology. The location based methodology totals for electricity emissions have also been disclosed.

** Electricity usage in 2021 has been restated to include a site that was originally excluded in 2021. As result, market based emissions for 2021 electricity has increased and altered the 2021 intensity metric.

Summary Group Responsible Business Report
(continued)

We are pleased to see that total energy consumption and emissions have decreased from 2021 levels, and that our intensity ratios under both the market-based and location-based methods have also decreased. Scope 1 emissions have reduced considerably owing to a change to biogas to replace natural gas across all sites. In areas of increased emissions, particularly business travel and company vehicles, this has resulted from the removal of all COVID-19 related travel restrictions and a return to more typical business travel levels, including international travel. We will now focus on identifying reduction opportunities to be incorporated into our 2023 carbon reduction roadmap.

The Skipton Group are committed to reducing their environmental impact and contribution to climate change and to achieve this, the Society and some subsidiaries have quantified their full Scope 3 emissions for the first time during this year. This includes the emissions generated from the Society's lending activity generated by properties in our mortgage book and those generated through supply chain activity. This is a key step in helping us to begin to establish an emissions baseline from which we intend to set Group-level science-based emissions reduction targets that align with UK government net zero ambitions by 2050.

The Society has also investigated installation of rooftop solar panels at the Bailey and reducing the number of diesel pool cars with potential to replace these with electric vehicles. Additionally, the Society are investigating changing the lighting and air conditioning systems with more efficient systems across the branches.

Across the Skipton Group we continue to collect data to provide a picture of the emissions we generate across our operations. With an accelerating climate crisis, it is more critical than ever that we can establish concrete near-term (interim) and longer term (Net Zero) GHG reduction targets that align with science. We will look to do this in 2023.

The Society's climate-related financial disclosures 2022

Aligned with the Taskforce for Climate-related Financial Disclosures recommendations, we have summarised below the Society's key achievements for this year, along with areas of focus for 2023 and beyond, under four key pillars: governance, strategy, risk management and metrics and targets. More detail can be found in the 2022 Group Responsible Business Report.

TCFD Pillar	Key progress to date	Future focus
Governance	■ Senior Management Function responsibility for the identification and management of the financial risks from climate change allocated to the Group Chief Risk Officer (previously the Chief Financial Risk & Data Officer). ■ Senior Management remain engaged with ESG and climate change risk via periodic updates and management reporting. ■ Further embedded the Climate Change Risk Management Framework.	Continue developing regular reporting of key climate-related risks and opportunities to Board and Senior Management.
Strategy	■ Updated our ESG strategy to capture our trajectory towards new and stretching initiatives to deliver on our environmental, social, and corporate governance ambitions. ■ Set out our Net Zero Strategy to play a more impactful role in helping the UK to achieve Net Zero greenhouse gas emissions. ■ Updated our overall Society strategy to include playing a leading role in greening UK homes. ■ Launched our Green Additional Borrowing range in 2022, to support Society customers in making their homes more energy efficient and reducing their carbon footprint. ■ We've teamed up with Vibrant Energy to offer our mortgage customers a free comprehensive home energy efficiency report (EPC Plus) for their property. ■ Completed S&P Global Ratings ESG questionnaire for the first time in 2022 to support our assessment of ESG standards. ■ Increased oversight of our suppliers' ESG impact through partnership with EcoVadis. ■ Improved our sustainable investing passive fund for our financial advice customers.	Partnership with dedicated sustainability platforms to capture, monitor and track progress against ESG targets and to inform future activity. Continue prioritising 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	■ Evolved our climate change scenario analysis to assess the impact of climate-related risks on the Group's risk management practices and strategic planning. ■ Mortgage new lending risk controls have been enhanced and strengthened for flood and coastal erosion informed by portfolio physical risk data.	Further develop climate risk management capabilities, learning from ongoing internal stress testing, evolving industry practice and regulatory expectations. Develop quantitative risk assessments into lending risk management practices and risk appetite optimisation. Continue to monitor EPC transition risk to track mortgage portfolio property retro-fitting, including exposure to the risk from increasing minimum EPC standards for buy-to-let mortgages.
Metrics and targets	■ Through partnership with expert third parties, the Society continues to produce regular monitoring and management information including hazard maps demonstrating geographical physical and transition risk concentrations on the residential mortgage book. ■ The Society maintained carbon neutrality for our scope 1, 2 and grey fleet (personal vehicles used for business purposes), air, and rail journeys in 2022 through our carbon neutral offsetting programme throughout the year. ■ We've continued to develop our capabilities to measure our carbon footprint across the Group. The Society and several subsidiaries have screened their scope 3 emissions for the 2021 financial year.	Seek to utilise insights from climate risk stress testing to inform strategic goals with respect to climate risk management, supporting sustainable growth and resiliency. Continue evolving our climate risk management information to monitor our key climate risks and track performance against our targets. By 2023, reduce Scope 1 and 2 emissions by 5% from 2022 levels. By 2030, reduce scope 1, 2 and operational scope 3 emissions by 50% from 2021's reporting figures. Establish targets to achieve Net Zero Scope 1, 2 and 3 operational and financed carbon emissions by 2045 at the latest. Offset all remaining scope 1, 2 and limited scope 3 operational emissions. Support Group subsidiaries to develop their own environmental and net zero strategy. Sign the commitment letter to the Science Based Targets Initiative (SBTI) and set science-based emission reduction targets for the Group.

2022 Group Responsible Business Report

An in-depth summary of our ESG progress, focus areas and future targets is set out in detail in our 2022 Group Responsible Business Report, published on our website. This year we have looked in further detail at our progress, achievements and ESG ambitions across the Skipton Group. We have also included details of our climate risk scenario analysis, updated ESG-related strategies, key metrics, and updates on our approach to ESG governance.

ESG will continue to remain a key focus area for the Skipton Group, and we welcome the opportunity to further embed ESG maturity and alignment across our core business and subsidiaries in the year to come.

Stuart Haire
Group Chief Executive

28 February 2023

Governance

The Board of Directors

Gwyn Burr

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

"I've experienced first-hand what a fantastic service the Society offers. As customer behaviour in dealing with their financial affairs continues to evolve, I'm enjoying working with the team to meet the new challenges this brings, so we can continue to serve the needs of our members both now and in the future. I'm proud to lead a Board where the directors and senior management team is tireless in its efforts to support our customers and our colleagues, having a positive impact on their lives."

Gwyn lives close to Skipton and brings wide-ranging executive experience in marketing and customer service, thanks to her director-level roles at ASDA and Sainsbury's. She also has significant financial services experience, having previously held non-executive positions with Principality Building Society, Sainsbury's Bank plc and the Financial Ombudsman Service. She is currently a Non-Executive Director at Metro AG and is on the Board for Ingleby Farm.

Stuart Haire

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

"I am hugely excited and humbled to take on this role at a very important time for the Society. Skipton's made up of a fabulous group of businesses and has a proud mutual status. My job will be to continue the work to modernise our organisation and make it even more relevant for existing and new members as they consider their longer-term financial needs and aspirations. I'm very much looking forward to leading the Group through this exciting new phase."

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

Andrew Bottomley

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

"I'm passionate about providing great products and services to our existing and future members, helping them when they need it most. Skipton really cares about its customers and colleagues and constantly strives to improve and develop what we offer, values which are very important to me."

Andrew has extensive experience in financial services having previously worked in Lloyds Banking Group, Halifax and Bank of Scotland. He has served in a variety of senior roles across Mortgages, Savings and Financial Advice as well as leading large retail customer teams. He is the Chief Executive Officer for our "Money" business helping members make the most of their Savings and Investments and providing advice and support through our customer teams in branch, on the phone and digitally.

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.

The Board of Directors (continued)

Ian Cornelius

Ian was Commercial & Strategy Director, member of the Group Executive, Retail Credit, Asset & Liability and Non-Executive Remuneration Committees. He was also a Non-Executive Director of Connells Limited and Jade Software Corporation. Ian was interim Group Chief Executive from April to December 2022.

Ian resigned his Directorship of the Society on 28 February 2023

"I have been 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 has been 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."

Iain Cummings

Member of the Audit and Nominations Committees.

"I was attracted by Skipton's mutual values and purpose. I want to use this opportunity to apply my many years of experience in finance and financial services to assist the Society in sustaining and developing its high-quality products and services for the benefit of all its members."

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

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 Germany's Aareal 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

Chair of the Remuneration Committee and a member of the Nominations 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 at the forefront of everything is what fascinates me. I believe organisations that 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 on our use of data to support better decision making. She has 25 years' experience in senior executive roles at Lloyds plc, Capital One, Boots the Chemist, ASDA and Burton Group plc. She is a Non-Executive Director for Ikano Bank Europe and at Rothesay (the UK's largest pensions insurance specialist) as well as a Trustee Director of Yorkshire Cancer Research and Admiral Long Foundation.

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 the interim Chair of Connells Limited.

“I have been involved with the Society as a Non-Executive Director since 2014, initially with the financial services business and subsequently joining the main Board in 2016. Over the past 8 years I have built up a detailed knowledge and experience of the Society and its subsidiary businesses. I use that experience to ensure that we always strive to understand our members and customers’ needs so we are able to 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 40 years’ experience in commercial and financial services. His previous roles include CEO of St James’s Place plc, CEO of Virgin Direct and Director of Henderson Investors plc. He is a Non-Executive Director of Coutts & Co and Chair of Equiniti Financial Services Limited.

Philip Moore

A member of the Audit, Nominations and Risk Committees. He is also a Non-Executive Director of Connells.

“I joined the Board 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 40 years’ experience in international financial services, spending nearly 20 years as a CFO including of a FTSE 100 company, 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. He is also Trustee of the Royal British Legion and a Governor at Hart Learning Group.

Bobby Ndawula

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

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

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

Helen Stevenson

Helen was a member of the Remuneration Committee and a member of the Nominations Committee.

Helen retired from the Board on 31 December 2022

Helen was due to retire from the Board at the AGM in April 2022 but agreed, at the Board’s request, to extend her tenure due to other director changes at the time. Helen then retired from the Board at 31 December as scheduled.

“Skipton is well placed to strengthen both its excellent customer service and financial stability. The Board’s focus on maintaining a powerful connection between members and the business and its evolving strategy will enable it to continue to thrive in a changing marketplace.”

Directors' Report

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31 December 2022.

The financial information included in this Directors' Report is taken from the statutory Accounts on pages 112 to 245 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 2022 and 2021 is set out on pages 14 to 37 of the Strategic Report.

Business objectives

The business objectives of the Group are set out on pages 14 to 18 of the Strategic Report.

Business review and future developments

The Chair's Statement set out on pages 8 and 9, the Group Chief Executive's Report set out on pages 10 to 13 and the Strategic Report set out on pages 14 to 37 report on the performance of the business and its future objectives.

Profits and capital

Group profit before tax was £298.8m (2021: £271.8m). Total profit after tax (attributable to the Society) transferred to the general reserve was £231.2m (2021: £215.8m).

Total Group reserves at 31 December 2022 (excluding non-controlling interests) were £2,192.9m (2021: £1,964.0m) including the fair value reserve of £(16.9)m (2021: £7.5m), the cash flow hedging reserve of £29.6m (2021: £4.0m), the cost of hedging reserve of £(1.1)m (2021: £(3.5)m), and the translation reserve of £4.9m (2021: £4.5m).

Gross capital at 31 December 2022 was £2,546.1m (2021: £2,341.9m) including £311.8m (2021: £336.3m) of subordinated liabilities and £41.6m (2021: £41.6m) of subscribed capital. The ratio of gross capital as a percentage of shares, deposits and borrowings at 31 December 2022 was 8.42% (2021: 8.86%) and the free capital ratio was 6.74% (2021: 6.89%). The Annual Business Statement on pages 250 to 252 gives an explanation of these ratios.

Mortgage arrears

Group mortgage balances at 31 December 2022 included 52 cases (2021: 83) either in possession or where payments were 12 months or more in arrears. The capital balances of these loans were £7.9m (2021: £13.9m). The total amount of arrears on these loans was £0.6m (2021: £1.0m).

Charitable donations

During the year the Group made charitable donations of over £1.3m (2021: £0.5m), primarily through support by Connells' group of £0.5m to the victims of the conflict in Ukraine, donations to the Skipton Building Society Charitable Foundation and through Skipton's Community Giving scheme. No contributions were made for political purposes (2021: £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 2022 for the Group was 9 days (2021: 19 days).

Principal risks and uncertainties

The principal risks and uncertainties are set out on pages 78 to 85 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 78 to 85 of the Risk Management Report and in notes 38 to 40 of the Accounts.

Colleagues

The Group remains committed to its policy of treating all colleagues and job applicants equally at all times. Our policy is that no colleague, or potential colleague, 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 colleague becoming disabled, we make every effort to maintain their present position or to employ them in alternative suitable work. We also aim to provide high quality relevant training and development opportunities to all colleagues, which enables them to achieve their full potential and helps the Group meet its corporate objectives.

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

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

Property, plant and equipment

In the year, the appropriateness of the approach to IAS 36 *Impairment of Assets* has been reassessed. The Directors have concluded that the present value of the future cash flows attributable to freehold and leasehold properties occupied by the Group, excluding the principal office of the Society, is significantly in excess of their market value, which is in turn in excess of the corresponding book value that is included within property, plant and equipment (per note 18 to the Accounts). Therefore, there was no additional impairment for the year ended 31 December 2022, and the accumulated impairment to date of £1.2m has been reversed. In arriving at this view, the Directors have taken account of the value-in-use, together with internal and external valuations of the Group's property portfolio.

It is difficult to ascertain a reliable market value for the principal office of the Society, which is a special purpose facility, however the Board considers that its value in use to the Group is greater than its book value.

Directors' Report (continued)

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 2022, £0.1m of impairment was charged against investment property but offset by a credit of £0.1m, whereby the occupation level of one branch reduced giving rise to a transfer to property, plant and equipment, which in turn reduced the previously booked impairment. The Directors consider that the overall market value of the remaining investment properties held is in excess of the corresponding book value that is included within investment properties (per note 20 to the Accounts).

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

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

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

The Building Societies Act 1986 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 250 to 252.

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 14 to 37 of the Strategic Report, and a description of the principal risks and uncertainties facing the Group which is set out on pages 78 to 85 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 60 to 69.

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 248 and 249.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Group:

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

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

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

Directors' responsibilities in respect of going concern

The Group's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance are set out on pages 14 to 37 of the Strategic Report and on pages 78 to 85 of the Risk Management Report. In addition, notes 38 to 40 of the Annual Accounts include the Group's objectives, policies and processes for managing its liquidity risk, details of financial instruments and hedging activities, and its exposure to credit risk, liquidity risk and market risk.

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

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

Directors' statement of longer term viability

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

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

The assessment also included a robust review of the Group's principal risks and uncertainties (outlined on pages 78 to 85), 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 2027. 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 2023 – 2027 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% and the Bank Base Rate increasing in the short term to 3.0% before decreasing to 0.1% throughout the remainder of the scenario, each of which would adversely impact upon the level of losses experienced within the Group's loan portfolio. The Directors concluded that the impact of this severe economic environment would not threaten the longer term viability of the Group.

Directors' Report (continued)

- Reverse stress testing carried out by the Group, which considers scenarios specific to the Group that could cause the Group to fail. The Directors have concluded that any such scenarios are unlikely to materialise.
- The potential impact of climate-related financial risks across a range of forecast scenarios. This includes consideration of the potential impact of both orderly and disorderly transitions to a low carbon economy by 2050 and the impact of a scenario in which no such transition occurs.
- The potential impact of emerging regulation, where there is sufficient information regarding the future regulation.
- The principal risks facing the Group and the control framework in place to manage and mitigate these risks (as outlined in the Risk Management Report), including an assessment of the likelihood and impact of these risks on the Group. This includes specific consideration of the significant economic and political uncertainties associated with current inflationary pressures (domestic and global), the events in Ukraine, the long-term effects of the COVID-19 pandemic and the UK adjusting to a post-Brexit environment. Further, the UK economy has entered a period of recession, the severity and duration of which is unknown.
- A number of severe but plausible scenarios, arising from the principal risks, which are remote, but if they arose could threaten the longer term viability of the Group.

There are inherent limitations in preparing long-term financial plans with regard to a number of factors including, but not limited to, social, economic, political, regulatory and climate factors. The Directors consider that the outer years of the financial planning period are more difficult to predict and therefore these years have a greater degree of uncertainty. For example, there remains uncertainty regarding the longer term impacts on the economy and on the Group of events such as the COVID-19 pandemic and the Ukraine war. These impacts may have an effect on the performance of the Group within the Group's financial planning period; the extent of the impact is currently unknown.

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

Directors

The Directors of the Society at 31 December 2022, along with their roles and membership of board committees, are set out on pages 48 to 53. During the year the composition of the Board was refreshed to ensure it continues to have an effective balance of skills, knowledge, experience and diversity to deliver on Skipton's strategic priorities.

Executive Directors

David Cutter stepped down as Group Chief Executive on 26 April 2022 after the Annual General Meeting (AGM). At the same time, and in line with the succession plans in place, Ian Cornelius became Interim Group Chief Executive until Stuart Haire's permanent appointment on 31 December 2022, when Ian returned to his role as Executive Director; prior to resignation from the Board on 28 February 2023.

Non-Executive Directors

Also following the AGM, 26 April 2022 saw the retirement of Robert East as Chair of the Board and Amanda Burton as Non-Executive Director. Gwyn Burr was subsequently appointed as Chair of the Board on 27 April 2022. Iain Cummings was appointed Non-Executive Director on 1 July 2022, ahead of Helen Stevenson retiring from the Board on 31 December 2022. Subject to regulatory approval, Iain will take over as Chair of the Board Audit Committee in April 2023 when Richard Coates, the current Board Audit Committee Chair, takes his scheduled retirement from the Board.

Details of Directors' service contracts are disclosed in the Directors' Report on Corporate Governance on page 65. No Director of the Society had any interest in the shares of any Group undertaking as at 31 December 2022.

In accordance with the UK Corporate Governance Code, all executive and non-executive directors offer themselves for election or re-election by the members at the 2023 AGM.

Auditor

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

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

Responsibility statement of the Directors in respect of the Annual Report 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

Gwyn Burr
Chair

28 February 2023

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.

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.
- Provision 21 calls for Board Effectiveness reviews to be externally facilitated every three years. Due to the significant changes in 2022 and those expected early 2023 I concluded that the external review due in 2022 would be best delayed by a year and completed in late 2023. We are advanced in the tender process and are reviewing submissions from firms invited to complete the work to enable us to make an appointment shortly. I, with support from the Society's Secretary, nonetheless, completed an internal Board Effectiveness review for 2022 which is commented on later.
- Provision 36 requiring remuneration schemes to promote long term shareholdings by executive directors is not possible for the Society due to its mutual status.
- 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 2022, 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, colleagues 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 2021 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 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, Mark Lund and Philip Moore, 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.

Directors' Report on Corporate Governance
(continued)

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.* To help deliver this it is important that culturally we maintain a working environment where the customer is at the centre of our thinking and the benefits of diversity amongst our workforce and the communities we serve is recognised and utilised.

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

Board Meetings

The Board met nine times during 2022. In line with good governance the Non-Executive Directors also meet, without the Executive Directors present after each Board meeting. The attendance record of each Director at these Board meetings and of each committee member at relevant Board committee meetings is set out on page 66.

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 Chief Financial Officer;
- 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. As the new Chair, maintaining this environment continues to be a focus; post Covid, the Board has returned to a full schedule of on-site Board meetings.

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 2022, the Board comprised 11 Directors, being four Executive Directors and seven 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 will continue to regularly review the size and composition of the Board and its committees which are reviewed formally by the Nominations Committee at least annually. This ensures that there exists the required mix of skills and experience on the Board and that succession planning is adequately addressed; our Board Composition Policy is available on the Society's website at skipton.co.uk/about-us/governance/board-composition-policy. The Nominations Committee aims to ensure that the Board's committees are optimally resourced and are refreshed at appropriate intervals to avoid reliance on any one individual.

Non-Executive Directors

As part of their Board responsibilities, the Non-Executive Directors are responsible for bringing independent judgement to the Board and for constructively challenging the Executive team. The Non-Executive Directors meet, without the Executive Directors present, as a minimum after each Board meeting 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 Chief Financial Officer. 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, eight days per month.

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 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 2022, three members (27%) of the Society's Board were female. Improving this ratio and harnessing the benefits of diversity will be a key consideration in all recruitment to the Board. 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 66 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.

Directors' Report on Corporate Governance
(continued)

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.

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 2022 review should have been externally facilitated. However, in light of the level of changes taking place at Board in 2022 and in Q1 2023, I felt that it would be more beneficial to delay the external review until the planned new appointments had been made. In preparation for this, a competitive tendering exercise is already well advanced.

The 2022 review was led by myself with support from the Secretary. This involved completion of a digital questionnaire by Directors, members of the Executive Committee, who all attend Board meetings, 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 Non-Executive Directors in one-to-one meetings and I prepared a summary report of views which was formally considered by the Board at its meeting on 28 February 2023.

My review found that Board members and senior executives attending believed the Board to have a good mix of skills and experience to fulfil its responsibilities. There were good relationships at Board with a constructive atmosphere encouraging good discussions.

Board members believed that they were furnished with good management information which enabled them to monitor the progress of strategy and corporate plan delivery and effectively hold management to account.

Whilst a virtual Boardroom environment was not seen to hamper the Board's effectiveness during the COVID-19 pandemic, board members welcomed the return to more face to face meetings.

The Board committees were also seen to be well supported and function effectively with good interaction with the Board.

In terms of continuous improvement, key points raised were that there should be more focus on monitoring and challenging the evolving culture of the Society, how the Society can make membership more meaningful and a strong desire for continued focus on diversity in the broadest sense both at Board and generally in the business.

Specific time will be allocated to these topics and specific operational points raised on the Board agenda throughout the year to ensure positive action and progress.

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.

Helen Stevenson was scheduled to retire from the Board as a Non-Executive Director at our AGM in April 2022 but agreed to the Nominations Committee's request, for continuity purposes, to remain on the Board until the end of the year. Helen retired from the Board on 31 December 2022.

Remuneration

Details relating to Directors' remuneration are contained in the Directors' Remuneration Report on pages 86 to 99.

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. For the 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 pages 73 to 76 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 56 and 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 78 to 85, together with an explanation of the three Lines of Defence framework adopted by the Group for managing risk.

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

- Regular reports to the Board by the Chairs of its various committees;
- Presentations to the Board by divisional leaders relating to the strategy and performance of businesses within each of the divisions, summarising business performance, key business risks, issues and strategies;
- Regular reports to the Board, through the 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 risk oversight, the Chief Risk Officer role is a senior executive position and member of the Executive Committee. The Board Risk Committee and Board receive regular reports from the Risk Officer 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 78 to 85.

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 2022, 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.

Directors' Report on Corporate Governance
(continued)

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 70 to 77;
- The Board Risk Committee – further detail is contained in the Risk Management Report on pages 78 to 85;
- The Remuneration Committee and Non-Executive Directors' Remuneration Committee – further detail is contained in the Directors' Remuneration Report on pages 86 to 99; and
- The Nominations Committee – further detail is contained in the section on 'Appointments to the Board and its Committees' on pages 63 and 64 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:

	Scheduled Board	Audit Committee	Nominations Committee	Remuneration Committee	Board Risk Committee
Gwyn Burr (note 2)	5 of 5		3 of 3		
Robert East (note 3)	3 of 3		2 of 2		
Andrew Bottomley	9 of 9				
Amanda Burton (note 3)	3 of 3		2 of 2	5 of 5	4 of 5
Richard Coates	8 of 9	8 of 8	5 of 5		10 of 11
Ian Cornelius	8 of 9				
Iain Cummings (note 4)	4 of 5	3 of 3	2 of 2		
David Cutter (note 3)	3 of 3				
Denis Hall	8 of 9	7 of 8	4 of 5		10 of 11
Heather Jackson	9 of 9		5 of 5	9 of 9	9 of 11
Mark Lund	9 of 9	7 of 8	5 of 5	8 of 9	
Bobby Ndawula	9 of 9				
Helen Stevenson	8 of 9		4 of 5	7 of 9	
Philip Moore	9 of 9	7 of 8	5 of 5		9 of 11

Notes

1. Where Directors are not available to attend meetings, they nonetheless receive all papers and provide feedback as appropriate.
2. Gwyn Burr joined the Board in April 2022.
3. David Cutter, Robert East and Amanda Burton retired from the Board at the AGM in April 2022.
4. Iain Cummings joined the Board on 1 July 2022.

Relations with Stakeholders

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

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

Members and Customers

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

Against a backdrop of significant economic and political uncertainty, it is of the utmost importance that we understand our customers and listen to their feedback. During 2022, to ensure we were providing products and services that meet our customers ever changing needs and expectations we conducted a comprehensive range of large-scale market research which included:

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

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

Utilising this research, we were able to make improvements in 2022 that has benefitted our customers;

- We understand that now more than ever, our members want to make the most of their money
  - During ISA season we launched market leading ISA products
  - Throughout the year we have continued to release competitive savings products and as at the 31 December 2022 we paid 0.54% above market average on all our savings rates
- We developed new product and functionality to suit our customer needs
  - A 50:50 limited access bond which allowed customers a better rate but unlike a fixed product customers can still access up to 50% of their money if they needed to
  - Accounts to give customers more choice and control of how they manage their money via different channels regardless of how they opened it
- For our mortgage customers we mitigated the impact of base rate increases on reversion rates
- By extending the switch window at the end of Fixed Rate mortgage periods, customers can secure a follow-on rate up to six months in advance which provides more certainty and peace of mind
- With energy prices being front of mind for many of our customers alongside sustainability more generally, we felt customers would value understanding the energy efficiency rating of their homes and how to improve them. As a result, we have launched our free EPC Plus report to all mortgage customers

In 2022 the Society has continued to achieve extremely high levels of net customer satisfaction, scoring 85%.

As a mutual organisation it's important for us to be transparent in sharing our customer feedback. This has been demonstrated by our continued pursuit to gain public reviews from customers via our partnership with Trustpilot. Since integrating this with our existing ongoing research programme towards the end of 2020, we increased our rating to 4.4 stars out of 5 as at 31 December 2022.

Our Colleagues

It is important to us that we have a thorough understanding of our colleagues' views regarding their experience of working at the Society and we do this in a number of ways – through team meetings, surveys, employer review websites, listening sessions and independent assessments 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 colleagues' thinking and is shared at Board level. It sees leaders agreeing actions with their teams to address opportunities, issues and concerns raised.

The feedback from our latest My Voice, in November 2022, showed continued high scores for engagement. Colleagues remain connected with our purpose and customers, with 94% saying they are proud to work for Skipton Building Society. Colleagues also shared that they value the support they get from their line managers, particularly around their wellbeing and personal development, this is also demonstrated through actions taken from functional listening sessions. They feel they can be themselves at Skipton and value the flexibility many

Directors' Report on Corporate Governance
(continued)

enjoy when working for the Society. We also introduced a psychological safety index this year to help understand and measure this going forward.

Other examples of initiatives driven by colleague feedback include omni-channel product switches saving significant time for both customers and colleagues and an innovative 'bot' to help with queries. A particular response to feedback from colleagues in Skipton Direct was the creation of a 'wellbeing' button. This enables colleagues to take a break following difficult calls when they might simply need private time. It also allows leaders to monitor use of the facility to determine where additional support might be required.

Building upon the opportunities for improvement from last year, by listening to colleagues and understanding the external market, we invested significantly in colleagues' pay at the beginning of 2022. This has led to colleagues telling us that they better understand how their pay is benchmarked and believe they are paid more fairly for the work that they do. However, this is one to monitor closely throughout the year.

Whilst colleagues believe strongly in our strategic objectives, an area of improvement continues to be around helping them understand how they contribute to the 'bigger picture' in terms of our Corporate Plan. Colleagues still want the best possible processes for our customers and highlight that some of these could be improved, demonstrating their commitment to our members and customers as well as our opportunity for continual improvement. As the world continues to evolve, our colleagues have also recognised the need to make more of digital technologies to better serve our customers.

In line with the Code's requirements, the Board appointed Non-Executive Director Philip Moore to be the Board member responsible for providing a further avenue for the voice of our colleagues to be heard at the Board table. He has conducted a series of 'listening sessions' where up to 30 of our colleagues at a time are invited to a meeting to share their views on the Society, how they feel in the workplace, how they feel customers are treated and ideas on what we could do better and any other topic they wish to raise. A written summary of the feedback is then presented to the Board. 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.

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?', the Society was given an average score of 8.6 out of 10 which was very positive. As part of our focus on treating our suppliers fairly and recognising that some of our small and medium sized enterprises (SME) suppliers can face cash flow challenges, we look to provide payments swiftly with, on average, payments being made within 10 days of invoices being submitted.

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

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 at the AGM, by post or online at skipton.co.uk/agm. All votes are returned to independent scrutineers. A poll is called in relation to each resolution at the AGM and the results of the vote are published on the Society's website and in branches. As a minimum, the Society's members at the AGM are asked to vote on the Society's Annual Report 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 2022, we were pleased to be able to move away from Covid restrictions and, once again, open our doors to an on-site AGM. The meeting was also live-streamed so members unable to attend 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 key question themes to be addressed 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 2022 AGM.

Conclusion

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

On behalf of the Board

Gwyn. V. Burr

Gwyn Burr
Chair

28 February 2023

Governance

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)

Iain Cummings
Non-Executive Director (appointed to the Committee 1 July 2022)

Denis Hall
Non-Executive Director

Mark Lund
Non-Executive Director

Philip Moore
Non-Executive Director

The Committee held five scheduled meetings during 2022 and the attendance of its members at these meetings is set out on page 66 in the Directors' Report on Corporate Governance.

The Committee held an ad-hoc meeting in February 2022 to give due consideration to weaknesses identified in the financial control environment of Countrywide, which was acquired by the Group in 2021; these weaknesses, which were reported by the Committee in our prior year Report, did not impact the Group's financial statements for the current or prior year. The Committee kept this matter under close review at its subsequent meetings (including at further ad-hoc meetings held in April 2022 and June 2022); work has continued throughout the year to embed the Estate Agency division's control framework and standards within the Countrywide business.

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 Chief Financial Officer, the Chief Financial Risk and Data Officer and the Connells Group Finance Director, to provide an opportunity for any relevant issues to be raised directly with Committee members. In addition, as Committee Chair (and with responsibility delegated to me by the Committee) I held private discussions with the Head of Finance and Sustainability of Jade, the Finance Director of Skipton Business Finance and the Director of Finance, Risk and IT of SIL.

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

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

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

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).

This is my final report to you as Committee Chair, as I am scheduled to retire from the Board in April 2023. I am pleased to confirm that, subject to regulatory approval, Iain will take over as Committee Chair from April and I wish him well in that role.

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.

Audit Committee Report (continued)

Activities of the Committee during the year

During 2022 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 78 to 85.

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 from Group Internal Audit and considered by the Committee during 2022 provided assurance that there were no significant control failings that would lead to a material impact on the Group's financial statements. As noted above, the Committee reported last year regarding weaknesses in Countrywide's financial control environment that were identified subsequent to acquiring Countrywide in 2021; as set out on page 75, work has continued throughout the year to address these weaknesses and to embed the Estate Agency division'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 2022, Group Internal Audit had an appropriate level of resources in order to carry out its responsibilities effectively and that it continues to do so.

On 1 August 2022, the then Group Chief Internal Auditor transitioned to a new role as the Society's Chief Conduct Risk Officer (and subsequently as Group Chief Risk Officer). The process to recruit a suitable new Group Chief Internal Auditor was overseen by the Committee; responsibility was delegated to two Committee members, which included the leading of final candidate interviews. There was a smooth transition to the new Group Chief Internal Auditor, who took up the role with effect from 1 August 2022.

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 and financial risk areas;
- key controls around information technology, cyber security, data protection and operational resilience risks;
- key project management controls for the Group's material projects in place to support business strategy;
- compliance with the Society's new lending policy, including responsible lending requirements; and
- a number of specific areas of internal control in the Group's subsidiaries, including ongoing activity to address previously identified weaknesses in the Countrywide financial control environment.

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

The Committee periodically reviews the use of the confidential reporting channel in the Group. Awareness of 'whistleblowing' arrangements is maintained through internal communication and is covered as part of colleague induction and ongoing development. The Committee 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 reports on the results of their testing of the effectiveness of internal controls. The reports received during the year included updates regarding progress made by management to address the control weaknesses identified in the prior year at Countrywide; none of these control weaknesses led to a material impact on the Group's financial statements for the current or prior year.

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

- government proposals for significant reforms to UK audit and corporate governance;
- impacts of changes in the economic environment; and
- impacts on our members from fraud risks.

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.

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 2022 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 version is fair, balanced and understandable;
- the Committee reviewed and was satisfied that the alternative performance measure of underlying profit before tax (defined on page 25 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 2022 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 59 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 2022 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 global inflationary pressures, the events in Ukraine and the long-term impacts of COVID-19) 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 57 and 58, 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

Audit Committee Report (continued)

Significant matter	Committee action taken
Going concern and longer term viability review *(continued)*	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 57 and 58 was recommended to, and approved by, the Board.
Impairment of financial assets	The Committee has monitored loan impairment provisions, taking account of the requirements of IFRS 9 *Financial Instruments*. We have reviewed the appropriateness of critical judgements made by management, including the definition of default and the determination of significant increase in credit risk. We have considered the impact of key assumptions within the Group's loan impairment models (such as house prices, unemployment and other forward-looking economic indicators within defined economic scenarios) on the level of provisions made and the relevant disclosure in the Accounts. The Group has during the year updated its economic scenarios and the weightings attached to each scenario; this includes revisions to reflect increased political and economic uncertainty (due to factors including global inflationary pressures and the events in Ukraine). We note that, in particular, revision of the Group's view of future interest rates has resulted in an increase in the Group's loan impairment provisions; this is reflected both in the modelled impairment amounts and in the post model adjustments. With respect to climate-related risks, the results of scenario analysis performed by management during the year has not materially impacted the Group's loan impairment provisions. We recognise that the future impact of climate-related risks on credit risk is uncertain and we will continue to monitor developments in future periods. Against the backdrop of volatile economic conditions, we have examined and challenged the assumptions adopted and have scrutinised reports produced by management. In December 2022 we held an ad-hoc meeting to give due consideration to loan impairment provisions; in light of the economic conditions, we paid particular attention to any model limitations and held detailed review and discussion of post model adjustments. We are satisfied with the models used during the year to calculate loan impairment provisions for both the residential and commercial mortgage portfolios, together with the post model adjustments that have been applied. The Committee has also monitored the level of impairment held against treasury assets under IFRS 9, including scrutinising reports produced by the Market & Liquidity Risk function. We consider the level of impairment held against these assets to be appropriate.
Fair valuation of the equity release portfolio	The Group holds an equity release portfolio which is closed to new business. 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 2022 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

Significant matter	Committee action taken
Fair valuation of the equity release portfolio *(continued)*	amortised cost under IFRS 9, hedge accounting cannot be applied. Both the equity release portfolio and the swaps are held at fair value through profit and loss. There is some natural offsetting between the changes in value of the portfolio and the derivatives but this is not perfect, partly due to the different discounting requirements. The Committee has reviewed papers prepared by management that support the assumptions used and which outline the control framework management has in place; the Committee is satisfied that the amounts recognised in the Income Statement are fairly stated and that the valuations of these derivatives are appropriate. Given the sensitivity of the fair value to certain key assumptions, the Committee also reviewed those key sensitivities and is satisfied that these are fairly presented in note 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. As explained in note 1w) to the Accounts, the judgements that are applied by the Group for the purposes of effective interest rate accounting were revised during the year. The Committee scrutinised reports received from management that outline the background to these changes and which provide support for the revised judgements and the impact on the financial statements for the year. The Committee is satisfied that the changes are appropriate and have been fairly recognised and disclosed in the Accounts.
Control environment of Countrywide	As reported by the Committee last year, subsequent to the Group's acquisition of Countrywide in 2021 management identified weaknesses in the Countrywide financial control environment. As a matter of priority, significant work has been carried out, and is ongoing, to embed the Estate Agency division'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 audit procedures for the year ended 31 December 2021, together with the progress made regarding improvements to Countrywide's control environment as this new subsidiary has been integrated into the Group. The Group's Internal Audit function has performed a number of targeted reviews at Countrywide since acquisition, and has also performed specific procedures in response to matters identified by EY's 2021 audit; key findings have been discussed with the Committee, including follow-up actions. Work is now well-progressed towards fully embedding Connells' control framework and standards within Countrywide. Connells ARC and Connells Board will continue to oversee progress in this respect, and to provide updates to the Committee that give comfort that Group minimum standards are being met.
Appropriateness of provisioning for legal or regulatory matters	The Committee examined reports received from management regarding the recognition and amounts of provisions, and considered the existence of any contingent liabilities. Taking account of known issues, including the Group's principal and emerging risks, we concluded that all such provisions were appropriately accounted for and disclosed in these Accounts and we agreed with management's conclusion on the existence or otherwise of any contingent liabilities.
Defined benefit pension liability	The Group manages two funded defined benefit pension schemes and a hybrid scheme which at 31 December 2022 had a combined deficit of £29.6m (31 December 2021: £30.1m). In 2021 the hybrid scheme reported a small surplus (31 December 2021: £1.2m) so was reported separately from the two schemes in deficit above. The Committee has examined and challenged the pension scheme assumptions adopted in these Accounts and is satisfied that these are reasonable and appropriate; this includes consideration in particular of scheme asset valuations, given volatility of market pricing during the year.

Audit Committee Report (continued)

Significant matter	Committee action taken
Revenue recognition within the Estate Agency division	The Committee has considered the risk relating to the recognition of revenue within the Estate Agency division, as described by the external auditor within the external audit report on page 108. The Committee reviewed reports prepared by management and by EY regarding the effectiveness of key controls over the revenue recognition process. The Committee also considered the results of external audit testing performed in this area, including testing performed in previous years, which has not identified any evidence of material misstatement or management override in this respect. The Committee is comfortable that this matter has been appropriately considered and disclosed within these Accounts.

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 2021 Annual Report and Accounts. We concluded that the external auditor had performed an audit of good quality and we were satisfied with their independence; both parties were keen to streamline processes in the future to enhance effectiveness and ensure value for money. Separately, the Committee also considered the proposed approach to the 2022 audit and we were satisfied in this respect. Following the audit of the 2022 Annual Report and Accounts an updated report, as detailed above, will be presented to the Committee in 2023 for scrutiny and to conclude on the effectiveness of the 2022 audit performed by EY.

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

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

EY undertook a limited number of non-audit related assignments for the Group during 2022. 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 5.8% of total EY audit fees for the Group (2021: 5.3%). 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 64. The internal 2022 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

28 February 2023

Governance

Risk Management Report

Dear Member,

As the Chair of the Board Risk Committee, I am pleased to present the 2022 Risk Management Report. This report explains the risk management arrangements we operate at Skipton, and what we believe to be the principal risks facing the Society and its subsidiaries (collectively referred to as the Group).

Having emerged from the global pandemic in 2021, new challenges arose in 2022 as a result of the war in Ukraine, the cost of living crisis, and a sharp rise in inflation. During this challenging period, which persists into 2023, our focus has been, and continues to be, on supporting our customers and colleagues, whilst growing our business in a sustainable way.

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

The economic uncertainty created by the war in Ukraine and high inflation remains, specifically impacting energy prices and the cost of food and fuel. We are acutely aware of the additional strain to our members' finances that this could cause and are ready to support any of our members who may encounter financial difficulty.

Across the Group each of the subsidiaries has similarly responded to the challenges arising from the geopolitical situation and cost of living crisis, supporting their customers and colleagues.

In addition to the specific challenges mentioned above, the Society and its subsidiaries have maintained focus on the full range of risks we face.

We continue to make progress in embedding how the impact of climate change on our members and business operating model is managed and mitigated. Through our Climate Change Risk Forum, we assess the risks posed by climate change and develop action plans to mitigate these risks. Further details of our action plans are included in our Group Responsible Business Report. This is an area where we will continue to refine and enhance our approach as new data and best practice emerges.

Committee focus

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

- **Liquidity risk**, to ensure that the Group maintains a prudent liquidity position and is well placed to respond to the uncertain environment, whilst maintaining our longer-term funding strategy to diversify our funding base;
- **Interest rate risk**, to ensure that the Group has an effective balance sheet strategy and hedging arrangements in place to manage interest rate risk;
- **Credit risk**, to ensure that the Group appropriately evaluates and balances risk and reward in a highly competitive mortgage market, which is particularly important during a period of significant economic uncertainty as previously mentioned;
- **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. We will continue to enhance our framework in line with industry standards;
- **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;
- **Model risk**, to ensure that statistical models used to support business decision making continue to be compliant, accurate and relevant;
- **Operational resilience**, to ensure that the Society and subsidiary firms remain able to provide a reliable and resilient service in all areas to their customers and can recover in a swift and organised manner in the event of an operational failure;
- **Cyber risk**, to ensure that the Group has an appropriate risk framework and continuous improvement plan in place to reduce the likelihood of a successful attack. We have been alert to the increased risk arising from remote working and continue to develop our monitoring regime and defence systems; and
- **Conduct risk**, to ensure training and competence standards are appropriate, customers receive good advice at fair value and that documentation standards substantiate this. The new Consumer Duty regulation coming into effect in July 2023 should strengthen the management of conduct risk across the industry.

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

Risk overview

Day-to-day operation of the business naturally exposes the Group to a range of potential risks. To limit the level of risk accepted by 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 the prevailing environment in which the Group is operating in.

The risk appetite covers several areas such as capital, liquidity, interest rate risk and operational risk. In terms of credit risk appetite, the Society and Skipton International Limited (SIL) only lend with a mortgage on residential properties, either to owner occupiers or buy-to-let investors. Central to operating within this appetite is a management culture which promotes awareness of actual and potential risks and an understanding of their impact on the portfolio should they crystallise.

Governance structure

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

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

During the year a decision was taken to merge the roles of Chief Conduct Risk Officer and Chief Financial Risk Officer into a new Group Chief Risk Officer role, who was appointed on 1 October. This will support greater efficiency and agility in how risk management arrangements operate effectively.

Membership and attendees

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

Denis Hall (Chair) Non-Executive Director	**Amanda Burton** Non-Executive Director (retired 26 April 2022)	**Richard Coates** Non-Executive Director	**Heather Jackson** Non-Executive Director	**Philip Moore** Non-Executive Director

Risk Management Report (continued)

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:

Non-Executive Board Committee

Board Risk Committee

Executive

Asset & Liability Committee* (ALCO)	Retail Credit Committee*	Model Governance Committee*
(chaired by the Group Chief Financial Officer)	(chaired by the Group Chief Executive in 2022 - *now by the Chief Risk Officer*)	(chaired by the Group Chief Risk Officer)

Remit

Develops and maintains policies on structural risk management, liquidity, funding and wholesale credit risk to ensure the prudential strength of the Group, and monitors adherence to the policies to ensure the Group remains within risk appetite.	Develops and maintains policies on credit quality of retail and closed commercial loan books and monitors implementation to ensure that Group lending does not create credit risk outside the agreed appetite.	Develops and maintains model build standards and reviews key models against these to ensure that the output from models can be relied on in decision making.

*These Committees primarily focus on financial risks (e.g. Liquidity, Credit, Capital, Market and Model risk).

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.

Non-financial risks including Conduct, Operational, Cyber and Climate risk are 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. The Group Chief Risk Officer maintains regular oversight of subsidiary firms in relation to risk management.

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:

1st — **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.

2nd — **Second line of defence**, being our Group Risk function, which includes specific teams dedicated to Operational risk, Compliance/Conduct risk, Financial Crime risk, Credit risk, Prudential & Financial risk (including financial risk arising from climate change) and Market, Interest rate & Liquidity risk. These teams 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 management.

3rd — **Third line of defence**, provided by Group Internal Audit, is designed to provide independent assurance to the Board (through the Board Audit Committee) of the adequacy and effectiveness of control systems operating within the first and second lines in identifying and managing risk.

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

Risk environment

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

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

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

Given the uncertainty and challenges resulting from the current economic environment, we are closely monitoring our key risk management metrics to assess for any signs of stress, so that proactive action can be taken should this be required. Thus far, the Society's and SIL's mortgage book remains resilient and is not showing any material signs of deterioration. However, we remain vigilant for the year ahead and are ready to support any member who may be concerned about facing financial difficulty. We have increased our resources in our collections & recoveries team and partner with external agencies including the Citizens Advice Bureau and Payplan who provide free debt advice to the public.

We have seen the annual rate of inflation in 2022 reach 11.1% in October, a 41-year high, before easing to 10.7% in November and 10.5% in December. In response, the Bank of England has been increasing bank base rate, from 0.5% in January 2022 to 4.0% in February 2023. This is expected to rise further in the first half of 2023.

Despite the material increases in both inflation and base rate, during 2022 unemployment has remained stable ending the year at 3.7%, which is 0.3 percentage points below pre-pandemic levels. Our latest projections forecast that unemployment will rise slowly in 2023 and peak in 2024, which has been reflected in our forward-looking loan impairment provisions held in our balance sheet.

The housing market in 2022 stayed strong for much of the year, driving up house prices, however following the 'mini budget' in September, the market slowed as mortgage interest rates increased. House prices started to decline marginally in the last quarter. Through our Estate Agency division, we are carefully monitoring the housing market in early 2023 to establish whether it has re-set itself and stabilised.

Notwithstanding the significant increase in interest rates and inflation, mortgage arrears levels remained low throughout 2022, reflective of stable unemployment. We monitor our credit risk metrics monthly, and thus far have not seen any material distress emerging for our mortgage members. We remain alive, however, to the impact of the cost of living crisis taking time to flow through to arrears and do expect to see some members encounter difficulties with mortgage affordability and arrears volumes to increase during 2023.

A key driver of profit for the Society and SIL is the margin earned on mortgages offered to customers. During 2022 there was significant competition, and latterly volatility, in the level of supply of mortgages to the market, reflecting the economic impact of the cost of living crisis. Despite this, our margin remained strong. We anticipate a highly competitive mortgage market throughout 2023.

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. Despite the economic backdrop the Estate Agency division delivered a strong set of results and dividend to the Society.

Principal risks and uncertainties

The principal risks and uncertainties presented on the following pages are those that are inherent to the Group's business model and strategy, as well as the economic environment within which the Group operates. These risks are identified by the Group Chief Risk Officer, discussed at the 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 Group Chief Risk Officer in his quarterly report 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.

Risk Management Report (continued)

Our reporting process is designed to provide the Board Risk Committee with continuous assessment of the risk environment across the Group and allow it to challenge management on its mitigation plans in a timely manner.

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

Risk	Risk mitigation and management
Business risk	
Business risk is the risk of changes in the environment in which the Group operates or the occurrence of events which damage the franchise or operating economics of the Group's businesses.	The Executive Committee of the Society and the Boards of 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. Delay or inability to respond to changing customer behaviours is a risk, as customers' preferred means of accessing financial services evolves in a rapidly changing digital environment. The 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 to 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.
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) to assess the Group's current and projected capital requirements to mitigate the current risks in the business and any future risks arising from the Corporate Plan. The ICAAP addresses all the Group's material risks and includes Board-approved stress scenarios which are intended, as a minimum, to meet regulatory requirements. The ICAAP is approved by the Board and reviewed by the PRA when setting the total capital requirements. The Group currently adopts the following approaches to calculating its Pillar 1 minimum capital requirements: ■ IRB approach for 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. MREL is the minimum amount of own funds (capital resources) and eligible liabilities that must be satisfied to provide for the recapitalisation of the Society under a gone concern scenario. The ICAAP sets out our expectations of MREL requirements over the corporate plan horizon, and how we expect to meet those requirements. Within the ICAAP we consider the impact of emerging capital regulation over the corporate planning horizon, including the reforms to the Basel III regulation, and how we expect to meet those new requirements.
Climate change risk	
Climate change risk refers to the commercial impact that climate and environmental changes present to our business model.	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 ('physical risks') as well as societal responses to climate change ('transition risks'). Climate risk can therefore manifest in various ways including the impact on traditional risk categories such as credit risk, operational risk and market risk. The Society's Executive Committee and the Boards of subsidiary firms are responsible for the proactive management of the financial and operational risks arising from climate change and the strategy to mitigate these risks.

Risk	Risk mitigation and management
	Our approach to managing the risks from climate change is summarised as follows: ■ *Identifying and assessing the risks from climate change:* We regularly review climate-related risks to which the Group is exposed; The most significant risks are assessed further as part of our annual climate risk stress and scenario testing. The analysis is primarily focused on a quantitative assessment of the impact of climate change on our residential mortgage portfolio; ■ *Managing and monitoring the risks from climate change:* The responsibilities for the management of climate risk are defined within our Climate Change Risk Management Framework. The Framework is integrated within our wider governance processes and the three lines of defence approach to risk management; and The Society has continued to embed the management of climate risk across the business during 2022. This includes developing our management information to provide regular monitoring of climate risk exposures across a range of business areas and enhancing our mortgage new lending controls with respect to flood risk and coastal erosion.
Conduct risk	
Conduct risk is the risk of delivering poor or inappropriate outcomes for customers.	Any failure to develop appropriate internal processes and controls to deliver suitable mortgage, pensions and investment advice to customers to meet their financial needs, could lead to poor outcomes, customer dissatisfaction and potential regulatory censure. Mortgage advice is provided by both the Society and Connells. Competition for mortgage business remains extremely volatile, with new products frequently launched to attract new lending as well as ensuring suitable products are available to target upcoming maturities. Meeting high levels of customer demand with speed, high quality of service and customer ease of interaction continues to differentiate in the marketplace. Ensuring fair value and good customer outcomes across our channels and products remains a priority with an Executive sponsored programme in place to ensure we meet the requirements of the upcoming Consumer Duty implementation timeline of July 2023.
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 exposures are 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 prudent approach to new lending and will continue to do so. The credit decisioning process utilises automated credit scoring and policy rules within lending policy criteria supported by manual underwriting. All aspects of the credit decisioning process are subject to regular development, as well as independent review, 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 legacy 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. 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 portfolios is managed locally, supported by oversight from the Retail Credit Committee. These portfolios are managed tightly against a low risk appetite, with consequent low levels of arrears and losses.
Interest rate risk	
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

Governance

Risk Management Report (continued)

Risk	Risk mitigation and management
	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. The Group's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly, in line with PRA guidance.
Liquidity risk	
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 liquidity strategy is to ensure liquidity is held in sufficient quantity and diversity to support the Society's Corporate Plan and to meet the Board's Liquidity Risk Appetite and regulatory requirements. There is flexibility within the plan, supported by the strong governance around liquidity management, to adapt to changing circumstances. The Society also has access to adequate levels of contingent liquidity. The Society conducts an Internal Liquidity Adequacy Assessment Process (ILAAP) at least annually, to assess the Group's current and projected liquidity requirements to mitigate the current risks in the business and any future risks arising from the Corporate Plan. The ILAAP confirms that we are forecast to maintain adequate liquidity above our Liquidity Risk Appetite. Fixed rate ISAs are seeing an increased level of outflows in the current rising rate environment, due to the ability for customers to transfer out after paying an interest penalty. Management will continue to closely review the position and take appropriate management action. The speed and size of future bank base rate movements could create a more competitive savings market. In addition, there is a risk that the wholesale markets could be more challenging to raise funding given UK economic and political risks; the threat of an impending recession could also lead to a more competitive savings market. Early warning indicators are therefore 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. Over the life of the corporate plan, the Society has increasingly larger retail and wholesale maturities, resulting in a more volatile liquidity requirement and heightened risk. To mitigate this we may carry excess liquidity at times as the Society pre-funds ahead of large maturities.
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. 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. Across the financial services sector there is significant regulatory change to improve model risk sensitivity and coverage, including changes to IRB modelling approaches. These changes require significant investment in model development, monitoring and oversight with the ensuant risks associated with such a wide and technical programme of work. Within the Society, work continues to update certain IRB models to take into account these new regulatory requirements which came into effect on 1 January 2022. In the interim period, a temporary model adjustment (TMA) has been used to uplift the expected loss and risk weighted assets (RWAs) produced by the incumbent regulator approved IRB models to the level expected once the models are finalised to meet the new regulation.
Operational risk	
Operational risk is the risk of financial loss or reputational damage arising from inadequate or failed internal processes, systems or human error.	We have a robust risk management approach across the Group, to ensure the identification, assessment, management and reporting of risks in a timely and accurate manner. A quarterly disclosure of all current material risks faced by the Society and each subsidiary is provided to the Board Risk Committee to ensure appropriate action is taken where required. The framework to control operational risk is maintained and overseen by the Board Risk Committee. The principal operational risks include: *Information Security – Cyber Threat* We remain vigilant to the continued Cyber threat across the globe and perform continuous improvement activity to mature our control environment and protect our customers and colleagues. *Change Demand & Delivery* The volume and pace of change across the Group remains significant both from a strategic, organisational and regulatory perspective. Maintaining the right level of resources and oversight will support the successful delivery of these initiatives and ensure that the rewards continue to outweigh any associated risk.
	The requirements and expectations of future regulations are a key input to inform strategic decisions around products, channels, services and customer journeys, with the new FCA Consumer Duty being key in shaping how we continue to deliver good customer outcomes. *Financial Crime & Fraud* Our well established fraud monitoring and management processes continue to be enhanced in recognition of both the economic backdrop and the ever changing and complex financial crime landscape. *Service Delivery* Maintaining focus on delivering high quality service and a competitive product offering, supported by an operationally resilient business, will ensure we can continue to provide critical business services to our customers at all times. *People Risk - Attract & Retain Talent* Attracting and retaining talent in a competitive market is a key focus for all Group firms. Minimising the potential for any detrimental impact to colleague wellbeing remains a key area of management focus and includes offering a competitive remuneration and benefits package. The importance of robust succession plans across the Group remains a focus, in light of growth plans and the material benefit of subsidiary dividends to the corporate plan.
Reputational risk	
Reputational risk is the risk to earnings, liquidity or capital arising from negative market or public opinion.	Reputational damage is a key element present in all other risk types and is considered alongside all decision making. 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 can arise through the poor management of risks generally. The consequences could adversely impact the future prospects of the Group and could expose it to litigation and financial loss. This risk is managed by: ■ Continuing to invest in our control environment; ■ Continuing to focus on customer outcomes; ■ Working within our risk management framework which has reputational risk as a key consideration; ■ Promoting the Group through marketing and external communications; and ■ Closely monitoring external references to Skipton Group businesses given the pace and use of social media channels and the widespread brand damage this can cause.

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 key geopolitical and economic events that shaped 2022 have brought new challenges for the Group. 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 a culture which views risk management not as an additional activity but as embedded in how the business is run.

Denis Hall
Chair of the Board Risk Committee

28 February 2023

Governance

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 ending 31 December 2022. The Report sets out the details of pay, incentives and benefits received by the Directors of the Society.

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.

The members of the Committee during the year were:

Heather Jackson
Non-Executive Director (Chair)

Mark Lund
Non-Executive Director

Helen Stevenson
Non-Executive Director

Remuneration Report

In this Chair statement, we explain the key outcomes and decisions on remuneration taken by the Committee both in respect of the Executive Directors and across the Society as a whole. Following this, we have set out the Directors' Remuneration Report in two sections:

1. A summary of the Directors' Remuneration Policy, which was approved at the last Annual General Meeting (AGM) in April 2022. The complete policy is available in our Annual Report & Accounts 2021 on the Society's website.

2. The Annual Report on Remuneration in 2022, which explains how we applied our existing policy in 2022 and how we intend to apply the policy in 2023.

The Remuneration Committee's review of 2022

In 2022, the Skipton Group has led through a post-Covid environment which has seen UK socio-political turmoil due to the war in Ukraine, associated economic uncertainty and a cost of living crisis impacting members and colleagues. Our focus is to protect colleagues against financial hardship, stress and vulnerability. This helps our colleagues better serve our members and hopefully mitigates the impacts of absenteeism and attrition. At the same time, 2022 has been a period of consolidation for the Skipton Group following the acquisition in 2021 of Countrywide by Connells and the change in Group Chief Executive during the year. It is critical to our ongoing success to ensure that we have the right leadership in place to capitalise on the Group's diversified portfolio of businesses and navigate the challenges and opportunities ahead.

With the change in Group Chief Executive in April 2022, the Committee has spent considerable time managing the remuneration arrangements for the transition to a new Group Chief Executive. This has involved identifying a replacement with the talent and experience to drive our strategy and growth plans. We are delighted to have appointed Stuart Haire as our new Group Chief Executive. He takes over from Ian Cornelius who has acted as interim Group Chief Executive during much of 2022.

As a consequence of these leadership changes, the Committee devoted much attention to reviewing, challenging and approving the remuneration arrangements to support this transition. During 2022, the Committee took specialist advice from its adviser PwC to ensure alignment with best practice. Further details about these arrangements are provided in the Remuneration Report.

As explained in earlier sections of this Annual Report and Accounts, the Group's performance has been exceptionally strong again this year. A key objective for the Committee is to ensure the remuneration of the Executive Directors is both aligned with and drives business performance across a range of measures taken from our Corporate Plan.

This alignment with performance is achieved through the Single Variable Pay Arrangement (SVPA), the incentive scheme in which the Executive team participates. The measures used to calculate outcomes under this scheme are selected because they directly support the Society's purpose, strategic priorities and Environmental, Social and Governance (ESG) goals. The targets set for each measure are agreed independently by the Committee to ensure that the Executive team is only rewarded for achieving demanding business goals. More details about the 2022 SVPA are included in section 2 on page 93.

The majority of measures and targets featured in the SVPA are cascaded across the incentive schemes covering all colleagues within the Society. This common structure helps build a shared 'OneTeam' commitment to our purpose and strategy and ensures colleagues at all levels in the Society are rewarded in a way that recognises our collective success.

Group profits, together with profits and the cost income ratio for the Mortgages and Savings division, comprise the SVPA's key financial measures and carry a significant weighting within the scheme. For each of these measures, performance has been exceptional and substantially ahead of target; this has helped to drive the incentive outcomes covered in more detail below.

In addition to strong financial results, performance against other measures has also generally been good. We continue to make progress against the Society's growth plans having exceeded the targets set for mortgages and savings balances. This result has been achieved because of our relentless focus on improving the experience in the moments that matter most to our customers. Our net customer satisfaction score underscores this focussed effort.

We note the under-performance against the Financial Advice direct income measure. We will ensure the Executive team continues to focus on delivering strong returns from this important area of our business, and demanding targets have been set against this measure for 2023.

ESG considerations are central to our purpose and culture. Employee engagement and our ongoing commitment to achieving a higher proportion of women amongst our senior leadership remain cornerstones for us. These measures are included in the SVPA and performance has been ahead of target in both cases, which represents incremental progress since 2021. In addition, a new environmental measure was introduced into the SVPA for 2022. The specific measure chosen was the reduction of the Society's carbon footprint compared with 2021. I am pleased to report that performance against this measure has been exceptional, underlining our determination to recognise and address the profound environmental challenges facing us all.

We as a Committee, along with our Board colleagues, see sustainability and ESG becoming ever more important to our purpose as a Society. As a consequence, we have expanded the range of ESG measures in the SVPA for 2023.

Directors' Remuneration Report (continued)

Overview of Executive Director remuneration

Executive Directors were awarded salary increases in April 2022. As explained in last year's report, the former Group Chief Executive received an increase of 3%. The other Executive Directors were each awarded increases of 2.5%.

In addition to his salary, Ian Cornelius was awarded an interim allowance of £163,320 p.a. to provide him with a total annual salary equivalent to £500,000. This allowance was paid to him from 26 April 2022, when he was appointed interim Group Chief Executive, to 31 December 2022, when Stuart Haire joined the Society as Group Chief Executive. This allowance has been taken into consideration in determining his SVPA award for 2022 but has not influenced his pension entitlement or any other benefits.

At the end of the year, the Committee reviewed the annual performance of the Executive Directors under the SVPA. The incentive outcomes for 2022 take into account the strong performance of the Society as well as each Executive Director's performance against personal and strategic team objectives. The incentives awarded were between 41.2% and 41.9% of salary where the maximum potential bonus under the scheme is 50% of salary.

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

Joining arrangements for the new Group Chief Executive

Stuart Haire was appointed as Group Chief Executive on 31 December 2022, joining us from HSBC on a salary of £690,000. The Group Chief Executive role has grown significantly in recent years as the Group has grown. His salary reflects this breadth of role, the extensive experience he brings to the Society, fully benchmarked market comparators for individuals in similar roles, and the level of compensation at his previous employer.

The benefits Stuart receives are in line with our remuneration policy, and include a pension allowance of 10% of salary, a car allowance of £15,000 p.a., private medical insurance, life cover and group income protection. Stuart has been granted use of Society-owned accommodation close to our head office provided by the Society. His family home remains in Scotland.

As a result of his resignation from HSBC, Stuart has forfeited deferred awards of variable pay made to him in respect of financial years prior to 2022, as well as the opportunity to earn a bonus for 2022. In line with standard practice in the financial sector, the Society has granted replacement awards that will compensate Stuart for these forfeited awards, the value of which is shown in the 'other' column in the single figure table on page 91. The total amount is £1,147,686 and is made up of:

- £802,686 of deferred awards to compensate for the deferred awards Stuart forfeited on leaving HSBC; these have the same value and vest on the same dates as the awards forfeited; and
- an award of £345,000 to replace the incentive opportunity lost by Stuart for 2022.

Both of the above are subject to deferral, malus and clawback.

Overview of Society colleague remuneration

As we explained in our report last year, the Society had already taken the decision to make a significant investment in base pay in 2022 for colleagues below the Executive Committee. This was to ensure colleagues are paid fairly and in line with market benchmarks, and to ensure the Society can attract and retain talent and skills. I am pleased to report that this investment resulted in average pay awards of 12.9% for colleagues. To ensure maximum impact from this investment, the effective date for these increases was brought forward from April to January for 2022. Going forward, we will maintain the effective date of 1 January for salary increases for all colleagues other than the Executive Committee.

Bonus awards for 2022 made to colleagues below the Executive Committee reflect the strong business performance against the measures and targets that are common across the Society's schemes. The average Senior Leader bonus award was 21.6% and the average all-colleague bonus award was 9.8%.

During the course of 2022, the general economic environment continued to evolve in ways which were difficult for any of us to have predicted at the beginning of the year. In particular, the rapid rise in inflation and interest rates has caused the cost of living for all colleagues to increase significantly, having most impact on those at junior levels. To help colleagues cope with these cost pressures, the Society took the decision to award a one-off cash payment of £1,500. The award was paid in September to all colleagues below senior leader level on an equal basis regardless of grade, service, or contract terms.

2023 will be a year of great change for the Society as we welcome our new Group Chief Executive. Against a backdrop of ongoing cost of living challenges, recession and pressures across public spending and delivery, the wellbeing of our people and members will remain a critical focus. We need to continue to attract, retain and motivate the right calibre of people as they are critical to our performance and to providing our customers with compelling solutions that help secure their financial futures.

Conclusion

On behalf of the Committee, I hope this report gives you a clear view of how we have implemented the remuneration policy in 2022. The Committee recommends that members vote in favour of the 2022 Directors' Remuneration Report at the AGM.

Heather Jackson
Chair of the Remuneration Committee

28 February 2023

1. Summary of Directors' Remuneration Policy

Overview of Remuneration Policy for Executive Directors in the Society

The current Directors' remuneration policy was approved at the AGM on 25 April 2022 and, in line with corporate governance standards, is expected to apply until the 2025 AGM, when members will be asked to approve a revised Directors' remuneration policy.

The Committee is comfortable that the current policy is operating as intended and that the overall 2022 remuneration paid to Executive Directors, as set out in the Annual Report on Remuneration, is appropriate.

This section summarises the current Directors' remuneration policy and how it aligns with the Society's strategy. The complete policy is available in our Annual Report & Accounts 2021 on the Society's website.

The table below outlines the key elements of remuneration for Executive Directors and how each element operates and supports our strategy.

Element How element supports our strategy	Operation	Maximum potential value
Base salary ■ Supports the recruitment and retention of Executive Directors, reflecting their individual roles, skills and contribution.	Base salary reflects the size and responsibilities of the role 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: ■ The scope of the role ■ Pay levels in comparable organisations; and ■ Pay increases elsewhere within the Group
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 fully align to the pension arrangements available to all other colleagues.	The maximum for new Executive Directors is 10% of base salary. This is in line with the policy for all colleagues. Current Executive Directors receive 10% of base salary except for Andrew Bottomley who receives 15%.
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 group income protection benefits. The Committee reviews benefits from time to time and may make changes, for example, to reflect market practice or the needs of the business.	The Society bears the cost of providing benefits, which may vary from year to year.
Single Variable Pay Arrangement (SVPA) ■ Supports the attraction and retention of Executive Directors. ■ Supports the development of a high-performance culture.	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 performance measures and weightings are determined by the Committee from year to year, falling typically in the following categories:	The maximum incentive which may be earned for any year by means of the SVPA is 50% of base salary. On-target performance generally attracts an incentive of 60% of the maximum.

Directors' Remuneration Report (continued)

Element How element supports our strategy	Operation	Maximum potential value
■ 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.	■ Financials ■ Customer Growth ■ ESG ■ Strategic Team Objectives ■ Personal Objectives For each performance measure, the Committee determines a threshold, target and maximum level of performance. No incentive is payable for performance below the threshold level, with varying levels of pay-out for performance between threshold and maximum. On-target performance generally attracts an incentive of 60% of the maximum. Performance against the measures is reviewed and approved by the Remuneration Committee. All awards are subject to risk adjustment, deferral, malus and clawback and are delivered as a combination of cash and instruments in line with regulation.	

Committee's discretion in relation to the SVPA

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 the arrangements where this is necessary to ensure they 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.

Summary of strategic alignment of the SVPA

The Strategic Report on pages 14 to 37 provides a comprehensive explanation of the Society's purpose and strategy. We deliver this through our four strategic priorities: Absolute Customer Focus, Brilliant People, Powered by Digital Technology and Data, and Financial Strength.

In addition, the Group Responsible Business Report on pages 38 to 45 explains how sustainability and ESG is woven through every part of our strategy.

The table below highlights how the measures in the SVPA have aligned with strategy, sustainability and ESG in 2022.

SVPA measures	Strategic Priorities				ESG and sustainability goals
	Absolute customer focus	Brilliant people	Powered by digital, technology and data	Financial strength	
Group PBT (adjusted)	-	-	-	✓	-
Mortgages and Savings division PBT (adjusted)	-	-	-	✓	-
Mortgages and Savings cost income ratio	-	-	-	✓	-
Mortgage year end balances	✓	-	-	✓	✓
Savings year end balances	✓	-	-	✓	✓
Financial Advice direct income	✓	-	-	✓	✓
Net customer satisfaction	✓	-	✓	-	✓
Colleague engagement	✓	✓	✓	✓	✓
Women in Finance Charter	-	✓	-	-	✓
Reduction in carbon footprint	-	-	-	-	✓
Personal objectives	✓	✓	✓	✓	✓
Strategic team objectives	✓	✓	✓	✓	✓

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. Non-Executive Directors do not have service contracts.

2. Annual Report on Remuneration in 2022

Executive Directors' Remuneration

The total remuneration of each Executive Director in 2022 and 2021 is set out in the single figure tables below:

2022 Audited

Executive Directors	Role	Salary £000	Benefits[4] £000	Pension £000	Total fixed remuneration £000	SVPA Award £000	Other £000	Total remuneration £000
Stuart Haire[1]	Group Chief Executive	3	-	-	3	-	1,148	1,151
David Cutter[2]	Group Chief Executive	197	5	20	222	-	-	222
Andrew Bottomley	Customer Director	317	12	48	377	132	-	509
Ian Cornelius[3]	Commercial and Strategy Director	446	12	33	491	188	-	679
Bobby Ndawula	Group Finance Director	367	12	37	416	155	-	571
Total remuneration		**1,330**	**41**	**138**	**1,509**	**475**	**1,148**	**3,132**

Notes

1. The remuneration shown for Stuart Haire covers the period from his joining date of 31 December 2022. As a result of his resignation from HSBC, Stuart has forfeited deferred awards made to him in respect of financial years prior to 2022, as well as the opportunity to earn a bonus for 2022. The figure in the table therefore includes an award of £345,000 to replace the forfeited bonus opportunity and this will be subject to deferral, malus and clawback in accordance with the SVPA scheme. It also includes £802,686 of replacement deferred awards which reflect the value of the HSBC deferred cash and share awards forfeited. The replacement deferred awards, which will be made in the form of cash and instruments, will be subject to the same conditions that applied to his HSBC deferred awards and will mirror the vesting schedule over the period from March 2023 to March 2030.
2. The remuneration shown for David Cutter covers the period from 1 January to 26 April 2022.
3. The 2022 salary figure for Ian Cornelius includes an interim Group Chief Executive allowance of £163,320 p.a. paid pro-rata from 26 April 2022 until 31 December 2022.
4. Includes all taxable benefits.

2021 Audited

Executive Directors	Role	Salary £000	Benefits £000	Pension £000	Total fixed remuneration £000	SVPA Award £000	Other £000	Total remuneration £000
David Cutter	Group Chief Executive	599	15	73	687	622	-	1,309
Andrew Bottomley	Customer Director	310	12	47	369	133	-	502
Ian Cornelius	Commercial and Strategy Director	325	12	32	369	141	-	510
Bobby Ndawula	Group Finance Director	356	12	36	404	155	-	559
Total remuneration		**1,590**	**51**	**188**	**1,829**	**1,051**	**-**	**2,880**

Directors' Remuneration Report (continued)

Base Salary

Pay awards for the Executive Directors were made in April 2022. David Cutter received a 3% base pay increase as explained in last year's report. For the remaining Executive Directors, the adjustments shown in the table below were made to base salaries, effective from 1 April 2022.

Executive Director	Role	% increase	April 2022	April 2021
David Cutter	Group Chief Executive	**3.00%**	**£640,588**	£621,930
Andrew Bottomley	Customer Director	**2.50%**	**£319,250**	£311,460
Ian Cornelius	Commercial and Strategy Director	**2.50%**	**£336,680**	£328,470
Bobby Ndawula	Group Finance Director	**2.50%**	**£369,710**	£360,690

Directors' defined benefit pension

David Cutter was 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. Following his departure, David decided to transfer his entire accrued pension entitlement out of the scheme as reflected in the table below.

Audited 2022	**Normal retirement date**	**Member's contribution for the year ended 31 December 2022**	**Accrued pension entitlement at 31 December 2021**	**Accrued pension entitlement at 31 December 2022**	**Value of remuneration for the year ended 31 December 2022**
		£000	**£000 pa**	**£000 pa**	**£000**
David Cutter	**1 January 2027**	**-**	**97**	**-**	**-**

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

Variable Pay

Single Variable Pay Arrangement (SVPA)

The SVPA is designed to ensure variable remuneration for the Executive Committee members is aligned with sustainable performance across a range of measures. The table below summarises the measures, performance range, outcomes and weightings underlying the SVPA:

Measure	Performance target range: Threshold - Maximum	Performance relative to targets	Outcome	Weighting Group Chief Executive	Weighting Executive Directors
Group PBT (adjusted) (£m)[1]	211.4 - 298.4	Above Target	309.4	32%	12%
Mortgages and Savings division PBT (adjusted)(£m)[1]	133.1 - 187.9	Above Target	230.5	-	20%
Mortgages and Savings cost income ratio (%)	55.6% - 53.1%	Above Target	44.9%	10%	10%
Financial Advice direct income (£m)	11.5 - 16.2	Below Threshold	9.6	5%	5%
Mortgage year end balances (£bn)	24.7 - 25.7	Above Target	25.3	5%	5%
Savings year end balances (£bn)	20.9 - 21.8	Above Target	22.5	5%	5%
Net customer satisfaction	84% - 89%	Below Target	85%	5%	5%
Colleague engagement	83% - 89%	Above Target	87%	5%	5%
Reduction in Society's carbon footprint from 2021 YE	5% - 20%	Above Target	84%	3%	3%
Women in Finance Charter	A Spot Target - no threshold or maximum set. A rolling average of at least 40% female representation across Senior Management by end of 2022.		At Target	2%	2%
Strategic Team Objectives - a set of objectives aligned to the Society's Corporate Plan. For 2022 these included bolstering the Society's financial strength, enhancing the talent and skills base of our people and reviewing the operating model to transform efficiency and digitising the FA advice journey.				14%	14%
Personal Objectives - performance has been assessed against both the delivery of the Society's performance scorecard as well as the individual's goals, conduct and behaviours.				14%	14%

1. For bonus purposes, the Group and Mortgages and Savings division PBT figures are adjusted as outlined in the Audit Committee Report.

At the end of the year, the Committee reviewed the annual performance under the SVPA for all the Executive Directors. The incentive outcomes for 2022 are based on the performance relative to target for the SVPA measures. They also reflect the Committee's assessment of performance achieved against the Strategic Team and Personal Objectives, taking into consideration the views of the non-executive members of the Board.

Based on this overall assessment, the outcomes for the Executive Directors were between 41.2% and 41.9% of salary reflecting the strong performance of the Society over the year.

Risk considerations

To ensure that rewards are based on sustainable performance, 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 for the 2021 SVPA and Senior Leaders' schemes demonstrated that 2021 performance levels had been maintained in 2022. The Committee therefore concluded that no adjustment to the 2021 awards was required at the point in time.

The Society has a Risk Adjustment Policy which sets out its approach to ex-ante and ex-post risk adjustment, including malus and clawback. Where the Remuneration Committee determines that risk adjustment is required, payments due from the schemes and deferred payments 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 Risk and Board Audit Committees and consideration of performance against risk appetites, did not make any risk adjustments for 2022 at the point in time.

Directors' Remuneration Report (continued)

Deferral and payment in instruments

In line with the relevant regulatory requirements, the SVPA scheme requires:

- 60% of awards made to Executive Directors to be deferred; and
- the deferral to be over a period of 7 years, with first vesting occurring no earlier than the end of year 3, then no faster than pro-rata on an annual basis; and
- all payments to be subject to malus and clawback.

In addition, the regulations require that at least half of annual variable pay is paid out in shares or an equivalent 'instrument', and that these are retained for a further 12 months at the end of the deferral period. In line with these requirements, the Executive Directors receive half of each portion of the SVPA award in cash and the other half in instruments (12 months after vesting).

The table below sets out the percentage of the Executive Directors' 2022 SVPA awards which will be paid in each year, made up of payments in cash and instruments.

	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27	Mar-28	Mar-29	Mar-30	Mar-31
	Non-deferred			Deferred					
Cash	20%	-	-	6%	6%	6%	6%	6%	-
Instrument	-	20%	-	-	6%	6%	6%	6%	6%

Payments to former directors

There were no payments to former directors made in the financial year.

Payments for loss of office

David Cutter stepped down from the role of Group Chief Executive on 26 April 2022. As disclosed in last year's report, David received a total payment for loss of office of £880,647. The Society continues to provide private medical cover for David up to 24 April 2023.

There were no other payments to Directors for loss of office made in the financial year.

Non-Executive Directors' remuneration

Non-Executive Directors' base fees (excluding those of the Chair) are normally reviewed annually by the Non-Executive Directors' Remuneration Committee, in line with the Directors' Remuneration Policy.

After due consideration by that Committee, the annual fees payable for Non-Executive Director roles remained unchanged in 2022 as shown in the table below:

	2022 £	2021 £
Non-Executive Directors	**54,700**	54,700
Audit Committee, Risk Committee and Remuneration Committee Chairs	**15,300**	15,300
Deputy Chair	**7,200**	7,200
Connells Non-Executive Director	**35,000**	35,000

The actual total fees and benefits for the Non-Executive Directors in 2022 and 2021 are set out in the table below:

Audited	Note	2022 Fees £000	2022 Committee chair fees £000	2022 Taxable benefits[1] £000	2022 Total £000	2021 Fees £000	2021 Committee chair fees £000	2021 Taxable benefits[1] £000	2021 Total £000
Gwyn Burr (Chair)	2	**139**	**-**	**-**	**139**	-	-	-	-
Robert East (Chair)	3	**63**	**-**	**4**	**67**	184	-	1	185
Mark Lund (Deputy Chair)	4	**97**	**-**	**1**	**98**	90	-	-	90
Amanda Burton	5	**30**	**-**	**-**	**30**	95	-	-	95
Richard Coates	6	**55**	**15**	**-**	**70**	54	15	-	69
Denise Cockrem		**-**	**-**	**-**	**-**	13	-	-	13
Iain Cummings	7	**27**	**-**	**-**	**27**	-	-	-	-
Denis Hall	8	**55**	**15**	**1**	**71**	54	15	1	70
Heather Jackson	9	**55**	**10**	**-**	**65**	54	-	-	54
Philip Moore	10	**78**	**-**	**1**	**79**	54	-	-	54
Helen Stevenson	11	**55**	**10**	**1**	**66**	54	15	-	69
		654	**50**	**8**	**712**	652	45	2	699

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, including for attendance at Board and Committee meetings.
2. Gwyn Burr was appointed to the Board as Chair effective from 27 April 2022 on an annual fee of £205,000.
3. Robert East retired from the Board on 26 April 2022.
4. Mark Lund is also a Non-Executive Director of Connells Limited, for which he receives an annual fee of £35,000.
5. Amanda Burton retired from the Board on 26 April 2022. Amanda was also a Non–Executive Director of Connells Limited up until 26 April 2022 for which she received an annual fee of £35,000. The fees for both roles are included pro-rata in the table above.
6. Richard Coates is Chair of the Audit Committee.
7. Iain Cummings was appointed to the Board as a Non-Executive Director effective from 1 July 2022.
8. Denis Hall is Chair of the Board Risk Committee.
9. Heather Jackson chaired the Remuneration Committee from April 2022.
10. Philip Moore was appointed as a Non-Executive Director of Connells Limited, effective from 21 April 2022, for which he receives an annual fee of £35,000, included pro-rata in the table above.
11. Helen Stevenson retired from the Board on 31 December 2022.

Statement of implementation of Remuneration Policy in 2023

Executive Director base salaries and fees for Non-Executive Directors

Base salaries for Executive Directors and fees for Non-Executive Directors will be reviewed in 2023 in line with policy.

Benefits including pension

Executive Directors will continue to receive benefits in accordance with the Directors' Remuneration Policy.

SVPA

The SVPA scheme has been reviewed for 2023 and some minor changes made to further strengthen alignment of the scheme with our strategy and purpose. The Mortgages and Savings cost income ratio has been replaced with a specific cost reduction target to provide the Executive with a more demanding and focused efficiency measure. The 'ESG' element of the scheme has been expanded to reflect the wider ESG dashboard.

Directors' Remuneration Report (continued)

The measures and weightings for 2023 are set out in the table below:

Measure	Weighting Group Chief Executive	Weighting Executive Directors
Group PBT	32%	12%
Society PBT	-	20%
Cost reduction	10%	10%
Society mortgage balances growth	5%	5%
Society savings balances growth	5%	5%
Financial Advice direct income	5%	5%
Net customer satisfaction	5%	5%
ESG Dashboard	10%	10%
Strategic team objectives	14%	14%
Personal objectives	14%	14%

The maximum bonus opportunity will remain 50% of base salary and the target opportunity will be 30% of base salary.

Remuneration in the Society

Cascade of remuneration in the Society

The Society has wellbeing at the forefront of its culture and continues to support colleagues physically, mentally and financially. Our reward platform, 'Select', which is used by all colleagues, builds awareness, and enables personalisation and choice of the benefits on offer. One of the many features is a total reward statement allowing an individual to understand how their package is constructed and reflect on the true value when all elements are included. The table below summarises colleague participation by seniority in the Society's range of remuneration programmes.

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

How does executive remuneration for 2022 align with the wider workforce?

The table below provides an overview of average salary increases and bonus awards by level across the Society.

	Salary Average pay increase	Bonus Average award
Group Chief Executive	3.0%	41.9%
Executive Directors	2.5%	41.7%
Other Executive Committee members	2.5%	40.2%
Senior leaders	7.2%	21.6%
All other colleagues	13.1%	9.8%

Note
The average pay increase percentages reflect the one-off investment in salaries for all colleagues other than the Executive Committee to achieve alignment with market as well as a cost of living award for 2022.

A set of fair pay principles has been developed taking into consideration the views of colleagues from across the Society. These underpin the Society's current and future reward strategies. The Committee considers remuneration arrangements for the wider colleague population when determining remuneration for the Directors.

CEO Pay Ratio

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

The pay ratio calculation uses the Society's April 2022 gender pay gap data. Based on this data, we have identified those individual employees whose total remuneration sits at the 25th, 50th (median) and 75th percentiles of all Society employees for comparison with the Group Chief Executive. This methodology is referred to in the regulations as 'Option B'.

The table below sets out the results of this comparison of total remuneration between the Group Chief Executive and the employees identified at the 25th, 50th and 75th percentiles.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option B	32:1	21:1	14:1
2021	Option B	54:1	38:1	22:1
2022(a)	Option B	74:1	55:1	39:1
2022(b)	Option B	29:1	21:1	15:1

Note
During 2022, the Group Chief Executive position has been held by three incumbents. In this situation, the regulations stipulate that the total remuneration for each incumbent as shown in the 2022 single figure table is added together to cover the full year and this is shown as row 2022(a) above. To aid comparison, the table above includes an alternative calculation of the ratio, shown as row 2022(b), which excludes the amount for Stuart Haire which appears in the column headed 'Other' in the 2022 single figure table (replacement of forfeited bonus and deferred awards).

The total remuneration and salary values for the 25th, 50th (median) and 75th percentile employees in 2022 are:

Gender pay data	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Salary (£)	23,396	31,484	44,402
Total remuneration (£)	25,666	34,538	48,709

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 2022.

Material Risk Takers

Material Risk Takers (MRTs) are those employees whose professional activities have a material impact on the Society's risk profile. We have identified the MRTs in the Society and in the Group subsidiary companies who meet this definition by using the criteria set out in the relevant PRA rules. These individuals are in scope of the PRA and FCA remuneration rules.

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 2022 are included in the Pillar 3 document which is available at skipton.co.uk/about-us/pillar-3-disclosure.

Remuneration Committee – Remit and Activities

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. The members of the Committee during the year were:

Heather Jackson
Non-Executive Director (Chair)

Mark Lund
Non-Executive Director

Helen Stevenson
Non-Executive Director

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

Directors' Remuneration Report (continued)

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

The Committee ensures that clear remuneration principles for the Society and the Group 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 Group Chief Risk Officer updates the Committee on risk related matters and provides information and insight as part of the risk adjustment process.

The full terms of reference of the 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 2022. 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.

Heather Jackson succeeded Helen Stevenson as the Remuneration Committee Chair during the year.

Activities during 2022

During 2022, the Committee:

- Approved awards in respect of the 2021 SVPA, taking into consideration performance outcomes against the scheme measures and the strategic team and personal performance objectives.
- Considered the need to adjust, withhold or recover variable pay awards having taken account of the Group Chief Risk Officer's annual risk assessment and the sustainability review of 2021 performance.
- Approved the variable pay outturns for the Connells Executive Directors in respect of 2021.
- Approved the environmental measure and targets, the strategic team objectives and personal objectives in respect of the 2022 SVPA.
- Reviewed the impact of the Society's investment in base pay in 2022 for colleagues below the Executive Committee.
- Assessed external benchmarking data as an input to ensure Executive remuneration remains fair and competitive.
- Approved the 2022 salary awards for the Executive Committee members and the Group Chief Internal Auditor.
- Approved the leaving arrangements for the former Group Chief Executive as detailed in last year's report.
- Approved the remuneration terms for the interim Group Chief Executive and the new Group Chief Executive.
- Approved the remuneration terms for the new Group Chief Internal Auditor and the new Group Chief Risk Officer.
- Approved the 2022 salary awards and bonus scheme measures and targets for the Connells Executive Directors.
- Considered member feedback in response to the 2022 AGM mailing on matters relating to remuneration.
- Reviewed the scope of the PRA and FCA remuneration rules for banks and building societies in relation to Skipton Group entities, and concluded that Connells, Jade and North West Investments are not in scope of these rules.
- Approved the measures, weightings and targets for the 2023 SVPA scheme.
- Approved the Directors' Remuneration Report.
- Provided feedback, challenge and guidance to management on the appropriate level of investment in colleague base pay awards and on the one-off cost of living cash award.

Independent Advisers

PwC were appointed by the Committee in 2015 following a review of potential advisers. PwC are 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 2022 and have received £98,800 (net of VAT) in fees in respect of remuneration services provided. The Committee maintains oversight of remuneration policy and practices 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 2022 AGM

At the 2022 AGM the Directors' Remuneration Report was subject to an advisory vote of members, the results of which were as follows:

	Votes		
	For	Against	Withheld
2021 remuneration report	**53,521 (90.77%)**	**5,417**	**1,324**
2022 remuneration policy	**52,836 (90.26%)**	**5,700**	**1,460**

Heather Jackson
Chair of the Remuneration Committee

28 February 2023

Financial Statements

Independent Auditor's Report

Independent auditor's report to the members of Skipton Building Society

Opinion

In our opinion:

- the Group financial statements and the Society's financial statements (the "financial statements") give a true and fair view of the state of the Group's and the Society's affairs as at 31 December 2022 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 2022 which comprise:

Group	Society
Consolidated Statement of Financial Position as at 31 December 2022	Statement of Financial Position as at 31 December 2022
Consolidated Income Statement for the year ended 31 December 2022	Income Statement for the year ended 31 December 2022
Consolidated Statement of Comprehensive Income for the year ended 31 December 2022	Statement of Comprehensive Income for the year ended 31 December 2022
Consolidated Statement of Changes in Members' Interests for the year ended 31 December 2022	Statement of Changes in Members' Interests for the year ended 31 December 2022
Consolidated Statement of Cash Flows for the year ended 31 December 2022	Statement of Cash Flows for the year ended 31 December 2022
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	
Information identified as "audited" within the Directors' Remuneration Report	

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society and we remain independent of the Group and the Society in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and Society's ability to continue to adopt the going concern basis of accounting included the following procedures:

- We obtained the Directors' going concern assessment, including the cash flow forecasts for the going concern period covering 12 months from the date of signing this audit opinion.
- We compared the budgeted financial information with historical actual results, in order to form a view on the reliability of the forecasting process.
- We assessed the results of Management's stress testing, including consideration of principal and emerging risks, on funding, liquidity and regulatory capital.
- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- We reviewed regulatory correspondence and committee and board meeting minutes to identify events or conditions that may impact the Group's ability to continue as a going concern.
- We reviewed the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Society's ability to continue as a going concern for a period 12 months from when the financial statements are authorised for issue.

In relation to the Group and Society's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach	
Audit scope	■ We performed an audit of the complete financial information of two components and audit procedures on specific balances for a further five components. ■ The components where we performed full or specific audit procedures accounted for 99.7% of profit before tax (PBT), 98.6% of total income and 99.9% 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 ■ Control environment of Countrywide
Materiality	■ Overall Group materiality of £14.7m which represents 5% of PBT.

Independent Auditor’s Report (continued)

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, the potential impact of climate change and other factors such as recent internal audit results when assessing the level of work to be performed at each component.

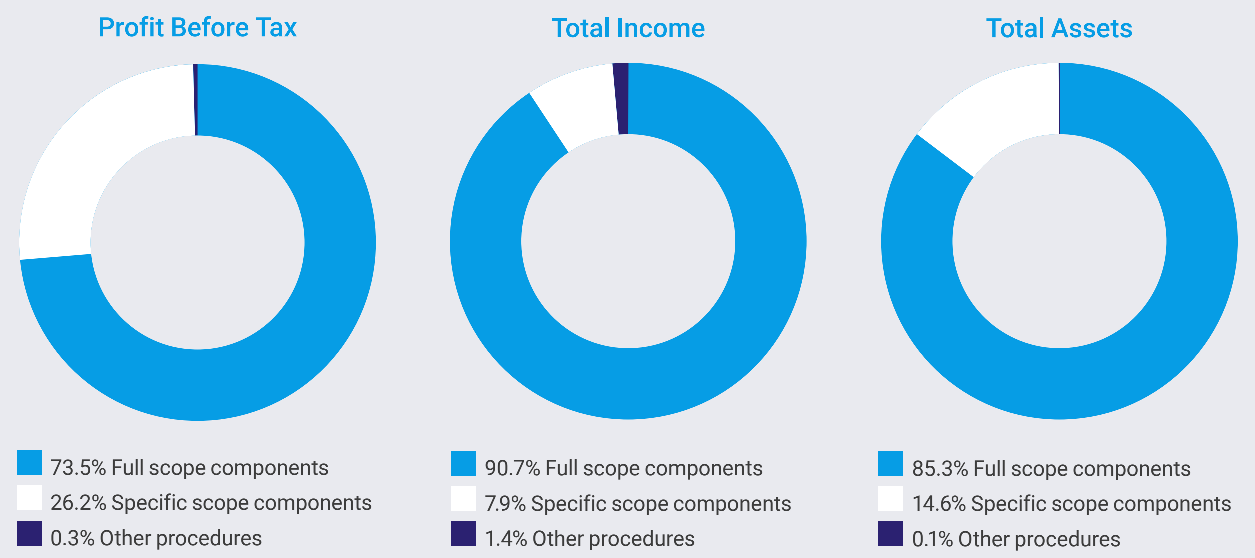
In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 15 reporting components of the Group, we selected seven components covering entities within United Kingdom and Guernsey, which represent the principal business units within the Group.

Of the seven 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 five components (“specific scope components”), we performed audit procedures on specific accounts within those components 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 99.7% of the Group’s PBT measure used to calculate materiality (2021: adjusted PBT: 99.8%), 98.6% (2021: 98.9%) of the Group’s total income and 99.9% (2021: 100%) of the Group’s total assets. For the current year, the full scope components contributed 73.5% of the Group’s PBT measure used to calculate materiality (2021: adjusted PBT: 80%), 90.7% (2021: 90.7%) of the Group’s total income and 85.3% (2021: 85.4%) of the Group’s total assets. The specific scope components contributed 26.2% of the Group’s PBT measure used to calculate materiality (2021: adjusted PBT 19.8%), 7.9% (2021: 8.2%) of the Group’s total income and 14.6% (2021: 14.6%) of the Group’s total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining eight components that together represent 0.3% of the Group’s profit before tax, none are individually greater than 0.2% of the Group’s profit before tax. 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

There has been a reduction of components classified as specific scope, from seven to five. Two components which were previously classified as specific scope for the 31 December 2021 audit are now subject to other procedures for the 31 December 2022 audit. A further component is subject to other procedures for the 31 December 2022 audit, having previously been designated as review scope for the 31 December 2021 audit. These components were deemed not significant based on size, and the risk of material misstatement arising from the components are sufficiently low relative to Group materiality.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the two full scope components, audit procedures were performed on one of these directly by the primary audit team. For one full scope component and one specific scope component, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary audit team undertook a programme of planned visits and 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. The primary team instructed component auditors as to the significant areas to be covered for the purpose of the Group audit, including the key audit matters given above, materiality levels to be used and the specific information to be reported back to the primary team. The primary team reviewed component auditors’ key audit working papers in relation to risk areas.

The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed relevant working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

Stakeholders are increasingly interested in 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 within pages 38-45 in the “Summary Group Responsible Business Report” and within pages 81-85 in the principal risks and uncertainties within the “Risk Management Report”. The Group has also explained its climate commitments on page 44. All of these disclosures form part of the “Other information,” rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on “Other information”.

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

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

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management’s assessment of the impact of climate risk, physical and transitional, the Group’s climate commitments, the effects of material climate risks and the significant judgements and estimates disclosed in note 1 and whether these have been appropriately reflected in asset values where these are impacted by future cash flows, and in the timing and nature of liabilities recognised, following the requirements of UK adopted international accounting standards. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors’ considerations of climate change risks in their assessment of going concern and viability and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

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.

Independent Auditor's Report (continued)

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 2022 £43.6m, 31 December 2021 £28.1m;** **Society – 31 December 2022 £41.8m, 31 December 2021 £27.0m)** The measurement of the loan impairment provision under IFRS 9 is subjective and requires the Directors to exercise judgement with regards to estimating future losses that the Group may incur within the retail and commercial mortgage books. This calculation is complex and subjective, particularly in the current economic environment of heightened uncertainty as a result of the ongoing UK cost of living pressures. Key judgements and estimates include: ■ 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 the 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. With the support from our internal valuation specialists, we independently challenged 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 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. Our procedures included a series of "stand-back" analyses, including industry benchmarking, internal consistency checks and analytical review. We corroborated the adequacy and appropriateness of the disclosures made within the financial statements for compliance with both IFRS 9 and IFRS 7.	We communicated that we were satisfied that loan impairment provisions were reasonably stated and in compliance with the requirements of IFRS 9. We communicated to the Audit Committee that the models and underlying modelling assumptions were appropriately designed and applied with conservatism as at the year end. We considered the multiple economic scenarios incorporated in the IFRS 9 models and post model adjustments to be balanced. We also concluded that disclosures relating to loan impairments were in compliance with the requirements of applicable accounting standards.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Fair value of the equity release portfolio **(Group and Society - 31 December 2022 £278.7m, 31 December 2021 £406.6m)** 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 2022 were reasonable. We also communicated our observations on the key assumptions. We were satisfied that the assumptions applied 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 2022 £806.7m, 31 December 2021 £457.3m;** **Society - 31 December 2022 £764.1m, 31 December 2021 £409.6m)** The EIR method of revenue recognition involves management judgement and complex calculations in both determining the initial EIR and recording the present value of adjustments arising in subsequent periods when cash flows are reforecast. This method represents a risk of fraud in revenue recognition and through management override of internal controls. In the year the Group applied a change in judgement as to accounting for mortgage lending under the EIR method. Subsequently the Group revised its EIR calculation methodology to reflect the change in judgement. The most sensitive inputs to the Group's EIR accounting are driven by the allocation of lending fees against relevant loan	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 allocation of lending fees to loan products. Our challenge included a comparison of customer redemption assumptions with recent customer behaviours observable in the Group's portfolios, and an assessment of the inclusion of lending fees within the EIR model. We tested the accuracy of the EIR calculations by independently recalculating the EIR adjustment as at 31 December 2022. We performed data integrity testing on the key data fields used within the EIR calculations by vouching a sample of data points through 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, the update to the Group's EIR methodology applied in the year, and their sensitivity to reasonable alternative assumptions.	We communicated to the Audit Committee that the revised EIR method was appropriate and compliant with accounting standards. We concluded that the model, assumptions and calculations informing the EIR calculation as at 31 December 2022 were reasonable and that these resulted in EIR adjustments which were appropriately derived from complete and accurate data.

Independent Auditor's Report (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
products. These may be measured incorrectly due to the use of inaccurate or incomplete data, erroneous formulae or inappropriate assumptions. Due to the change in judgement and methodology applied in the year, as well as the sensitivity of the EIR adjustment and hence interest income to the underlying assumptions and data, this was considered a key audit matter.		
Revenue recognition in respect of estate agency income **(Connells - 31 December 2022 £1,023.6m, 31 December 2021 £1,002.8m)** 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 2022 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 trade receivables and cash receipts to verify the occurrence of revenue. Our alternative substantive procedures included tracing from origination of revenue through to the general ledger to confirm that the revenue was appropriately recorded in the correct period and at the correct value. We performed testing over a sample of manual journal entries recorded for each significant revenue stream. We substantiated these journals to supporting documentation and validated that revenue recognition criteria had been fulfilled and that values were materially correct.	We communicated to the Audit Committee that through our data analysis procedures we identified a correlation of transactions between revenue, trade receivables and cash. We did not identify any evidence of material misstatements in the revenue recognised or any instances of management override.
Control environment of Countrywide In 2021 we identified weaknesses in the control environment of the Countrywide group of companies. Following the enhancements to the control environment of the Countrywide group of companies we consider the risk to be isolated to the control environment over cash and bank balances.	We obtained and inspected bank confirmations for all material cash balances as at 31 December 2022. We obtained and inspected bank reconciliations where appropriate. We used a reduced testing threshold when auditing reconciling items and performing cut-off testing around the year end. We performed journal entry analysis to validate the completeness of banking counterparties through keyword searches.	We communicated to the Audit Committee that there have been improvements to the control environment in the Countrywide group of companies during the year. We obtained the necessary audit evidence from our audit procedures over cash and bank balances.

In the prior year, our auditor's report included a key audit matter in relation to 'Accounting for the acquisition of Countrywide plc'. The acquisition was completed in 2021 and therefore the key audit matter no longer applies for the 31 December 2022 audit.

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 £14.7 million (2021: £13.8 million), which is 5% of profit before tax (2021: 5% adjusted profit before tax).

We determined materiality for the Society to be £8.0 million (2021: £5.7 million), which is 5% of adjusted profit before tax (2021: 5% adjusted profit before tax). We adjusted the Society's pre-tax profit by removing dividend income from shares from subsidiary undertakings.

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

For the prior year audit, materiality figures for the Group and Society were based on adjusted profit before tax. 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. Aside from the dividend income adjustment to Society pre-tax profit, the same adjustments have not been applied for the 31 December 2022 audit as they were non-recurring in nature.

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% (2021: 75%) of our planning materiality, namely £11.0m (2021: £10.4m). 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 £2.2m to £7.1m (2021: £1.0m to £6.1m).

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 (2021: £0.7m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out within pages 6-99 and pages 253-256, other than the financial statements, information of Country by Country Reporting, information identified as "audited" within the Directors' Remuneration Report, and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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 Group and 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 57;
- Directors' explanation as to its assessment of the Group and Society's prospects, the period this assessment covers and why the period is appropriate set out on pages 57 and 58;
- Directors' statement on fair, balanced and understandable set out on page 59;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 57;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 65; and;
- The section describing the work of the audit committee set out on pages 70-77;

Directors' Remuneration Report

The Group and 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 Group and Society were each 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 59, 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 have 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 management and those charged with governance of the Group and Society.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant were the regulations, licence conditions and supervisory requirements of the of the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Building Societies Act 1986.
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and UK regulatory bodies; reviewed minutes of the Board and Board Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's Operational Risk Framework and internal control processes.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, internal audit, consideration of whistleblowing events and focused testing as referred to in the Key Audit Matters section above. Our inquiries and procedures addressed subsidiaries in the Group including those audited by component teams. The primary audit team had regular communication with component teams to discuss the audit which included if there were any instances of non-compliance with laws and regulations and how these were responded to.
- The Group operates in the financial services sector which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the 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 four years, covering the years ending 31 December 2019 to 31 December 2022.
- 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

28 February 2023

Income Statements

For the year ended 31 December 2022	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Interest receivable and similar income:					
Accounted for using effective interest rate method	2	**806.7**	457.3	**764.1**	409.6
Other	2	**15.8**	(2.9)	**14.1**	(0.1)
Total interest receivable and similar income		**822.5**	454.4	**778.2**	409.5
Interest payable and similar charges	3	**(398.1)**	(157.7)	**(421.3)**	(163.5)
Net interest receivable		**424.4**	296.7	**356.9**	246.0
Fees and commissions receivable	4a)	**1,092.6**	1,054.5	**35.6**	35.2
Fees and commissions payable		**(14.7)**	(8.4)	**(2.7)**	(2.8)
Fair value gains / (losses) on financial instruments mandatorily held at FVTPL	5a)	**1.3**	10.2	**(29.6)**	3.5
Fair value gains on step-acquisition of Group undertakings		**-**	26.9	**-**	-
Income from shares in subsidiary undertakings		**-**	-	**62.0**	115.6
Profit on disposal of subsidiary undertakings	17c)	**0.1**	0.5	**-**	-
Other income	5b)	**3.9**	3.9	**9.7**	8.0
Total income		**1,507.6**	1,384.3	**431.9**	405.5
Administrative expenses	5c)	**(1,188.5)**	(1,125.1)	**(191.6)**	(160.9)
Operating profit before impairment and provisions		**319.1**	259.2	**240.3**	244.6
Impairment (losses) / credits on loans and advances to customers	14	**(17.1)**	12.9	**(16.3)**	7.1
Impairment losses on liquid assets		**(0.1)**	(0.2)	**(0.1)**	(0.2)
Impairment of goodwill	21	**(0.8)**	-	**-**	-
Realised losses on equity release portfolio	15	**(0.7)**	(0.5)	**(0.7)**	(0.5)
Provision against investments in subsidiary undertakings	17a)	**-**	-	**-**	(15.2)
Provisions for liabilities	29	**(1.6)**	0.4	**(0.3)**	(0.3)
Profit before tax		**298.8**	271.8	**222.9**	235.5
Tax expense	9	**(67.8)**	(55.9)	**(43.9)**	(33.4)
Profit for the year		**231.0**	215.9	**179.0**	202.1
Profit / (loss) for the year attributable to:					
Members of Skipton Building Society		**231.2**	215.8	**179.0**	202.1
Non-controlling interests		**(0.2)**	0.1	**-**	-
		231.0	215.9	**179.0**	202.1

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 2022	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Profit for the year		**231.0**	215.9	**179.0**	202.1
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Remeasurement (losses) / gains on defined benefit obligations	31	**(6.7)**	23.9	**(1.2)**	12.3
(Losses) / gains on equity share investments designated at FVOCI	17f)	**(8.5)**	2.5	**-**	-
Income tax on items that will not be reclassified to profit or loss	35	**0.4**	(3.1)	**(0.7)**	(2.2)
		(14.8)	23.3	**(1.9)**	10.1
Items that may be reclassified subsequently to profit or loss:					
Movement in cash flow hedging reserve:					
Gains taken to equity		**47.8**	26.8	**13.2**	19.8
Realised gains transferred to Income Statement		**(12.8)**	(0.1)	**(12.8)**	(0.1)
Movement in fair value reserve (debt securities):					
(Losses) / gains taken to equity		**(22.3)**	1.6	**(21.7)**	1.6
Impairment loss allowance on debt securities held at FVOCI	11	**-**	0.3	**-**	0.3
Realised losses transferred to Income Statement		**-**	0.1	**-**	0.1
Movement in cost of hedging reserve:					
Gains / (losses) taken to equity		**3.8**	(0.5)	**-**	-
Exchange differences on translation of foreign operations		**0.4**	(0.4)	**-**	-
Income tax on items that may be reclassified to profit or loss	35	**(4.4)**	(8.2)	**6.4**	(6.4)
		12.5	19.6	**(14.9)**	15.3
Other comprehensive (expense) / income for the year, net of tax		**(2.3)**	42.9	**(16.8)**	25.4
Total comprehensive income for the year		**228.7**	258.8	**162.2**	227.5
Total comprehensive income attributable to:					
Members of Skipton Building Society		**228.9**	258.7	**162.2**	227.5
Non-controlling interests		**(0.2)**	0.1	**-**	-
		228.7	258.8	**162.2**	227.5

The accompanying notes form part of these financial statements.

Statements of Financial Position

As at 31 December 2022	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Assets					
Cash in hand and balances with the Bank of England		**3,520.5**	2,433.6	**3,520.5**	2,433.6
Loans and advances to credit institutions	10	**631.9**	468.7	**621.6**	386.4
Debt securities	11	**2,640.3**	2,193.2	**2,572.7**	2,133.5
Derivative financial instruments		**1,355.1**	227.9	**1,342.3**	229.7
Loans and advances to customers held at amortised cost	12	**24,452.3**	23,024.8	**22,359.5**	21,188.2
Loans and advances to customers held at FVTPL	16	**1.0**	1.2	**1.0**	1.2
Equity release portfolio held at FVTPL	15	**278.7**	406.6	**278.7**	406.6
Current tax asset		**18.3**	1.0	**12.9**	1.3
Investments in Group undertakings	17a)	**-**	-	**469.2**	362.4
Investments in joint ventures		**10.1**	9.5	**-**	-
Equity share investments mandatorily held at FVTPL	17e)	**1.2**	1.7	**-**	-
Equity share investments designated at FVOCI	17f)	**-**	8.5	**-**	-
Property, plant and equipment	18	**71.8**	73.2	**38.1**	39.1
Right-of-use assets	19	**106.7**	95.8	**10.9**	11.5
Investment property	20	**6.0**	6.6	**6.0**	6.6
Intangible assets	21	**323.4**	345.6	**0.1**	0.4
Deferred tax asset	30	**13.1**	33.1	**16.5**	15.6
Retirement benefit surplus	31b)	**-**	1.2	**-**	-
Other assets	22	**140.9**	135.8	**16.6**	14.0
Total assets		**33,571.3**	29,468.0	**31,266.6**	27,230.1
Liabilities					
Shares	23	**22,349.6**	19,759.8	**22,290.5**	19,749.3
Amounts owed to credit institutions	24	**2,963.3**	2,203.4	**3,177.3**	2,400.2
Amounts owed to other customers	25	**2,339.2**	2,249.2	**628.7**	756.5
Debt securities in issue	26	**2,591.6**	2,218.1	**2,392.6**	1,911.3
Derivative financial instruments		**415.6**	292.1	**476.3**	251.7
Current tax liability		**1.5**	-	**-**	-
Lease liabilities	27	**113.0**	114.4	**11.1**	11.5
Other liabilities	28	**83.7**	114.2	**9.9**	9.3
Accruals		**93.1**	102.3	**22.9**	20.6
Deferred income		**9.9**	5.6	**0.4**	-
Provisions for liabilities	29	**34.7**	36.4	**0.8**	1.0
Deferred tax liability	30	**-**	0.1	**-**	-
Retirement benefit obligations	31b)	**29.6**	30.1	**16.9**	17.2
Subordinated liabilities	32	**311.8**	336.3	**311.8**	336.3
Subscribed capital	33	**41.6**	41.6	**41.6**	41.6
Total liabilities		**31,378.2**	27,503.6	**29,380.8**	25,506.5
Members' interests					
General reserve		**2,176.4**	1,951.5	**1,893.6**	1,716.5
Fair value reserve		**(16.9)**	7.5	**(9.6)**	5.7
Cash flow hedging reserve		**29.6**	4.0	**1.8**	1.4
Cost of hedging reserve		**(1.1)**	(3.5)	**-**	-
Translation reserve		**4.9**	4.5	**-**	-
Attributable to members of Skipton Building Society		**2,192.9**	1,964.0	**1,885.8**	1,723.6
Non-controlling interests		**0.2**	0.4	**-**	-
Total members' interests		**2,193.1**	1,964.4	**1,885.8**	1,723.6
Total liabilities and members' interests		**33,571.3**	29,468.0	**31,266.6**	27,230.1

The accompanying notes form part of these financial statements.

These Accounts were approved by the Board of Directors on 28 February 2023 and were signed on its behalf by:

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

Statements of Changes in Members' Interests

For the year ended 31 December 2022

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

Statements of Changes in Members' Interests
(continued)

For the year ended 31 December 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

For the year ended 31 December 2022

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

For the year ended 31 December 2021

Society	General reserve £m	Fair value reserve £m	Cash flow 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

The accompanying notes form part of these financial statements.

Statements of Cash Flows

For the year ended 31 December 2022	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Cash flows from operating activities					
Profit before tax		**298.8**	271.8	**222.9**	235.5
Adjustments for:					
Impairment losses / (credits) on financial instruments	34a)(i)	**18.1**	(13.8)	**16.8**	(7.4)
Depreciation and amortisation	18, 19, 20, 21	**76.8**	107.1	**8.1**	8.4
Impairment of property, plant and equipment, right-of-use assets and investment property	18, 19, 20	**(0.5)**	1.3	**(1.1)**	0.9
Loss / (profit) on disposal of property, plant and equipment, investment property and intangible assets		**0.7**	(0.4)	**0.2**	-
Fair value losses on certain financial instruments held at FVTPL	34a)(ii)	**120.5**	23.1	**132.3**	24.2
Interest on subordinated liabilities and subscribed capital	3	**11.8**	11.8	**11.8**	11.8
Interest on lease liabilities	3	**2.1**	1.8	**0.3**	0.2
Income from shares in subsidiary undertakings		**-**	-	**(62.0)**	(115.6)
Provision against investments in subsidiary undertakings	17a)	**-**	-	**-**	15.2
Profit on disposal of subsidiary undertakings	17c)	**(0.1)**	(0.5)	**-**	-
Fair value gains on step-acquisition of Group undertakings		**-**	(26.9)	**-**	-
Other non-cash movements	34a)(iii)	**5.8**	44.7	**(23.6)**	21.5
		534.0	420.0	**305.7**	194.7
Changes in operating assets and liabilities:					
Movement in prepayments and accrued income		**(3.4)**	(16.2)	**(2.7)**	(5.0)
Movement in accruals and deferred income		**(4.9)**	6.0	**2.7**	(11.8)
Movement in provisions for liabilities		**(1.7)**	(1.8)	**(0.2)**	0.1
Movement in fair value of derivatives		**(1,003.7)**	(317.6)	**(888.0)**	(344.6)
Movement in fair value adjustments for hedged risk		**664.0**	217.5	**609.2**	256.3
Movements in debt securities		**93.8**	33.1	**98.6**	30.0
Movement in loans and advances to customers		**(2,223.8)**	(1,474.3)	**(1,965.6)**	(1,317.1)
Movement in shares		**2,689.7**	1,105.5	**2,689.7**	1,105.5
Net movement in amounts owed to credit institutions and other customers		**849.9**	173.8	**649.3**	(379.1)
Repayment of amounts owed to credit institutions acquired on purchase of subsidiary undertaking		**-**	(93.0)	**-**	-
Net movement in debt securities in issue		**368.4**	(167.8)	**481.3**	(64.8)
Net movement in loans and advances to credit institutions		**(115.9)**	236.1	**(210.1)**	221.1
Net movement in other assets		**15.0**	20.3	**0.2**	0.3
Net movement in other liabilities		**(22.7)**	(71.6)	**(0.8)**	(24.8)
Income taxes paid		**(67.9)**	(57.0)	**(50.7)**	(31.2)
Net cash flows from operating activities		**1,770.8**	13.0	**1,718.6**	(370.4)

For the year ended 31 December 2022	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Net cash flows from operating activities		**1,770.8**	13.0	**1,718.6**	(370.4)
Cash flows from investing activities					
Purchase of debt securities	11	**(1,995.5)**	(1,795.4)	**(1,857.5)**	(1,360.0)
Proceeds from maturities and disposals of debt securities		**1,447.2**	1,074.1	**1,313.0**	904.2
Dividends received from subsidiary undertakings		**-**	-	**62.0**	115.6
Increase in loans to subsidiary undertakings	17a)	**-**	-	**(106.8)**	(86.3)
Proceeds from disposal of assets held for sale		**-**	58.0	**-**	-
Contingent consideration received in respect of prior year disposals of subsidiary undertakings		**6.4**	6.4	**-**	-
Purchase of subsidiary undertakings in the year, net of cash acquired		**-**	(121.8)	**-**	-
Other investing activities	34b)(i)	**(18.1)**	(11.7)	**(2.8)**	(2.0)
Net cash flows from investing activities		**(560.0)**	(790.4)	**(592.1)**	(428.5)
Cash flows from financing activities					
Exercise of share options in subsidiary management incentive scheme	28	**(8.9)**	(0.8)	**-**	-
Exercise of put options held by non-controlling shareholders		**(3.0)**	-	**-**	-
Purchase of non-controlling interests		**-**	(0.6)	**-**	-
Interest paid on subordinated liabilities and subscribed capital		**(11.8)**	(11.8)	**(11.8)**	(11.8)
Interest paid on lease liabilities	27	**(2.1)**	(1.8)	**(0.3)**	(0.2)
Payment of lease liabilities	27	**(50.7)**	(42.5)	**(2.4)**	(2.7)
Net cash flows from financing activities		**(76.5)**	(57.5)	**(14.5)**	(14.7)
Net increase / (decrease) in cash and cash equivalents		**1,134.3**	(834.9)	**1,112.0**	(813.6)
Cash and cash equivalents at 1 January		**2,481.0**	3,315.8	**2,392.8**	3,206.3
(Increase) / decrease in impairment loss allowance on cash and cash equivalents		**(0.1)**	0.1	**(0.1)**	0.1
Cash and cash equivalents at 31 December		**3,615.2**	**2,481.0**	**3,504.7**	**2,392.8**

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

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Cash in hand and balances with the Bank of England		**3,520.5**	2,433.6	**3,520.5**	2,433.6
Mandatory reserve deposit with the Bank of England		**(96.7)**	(87.8)	**(96.7)**	(87.8)
		3,423.8	2,345.8	**3,423.8**	2,345.8
Loans and advances to credit institutions	10	**191.4**	135.2	**80.9**	47.0
Cash and cash equivalents at 31 December		**3,615.2**	2,481.0	**3,504.7**	2,392.8

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 57 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.

In accordance with the Group's climate strategy, budgets are in place across the Group to reduce emissions and to support wider ESG initiatives; progress made against emission reduction targets is monitored by management. As set out in the Summary Group Responsible Business Report, the Group has during 2022 launched tangible initiatives such as the EPC Plus scheme that offers free home energy reports to Society mortgages members and colleagues. The Group's long-term net zero targets are inherently aspirational, given the timelines involved and the major societal shifts needed. Long tail climate risk scenarios have been considered by management and the Board and are factored into the Group's planning.

The Annual Accounts are presented in pounds Sterling and, except where otherwise indicated, have been rounded to the nearest one hundred thousand pounds.

b) Changes to significant accounting policies

There have been no changes to significant accounting policies during the year.

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 gains / (losses) on financial instruments mandatorily held at FVTPL' 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 two cross-currency swap transactions. 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, procuration fees and completion fees are deferred and recognised over the expected life of mortgage assets. Upfront costs that are attributable to a mortgage asset's fixed interest rate period are amortised over that fixed rate period (or shorter period, if deemed appropriate). Historical and forecast mortgage redemption data and management judgement of future performance are used to estimate the expected lives of mortgage assets.

A change to management's estimate of expected mortgage lives results in an immediate adjustment to the carrying amount of the mortgage asset (discounted at its effective interest rate) at the point this change is made, which recalculates the carrying value to account for the revised assumptions.

Included in loans and advances to customers of the Society are balances which have been used to secure funding issued by the Group's special purpose funding vehicles which are consolidated into the Group Accounts, further details of which are included in note 17a). The beneficial interest in the underlying loans has been transferred to these entities. The loans are retained within the Society's Statement of Financial Position as the Society retains substantially all the risks and rewards relating to the loans.

In accordance with IFRS 9, an impairment loss allowance is determined for financial assets at amortised cost in relation to expected credit losses (ECLs; see note 1g) for details on measurement of ECLs). The movement in the impairment loss allowance recognised during the period is charged or credited to the Income Statement.

At fair value through other comprehensive income (FVOCI)

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ('held to collect and sell' business model); and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The majority of the Group's debt securities, which are held to manage liquidity requirements, have been assessed by the Group to be in a 'held to collect and sell' business model and to have cash flows that pass the SPPI test.

Financial assets held at FVOCI are initially recognised at fair value plus directly attributable transaction costs, with subsequent changes in fair value recognised in equity. The majority of fair values of financial assets held at FVOCI are based on quoted prices, which represent the bid price. Where debt securities held at FVOCI do not have quoted prices available, the fair value is based on the present value of discounted cashflows using market observable inputs.

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. In 2021 the Group made an equity share investment in Commercial and Northern Limited (formerly Bank North Limited) ('Bank North') (see note 17f)) and an election was made at initial recognition to designate this investment as FVOCI; the remainder of the Group's equity share investments are held at FVTPL (see page 128). Equity share investments designated as FVOCI are not subject to impairment assessment.

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 determined 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. During 2022 Bank North commenced wind-down of its operations before formally entering liquidation in early 2023; the fair value of the Group's equity investment in Bank North was therefore reduced during 2022 to £nil (see note 17f)).

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 interest rate being linked to the Retail Price Index (RPI).

A stochastic model was chosen and devised internally for the purpose of valuing this portfolio. The model uses inputs including mortality rates, voluntary prepayment rates, estimates of future RPI and a House Price Index (HPI) to predict future cash flows on the portfolio. These are then discounted back to present value using a discount curve based on a Sterling Overnight Index Average (SONIA) curve plus an illiquidity spread. The illiquidity spread reflects the fact that no repayments are made by the customer until the product redeems which may be many years into the future.

Where possible the inputs are market-driven or, where no market-driven data is available, based on management judgement that is informed by observable data wherever possible. Due to the high level of variability within these inputs, the model also runs several thousand scenarios for both the RPI and HPI inputs. The Group has robust control procedures in place regarding all the inputs to the valuation model.

As this valuation technique uses one or more significant inputs that are not based on observable market data, it is classed as a Level 3 valuation technique. For further details on the different levels of the fair value hierarchy, see note 41b). The impact of applying reasonably possible alternative assumptions of certain inputs into the valuation of the portfolio is found in note 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 gains / (losses) on financial instruments mandatorily held at FVTPL' 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 gains / (losses) on financial instruments mandatorily held at FVTPL 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 122), 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 gains / (losses) on financial instruments mandatorily held at FVTPL 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 held 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 was therefore classified as FVTPL. The fair value of this asset was determined by calculating the present value of the expected future cash flows, discounted at an appropriate rate. The asset was fully unwound to £nil during the year ended 31 December 2022.

1. Accounting policies (continued)

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. In 2021 an election was made at initial recognition to designate the Group's investment in Commercial and Northern Limited (formerly Bank North Limited) as FVOCI (see page 168).

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 unlisted entities. 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 independent third party valuations.

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 Expected Credit Losses (ECLs)

ECLs are an unbiased probability-weighted estimate of the present value of credit losses, taking account of forward-looking information that includes a range of possible economic outcomes. ECLs are measured as the difference between contractual cash flows and expected cash flows, discounted at the asset's effective interest rate.

When measuring ECLs, the Group assesses the probability of default, the expected exposure at the time of default, and the loss that is expected to arise on default. The maximum period considered is the maximum contractual period over which the Group is exposed to credit risk. The probabilities of default are adjusted to take account of expected customer redemptions. The Group typically assesses ECLs on an individual asset basis.

IFRS 9 requires an impairment loss allowance to be recognised at an amount equal to either 12-month ECLs ('stage 1' ECLs) or lifetime ECLs. Lifetime ECLs are ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group measures impairment loss allowances at an amount equal to lifetime ECLs, except for the following which are measured as 12-month ECLs:

- treasury assets that are determined to have low credit risk at the reporting date. The Group considers a treasury asset to have low credit risk when its credit rating is equivalent to the globally understood definition of 'investment grade'; and
- other financial assets on which credit risk has not increased significantly since their initial recognition (except trade receivables, for which the Group will always recognise lifetime ECLs in accordance with the simplified approach in IFRS 9).

Lifetime ECLs are required where the credit risk on a financial asset has increased significantly since initial recognition (except for investment grade treasury assets, as noted above).

For loan commitments, 12-month ECLs are measured by the Group for the percentage of such commitments expected to convert from an outstanding customer offer into a completed customer loan. The conversion factors applied are based on actual trends observed for the Group and are aligned with the Group's existing internal ratings based (IRB) approach for regulatory capital purposes.

Financial assets that are subject to the impairment requirements of IFRS 9 are described according to their ECL 'stage' as follows:

- 'Stage 1' - Assets for which a 12-month ECL is recognised;
- 'Stage 2' - Assets for which a lifetime ECL is recognised where there has been a 'significant increase in credit risk' but which are not credit-impaired;
- 'Stage 3' - Assets for which a lifetime ECL is recognised and which are 'credit-impaired'.

The Group's definitions of 'significant increase in credit risk' and 'credit-impaired' are detailed below.

Notes to the Accounts (continued)

1. Accounting policies (continued)

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).

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 (page 132);
- 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 were not automatically recorded as forbearance cases and did not automatically have an impact on the reported staging of balances, except where credit risk was judged to have significantly increased since the loan was initially recognised in line with the criteria listed above. A post model adjustment was recognised for residential mortgages to reflect the risks associated with these payment deferrals that had 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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

Forbearance

In certain circumstances, the Group renegotiates loans to customers in financial difficulties (referred to as forbearance activities) to maximise collection opportunities and minimise the risk of default whilst ensuring the best outcome for the customer. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the customer is currently in default on their loan or if there is a high risk of default, there is evidence that the customer made all reasonable efforts to pay under the original contractual terms and the customer is expected to be able to meet the revised terms.

The revised terms typically include extending the maturity of the loan, changing the timing of interest payments or amending the terms of loan covenants. Both retail and commercial loans are subject to the forbearance policy. The Retail Credit Committee regularly reviews reports on forbearance activities.

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 were not automatically recorded as forbearance cases and did not automatically have an impact on the reported staging of balances, except where credit risk was 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 2022 the Group has offset £2.3m (31 December 2021: £3.0m) 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. Current tax assets and current tax liabilities are offset within the Statement of Financial Position if, and only if, the Group has a legally enforceable right to offset the recognised amounts and intends either to settle the taxes in question on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the Accounts (continued)

1. Accounting policies (continued)

Deferred tax recognises temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor income and expenditure, and differences relating to investments in subsidiary undertakings, associates and joint arrangements to the extent that it is probable they will not reverse in the foreseeable future. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at least annually and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; in making this assessment, consideration is given to the likelihood of recovery within a reasonably foreseeable timeframe, typically the Group's five year corporate planning period. Deferred tax assets and deferred tax liabilities are offset if, and only if, the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and the Group has a legally enforceable right to offset the related current tax assets against the related current tax liabilities.

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. In 2021 the Group 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. These amendments have 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 2021, the Group also operated a fourth defined benefit pension scheme; this was a small hybrid scheme which was 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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

Estate agency services

Estate agency commissions earned on the sales of properties and land and auction income are recognised on the date contracts are exchanged unconditionally. Property management income is typically recognised when the cash is received, which reflects the point at which income is earned and contractual obligations have been fulfilled; an element of lettings income has been assessed as transferred over time, in line with the performance obligations in the contract. Insurance commission is recognised upon fulfilment of contractual obligations with a provision for future clawback repayment in the event of early termination by the customer. Survey and valuation revenue is recognised on the date the survey or valuation report is completed, which reflects the point at which all contractual obligations have been fulfilled; revenue and costs are recognised gross of sub-contracted panel fees. Mortgage origination income is typically recognised on completion of the mortgage transaction; an element of this income has been assessed as transferred over time, in line with the performance obligations in the contract. Asset management commission is recognised on exchange of contracts and additional services are recognised upon completion of work, both of which reflect the point at which all performance obligations are considered to have been fulfilled.

Commercial property services

Income from commercial property services includes consultancy and advisory services, property management and valuation services. Income is recognised either at a point in time when services have been fully provided, or over a period of time as activity progresses and reflecting the satisfaction of performance obligations. Under certain service contracts, the Group manages client expenditure and is obliged to purchase goods and services from suppliers that are recharged to the customer at cost; such items are excluded from the amounts reported by the Group for revenue and for expenses.

Software products and services

Revenue from software licence fees is recognised when access to the software has been made available to the customer to enable implementation. Revenue from implementation and consulting services is recognised in proportion to the stage of completion, typically in accordance with the achievement of contract milestones or days expended. Customer support revenue and systems management revenue are recognised on a straight-line basis over the period of the service rendered. The amount of revenue recognised is adjusted for expected returns.

Fees and commissions payable are generally recognised on an accruals basis as services are received.

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.

The Group's reportable segments have been revised with effect from 1 January 2022. Further details, together with information regarding the results of each reportable segment, are set out 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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

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.

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'). For IFRS 9 accounting purposes, stage 3 loans which no longer meet any of the default criteria are subject to a three month minimum probation period before they become eligible for transfer out of stage 3. Further details are found in note 1g).

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 financial assets measured at amortised cost is accounted for using the effective interest method. This method imputes an interest rate which discounts the forecast future cash flows of an asset over its expected life back to its carrying value.

During the year ended 31 December 2022, the judgements that are applied by the Group for the purposes of effective interest rate accounting were revised. These changes reflect management's updated assessment of whether certain interest rates represent 'market rates' or 'bargain rates' for this purpose. The changes also reflect management's updated assessment of whether certain pre-completion costs (PCCs) are attributable to solely the fixed interest rate period of related loans.

As a result of the above changes, the Group's effective interest rate adjustment no longer considers a 'blended' interest rate (i.e. it no longer anticipates the impact of variable rate cash flows that arise when a loan re-prices from one market rate to another). From the date of implementing these changes, the adjustment functions solely to defer and amortise PCCs over an appropriate period. PCCs that are attributable to a loan's fixed interest rate period are amortised over that fixed rate period (or shorter period, if deemed appropriate); previously such PCCs were amortised over the expected life (along with those PCCs that are not attributable to a fixed interest rate period). The impact of these changes on the Income Statements for the year ended 31 December 2022 is to reduce Group profit by £6.2m and to reduce Society profit by £5.5m.

Prior to the changes discussed above, the most critical factor in calculating the amortised cost of financial assets held by the Group was the expected lives of these assets which were determined on the basis of historical data and management judgement. Following the changes, management considers there is no critical estimate or assumption that has a significant risk of resulting in a material adjustment to the carrying amount of these assets within the next financial year.

During the year no amount (2021: £8.3m charge) 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.

Notes to the Accounts (continued)

1. Accounting policies (continued)

The following data is typically used to monitor the Group's exposure to credit risk:

- Payment record, including payment ageing analysis;
- Forbearance activity;
- Changes in business, financial and economic conditions;
- Credit reference information supplied by external agencies; and
- Internally generated data of customer behaviour, affordability metrics etc.

For residential mortgages, the assessment of whether credit risk has significantly increased includes assessing the degree by which the remaining lifetime PD at the reporting date has increased compared to initial estimates. The Group determines thresholds for this purpose, expressed as a multiple of the initial PD estimate. The thresholds vary according to the credit quality of the loan at initial recognition and they are set with the aim of identifying accounts with significant increase in credit risk (SICR) before the borrower misses a payment. The Group periodically reviews the effectiveness of the SICR criteria in achieving this objective. As a result of this review, the multiples applied by the Group have been revised during the year in order to moderate the impact of accounts which meet the SICR criteria but which then have no subsequent missed payments; there were no other changes during 2022 to the SICR criteria. Details of these changes, which do not materially impact these financial statements, are set out below.

Lifetime PD band at initial recognition	Multiple by which remaining lifetime PD has increased compared with initial estimate	
	Applied at 31.12.22	Applied at 31.12.21
Slight risk	**initial estimate x 9**	initial estimate x 8
Low risk	**initial estimate x 5**	initial estimate x 5
Medium risk	**initial estimate x 4**	initial estimate x 3
High risk	**initial estimate x 1**	initial estimate x 1

The Group also applies an absolute lifetime PD hurdle for residential mortgages where lifetime PD goes above 25%. These accounts are considered to have a significant increase in credit risk and will automatically be migrated to Stage 2.

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 2022 were determined with due consideration to the significant economic uncertainties arising from current inflationary pressures (domestic and global), from the ongoing events in Ukraine and from the long-term effects of the COVID-19 pandemic.

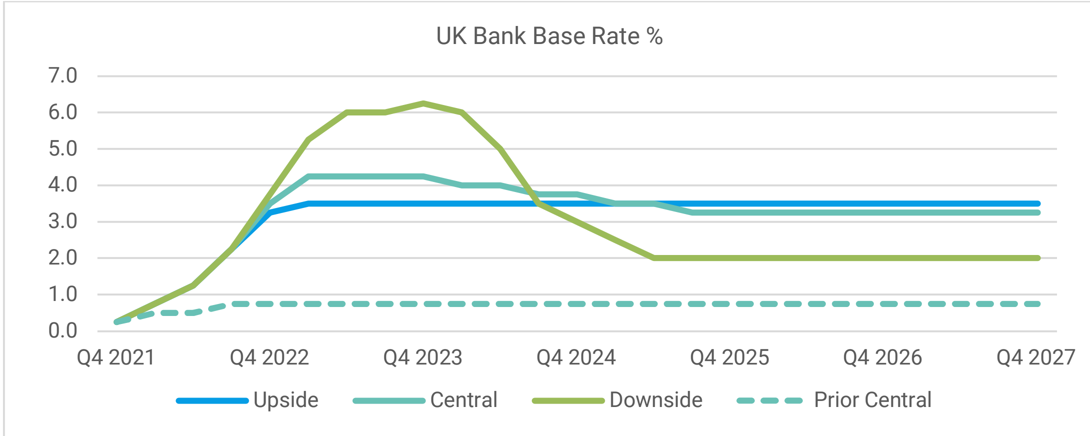
The Group's central scenario assumes that the UK starts 2023 already in recession and that it remains so through the first half of 2023; minimal growth is expected in the second half of 2023 and in 2024. Geopolitical tensions remain throughout the first half of 2023, keeping the pressure on gas and oil prices. The cost of living crisis continues, though the impact is partly offset by steady wages growth. Unemployment rises slowly throughout 2023 and peaks during the second half of 2024. Businesses feel the impact of escalating fuel and energy costs and rising wage bills. Industrial disputes and strikes are managed without causing significant follow-on disruption to business. Inflation, having peaked in late 2022, remains above the 2% target until 2025; in response, the Bank of England continues to increase interest rates quickly throughout 2023. House prices fall in 2023 and 2024 as a result of the worsening economic conditions.

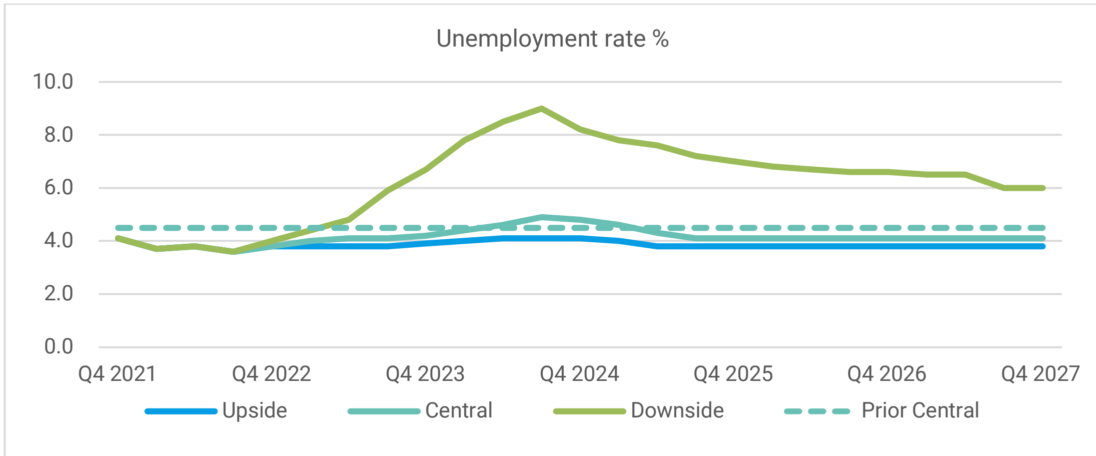
The Group's upside scenario assumes the economy recovers from recession from mid-2023, with steady growth thereafter. Pressures on gas and oil prices ease, consumer confidence rises and unemployment remains low. There are moderate interest rate rises to keep inflation under control, which eases from 2023. Temporary Stamp Duty reductions stimulate the housing market, leading to modest growth in 2023.

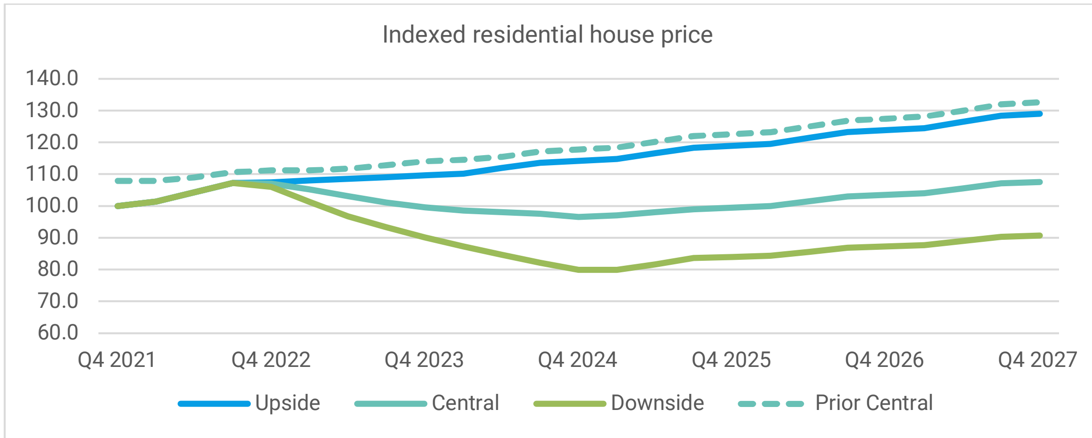
The Group's downside scenario assumes a period of severe stagflation, with high inflation and low growth. Geopolitical tensions escalate, causing further pressure on oil and gas prices and supply chain difficulties. Inflation is persistent and embedded into the economy until 2025, made worse by further scaling back of energy support packages. The Bank of England continues raising interest rates beyond 5% and inflation remains high in the mid-term; this hurts households and businesses alike, leading to rising unemployment and recessionary conditions. Temporary Stamp Duty reductions are insufficient to mitigate the impact of higher interest rates and the cost of living crisis; house prices deteriorate.

The key economic variables considered by the Group when developing the forecast scenarios are set out below for the first five years of each of the Group's scenarios. For years six to ten the Group applies phased transition assumptions, arriving at a view of long-run averages from year eleven onwards; the Group's view of long-run averages can differ from the historical long-term mean and is derived by reference to both external information, where this is publicly available and appropriate, and internally generated views. As noted above, the assumptions assigned to each scenario have been revised during the year taking account of significant economic uncertainties.

The graphs below show the historical and forecasted UK Bank Base Rate, unemployment rate and indexed residential house prices for the Group's three economic scenarios as at 31 December 2022, 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 2021 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)	2022 Upside	2022 Central	2022 Downside	2021 Upside	2021 Central	2021 Downside
Bank of England Base Rate (%) (note 1)	**3.50 / 3.50**	**3.25 / 4.25**	**2.00 / 6.25**	0.50 / 1.25	0.50 / 0.75	(0.25) / 0.00
Unemployment (%) (note 2)	**4.1**	**4.9**	**9.0**	4.3	4.5	9.0
House price inflation (UK) (%) (note 3)	**20.1 / 0.0**	**0.6 / (9.8)**	**0.0 / (24.6)**	23.7 / 0.0	18.1 / 0.0	0.0 / (23.4)
Commercial property price growth (%) (note 3)	**10.4 / 0.0**	**0.0 / (12.8)**	**0.0 / (21.2)**	10.4 / 0.0	0.0 / (14.7)	0.0 / (21.2)

Notes
1. The Bank of England Base Rate is shown as the lowest/highest rate over the forecast period.
2. Unemployment is shown as the highest rate over the forecast period. In the downside scenario for example, the peak is assumed to occur in Q3 2024, 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 2023 (2021: from 1 January 2022) over the 5 year forecast period.

Economic variables (annual rate)	Scenario	As at 31.12.22 2023	2024	2025	2026	2027
Bank of England Base Rate (%) (note 1)	Upside	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**
	Central	**4.25**	**3.75**	**3.25**	**3.25**	**3.25**
	Downside	**6.25**	**3.00**	**2.00**	**2.00**	**2.00**
Unemployment (%) (note 1)	Upside	**3.9**	**4.1**	**3.8**	**3.8**	**3.8**
	Central	**4.2**	**4.8**	**4.1**	**4.1**	**4.1**
	Downside	**6.7**	**8.2**	**7.0**	**6.6**	**6.0**
House price inflation (UK) (%) (note 2)	Upside	**2.0**	**4.2**	**4.2**	**4.2**	**4.2**
	Central	**(7.0)**	**(3.0)**	**3.0**	**4.0**	**4.0**
	Downside	**(15.1)**	**(11.2)**	**5.0**	**4.0**	**4.0**
Commercial property price growth (%) (note 2)	Upside	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
	Central	**(8.7)**	**(4.5)**	**1.0**	**1.0**	**1.0**
	Downside	**(18.6)**	**(3.2)**	**0.0**	**0.0**	**0.0**

	Scenario	As at 31.12.21 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

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 Group's scenarios, which have been updated to reflect the significant economic uncertainties arising from current inflationary pressures (domestic and global), from the ongoing events in Ukraine and from the long-term effects of the COVID-19 pandemic. The Group's scenario weightings as at 31 December 2022 were 50% for the central scenario, 10% for the upside scenario and 40% for the downside scenario (31 December 2021: central scenario 50%, upside scenario 15%, downside scenario 35%).

Whilst actual loan cash flows and the level of losses realised are unaffected by IFRS 9's expected credit loss approach, the level of loan impairment accounted for by the Group under IFRS 9 can be volatile; this is due to the inherent uncertainty when incorporating forward-looking information. IFRS 9 impairment is expected to vary as expectations of economic conditions become either more pessimistic (which is likely to increase ECLs) or more optimistic (which is likely to reduce ECLs).

Management assesses the performance of the Group's ECL estimation process by comparison of actual and expected model outputs; some component outputs are back-tested for lifetime outcomes and some component outputs are back-tested for 12 month outcomes. Additional assurance is gained from validation of the composite sub-models. The ECL calculation is subject to formal quarterly monitoring, with output reported to the Society's Model Governance Committee for review, challenge and approval. In addition, the ECL calculation and all sub-components are subject to regular first-line review and independent validation. Where necessary, 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 Chief Financial Officer 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 2022 as follows:

	Group 2022	Group 2021	**Society 2022**	Society 2021
Model risk in downturn scenario (note 1)	**7.3**	1.6	**7.3**	1.6
Affordability (note 2)	**3.1**	-	**2.6**	-
Flats subject to fire safety risks (note 3)	**3.0**	0.8	**3.0**	0.8
Move to ONS HPI (note 4)	**-**	1.6	**-**	1.6
COVID-19 payment deferrals (note 5)	**-**	0.3	**-**	0.3
Other	**(0.1)**	0.2	**(0.1)**	0.2
	13.3	4.5	**12.8**	4.5

Notes
1. This PMA is held to address model risk in the downturn scenario where key assumptions are expected to behave differently in a recession; there is currently insufficient data available to establish, and thus to model, robust relationships for these assumptions. The PMA was derived by considering the reduction in redemption rates and reduction in cure rates (following default) as observed during the global financial crisis 2007-2008; these were applied to the model, on a judgement basis, to understand the impact to model outputs.
2. As discussed on pages 140 and 141, UK economic conditions are currently volatile; even where unemployment is low, the cost of living crisis may impact the ability of the Group's borrowers to meet scheduled loan repayments. This PMA is therefore held to reflect the risks associated with the cost of living crisis as key economic assumptions may behave differently from the recent past, including the historical data used to build the Group's loan impairment models. With respect to the Society, high risk accounts are identified for this purpose by utilising the Society's new lending affordability assessment; loans are considered high risk if the current mortgage balance exceeds what the revised maximum loan amount would be. For those high risk accounts currently in Stage 1 (12-month ECLs), the PMA is applied such that lifetime losses are held. For those high risk accounts currently in Stage 2 (lifetime ECLs), the PMA is applied to reflect the estimated increase in probability of default (PD). With respect to other Group entities, high risk accounts are identified for this purpose where the borrower's interest rate is forecast to increase by more than a certain threshold; thresholds are based on the median forecast interest rate increase for the relevant portfolio and / or the interest rate applied within the Group entity's new lending affordability assessment. For accounts identified as high risk, a PMA is held to reflect the impact of applying a Stage 2 PD to the account.
3. 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.
4. In January 2022 the Group changed the index used in its models to estimate UK house prices from the Halifax index to the UK House Price Index published by the Office for National Statistics (ONS index), which impacts current and historical property valuations used in the Group's models; this change was made as management considers the ONS index to be a more representative index due to its large sample size and comprehensive coverage of all regions. The change had a consequential impact on the calculation of key model parameters which include forced sale discounts and cure rates. This PMA was held at 31 December 2021 to reflect an estimate of these impacts.
5. In accordance with regulatory guidance, payment deferrals granted during 2020 and 2021 in response to COVID-19 were not automatically recorded as forbearance cases and did not automatically impact the reported staging of loans except where credit risk was judged to have significantly increased since the loan was initially recognised. PMAs were therefore held to reflect the risks associated with COVID-19 payment deferrals where underlying data was yet to be observed that may support migration of some loans to Stage 2. Applications for COVID-19 payment deferrals closed on 31 March 2021 and all outstanding payment deferrals ended on or before 31 July 2021; based on subsequent strong payment performance, plus notable overlap with the affordability PMA, this PMA is no longer considered necessary.

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 each of Stage 1 and Stage 2.

2022	Scenario weighting			ECL	Share of gross balances	
	Upside %	Central %	Downside %	£m	Stage 1 %	Stage 2 %
Residential:						
Actual probability weighted ECL	10	50	40	32.5	82.4	17.3
100% upside	100	-	-	6.3	95.5	4.3
100% central	-	100	-	13.2	92.1	7.6
100% downside	-	-	100	71.9	62.6	37.2
Commercial:						
Actual probability weighted ECL	10	50	40	9.9	66.2	29.4
100% upside	100	-	-	5.9	66.2[1]	29.4[1]
100% central	-	100	-	7.9	66.2[1]	29.4[1]
100% downside	-	-	100	13.4	66.2[1]	29.4[1]

2021	Scenario weighting			ECL	Share of gross balances	
	Upside %	Central %	Downside %	£m	Stage 1 %	Stage 2 %
Residential:						
Actual probability weighted ECL	15	50	35	10.9	97.5	2.2
100% upside	100	-	-	4.9	98.0	1.6
100% central	-	100	-	5.5	98.0	1.6
100% downside	-	-	100	22.5	93.5	6.1
Commercial:						
Actual probability weighted ECL	15	50	35	16.2	17.2	75.5
100% upside	100	-	-	5.6	17.2[1]	75.5[1]
100% central	-	100	-	12.0	17.2[1]	75.5[1]
100% downside	-	-	100	26.5	17.2[1]	75.5[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 2022	Group 2021	Society 2022	Society 2021
		Increase / (decrease) in impairment allowance			
		£m	£m	£m	£m
Downside scenario weighting (note 1)	Absolute increase of 10%	7.2	2.1	7.1	2.1
Significant increase in credit risk criteria (note 2)	Relative reduction by 25%	7.0	0.7	7.0	0.7
Future house price inflation (note 3)	+ / - 0.5% pa	(2.0) / 2.3	(0.5) / 0.5	(2.0) / 2.3	(0.5) / 0.5
Unemployment (note 4)	+ / - 0.5% pa	5.3 / (4.0)	0.6 / (0.5)	5.3 / (4.0)	0.6 / (0.5)

Notes
1. This sensitivity shows the impact of an increase of 10% to the probability weighting assigned to the downside scenario, from 40% to 50% (2021: from 35% to 45%), with a relative decrease to the probability weighting assigned to each of the central 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.

Commercial

Assumption	Change to current assumption	Group and Society 2022	2021
		Increase / (decrease) in impairment allowance	
		£m	£m
Downside scenario weighting (note 1)	Absolute increase of 10%	0.6	1.5
Significant increase in credit risk criteria (note 2)	5% of Stage 1 balances added to watchlist	1.0	0.1
Significant increase in credit risk criteria (note 2)	5% of Stage 2 balances removed from watchlist	(0.4)	(0.6)
Future commercial property price growth	+ / - 0.5% pa	(0.1) / 0.1	(0.3) / 0.3

Notes
1. This sensitivity shows the impact of an increase of 10% to the probability weighting assigned to the downside scenario, from 40% to 50% (2021: from 35% to 45%), 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. These sensitivities show 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 2022, the relative weightings assigned to each scenario were 95% for the central scenario and 5% for the downside scenario (2021: 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 2022	Group 2021	Society 2022	Society 2021
		Increase in impairment allowance			
		£m	£m	£m	£m
Downside scenario weighting	Absolute increase of 10%	**0.1**	0.1	**0.1**	0.1
Downside scenario weighting	Increase to 100%	**1.2**	0.8	**1.1**	0.7

Valuation of equity release portfolio

The valuation of the equity release portfolio relies on the calculation of future cash flows. The size and timing of these can vary depending on a number of different factors. These factors include future expected house prices, future expected inflation, mortality rates, anticipated redemption profiles (arising due to voluntary redemption, death or a move to long term care) and market driven yield curves.

Some of the factors are based on market expectations (e.g. market-implied RPI swap prices are used to construct a forward-looking inflation curve in order to forecast future expected cash flows receivable from the portfolio), whilst others are derived from historical trends on the portfolio (e.g. anticipated future voluntary redemptions). However, where market prices are not available and historical trends are not deemed to be appropriate the Group uses management judgement; this is the case for future house price index (HPI) growth and property price volatility. Management has reviewed these expectations during the year with due consideration to the uncertainties in the current economic environment.

The expectations of the economic inputs that require management judgement are in line with the economic environment that forms the central scenario as outlined on page 140; further detail on the movements in the portfolio in the year can be found in note 15.

The Group uses an expectation of HPI growth that is aligned to that used for the central path of the ECL model and corporate planning as set out above, reverting to a long run expectation of an average of 4%. This is considerably lower than long term historical levels and reflects management's view. A volatility assumption is also used within the model, which allows for an expected range of realised growth around the central HPI growth figure.

A property volatility assumption of 13% (2021: 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 2022	2021
		(Decrease) / increase in fair value of portfolio	
		£m	£m
Redemption rates	+ / - 1% pa	**(0.5) / 0.8**	(10.0) / 11.2
Illiquidity premia	+ / - 0.2%	**(5.0) / 5.1**	(9.2) / 9.6
HPI forecast	+ / - 0.5% pa	**5.3 / (5.6)**	8.2 / (8.8)
Property volatility	+ / - 1%	**(2.9) / 2.9**	(4.9) / 4.8
RPI volatility	+ / - 0.5% pa	**(1.2) / 1.0**	(3.3) / 2.8

For each of the above sensitivities, there would be a corresponding charge / credit to the Income Statement within the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' 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 results of this assessment did not lead to a change in carrying amounts as at 31 December 2022 or 31 December 2021. The future impact of climate-related risks on the Group's equity release portfolio is uncertain, and the Group will continue to monitor developments in future periods.

The Group holds derivative financial instruments to hedge the movements in the equity release portfolio, which offsets to some extent the movements in the valuation of the portfolio, further details of which are found below.

Derivative financial instruments

The Group holds derivatives which are used to hedge the Group's interest rate risk and inflation risk arising from the equity release portfolio. These derivatives are valued using discounted cash flow models using market observable benchmark rates consistent with accepted market methodologies for pricing financial instruments, and, as the notional values of the derivatives are intended to match the balance of the underlying mortgage assets, also include estimated redemption profiles (arising where a customer voluntarily prepays, moves permanently into long term care or has died) that are based on historical data (reviewed periodically against actuals) and published mortality tables. These redemption profiles are not market observable; an element of management judgement is therefore applied based on historical performance of redemptions.

In order to value these derivatives, the Group uses market-implied RPI swap prices to construct a forward looking inflation curve to forecast future expected cash flows relating to these derivatives. The model used to value the derivatives incorporates multiple scenarios for RPI in order to take account of the uncertainty and volatility of future RPI rates. The range of multiple scenarios used is based on management judgement and so is not market observable. The Group has robust control procedures in place regarding the inputs to the valuation that are based on management judgement.

The effect on the fair value of these derivatives of reasonably possible alternative assumptions is outlined below.

Assumption	Change to current assumption	Group and Society 2022	2021
		(Decrease) / increase in liability	
		£m	£m
Redemption rates (note 1)	+ / - 1% pa	**(2.6) / 2.9**	(11.5) / 12.9
RPI volatility (note 1)	+ / - 0.5% pa	**(3.1) / 2.6**	(6.4) / 5.8

Note

1. There would be a corresponding credit / charge to the Income Statement within the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' 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.

Portfolio fair value hedges

During the year the valuation of derivatives and hedged items designated in a portfolio fair value hedge was reviewed and resulted in a change in one of the inputs used in valuing the portfolio of hedged items; the risk-free interest rate. This rate is taken from external sources and is used in calculating the present value of the future cashflows of the hedged items within the fair value hedge portfolios. There are a number of different risk-free rates that can be used to calculate the present value of the future cashflows of the hedged items and the change applied during the year ensures consistency across the portfolio and more closely manages the volatility arising from accounting for derivative financial instruments, in line with the aims of IAS 39 *Financial Instruments: Recognition and Measurement*.

Under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, this is a change in accounting estimate and as such is not required to be applied retrospectively. Due to the dynamic nature of accounting for derivatives designated in a portfolio fair value hedge it is not possible to quantify the impact on the Financial Statements.

Notes to the Accounts (continued)

1. Accounting policies (continued)

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 2022	Group 2021
		Increase / (decrease) in liability*	
		£m	£m
Connells group EBITDA	10% increase / decrease (note 1)	**1.5 / (1.5)**	0.5 / (0.5)
Date of exercise of options	Earliest opportunity (note 2)	**(3.8)**	N/A

* With a corresponding increase / decrease in the charge to the Income Statement.

Notes

1. As described above, the estimate of the liability is dependent on the assumptions of future EBITDA and cash flows of the Connells group over the period to exercise. The above sensitivity indicates the increase / decrease to the liability that would result if it was assumed that Connells' forecast EBITDA was 10% higher / lower each year (from 2023 to the assumed periods of exercise) than that included in its corporate plans.
2. The fair value of the liability at 31 December 2022 is based on judgement as to when management will exercise their remaining options in the scheme. The above sensitivity shows the impact on the liability if we assumed management were to exercise all remaining options at the earliest opportunity. This sensitivity is not applicable for the year ended 31 December 2021; the liability as at 31 December 2021 was based on the assumption that all remaining options would be exercised at the earliest opportunity.

Goodwill

The carrying value of goodwill is assessed against value in use calculations. The key assumptions for the value in use calculations are those regarding cash flows, discount rates and growth rates. These assumptions are reviewed on a regular basis, at least at every reporting date, by senior management.

The future cash flows of the cash generating units (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 current economic uncertainties, the long-term impacts of the COVID-19 pandemic, 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 2022 (year ended 31 December 2021: 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 2022	Group 2021	Society 2022	Society 2021
		(Decrease) / increase in liabilities			
		£m	£m	£m	£m
Discount rate	+ / -0.25% pa	**(6.5) / 6.8**	(11.9) / 12.6	**(3.0) / 3.2**	(6.6) / 7.0
Rate of inflation	+ / -0.5% pa	**4.7 / (4.6)**	11.2 / (10.6)	**2.2 / (2.2)**	5.7 / (5.4)
Rate of salary growth	+ / -0.5% pa	**-**	-	**-**	-
Commutation allowance	+ / -10% pa	**(0.7) / 0.7**	(2.8) / 2.8	**(0.2) / 0.2**	(1.3) / 1.3
Life expectancy	+ / -1 year	**7.1 / (7.2)**	11.1 / (10.9)	**2.6 / (2.6)**	6.1 / (6.0)

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 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
On financial assets held at amortised cost:				
On loans fully secured on residential property	575.5	508.8	502.5	437.7
On other loans and advances:				
To subsidiary undertakings	-	-	41.9	29.0
Other	13.7	9.5	4.9	3.3
On other liquid assets	53.4	3.3	51.2	3.0
	642.6	521.6	600.5	473.0
On financial assets held at fair value through other comprehensive income:				
On debt securities	34.2	10.9	33.7	11.8
On financial instruments held at FVTPL:				
Net income / (expense) on derivative financial instruments held to hedge assets in qualifying hedge accounting relationships	129.9	(75.2)	129.9	(75.2)
Interest receivable accounted for using the effective interest rate method	806.7	457.3	764.1	409.6
On financial instruments held at FVTPL:				
On loans and advances to customers	0.1	0.1	0.1	0.1
On equity release portfolio	22.7	21.8	22.7	21.8
On debt securities	-	-	0.9	-
Net expense on derivative financial instruments held to hedge assets in non-qualifying hedge accounting relationships	(7.0)	(24.8)	(9.6)	(22.0)
Other interest and similar income	15.8	(2.9)	14.1	(0.1)
	822.5	454.4	778.2	409.5

3. Interest payable and similar charges

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
On financial liabilities held at amortised cost:				
On shares held by individuals	225.9	126.4	225.9	126.4
On shares held by others	1.1	0.8	1.1	0.8
On subscribed capital	4.5	4.5	4.5	4.5
On deposits and other borrowings:				
Subordinated liabilities	7.3	7.3	7.3	7.3
Subsidiary undertakings	-	-	10.7	0.1
Wholesale and other funding	109.4	24.2	71.4	12.8
Lease liabilities	2.1	1.8	0.3	0.2
	350.3	165.0	321.2	152.1
On financial instruments held at FVTPL:				
Net expense / (income) on derivative financial instruments held for hedging liabilities	47.8	(7.4)	37.7	(19.8)
Finance charge on put option liability	-	0.1	-	-
Deemed loans from Group undertakings	-	-	62.4	31.2
	398.1	157.7	421.3	163.5

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	2022			2021		
	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	82.3	19.3	101.6	81.8	12.8	94.6
Other mortgage related fees	3.2	-	3.2	2.9	-	2.9
General insurance income	69.8	0.8	70.6	69.2	1.1	70.3
Commissions earned on property sales	329.1	-	329.1	351.1	-	351.1
Commissions earned on property lettings	97.7	113.1	210.8	183.0	-	183.0
Commercial property services fees	44.0	43.4	87.4	44.4	34.9	79.3
Survey and valuation fees	135.4	-	135.4	123.1	-	123.1
Asset management commission	8.1	4.2	12.3	9.5	0.1	9.6
Conveyancing fees	62.7	-	62.7	68.0	-	68.0
Financial advice fees	32.6	-	32.6	32.2	-	32.2
Software and consultancy fees	-	19.3	19.3	-	14.9	14.9
Factoring and invoice discounting services	12.9	-	12.9	11.1	-	11.1
Other fees and commissions	14.2	0.5	14.7	13.9	0.5	14.4
	892.0	200.6	1,092.6	990.2	64.3	1,054.5

Society	2022			2021		
	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	3.0	-	3.0	2.7	-	2.7
General insurance income	-	0.8	0.8	-	0.9	0.9
Financial advice fees	31.6	-	31.6	31.0	-	31.0
Other fees and commissions	0.2	-	0.2	0.6	-	0.6
	34.8	0.8	35.6	34.3	0.9	35.2

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	2022				
	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Central £m	Total £m
Mortgage origination fees	-	101.6	-	-	101.6
Other mortgage related fees	3.2	-	-	-	3.2
General insurance income	0.8	69.8	-	-	70.6
Commissions earned on property sales	-	329.1	-	-	329.1
Commissions earned on property lettings	-	210.8	-	-	210.8
Commercial property services fees	-	87.4	-	-	87.4
Survey and valuation fees	-	135.4	-	-	135.4
Asset management commission	-	12.3	-	-	12.3
Conveyancing fees	-	62.7	-	-	62.7
Financial advice fees	32.6	-	-	-	32.6
Software and consultancy fees	-	-	21.0	(1.7)	19.3
Factoring and invoice discounting services	-	-	12.9	-	12.9
Other fees and commissions	0.4	14.5	-	(0.2)	14.7
Fees and commissions receivable	37.0	1,023.6	33.9	(1.9)	1,092.6
Other*	(0.7)	(2.5)	(0.8)	(8.2)	(12.2)
Net non-interest income	36.3	1,021.1	33.1	(10.1)	1,080.4

Group	2021				
	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Central £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

* Other comprises fees and commissions payable and other income. The central division includes inter-divisional adjustments in relation to intercompany trading, in particular the Group's effective interest rate adjustment as outlined in note 1w).

b) Fees and commissions payable

The total shown in the Income Statement for fees and commissions payable includes £nil for the Group (2021: £1.3m) and £nil for the Society (2021: £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. The amounts payable by the Group in the year ended 31 December 2021 related to external fees previously incurred by the subsidiary undertakings Amber and NYM; the operations of these businesses were hived-up into the Society with effect from 1 June 2021 and these external fees are no longer incurred.

5. Other operating income and expenses

a) Fair value gains / (losses) on financial instruments mandatorily held at FVTPL

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Hedging instruments and hedged items	(0.7)	0.5	(14.0)	(5.1)
Derivatives associated with equity release portfolio (note 15)	122.5	32.8	122.5	32.8
Equity release portfolio (note 15)	(132.3)	(27.3)	(132.3)	(27.3)
Share warrants	12.1	3.2	-	-
Put options held by minority shareholders	0.2	(1.3)	-	-
Equity share investments (note 17e))	(0.5)	2.3	-	-
Other financial instruments	-	-	(5.8)	3.1
	1.3	10.2	(29.6)	3.5

b) Other income

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Realised profits on treasury assets held at FVOCI	-	0.1	-	0.1
Share of profits from joint ventures	1.4	1.2	-	-
Other	2.5	2.6	9.7	7.9
	3.9	3.9	9.7	8.0

Notes to the Accounts (continued)

5. Other operating income and expenses (continued)

c) Administrative expenses

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Employee costs:				
Wages and salaries	**695.5**	636.7	**103.1**	89.0
Social security costs	**75.8**	67.1	**10.8**	9.1
Pension costs:				
Defined contribution arrangements (note 31)	**26.2**	22.4	**7.1**	6.4
Settlement loss	**-**	0.7	**-**	0.7
	797.5	726.9	**121.0**	105.2
Other administrative expenses	**391.0**	398.2	**75.6**	60.5
Central administrative costs recharged to Group undertakings	**-**	-	**(5.0)**	(4.8)
	1,188.5	1,125.1	**191.6**	160.9
Other administrative expenses comprise:				
Depreciation and amortisation (notes 18, 19, 20 and 21)	**76.8**	107.1	**8.1**	8.4
Impairment (credit) / losses on property, plant and equipment, right-of-use assets and investment property (notes 18, 19 and 20)	**(0.5)**	1.3	**(1.1)**	0.9
Impairment losses / (credit) on trade receivables (note 40c))	**0.3**	(0.2)	**(0.2)**	-
Lease expense – items exempt from IFRS 16:				
Short-term leases	**0.8**	1.1	**0.8**	0.6
Lease expense – IFRS 16 leases:				
Variable lease payments not included in measurement of lease liability	**-**	0.1	**-**	-
Other property and establishment costs	**40.0**	31.4	**6.2**	5.4
Postage and communications	**48.4**	47.0	**5.5**	6.0
IT costs	**27.8**	29.0	**16.2**	12.3
Marketing and advertising	**54.4**	45.8	**11.4**	7.8
Insurance	**13.8**	9.9	**3.5**	3.1
Legal, professional and consultancy	**32.9**	27.5	**20.5**	12.1
Training, recruitment and other employee related costs	**52.1**	32.2	**3.9**	2.9
Costs of Connells' management incentive scheme (note 28)	**(3.2)**	15.5	**-**	-
Other	**47.4**	50.5	**0.8**	1.0
	391.0	398.2	**75.6**	60.5

Connells had taken business rates relief in 2021 of £4.8m which was automatically applied by the Government for retail, hospitality and leisure businesses; this relief reduced the expense presented within 'other administrative expenses: other property and establishment costs'. No such business rates relief was taken in 2022.

Included within legal, professional and consultancy costs above are amounts relating to external auditor remuneration. The remuneration of the Group's external auditor, EY, is set out below (excluding VAT):

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Audit of the Society and Group Annual Accounts	**1.1**	0.8	**1.1**	0.8
Audit of the Group's subsidiary undertakings' accounts pursuant to legislation	**2.5**	2.5	**-**	-
Audit-related assurance services	**0.2**	0.1	**0.2**	0.1
	3.8	3.4	**1.3**	0.9

6. Employee numbers

The average number of full and part-time persons employed during the year (including Executive Directors) was as follows:

	Group 2022	Group 2021	Society 2022	Society 2021
Society principal office	**1,869**	1,783	**1,869**	1,783
Society branches	**501**	484	**501**	484
Subsidiary undertakings	**15,658**	14,133	**-**	-
	18,028	16,400	**2,370**	2,267

7. Directors' emoluments

Directors' emoluments are set out within the Directors' Remuneration Report on pages 86 to 99.

Total Directors' emoluments for 2022 amounted to £3.8m (2021: £3.6m).

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:

	2022 £m	2021 £m
Salary, benefits and annual performance pay	**5.4**	4.6
Employer pension contributions	**0.2**	0.3
	5.6	4.9

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:

	2022 £000	2021 £000
Mortgage loans outstanding at 31 December	**1,223**	312
Savings balances at 31 December	**1,415**	2,371

Notes to the Accounts (continued)

8. Related party transactions (continued)

Interest receivable and payable on the above accounts during the year was as follows:

	2022 £000	2021 £000
Interest receivable	19	7
Interest payable	9	23

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 2022 there were nine (2021: five) outstanding mortgage loans granted in the ordinary course of business amounting in aggregate to £1,223,027 (2021: £312,113) to five (2021: three) key management personnel or persons who are connected with key management personnel. These mortgages are provided at market interest rates and are subject to repayment under normal lending terms. No amounts have been waived or written off.

A register is maintained at the Principal Office of the Society which shows details of all loans, transactions and arrangements with Directors and connected persons. A statement for the current financial year of the appropriate details contained in the register will be available for inspection at the Principal Office for a period of 15 days up to and including the Annual General Meeting.

Contributions to pension schemes

During the year, the Group and Society paid contributions of £30.8m (2021: £68.2m) and £8.8m (2021: £29.3m) respectively to pension schemes.

Related party transactions

During the year the Society had the following related party transactions with subsidiary undertakings:

	2022 £m	2021 £m
Rendering and receiving of services	0.2	0.2
Recharges of central costs	5.1	4.8
Interest receivable	41.9	29.0
Interest payable	(73.1)	(31.3)
Mortgage referral, valuation and legal fees (note 1)	(9.2)	(9.6)
Other income	7.9	6.8
Collateral transferred to funding vehicles	1,521.7	682.6
Collateral transferred from funding vehicles	(62.4)	(164.4)
Repayment of debt securities	(18.8)	(92.9)

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 2022, the outstanding amount due from Connells to the Society in respect of this loan was £124.5m (2021: £128.2m).

At 31 December 2022 the Society owed £788.0m (2021: £835.9m) to subsidiary undertakings and was owed £363.8m (2021: £257.0m) by subsidiary undertakings. The total amount owed by subsidiary undertakings as at 31 December 2022 includes the £124.5m (2021: £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 2022 the Society recognised no impairment loss allowance in respect of loans to subsidiary undertakings, on the grounds of immateriality (2021: £nil).

As disclosed in note 17a), the Society has for the year ended 31 December 2022 provided guarantees over the liabilities of Skipton Investments Limited and Jade Software Corporation UK Limited. As at 31 December 2022, the financial statements of Skipton Investments Limited and Jade Software Corporation UK Limited include aggregate liabilities of £16.8m; of this £16.7m is an intra-group liability.

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 were discharged from the scheme. This resulted in a settlement loss of £0.7m in the year ended 31 December 2021, which was included in the Income Statement for that year within 'Administrative expenses' (see note 31).

During the year the Group had the following related party transactions with joint ventures and associates:

	2022 £m	2021 £m
Services provided to the Group	-	0.7
Services provided by the Group	-	0.6

At 31 December 2022 the Group was owed £nil (2021: £nil) by joint ventures and owed £nil (2021: £nil) to joint ventures. At 31 December 2022 the Group was owed £0.3m (2021: £0.4m) by entities in which the Group holds equity share investments.

There were no provisions in respect of sales of goods and services or in respect of outstanding loans between the Group or Society and its related parties as at 31 December 2022 or 31 December 2021.

9. Tax expense

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Current tax	54.7	58.5	40.1	34.1
Deferred tax (note 30)	13.1	(2.6)	3.8	(0.7)
	67.8	55.9	43.9	33.4

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 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Profit before tax	298.8	271.8	222.9	235.5
Share of profits from joint ventures, net of tax	(1.4)	(1.2)	-	-
	297.4	270.6	222.9	235.5
Tax calculated at standard UK corporation tax rate of 19.0% (2021: 19.0%)	56.5	51.4	42.4	44.7
Effects of:				
Expenses not deductible for tax purposes	1.1	5.6	0.5	3.5
Adjustment to tax expense in respect of prior periods	0.6	(0.4)	0.3	-
Non-taxable dividend income	-	-	(11.8)	(22.0)
Other non-taxable income	(1.6)	(6.3)	(0.3)	(0.1)
Corporation tax rate change	4.4	(2.8)	2.0	(1.9)
Utilisation of tax losses	(0.1)	-	-	-
Lower tax rates in other jurisdictions (see below)	(3.5)	(2.4)	-	-
Banking companies surcharge	10.6	9.1	10.6	9.1
Deferred tax not previously recognised on brands	-	1.6	-	-
Other	(0.2)	0.1	0.2	0.1
Tax expense	67.8	55.9	43.9	33.4

The effective tax rate for the Group for the year ended 31 December 2022 is 22.8% (2021: 20.7%) compared with the standard rate of UK corporation tax of 19.0% (2021: 19.0%). The Group's effective rate is higher than the standard rate due mainly to the impact of the banking companies surcharge (see below), as well as expenditure disallowable for tax purposes and future corporation tax rate changes. This is partly offset by the impacts of non-taxable income and the lower tax rate in Guernsey which applies to the taxable profits of Skipton International Limited. For 2022, non-taxable income includes the £3.2m credit for the Connells management incentive scheme (see note 28). For 2021, expenditure disallowable for tax purposes included the charge for the Connells management incentive scheme of £15.5m and non-taxable income included the £26.9m fair value gains on step-acquisition of Group undertakings.

Notes to the Accounts (continued)

9. Tax expense (continued)

The effective tax rate for the Society for the year ended 31 December 2022 is 19.7% (2021: 14.2%). 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 £62.0m (2021: £115.6m) and future corporation tax rate changes. For 2021, expenditure disallowable for tax purposes included the £15.2m impairment charge against the carrying amount of the Society's investments in Amber and NYM following the hive-up of those subsidiaries in June 2021.

10. Loans and advances to credit institutions

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Gross carrying amount	631.9	468.7	621.6	386.4
Loss allowance	-	-	-	-
Net carrying amount	631.9	468.7	621.6	386.4

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 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Repayable on demand:				
Cash and cash equivalents	190.9	134.7	80.9	47.0
	190.9	134.7	80.9	47.0
In not more than three months:				
Cash and cash equivalents	0.5	0.5	-	-
Cash pledged as collateral	-	3.0	-	-
Other loans and advances to credit institutions	0.3	0.4	-	-
	0.8	3.9	-	-
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	440.2	329.5	540.7	339.4
	440.2	329.5	540.7	339.4
Total loans and advances to credit institutions	631.9	468.7	621.6	386.4
Total included within cash and cash equivalents	191.4	135.2	80.9	47.0

Collateral

Cash is pledged and received as collateral against derivative contracts which are used by the Group to manage its exposure to market risk. Collateral is pledged to derivative contract counterparties where there is a net amount outstanding to the counterparty and collateral is received from derivative contract counterparties where there is a net amount due to the Group.

Non-standardised and some legacy derivatives are collateralised based on bilateral Credit Support Annex (CSA) agreements. Under the terms of a CSA, collateral is passed between parties to mitigate the credit risk of counterparties which is inherent in the outstanding derivative contracts. Standardised derivatives are cleared with a central clearing counterparty in accordance with the UK European Market Infrastructure Regulation (UK EMIR). Under the arrangements for cleared derivatives, additional collateral is required to protect the central clearing counterparty against credit risk of the counterparties and to cover intra-day market movements and possible variations in the future valuations of the derivative contracts. At 31 December 2022 the Group and Society pledged £378.3m (2021: £199.8m) 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 35 years (2021: 36 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 2022 the Group has £nil cash (2021: £nil) pledged as collateral in repurchase arrangements.

Total on-balance sheet cash pledged as collateral against derivative contracts at 31 December 2022 is £440.2m for the Group (2021: £329.5m) and £540.7m for the Society (2021: £339.4m). Off-balance sheet cash held against derivative contracts at 31 December 2022 is £1,025.1m (2021: £146.3m) for the Group and £1,025.1m (2021: £146.3m) for the Society.

Cash pledged as collateral by the Group also includes £nil (2021: £3.0m) relating to amounts placed in security deposits by the Estate Agency division. In addition, cash and cash equivalents in the Group includes £4.0m (2021: £4.3m) 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	2022 FVOCI and Total £m	2021 FVOCI and Total £m
Gilts	288.3	366.5
Certificates of deposit	282.5	334.9
Fixed rate bonds	554.9	757.6
Floating rate notes	260.3	283.9
Treasury bills	367.9	20.0
Covered bonds	561.1	260.3
Residential mortgage backed securities	325.3	170.0
	2,640.3	2,193.2
Debt securities have remaining maturities as follows:		
In not more than three months	245.7	159.0
In more than three months but not more than one year	744.7	468.6
In more than one year but not more than five years	1,347.4	1,190.0
In more than five years	302.5	375.6
	2,640.3	2,193.2
Transferable debt securities comprise:		
Listed on a recognised investment exchange	2,357.8	1,858.3
Unlisted	282.5	334.9
	2,640.3	2,193.2

Notes to the Accounts (continued)

11. Debt securities (continued)

Society	2022 FVOCI £m	2022 FVTPL £m	2022 Total £m	2021 FVOCI £m	2021 FVTPL £m	2021 Total £m
Gilts	**234.8**	**-**	**234.8**	286.8	-	286.8
Certificates of deposit	**282.5**	**-**	**282.5**	314.9	-	314.9
Fixed rate bonds	**554.9**	**-**	**554.9**	757.6	-	757.6
Floating rate notes	**169.5**	**-**	**169.5**	193.3	-	193.3
Treasury bills	**318.5**	**-**	**318.5**	-	-	-
Covered bonds	**561.1**	**-**	**561.1**	260.3	-	260.3
Residential mortgage backed securities	**393.3**	**58.1**	**451.4**	256.7	63.9	320.6
	2,514.6	**58.1**	**2,572.7**	2,069.6	63.9	2,133.5
Debt securities have remaining maturities as follows:						
In not more than three months	**218.3**	**-**	**218.3**	139.0	-	139.0
In more than three months but not more than one year	**667.3**	**-**	**667.3**	423.5	-	423.5
In more than one year but not more than five years	**1,326.5**	**58.1**	**1,384.6**	1,131.5	63.9	1,195.4
In more than five years	**302.5**	**-**	**302.5**	375.6	-	375.6
	2,514.6	**58.1**	**2,572.7**	2,069.6	63.9	2,133.5
Transferable debt securities comprise:						
Listed on a recognised investment exchange	**2,232.1**	**58.1**	**2,290.2**	1,754.7	63.9	1,818.6
Unlisted	**282.5**	**-**	**282.5**	314.9	-	314.9
	2,514.6	**58.1**	**2,572.7**	2,069.6	63.9	2,133.5

The tables below provide further detail on the movement in debt securities during the year.

Group	2022 FVOCI and Total £m	2021 FVOCI and Total £m
At 1 January	**2,193.2**	1,505.0
Additions	**1,995.5**	1,795.4
Maturities and disposals	**(1,447.2)**	(1,074.0)
Changes in fair value	**(100.7)**	(33.1)
Other	**(0.5)**	(0.1)
At 31 December	**2,640.3**	2,193.2

Society	2022 FVOCI £m	2022 FVTPL £m	2022 Total £m	2021 FVOCI £m	2021 FVTPL £m	2021 Total £m
At 1 January	**2,069.6**	**63.9**	**2,133.5**	1,609.9	97.8	1,707.7
Additions	**1,857.5**	**-**	**1,857.5**	1,360.0	-	1,360.0
Maturities and disposals	**(1,313.0)**	**-**	**(1,313.0)**	(867.2)	(37.0)	(904.2)
Changes in fair value	**(99.5)**	**(5.8)**	**(105.3)**	(33.1)	3.1	(30.0)
At 31 December	**2,514.6**	**58.1**	**2,572.7**	2,069.6	63.9	2,133.5

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 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Loss allowance at 1 January	**0.3**	-	**0.4**	0.1
Increases due to origination, acquisition and additions	**0.2**	0.3	**0.2**	0.3
Decrease due to derecognition, repayments and disposals	**(0.2)**	-	**(0.2)**	-
Loss allowance at 31 December	**0.3**	0.3	**0.4**	0.4

All balances for Group and Society included in the table above are classified as FVOCI and held in stage 1 in both the current and prior year.

Collateral

At 31 December 2022 £0.5m (2021: £25.0m) of debt securities have been pledged by the Group, and £214.4m (2021: £324.1m) 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 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Gilts	**-**	24.6	**-**	24.6
Fixed rate bonds	**0.5**	0.4	**0.5**	198.4
Treasury bills	**-**	-	**213.9**	-
Residential mortgage backed securities	**-**	-	**-**	101.1
Total on-balance sheet debt securities pledged as collateral	**0.5**	25.0	**214.4**	324.1

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 2022, the Group's repurchase agreements have a contractual period of up to three months (2021: three months).

There were no debt securities held by the Group or the Society at the end of 2022 or 2021 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	2022 £m	2021 £m
Carrying value of assets	**325.4**	170.0
Cumulative unrealised losses recognised in fair value reserve	**0.5**	0.6
Maximum exposure to loss at 31 December	**325.9**	170.6

During the year, the Group and Society received interest income of £4.3m (2021: £0.9m) from its investments in unconsolidated structured entities and incurred impairment charges of £nil (2021: £nil). In addition, unrealised gains recognised through the fair value reserve were £nil (2021: £0.2m of unrealised gains).

Notes to the Accounts (continued)

11. Debt securities (continued)

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 2022 the Society also held £68.0m (2021: £86.7m) of residential mortgage backed securities held at FVOCI and £58.1m (2021: £63.9m) 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 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Loans fully secured on residential property	**25,064.8**	22,844.3	**23,174.9**	21,191.7
Other loans:				
Loans fully secured on land	**149.4**	178.8	**149.4**	178.8
Other loans and advances	**204.9**	184.9	**-**	-
Fair value adjustment for hedged risk	**(966.8)**	(183.2)	**(964.8)**	(182.3)
	24,452.3	23,024.8	**22,359.5**	21,188.2
The remaining maturity of loans and advances to customers from the reporting date is as follows:				
On call and at short notice	**147.4**	116.3	**2.1**	2.1
In not more than three months	**22.9**	32.2	**22.4**	31.2
In more than three months but not more than one year	**43.3**	54.4	**41.5**	53.4
In more than one year but not more than five years	**856.1**	663.4	**754.2**	643.2
In more than five years	**23,426.2**	22,186.6	**21,581.1**	20,485.3
	24,495.9	23,052.9	**22,401.3**	21,215.2
Less: Impairment (note 14)	**(43.6)**	(28.1)	**(41.8)**	(27.0)
	24,452.3	23,024.8	**22,359.5**	21,188.2

Included in loans fully secured on residential property is a £12.2m adjustment for Group (2021: £10.4m) and a £26.7m adjustment for Society (2021: £26.2m) due to applying the effective interest method of accounting for these mortgages (see note 1w) for further details).

13. Transfers of financial assets

As outlined in note 1c) the Society has transferred the beneficial interest in certain portfolios of loans and advances to customers to the Group's special purpose vehicles (SPVs) Darrowby No. 5 plc and Skipton Covered Bonds LLP, to enable the subsequent raising of debt to investors who gain the security of the underlying mortgage loans as collateral. 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.

At 31 December 2022, loans and advances to customers held at amortised cost include £3,786.8m (2021: £3,163.4m) 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 (£366.5m; 2021: £453.4m) and Skipton Covered Bonds LLP (£3,420.3m; 2021: £2,710.0m). These loans secure £2,635.9m (2021: £2,195.9m) of funding for the Group.

The proceeds received from the transfer of mortgage loans are accounted for as a deemed loan repayable to the SPVs in the Society's books. At 31 December 2022 the balance on the deemed loan repayable to Darrowby No. 5 plc, which represents the proceeds received for the transferred financial assets, included in 'Amounts owed to other customers' in the Society was £366.5m (2021: £453.4m).

At 31 December 2022, 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 2022 was £2,304.8m (2021: £1,834.1m).

The Group's accounting policies for the derecognition of financial assets held at amortised cost are set out in note 1h). During the year, no gains or losses arose in respect of loans and advances to customers held at amortised cost that were derecognised by the Group or Society.

14. Impairment losses on loans and advances to customers

Group 2022	**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 2022	**10.9**	**16.2**	**1.0**	**28.1**
Amounts written off during the year, net of recoveries	**(0.2)**	**(1.3)**	**(0.1)**	**(1.6)**
Income statement charge / (credit) for the year	**21.8**	**(5.0)**	**0.3**	**17.1**
Loss allowance as at 31 December 2022	**32.5**	**9.9**	**1.2**	**43.6**

Group 2021	Loans fully secured on residential property £m	Loans fully secured on land £m	Other loans and advances £m	Total £m
Loss allowance 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

Society 2022	**Loans fully secured on residential property £m**	**Loans fully secured on land £m**	**Total £m**
Loss allowance as at 1 January 2022	**10.8**	**16.2**	**27.0**
Amounts written off during the year, net of recoveries	**(0.2)**	**(1.3)**	**(1.5)**
Income statement charge / (credit) for the year	**21.3**	**(5.0)**	**16.3**
Loss allowance as at 31 December 2022	**31.9**	**9.9**	**41.8**

Society 2021	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

Notes to the Accounts (continued)

15. Equity release portfolio held at FVTPL

Movements during the year in the equity release portfolio are outlined below.

	Group and Society	
	2022	2021
	£m	£m
At 1 January	**406.6**	433.8
Redemptions	**(5.0)**	(6.5)
Further advances	**0.1**	-
Movements in fair value	**(132.3)**	(27.3)
Realised losses on redemption	**(0.7)**	(0.5)
Accrued interest	**10.0**	7.1
At 31 December	**278.7**	406.6

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). With respect to the fair value movements during 2022, this was driven principally by the rising interest rate environment; the discount rate applied to the equity release portfolio is linked to the market-driven SONIA curve which, being closely linked to bank base rate, has increased during the year.

The Group holds derivative financial instruments to economically hedge the movements in fair value of the equity release portfolio. The movement in fair value of the derivatives held to hedge the equity release portfolio during the year was a £122.5m gain (2021: £32.8m gain) and is included in the Income Statement line 'Fair value (losses) / gains on financial instruments mandatorily held at FVTPL'. For 2021, the total gain of £32.8m included a £10.8m gain that arose in September 2021 due to the novation and restructure of one of the derivatives.

The equity release portfolio comprises loans against which collateral is held in the form of property in the UK. As at 31 December 2022 this collateral was valued at £600.7m (2021: £570.7m).

16. Loans and advances to customers held at FVTPL

Movements during the year are outlined below.

	Group and Society	
	2022	2021
	£m	£m
At 1 January	**1.2**	1.3
Repayments	**(0.3)**	(0.2)
Accrued interest	**0.1**	0.1
At 31 December	**1.0**	1.2

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 2022 at £7.0m (2021: £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	
	2022	2021	**2022**	2021	**2022**	2021
	£m	£m	**£m**	£m	**£m**	£m
Cost						
At 1 January	**183.5**	183.5	**257.0**	731.3	**440.5**	914.8
Additions	**-**	-	**109.7**	171.7	**109.7**	171.7
Repayments	**-**	-	**(2.9)**	(85.4)	**(2.9)**	(85.4)
Hive-up of subsidiaries	**-**	-	**-**	(560.6)	**-**	(560.6)
At 31 December	**183.5**	183.5	**363.8**	257.0	**547.3**	440.5
Provisions						
At 1 January	**78.1**	62.9	**-**	-	**78.1**	62.9
Provided in the year	**-**	15.2	**-**	-	**-**	15.2
At 31 December	**78.1**	78.1	**-**	-	**78.1**	78.1
Net book value at 31 December	**105.4**	105.4	**363.8**	257.0	**469.2**	362.4

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.

Notes to the Accounts (continued)

17. Investments in Group undertakings (continued)

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 2022	2021
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**	99.9
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**	100.0
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.

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 2022, the Society has provided guarantees over the liabilities of Skipton Investments Limited and Jade Software Corporation UK Limited; these subsidiary undertakings are thereby exempt from audit for the year ended 31 December 2022, 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.

b) Acquisitions

During 2022 Connells Limited purchased a number of small businesses for total consideration of £1.0m (of which £0.3m is deferred), generating goodwill of £0.2m. In the prior year Connells Limited purchased a number of small businesses for total consideration of £1.7m (of which £0.4m was deferred), generating goodwill of £0.7m.

In the prior year, Connells acquired the entire issued share capital on 8 March 2021 of Countrywide plc (now Countrywide Limited) for total cash consideration of £131.8m. Full details can be found in note 17b)(i) of the Group's 2021 Annual Report & Accounts.

c) Disposals

The profit on disposal of subsidiary undertakings for the year was £0.1m for the Group (2021: £0.5m) and £nil for the Society (2021: £nil).

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 fifth and final instalment was received by the Group in May 2022 in the amount of £6.4m (May 2021: £6.4m) and the discounted contingent consideration asset is now fully unwound to £nil (2021: £6.3m). The associated profit recognised in the Income Statement for the year is £0.1m (2021: £0.5m), which is presented within the Income Statement line 'Profit on disposal of subsidiary undertakings'.

d) Joint ventures

At 31 December 2022, 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 2022	2021
Cybele Solutions Holdings Limited	Conveyancing services	Bickerton House, Lloyd Drive, Ellesmere Port, Cheshire, CH65 9HQ	Ordinary	**50.0**	50.0

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 impairment adjustment was required (2021: £nil impairment charge). 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 2022, the Group held interests in the following companies:

Name of investment	Principal business activity	Percentage of ownership interest 2022 %	2021 %	Carrying value 2022 £m	2021 £m
Hearthstone Investments Limited	Property fund management	**17.1**	17.1	**-**	-
OnTheMarket plc	Property search provider	**0.2**	0.1	**0.1**	0.2
Viewber Limited	Property viewings services	**3.2**	3.2	**0.3**	0.4
Global Property Ventures Limited	Property management services	**7.2**	7.2	**-**	1.1
Twenty7Tec Group Ltd	Software application provider	**2.4**	2.0	**0.8**	-
				1.2	1.7

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 2022 £m	Group 2021 £m
At 1 January	**1.7**	1.7
Additions	**-**	0.5
Acquired on acquisition of subsidiaries	**-**	5.4
Disposals	**-**	(8.2)
Fair value (losses) / gains recognised in Income Statement	**(0.5)**	2.3
At 31 December	**1.2**	1.7

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 2022 for each of these investments. The investment in Hearthstone Investments Limited has been written down in full in previous years.

f) Equity share investments designated at FVOCI

At 31 December 2022, the Group held interests in the following companies:

Name of investment	Principal business activity	Percentage of ownership interest 2022 %	2021 %	Carrying value 2022 £m	2021 £m
Commercial and Northern Limited (formerly Bank North Limited)	Financial Intermediary	**12.6**	13.2	**-**	8.5

The movement during the year in the Group's equity share investments designated at FVOCI is analysed below:

	Group 2022 £m	Group 2021 £m
At 1 January	**8.5**	-
Additions	**-**	6.0
Fair value (losses) / gains recognised in Other Comprehensive Income	**(8.5)**	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 Limited (formerly Bank North Limited) ('Bank North'). As outlined in note 1e) on page 125, the Group elected under IFRS 9 to designate this equity share investment to be held at FVOCI. The fair value of this investment is determined by taking into account a number of factors such as periodic share issues by the investee, as well as the ongoing and expected future trading performance of that company. In the second half of 2022, amidst the worsening economic and market conditions, Bank North was unable to raise the further funds required to obtain its full banking licence; as a result, Bank North commenced wind-down of its operations and subsequently entered liquidation in early 2023. The fair value of the Group's equity investment in Commercial and Northern Limited (formerly Bank North Limited) was therefore reduced during 2022 to £nil; the resulting fair value loss of £8.5m (2021: fair value gain of £2.5m) is recognised through Other Comprehensive Income.

18. Property, plant and equipment

Group	2022 Land and buildings £m	2022 Equipment, fixtures and fittings £m	2022 Total £m	2021 Land and buildings £m	2021 Equipment, fixtures and fittings £m	2021 Total £m
Cost						
At 1 January	**104.3**	**85.1**	**189.4**	103.7	99.8	203.5
Additions	**5.0**	**6.6**	**11.6**	2.3	8.5	10.8
Disposals	**(3.1)**	**(9.5)**	**(12.6)**	(3.0)	(26.3)	(29.3)
Acquisition of subsidiary undertakings	**-**	**-**	**-**	1.3	3.2	4.5
Foreign exchange movements on translation	**-**	**-**	**-**	-	(0.1)	(0.1)
At 31 December	**106.2**	**82.2**	**188.4**	104.3	85.1	189.4
Depreciation						
At 1 January	**54.3**	**61.9**	**116.2**	51.8	79.2	131.0
Charge for the year	**4.7**	**8.8**	**13.5**	5.2	8.5	13.7
Impairment charge	**(1.2)**	**-**	**(1.2)**	-	-	-
Disposals	**(2.9)**	**(9.1)**	**(12.0)**	(2.7)	(25.7)	(28.4)
Foreign exchange movements on translation	**-**	**-**	**-**	-	(0.1)	(0.1)
Reclassification to investment property	**0.1**	**-**	**0.1**	-	-	-
At 31 December	**55.0**	**61.6**	**116.6**	54.3	61.9	116.2
Net book value at 1 January	**50.0**	**23.2**	**73.2**	51.9	20.6	72.5
Net book value at 31 December	**51.2**	**20.6**	**71.8**	50.0	23.2	73.2

18. Property, plant and equipment (continued)

Society	2022			2021		
	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	**54.8**	**20.3**	**75.1**	56.1	41.4	97.5
Additions	**0.9**	**2.0**	**2.9**	1.2	1.9	3.1
Disposals	**(3.1)**	**(6.8)**	**(9.9)**	(2.5)	(23.0)	(25.5)
At 31 December	**52.6**	**15.5**	**68.1**	54.8	20.3	75.1
Depreciation						
At 1 January	**22.0**	**14.0**	**36.0**	22.1	34.7	56.8
Charge for the year	**2.4**	**2.4**	**4.8**	2.4	2.3	4.7
Impairment charge	**(1.2)**	**-**	**(1.2)**	-	-	-
Disposals	**(2.9)**	**(6.8)**	**(9.7)**	(2.5)	(23.0)	(25.5)
Reclassification from investment property	**0.1**	**-**	**0.1**	-	-	-
At 31 December	**20.4**	**9.6**	**30.0**	22.0	14.0	36.0
Net book value at 1 January	**32.8**	**6.3**	**39.1**	34.0	6.7	40.7
Net book value at 31 December	**32.2**	**5.9**	**38.1**	32.8	6.3	39.1

Property, plant and equipment additions include £0.8m (2021: £1.4m) in land and buildings and £0.5m (2021: £0.4m) in equipment, fixtures and fittings (Group and Society) in relation to Capital Work in Progress (CWIP), relating mainly to branch refurbishment projects.

As shown in the tables above, impairment of £1.2m (Group and Society) was reversed during the year (2021: no reversals). This reversal is included within the Income Statement line item 'Administrative expenses' (see note 5c)).

The net book value of land and buildings comprises:

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Freehold	**40.5**	39.5	**26.6**	26.5
Long leasehold	**4.4**	2.7	**1.6**	0.8
Short leasehold	**6.3**	7.8	**4.0**	5.5
	51.2	50.0	**32.2**	32.8

19. Right-of-use assets

Group	2022			2021		
	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	**143.2**	**7.6**	**150.8**	85.8	6.8	92.6
Additions	**24.5**	**11.1**	**35.6**	10.1	0.7	10.8
Acquired on acquisition of subsidiary undertakings	**-**	**-**	**-**	46.1	0.5	46.6
Lease modifications and remeasurements	**13.2**	**-**	**13.2**	7.8	-	7.8
Disposals	**(30.3)**	**(0.5)**	**(30.8)**	(6.6)	(0.4)	(7.0)
Other movements	**-**	**-**	**-**	0.1	-	0.1
Foreign exchange movements on translation	**-**	**-**	**-**	(0.1)	-	(0.1)
At 31 December	**150.6**	**18.2**	**168.8**	143.2	7.6	150.8
Depreciation						
At 1 January	**51.9**	**3.1**	**55.0**	30.2	1.5	31.7
Charge for the year	**32.5**	**2.8**	**35.3**	27.5	2.0	29.5
Impairment charge	**0.6**	**-**	**0.6**	0.4	-	0.4
Disposals	**(28.3)**	**(0.5)**	**(28.8)**	(6.2)	(0.4)	(6.6)
At 31 December	**56.7**	**5.4**	**62.1**	51.9	3.1	55.0
Net book value at 1 January	**91.3**	**4.5**	**95.8**	55.6	5.3	60.9
Net book value at 31 December	**93.9**	**12.8**	**106.7**	91.3	4.5	95.8

Notes to the Accounts (continued)

19. Right-of-use assets (continued)

Society	2022 Land and buildings £m	2022 Equipment, fixtures and fittings £m	2022 Total £m	2021 Land and buildings £m	2021 Equipment, fixtures and fittings £m	2021 Total £m
Cost						
At 1 January	**17.5**	**0.2**	**17.7**	16.3	0.2	16.5
Additions	**2.0**	**-**	**2.0**	1.8	-	1.8
Disposals	**(1.0)**	**-**	**(1.0)**	(0.7)	-	(0.7)
Other movements	**-**	**-**	**-**	0.1	-	0.1
At 31 December	**18.5**	**0.2**	**18.7**	17.5	0.2	17.7
Depreciation						
At 1 January	**6.1**	**0.1**	**6.2**	4.4	0.1	4.5
Charge for the year	**2.5**	**-**	**2.5**	2.4	-	2.4
Disposals	**(0.9)**	**-**	**(0.9)**	(0.7)	-	(0.7)
At 31 December	**7.7**	**0.1**	**7.8**	6.1	0.1	6.2
Net book value at 1 January	**11.4**	**0.1**	**11.5**	11.9	0.1	12.0
Net book value at 31 December	**10.8**	**0.1**	**10.9**	11.4	0.1	11.5

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 2022, 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 2022, other operating income includes £0.6m (2021: £0.4m) (Group) and £nil (2021: £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 2022 £m	Group and Society 2021 £m
Cost		
At 1 January	**25.1**	25.1
At 31 December	**25.1**	25.1
Depreciation		
At 1 January	**18.5**	17.0
Charge for the year	**0.6**	0.6
Impairment charge	**0.1**	0.9
Reclassification to property, plant and equipment	**(0.1)**	-
At 31 December	**19.1**	18.5
Net book value at 1 January	**6.6**	8.1
Net book value at 31 December	**6.0**	6.6

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 (2021: £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 2022 £m	Group and Society 2021 £m
Market value of investment property	**7.9**	7.9

The estimated market value of the investment properties has been determined by an appropriately qualified internal valuer, supported by external valuations where appropriate, in accordance with RICS Appraisal and Valuation Standards and is an indication of fair value. This fair value measurement is categorised as a Level 3 fair value measurement, as described in note 41b).

For the majority of the Group's investment properties, fair value is estimated using the market valuation approach which uses prices and other relevant information generated by market transactions involving comparable properties. Where comparable transactions may not be available, the Group may also consider a discounted cash flow technique which considers the present value of the net cash flows to be generated from the property, taking into account expected rental growth, void periods and rent-free periods. The expected net cash flows are discounted using risk-adjusted discount rates.

The Directors have assessed the carrying value of the investment properties compared to their fair value and have concluded that an impairment charge of £0.1m should be recognised for the year (2021: £0.9m).

Notes to the Accounts (continued)

21. Intangible assets

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Goodwill	**216.3**	218.4	**-**	-
Other intangible assets	**107.1**	127.2	**0.1**	0.4
	323.4	345.6	**0.1**	0.4

Goodwill	Group 2022 £m	Group 2021 £m
Cost, less amortisation to 1 January 2004*		
At 1 January	**230.1**	147.1
Acquisitions of subsidiary undertakings and business units	**0.3**	82.6
Revaluation of put options	**(1.6)**	0.4
At 31 December	**228.8**	230.1
Impairment losses		
At 1 January	**11.7**	11.7
Impairment loss during the year	**0.8**	-
At 31 December	**12.5**	11.7
Net book value at 1 January	**218.4**	135.4
Net book value at 31 December	**216.3**	218.4

* 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 that is expected to benefit from that business combination. The carrying value of goodwill has been allocated as follows:

Operating segment	Group 2022			Group 2021		
	Cost of goodwill £m	Accumulated impairment £m	Carrying value £m	Cost of goodwill £m	Accumulated impairment £m	Carrying value £m
Mortgages and Savings	**2.9**	**0.1**	**2.8**	2.9	0.1	2.8
Estate Agency	**217.5**	**7.5**	**210.0**	218.8	6.7	212.1
Investment Portfolio	**8.4**	**4.9**	**3.5**	8.4	4.9	3.5
Total goodwill	**228.8**	**12.5**	**216.3**	230.1	11.7	218.4

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	2022			2021		
	Goodwill £m	Brands £m	Total £m	Goodwill £m	Brands £m	Total £m
Connells group	**42.4**	**-**	**42.4**	42.4	-	42.4
Sequence (UK) Limited	**41.0**	**-**	**41.0**	40.8	-	40.8
Connells Residential	**6.5**	**-**	**6.5**	6.5	-	6.5
Sharman Quinney Holdings Limited	**5.9**	**-**	**5.9**	6.1	-	6.1
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	**6.3**	**-**	**6.3**	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**	27.4	42.6	70.0
Countrywide Surveyors Limited	**31.3**	**-**	**31.3**	31.3	-	31.3
Lambert Smith Hampton Group Limited	**14.6**	**12.1**	**26.7**	14.6	12.1	26.7
Mortgage Intelligence Limited	**5.4**	**-**	**5.4**	5.4	-	5.4
The Buy to Let Business Limited	**0.9**	**-**	**0.9**	0.9	-	0.9
JAM Advisors Limited	**2.3**	**-**	**2.3**	2.3	-	2.3
Total goodwill and brands	**210.0**	**61.2**	**271.2**	212.1	61.2	273.3

Based upon the Directors' assessment of recoverable amounts, the Directors have concluded that it is appropriate to recognise in 2022 an increase of £0.8m to goodwill impairment (2021: £nil increase). 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% (2021: 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, arrears levels, level of unemployment and interest rates
Estate Agency	Volume of UK property transactions, house price inflation, level of unemployment and interest rates
Investment Portfolio	Volume of new business, level of unemployment and interest rates

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 ongoing impact of the UK recession, 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 2022 %**	Group 2021 %
Mortgages and Savings	**13**	12
Estate Agency	**18**	14
Investment Portfolio	**12**	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 175 however goodwill in respect of The Asset Management Group (within the Estate Agency division) was impaired by £0.8m during the year. An increase to the discount rate of 1% (e.g. from 10% to 11%) would result in additional impairment of £1.0m, whilst a reduction of 5% in the cash flows assumed for the next five years (the Group's corporate planning period) would result in additional impairment of £0.5m. A reduction of 10% in these same cash flows would result in additional impairment of £1.1m. Decreases to the long term growth rate of 2.5% and 5% would result in additional impairment of £0.6m and £0.9m respectively.

For the other CGUs within the Estate Agency division, it would generally require a significant decline in performance in order to trigger impairment. An increase to the discount rate of 1% would result in additional impairment of £0.2m, whilst a reduction in the long term growth rate of 2.5% would result in additional impairment of £0.4m. In respect of goodwill held within 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 2022 £m**	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Cost				
At 1 January	**264.8**	100.5	**19.0**	21.2
Acquisition of subsidiary undertakings	**-**	162.0	**-**	-
Acquisition of other business assets	**0.8**	0.2	**-**	-
Additions	**7.4**	7.2	**-**	-
Foreign exchange movements on translation	**-**	(1.0)	**-**	-
Disposals	**(18.5)**	(4.1)	**(17.7)**	(2.2)
At 31 December	**254.5**	264.8	**1.3**	19.0
Amortisation and impairment				
At 1 January	**137.6**	78.2	**18.6**	19.0
Amortisation charge for the year	**27.4**	63.3	**0.2**	0.7
Foreign exchange movements on translation	**-**	(0.8)	**-**	-
Disposals	**(17.6)**	(3.1)	**(17.6)**	(1.1)
At 31 December	**147.4**	137.6	**1.2**	18.6
Net book value at 1 January	**127.2**	22.3	**0.4**	2.2
Net book value at 31 December	**107.1**	127.2	**0.1**	0.4

The net book value of other intangible assets comprises:

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Brands	**61.2**	61.2	**-**	-
Customer contracts and relationships	**39.4**	52.8	**-**	-
Computer software and databases	**6.5**	13.2	**0.1**	0.4
	107.1	127.2	**0.1**	0.4

22. Other assets

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Trade receivables	**63.3**	71.1	**1.9**	1.5
Prepayments	**28.3**	27.4	**14.6**	11.2
Accrued income	**14.4**	11.9	**0.1**	0.8
Contingent consideration	**-**	6.3	**-**	-
Share warrants	**26.6**	11.0	**-**	-
Other	**8.3**	8.1	**-**	0.5
	140.9	135.8	**16.6**	14.0

Further details regarding trade receivables are included in note 40c).

23. Shares

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Held by individuals	**22,279.2**	19,619.1	**22,279.2**	19,619.1
Other shares	**203.1**	173.5	**203.1**	173.5
Fair value adjustment for hedged risk	**(132.7)**	(32.8)	**(191.8)**	(43.3)
	22,349.6	19,759.8	**22,290.5**	19,749.3

A maturity analysis of shares is included in note 38.

24. Amounts owed to credit institutions

	Group 2022 £m	**Group 2021 £m**	**Society 2022 £m**	**Society 2021 £m**
Amounts owed to subsidiary undertakings	**-**	-	**214.0**	197.8
Other	**2,963.3**	2,203.4	**2,963.3**	2,202.4
	2,963.3	2,203.4	**3,177.3**	2,400.2

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 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Amounts owed to subsidiary undertakings	-	-	574.0	638.1
Other	2,339.2	2,249.2	54.7	118.4
	2,339.2	2,249.2	628.7	756.5

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 2022 the amount of such deposits included above, net of fair value adjustment for hedged risk, is £2,195.5m (2021: £2,051.1m).

Amounts owed to subsidiary undertakings by the Society include £366.5m 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) (2021: £453.4m). 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 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Certificates of deposit	-	5.0	-	5.0
Senior unsecured debt	-	66.6	-	66.6
Covered bonds	2,396.1	1,890.5	2,392.6	1,839.7
Securitisation	239.8	305.4	-	-
Fair value adjustment for hedged risk	(44.3)	(49.4)	-	-
	2,591.6	2,218.1	2,392.6	1,911.3

A maturity analysis of debt securities in issue is included in note 38.

Group debt securities in issue include £2,635.9m (2021: £2,195.9m) of funding secured on certain loans and advances to customers through the Group's securitisation vehicle Darrowby No. 5 plc and the special purpose vehicle Skipton Covered Bonds LLP.

27. Lease liabilities

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
At 1 January	114.4	62.5	11.5	12.2
Additions	37.6	9.6	2.0	1.9
Acquired on acquisition of subsidiaries	-	76.4	-	-
Modifications / remeasurements of existing lease liabilities	13.0	8.8	0.1	0.1
Interest charged	2.1	1.8	0.3	0.2
Lease payments (including interest)	(52.8)	(44.3)	(2.7)	(2.9)
Disposals	(1.3)	(0.4)	(0.1)	-
At 31 December	113.0	114.4	11.1	11.5

A maturity analysis of lease liabilities is included in note 38.

For details of the Group's right-of-use assets, see note 19. For further details of the Group's lease expenses in the year, see note 5.

28. Other liabilities

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Trade payables	7.9	14.7	1.5	0.1
Fair value of put option obligation	3.8	8.6	-	-
Fair value of liability of subsidiary management incentive scheme	7.0	19.1	-	-
VAT and employment taxes	37.3	39.7	2.9	2.2
Other	27.7	32.1	5.5	7.0
	83.7	114.2	9.9	9.3

Put option obligation

The movement in the fair value of the put option obligation is summarised below:

	Group 2022 £m	Group 2021 £m
At 1 January	8.6	6.9
Unwind of the discount factor	0.1	0.1
Exercise of put options by non-controlling shareholders	(3.0)	-
Revaluation of market values and changes to future exercise dates	(1.9)	1.6
At 31 December	3.8	8.6

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 2022 two options remain outstanding, with the maximum option length being four years from 31 December 2022.

The movement in the fair value of the liability of the subsidiary management incentive scheme is summarised below:

	Group 2022 £m	Group 2021 £m
At 1 January	19.1	4.4
Exercise of share options during the year	(8.9)	(0.8)
Movement in fair value of the liability recognised in the Income Statement	(3.2)	15.5
At 31 December	7.0	19.1

Notes to the Accounts (continued)

29. Provisions for liabilities

The movements in provisions for liabilities during the year were as follows:

Group 2022	**Provision for the costs of surplus properties £m**	**Commission clawbacks £m**	**Survey and valuation claims £m**	**Customer compensation £m**	**Other provisions £m**	**Total £m**
At 1 January	**11.0**	**15.0**	**7.6**	**0.8**	**2.0**	**36.4**
(Credit) / charge for the year	**(2.7)[1]**	**16.5[2]**	**2.5[1]**	**0.3[1]**	**1.5[1]**	**18.1**
Utilised during the year	**(1.1)**	**(14.6)**	**(1.7)**	**(0.4)**	**(2.0)**	**(19.8)**
At 31 December	**7.2**	**16.9**	**8.4**	**0.7**	**1.5**	**34.7**

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

Society 2022	**Commission clawbacks £m**	**Customer compensation £m**	**Other provisions £m**	**Total £m**
At 1 January	**0.1**	**0.7**	**0.2**	**1.0**
Charge for the year	**-**	**0.3[1]**	**-**	**0.3**
Utilised during the year	**(0.1)**	**(0.4)**	**-**	**(0.5)**
At 31 December	**-**	**0.6**	**0.2**	**0.8**

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

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 £16.5m (2021: £13.1m) 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 (2021: £0.1m).

30. Deferred tax

Deferred tax is calculated on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using the enacted tax rate expected to apply in the relevant tax jurisdiction for the period when these differences are expected to reverse, which in general is 28% (2021: 33%) for the Society and 25% (2021: 25%) for most other Group companies. The rate for the Society is higher than for most other Group companies as, currently, the Society's taxable profits over £25m are subject to an 8% banking companies surcharge. From 1 April 2023, together with the increase in the standard rate of corporation tax in the UK to 25% (which was enacted during 2021), a reduction to the banking surcharge from 8% to 3% will also occur. In addition, the level of taxable profits above which the surcharge will apply will increase to £100m. The changes to the surcharge were enacted during 2022 and have been reflected within the measurement of any deferred tax assets and liabilities expected to reverse after 1 April 2023.

The movement during the year in the net deferred tax asset was as follows:

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
At 1 January	**33.0**	45.2	**15.6**	29.9
Income Statement (charge) / credit (note 9)	**(13.1)**	2.6	**(3.8)**	0.7
Items taken directly to other comprehensive income	**(6.7)**	(19.3)	**4.7**	(15.3)
Hive-up of subsidiaries	**-**	-	**-**	0.3
Acquired on acquisition of subsidiaries	**-**	4.5	**-**	-
Acquisition of other business assets	**(0.1)**	-	**-**	-
Other movements	**-**	-	**-**	-
At 31 December	**13.1**	33.0	**16.5**	15.6

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, as permitted by relevant accounting standards, is being released to the Income Statement over a 10 year period.

Notes to the Accounts (continued)

30. Deferred tax (continued)

Deferred tax assets and liabilities are attributable to the following items:

Deferred tax assets

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Fixed asset temporary differences	**11.4**	15.5	**(0.3)**	0.4
Intangible asset temporary differences (note 1)	**(19.2)**	(21.9)	**-**	-
Derivatives and loans	**5.4**	13.8	**7.7**	10.4
Pension obligations	**10.8**	13.3	**5.2**	7.0
Provisions	**4.4**	4.7	**0.9**	1.2
Corporation tax losses (note 2)	**4.6**	13.1	**-**	-
Tax losses on IFRS 16 transitional adjustments (note 3)	**4.4**	-	**-**	-
Contingent consideration (note 1)	**-**	(1.0)	**-**	-
Financial assets held at FVTPL (note 1)	**-**	(0.8)	**-**	-
Financial assets held at FVOCI (note 1)	**3.8**	(2.7)	**3.7**	(2.8)
Cash flow hedges (note 1)	**(11.5)**	(2.0)	**(0.7)**	(0.7)
Cost of hedging reserve	**0.4**	1.8	**-**	-
Gain deferred by rollover relief (note 1)	**(0.7)**	(0.9)	**-**	-
Other	**(0.7)**	0.2	**-**	0.1
	13.1	33.1	**16.5**	15.6

Notes
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.
2. The amounts shown above relating to corporation tax losses include £4.3m in respect of certain Connells group entities (2021: £12.8m), primarily within certain Countrywide entities, together with £0.3m in respect of certain Jade entities (2021: £0.3m). These deferred tax amounts were assessed by reference to the Group's five year corporate planning period. For Countrywide, management also considered the outlook for that business following its acquisition by the Group in 2021. For Jade, management also considered the recent trading history of relevant Jade entities.
3. Tax losses on IFRS16 transitional adjustments arose from the impairment of right-of-use assets following the adoption of IFRS 16 in 2019. This has now been agreed with HMRC to spread these losses over the average lease term of 5.6 years. The deferred tax asset at the reporting date is in respect of the losses that are still to be spread.

Deferred tax liabilities

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Fixed asset temporary differences	**-**	0.1	**-**	-
	-	0.1	**-**	-
Net deferred tax asset	**13.1**	33.0	**16.5**	15.6

The deferred tax charge / (credit) in the Income Statement comprises the following:

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Fixed asset temporary differences	**4.1**	(1.9)	**0.6**	0.4
Intangible asset temporary differences	**(2.7)**	(5.5)	**-**	-
Provisions	**0.3**	(2.6)	**0.4**	(0.8)
Derivatives and loans	**8.4**	0.2	**2.8**	(0.2)
Contingent consideration	**(1.0)**	(0.9)	**-**	-
Corporation tax losses	**8.5**	4.6	**-**	-
Tax losses on IFRS 16 transitional adjustments	**(4.4)**	4.6	-	-
Other	**(0.1)**	3.5	**-**	(0.1)
	13.1	(2.6)	**3.8**	(0.7)

Deferred tax has not been recognised in relation to certain losses carried forward at 31 December 2022, which comprises the following:

- Trading losses of £10.2m for the Group (2021: £11.1m) and £nil for the Society (2021: £nil);
- Capital losses of £56.7m for the Group (2021: £56.8m) and £nil for the Society (2021: £nil); and
- Other tax losses of £1.1m for the Group (2021: £1.7m) and £nil for the Society (2021: £nil).

Trading losses relate to certain Jade entities and are based on the Group's five year corporate plan as well as the recent trading history of those entities. Capital losses relate primarily to Countrywide entities; in determining the amounts to be unrecognised, management considered the likelihood of future capital gains materialising against which these losses could be offset and recognised.

The majority of deferred tax assets are anticipated to be recoverable after one year. The Group's plans indicate that the Group and Society will generate sufficient taxable profits over its five-year planning period to absorb the corporation tax losses included within deferred tax at the reporting date, together with those other temporary differences that are expected to reverse during that period.

31. Pensions

a) Defined contribution schemes

The amount charged to the Income Statement in respect of contributions to the Group's defined contribution arrangements is the contribution payable in the year. The total pension cost charged to the Income Statement amounted to £26.2m for the Group (2021: £22.4m) and £7.1m for the Society (2021: £6.4m).

b) Defined benefit schemes

During 2022 the Group sponsored the schemes set out below:

- The Skipton Building Society (2015) Group Pension Scheme (the 'Skipton (2015) Scheme') – a funded defined benefit arrangement
- The Connells (2014) Group Pension Scheme (the 'Connells (2014) Scheme') – a funded defined benefit arrangement
- The Countrywide plc Pension Scheme (the 'Countrywide Scheme') - a hybrid scheme (with a funded defined benefit element). Connells assumed responsibility for this scheme following its acquisition on 8 March 2021 of Countrywide.

For part of 2021, the Group also operated the Holmesdale Building Society Pension Scheme (the 'Holmesdale Scheme'); this was a small hybrid scheme (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 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 – 710 members
- Connells (2014) Scheme – 955 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).

Notes to the Accounts (continued)

31. Pensions (continued)

The level of retirement benefit in each scheme is principally based on salary and is linked to changes in inflation up to retirement. For all three schemes the level of retirement benefit is based on salary earned in each year of employment prior to leaving active service as follows:

- Skipton (2015) Scheme. There are two separate benefits sections within the scheme, as a result of the merger of two former pension schemes into the Skipton (2015) Scheme, where members' benefits in the former pension schemes were preserved. The benefits are based on the following:
  - Old Skipton Scheme - the highest annual average salary earned over three consecutive years in the last 10 years of employment prior to leaving active service or, for members previously employed by Skipton Financial Services, the annual average salary earned in the last five years of employment prior to leaving active service;
  - Scarborough Scheme - the highest (prior to 2003) or the average (post 2003) annual salary earned in the last three years of employment prior to leaving active service.
- Connells (2014) Scheme. There are three separate benefit sections within the scheme, as the Connells (2014) Scheme is a result of three previous schemes merged into one scheme in 2014. The benefits are based on the following:
  - Scheme 1 - the highest annual average salary earned over three consecutive years in the last 10 years of employment prior to leaving active service;
  - Scheme 2 - the annual average salary earned in the last three years of employment prior to leaving active service;
  - Scheme 3 - the greater of the annual average salary earned in the last three years and the highest annual average salary earned over three consecutive years in the last 10 years of employment prior to leaving active service.
- Countrywide Scheme – The benefits are based on the following:
  - the highest annual average salary earned over three consecutive years in the last 10 years of employment prior to leaving active service or, if higher, the highest annual salary in the last five years of employment prior to leaving active service.

The defined benefit schemes are all closed to new members and to the future accrual of benefits, with the exception of the Scarborough section of the Skipton (2015) Scheme where active members retain a link to salary (capped at 5% per annum). The Scarborough Scheme closed to the future accrual of benefits, subject to the exception noted above, on 1 May 2007, the Connells (2014) Scheme on 1 January 2009, the Skipton (2015) Scheme on 31 December 2009 and the Countrywide Scheme on 31 December 2003. Following the closure of all the schemes, all active members left pensionable service and became entitled to deferred benefits.

The schemes are subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and guidance notes adopted by the Financial Reporting Council, sets out the framework for funding defined benefit occupational pension schemes in the UK.

The Trustee of each scheme is required to act in the best interests of the scheme's beneficiaries. The appointment of the Trustee is determined by the scheme's trust documentation.

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 2023 (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	1.3

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 2023 is £5.9m (see page 189 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 2022. 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 2022 %	2021 %
Retail price inflation (RPI)	**3.25**	3.40
Consumer price inflation (CPI)	**2.75**	2.90
Discount rate	**5.00**	1.80
Increases to pension payment:		
in line with RPI, subject to a max of 5% pa	**3.02**	3.30
in line with RPI, subject to a min of 3% and max of 5% pa	**3.67**	3.70
in line with RPI, subject to a min of 4% and max of 5% pa	**4.25**	4.25
in line with RPI, subject to a max of 2.5% pa	**2.02**	2.27
in line with CPI, subject to a max of 5% pa	**2.65**	2.86
in line with CPI, subject to a min of 3% and max of 5% pa	**3.5**	3.48
in line with CPI, subject to a max of 3% pa	**2.11**	2.38
in line with CPI, subject to a max of 2.5% pa	**1.86**	2.12
Fixed 4.00% pa	**4.00**	4.00
Rate of increase for deferred pensions (in line with CPI, subject to a max of 5% pa)	**2.75**	2.90
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 2022, 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 2021 improvements with a 1.25% per annum long-term rate of convergence. The tables adopted imply the following life expectancy:

	Life expectancy at age 65 (years) 2022	2021
Male retiring in the current year	**22.1**	22.1
Female retiring in the current year	**24.4**	24.4
Male retiring in 15 years' time	**22.7**	22.7
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 at this time, it was concluded that no explicit allowances were required in this respect.

Notes to the Accounts (continued)

31. Pensions (continued)

As at 31 December 2022 the Statements of Financial Position include amounts relating to defined benefit schemes as set out below:

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Within liabilities				
Retirement benefit obligations (see part i) below)	(29.6)	(30.1)	(16.9)	(17.2)
Within assets				
Retirement benefit surplus (see part ii) below)	-	1.2	-	-

In 2021 the Countrywide scheme was in surplus so was included within assets. During 2022 the scheme fell into deficit so has been reported within liabilities as at 31 December 2022.

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 and for 2022, the Countrywide scheme.

The table below shows the net pension liability recognised within the Statement of Financial Position:

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Fair value of plan assets	187.9	255.0	78.6	136.8
Present value of defined benefit obligations	(217.5)	(285.1)	(95.5)	(154.0)
Net pension liability	(29.6)	(30.1)	(16.9)	(17.2)

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. 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 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
At 1 January	285.1	306.4	154.0	166.9
Balance at 1 January of scheme previously reported in surplus	50.6	-	-	-
Interest expense	5.8	4.4	2.6	2.4
Remeasurement losses / (gains) arising from changes in:				
Scheme experience	13.4	(3.1)	5.6	(1.4)
Demographic assumptions	1.2	(0.4)	0.5	(0.2)
Financial assumptions	(123.9)	(8.8)	(58.4)	(5.2)
Actual benefit payments	(14.7)	(13.0)	(8.8)	(8.1)
Settlement payments	-	(1.1)	-	(1.1)
Settlement losses	-	0.7	-	0.7
At 31 December	217.5	285.1	95.5	154.0

There have been **no settlements, plan amendments or curtailments** during the year. Settlements in 2021 relate to the Holmesdale scheme which, as noted above, terminated with effect from 30 June 2021.

The estimated average duration of the defined benefit obligation as at 31 December 2022 is 13 years (2021: 18 years).

The table below sets out the reconciliation of the fair value of scheme assets for the year:

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
At 1 January	255.0	210.3	136.8	116.1
Balance at 1 January of scheme previously reported in surplus	51.8	-	-	-
Interest income	5.4	3.3	2.4	1.8
Return on plan assets (excluding amounts included in interest income)	(116.0)	9.7	(53.5)	5.2
Contributions by employer	6.6	45.8	1.7	22.9
Benefits paid	(14.7)	(13.0)	(8.8)	(8.1)
Assets acquired in a business combination	(0.2)	-	-	-
Settlements paid	-	(1.1)	-	(1.1)
At 31 December	187.9	255.0	78.6	136.8

The actual return on the scheme assets, including interest income on plan assets, over the year ended 31 December 2022 was as follows:

- Group £(110.6)m (2021: £13.0m)
- Society £(51.1)m (2021: £7.0m)

The table below sets out the fair value of the scheme assets by each major category:

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Diversified growth fund (note 1)	32.1	22.7	17.4	12.3
Insured Pensioners (annuities)	26.4	-	-	-
Indexed Linked bonds	1.0	-	-	-
Liability driven investments (note 2)	62.7	77.6	33.1	42.4
Equities	29.5	74.3	14.3	42.5
Cash	8.0	25.5	2.2	8.1
Corporate bonds	20.6	43.7	7.9	25.1
Government bonds	7.6	11.2	3.7	6.4
	187.9	255.0	78.6	136.8

Notes

1. Diversified growth funds (DGF) target equity-like returns with lower volatility which is achieved through dynamic diversification. Funds are invested in a diversified range of assets, including equities, bonds, property and cash and the allocation between these asset classes is actively managed by a fund manager reflecting the changing correlations and risk characteristics.
2. Liability driven investments (LDI) are investments in assets which are expected to behave in a similar manner to liabilities and therefore aim to provide a better match against liability movements than conventional bonds or gilts.

Each of the schemes invests in an LDI fund which aims to provide protection against interest rate and inflation movements. The 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.

31. Pensions (continued)

The schemes are exposed to the following investment risks:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- *Currency risk*: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- *Interest rate risk*: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- *Longevity risk*: The liabilities are very sensitive to unexpected changes in future mortality. If longevity increases by more than assumed, then the liabilities will increase at future calculations.
- *Inflation risk*: Elements of the pensions in payment under the Scheme increase at an inflation-linked rated, albeit that there are caps applying to the indexation. In addition, the rules of the Scheme require that some pensions are increased in the period up until payment commences in line with increases in inflation, again up to a certain cap.
- *Other price risk*: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The main investment objective for the Trustee of the schemes is to maintain a portfolio of suitable assets to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due. Each scheme has exposure to investment risks because of the investments it makes to implement its investment strategy, as detailed in the Statement of Investment Principles.

The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the scheme's investment managers and are monitored by the Trustee by regular reviews of the investment portfolios.

Credit risk

The schemes invest in pooled investment vehicles and are therefore directly exposed to credit risk in relation to the pooled investment vehicles and are indirectly exposed to credit risks arising on the financial instruments held by the vehicles.

The schemes' holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The investment manager carries out its own due diligence checks before a new pooled fund is invested in, and on an ongoing basis monitors any changes to the regulatory and operating environment of the underlying pooled investment managers.

Indirect credit risk arises in relation to underlying investments held in the LDI pooled investment vehicles, as well as DGF pooled investment vehicles due to the bond holdings within these funds.

The LDI funds use robust collateralisation management procedures so as to mitigate the impact of credit risk.

Market risk

Currency risk

The schemes do not take explicit unhedged positions in overseas investments through their investment strategy, either directly or indirectly via pooled investment vehicles.

The DGF managers' default position is that any investment in overseas assets is hedged back to Sterling in order to reduce currency risk. The DGF managers may from time to time take unhedged overseas investment positions in pursuit of growth opportunities or to reduce overall fund risk. Overall, however, their neutral position is considered to be 100% Sterling.

Interest rate risk

The schemes' assets are subject to indirect interest rate risk through their LDI pooled investment vehicles, as well as DGF pooled investment vehicles due to the bond holdings within these funds.

The schemes' liabilities are exposed to a significant level of interest rate movement and for this reason it is desirable for the assets to also be exposed to interest rate risk. The schemes manage interest rate risk by considering the net risk when taking account of the liabilities valued.

Other price risk

Other price risk arises principally in relation to the schemes' return seeking portfolio which includes DGFs held in pooled investment vehicles, as well as the LDI pooled investment vehicles due to the inflation sensitive elements of the fund. The scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

In addition to the above, the Countrywide scheme has mitigated risks associated with longevity risk, inflation risk and interest rate risk by securing a proportion of the Scheme's benefits for members with insurance companies.

The table below sets out the amounts which have been recognised within the Income Statement. The service costs are recognised within 'Administrative expenses', whilst the net interest expense is recognised within 'Other income'.

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Service costs				
Settlement losses	**-**	0.7	**-**	0.7
Administrative expenses	**0.1**	-	**-**	-
Net interest expense	**0.4**	1.1	**0.2**	0.6
Total recognised in Income Statement	**0.5**	1.8	**0.2**	1.3

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 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Remeasurements of retirement benefit obligations:				
Actuarial (losses) / gains arising from:				
Experience adjustments	**(13.4)**	3.1	**(5.6)**	1.4
Demographic assumptions	**(1.2)**	0.4	**(0.5)**	0.2
Financial assumptions	**123.9**	8.8	**58.4**	5.2
Impact of asset ceiling	**-**	0.3	**-**	0.3
Return on plan assets (excluding amounts included in net interest expense)	**(116.0)**	9.7	**(53.5)**	5.2
Total amount recognised in Other Comprehensive Income	**(6.7)**	22.3	**(1.2)**	12.3

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 2023, based on the most recent actuarial valuations.

	Group 2023 £m	**Society 2023 £m**
Estimated employer contributions		
Ongoing	**5.9**	**1.7**
Estimated total contributions	**5.9**	**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 184. Following completion of the most recent actuarial valuations carried out, a new schedule of deficit contributions payable by the Group was agreed with the Trustees. The Group continues to make contributions in line with this schedule.

Notes to the Accounts (continued)

31. Pensions (continued)

ii) Retirement benefit surplus

Amounts presented by the Group within retirement benefit surplus relate to the Countrywide Scheme in 2021. As noted above, the scheme moved to a small deficit of £1.6m as at 31 December 2022 and is included in i) Retirement Obligations above.

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 was 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 was recognised by the Group as at 31 December 2021 in respect of the Countrywide Scheme and therefore the full surplus was recognised.

The table below shows the net pension asset recognised within the Statement of Financial Position:

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Fair value of plan assets	-	51.8	-	-
Present value of defined benefit obligations	-	(50.6)	-	-
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 186.

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 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
At 1 January	**50.6**	-	-	-
Balance included in 'Schemes in deficit' above	**(50.6)**	-	-	-
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	-	-

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The table below sets out the reconciliation of the fair value of scheme assets for the year:

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
At 1 January	**51.8**	-	-	-
Balance included in 'Schemes in deficit' above	**(51.8)**	-	-	-
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 table below sets out the fair value of the scheme assets by each major category:

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £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 table below sets out the amounts which have been recognised within the Income Statement. The administration cost is recognised within 'Administrative expenses'.

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £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 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £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	-	-

Notes to the Accounts (continued)

32. Subordinated liabilities

	Group and Society	
	2022	2021
	£m	£m
Fixed rate notes:		
Senior non-preferred (SNP) notes due 2026	**351.7**	351.7
	351.7	351.7
Unamortised discount on issue	**(0.6)**	(0.9)
Fair value adjustment for hedged risk	**(39.3)**	(14.5)
	311.8	336.3

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	
	2022	2021
	£m	£m
8.500% Sterling Permanent Interest Bearing Shares	**15.2**	15.2
12.875% Sterling Permanent Interest Bearing Shares	**26.4**	26.4
	41.6	41.6

All Permanent Interest Bearing Shares are unsecured and rank pari passu with each other. They are deferred shares of the Society and rank behind the claims against the Society of all subordinated note holders, depositors, payables and investing members of the Society. These shares are measured at amortised cost.

34. Cash flows

a) Cash flows from operating activities

i) Impairment losses / (gains) on financial instruments

For the purposes of the Statements of Cash Flows, amounts presented within the line 'Impairment losses / (gains) on financial instruments' include the following:

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Impairment losses / (credit) on loans and advances to customers (net of recoveries) (note 14)	**17.1**	(12.9)	**16.3**	(7.1)
Loans and advances recovered / (written off)	**0.6**	(0.9)	**0.6**	(0.5)
Impairment losses on liquid assets	**0.1**	0.2	**0.1**	0.2
Impairment losses / (credit) on trade receivables (note 40c)	**0.3**	(0.2)	**(0.2)**	-
	18.1	(13.8)	**16.8**	(7.4)

ii) Fair value losses on certain financial instruments held at FVTPL

For the purposes of the Statements of Cash Flows, amounts presented within the line 'Fair value losses on certain financial instruments held at FVTPL' include the following:

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Fair value losses on equity release portfolio (note 15)	**132.3**	27.3	**132.3**	27.3
Fair value gains on share warrants	**(12.1)**	(3.2)	**-**	-
Fair value (gains) / losses on put options held by minority shareholders	**(0.2)**	1.3	**-**	-
Fair value losses / (gains) on equity share investments at FVTPL (note 17e))	**0.5**	(2.3)	**-**	-
Fair value gains on other financial instruments	**-**	-	**-**	(3.1)
	120.5	23.1	**132.3**	24.2

iii) Other non-cash movements

For the purposes of the Statements of Cash Flows, amounts presented within the line 'Other non-cash movements' include the following:

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Impairment of goodwill (note 21)	**0.8**	-	**-**	-
Profit on disposal of treasury assets	**-**	(0.1)	**-**	(0.1)
Realised losses on equity release portfolio (note 15)	**0.7**	0.5	**0.7**	0.5
Income Statement (credit) / charge for fair value of subsidiary management incentive scheme liability (note 5)	**(3.2)**	15.5	**-**	-
Share of profits from joint ventures	**(1.4)**	(1.2)	**-**	-
Other	**8.9**	30.0	**(24.3)**	21.1
	5.8	44.7	**(23.6)**	21.5

b) Cash flows from investing activities

i) Other investing activities

For the purposes of the Statements of Cash Flows, amounts presented within the line 'Other investing activities' include the following:

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Purchase of property, plant and equipment and investment property (notes 18, 20)	**(11.6)**	(10.8)	**(2.9)**	(3.1)
Purchase of intangible assets	**(7.4)**	(6.8)	**-**	-
Proceeds from disposal of property, plant and equipment, investment property and intangible assets	**0.8**	2.3	**0.1**	1.1
Dividends received from joint ventures	**0.8**	2.1	**-**	-
Investment in equity share investments (notes 17e), 17f))	**-**	(6.5)	**-**	-
Purchase of other business units	**(0.7)**	(0.2)	**-**	-
Proceeds from disposal of associate	**-**	7.8	**-**	-
Proceeds from disposal of equity share investments	**-**	0.4	**-**	-
	(18.1)	(11.7)	**(2.8)**	(2.0)

34. Cash flows (continued)

c) Cash flows from financing activities

For the purposes of the Statements of Cash Flows, put option obligations, the subsidiary management incentive scheme, lease liabilities, subordinated liabilities and subscribed capital are classified as liabilities arising from financing activities. The table below provides a reconciliation of movements in liabilities arising from financing activities:

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Balance at 1 January	**520.0**	465.1	**389.4**	403.5
Changes from financing cash flows:				
Payments made	**(62.6)**	(43.3)	**(2.4)**	(2.7)
Interest paid	**(13.9)**	(13.6)	**(12.1)**	(12.0)
Total changes from financing cash flows	**(76.5)**	(56.9)	**(14.5)**	(14.7)
Changes in fair value	**(29.9)**	3.2	**(24.8)**	(13.9)
Liability-related changes:				
Interest expense	**13.9**	13.7	**12.1**	12.0
Lease modifications	**13.0**	8.8	**0.1**	0.1
Lease additions	**37.6**	9.6	**2.0**	1.9
Lease disposals	**(1.3)**	(0.4)	**(0.1)**	-
Leases acquired on acquisition of subsidiaries	**-**	76.4	**-**	-
Total liability-related changes	**63.2**	108.1	**14.1**	14.0
Other non cash flow changes:				
Unwind of discount	**0.4**	(0.4)	**0.3**	(0.5)
Other	**-**	0.9	**-**	1.0
Total other changes	**0.4**	0.5	**0.3**	0.5
Balance at 31 December	**477.2**	520.0	**364.5**	389.4

The Group balance at 31 December 2022 in the table above consists of £3.8m (2021: £8.6m) of put option obligations, a £7.0m (2021: £19.1m) subsidiary management incentive scheme liability, £113.0m (2021: £114.4m) of lease liabilities, £311.8m (2021: £336.3m) of subordinated liabilities and £41.6m (2021: £41.6m) of subscribed capital.

The Society balance at 31 December 2022 in the table above consists of £11.1m (2021: £11.5m) of lease liabilities, £311.8m (2021: £336.3m) of subordinated liabilities and £41.6m (2021: £41.6m) of subscribed capital.

35. Tax effects relating to each component of other comprehensive income

Group	2022			2021		
	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	**(30.8)**	**6.4**	**(24.4)**	4.5	(1.1)	3.4
Cash flow hedges	**35.0**	**(9.4)**	**25.6**	26.7	(7.6)	19.1
Cost of hedging reserve	**3.8**	**(1.4)**	**2.4**	(0.5)	0.5	-
Remeasurements of defined benefit obligations	**(6.7)**	**0.4**	**(6.3)**	23.9	(3.1)	20.8
Translation of foreign operations	**0.4**	**-**	**0.4**	(0.4)	-	(0.4)
Other comprehensive income	**1.7**	**(4.0)**	**(2.3)**	54.2	(11.3)	42.9

Society	2022			2021		
	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	**(21.7)**	**6.4**	**(15.3)**	2.0	(1.0)	1.0
Cash flow hedges	**0.4**	**-**	**0.4**	19.7	(5.4)	14.3
Cost of hedging reserve	**-**	**-**	**-**	-	-	-
Remeasurements of defined benefit obligations	**(1.2)**	**(0.7)**	**(1.9)**	12.3	(2.2)	10.1
Other comprehensive income	**(22.5)**	**5.7**	**(16.8)**	34.0	(8.6)	25.4

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.

37. Derivative financial instruments (continued)

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 (2021: £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 two cross-currency swap agreements to hedge the foreign currency risk and interest rate risk components arising from the Society's Euro covered bond issuances. Fixed rate Euro-denominated receipts are swapped to floating rate Sterling payments through these derivatives. The derivative is entered into by the LLP, with the hedged item being the term advance from the Society to the LLP, which mirrors the bond issued by the Society, effectively hedging the debt issued by the Society. Foreign currency basis spread is priced into the derivative but is excluded from the hedging relationship and any gain or loss arising from this is recognised directly in reserves in the cost of hedging reserve, as permitted by IFRS 9.

Equity release portfolio

In addition to the above, the Group holds derivative financial instruments to economically hedge the equity release portfolio which do not qualify as being in a designated hedging relationship for accounting purposes. As the derivatives held to hedge the equity release portfolio are not in a hedge accounting relationship, they are not included in the tables on pages 197 to 201. Further information on the derivatives held to hedge this portfolio can be found on page 164.

Other derivatives not held in an accounting hedge

Certain other derivatives cannot be accounted for in a fair value or cash flow hedge as the economic hedging relationship does not meet the criteria set out by IFRS 9. These derivatives are held at FVTPL and their change in fair value is included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' 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	2022				2021			
	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)	**-**	**-**	**1,404.0**	**730.5**	-	-	1,423.0	30.0
Weighted average fixed interest rate (%)	-	-	4.5%	3.9%	-	-	0.3%	0.8%
Fair value hedges								
Interest rate swaps								
Notional (£m)	**1,919.6**	**7,221.6**	**16,723.1**	**755.0**	1,230.6	6,036.2	14,351.7	888.3
Weighted average fixed interest rate (%)	0.5%	1.3%	1.4%	1.9%	0.6%	0.4%	0.5%	0.7%
Cross currency swaps								
Notional (£m)	**-**	**448.1**	**443.5**	**-**	-	-	891.6	-
Weighted average fixed interest rate (%)	-	0.5%	0.01%	-	-	-	0.3%	-

Society	2022				2021			
	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)	**-**	**9.0**	**1,996.6**	**730.5**	-	-	1,644.2	30.0
Weighted average fixed interest rate (%)	-	0.3%	3.7%	3.9%	-	-	0.4%	0.8%
Fair value hedges								
Interest rate swaps								
Notional (£m)	**2,038.7**	**7,435.4**	**17,416.4**	**755.0**	1,365.5	6,171.9	15,250.3	890.5
Weighted average fixed interest rate (%)	0.5%	1.3%	1.3%	1.9%	0.6%	0.4%	0.5%	0.7%

37. Derivative financial instruments (continued)

The table below provides further detail on the Group's fair value hedges used in hedge accounting relationships:

2022 Group	Notional £m	Carrying amount (note 1) Assets £m	Liabilities £m	Change in fair value credit / (charge) (note 2) £m	Hedge ineffectiveness (credit) / charge (note 3) £m
Interest rate swaps	**26,619.3**	**1,300.7**	**(258.0)**	**914.1**	**(0.3)**
Cross currency swaps	**891.6**	**-**	**(45.5)**	**5.2**	**0.9**
Society					
Interest rate swaps	**27,645.5**	**1,301.7**	**(321.1)**	**856.4[4]**	**(0.3)**
2021 Group					
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

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 gains / (losses) on financial instruments mandatorily held at FVTPL' 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 gains / (losses) on financial instruments mandatorily held at FVTPL.
4. In addition, £3.8m of fair value gains (2021: £0.5m losses) were recognised directly in the Group's cost of hedging reserve due to ineffectiveness arising as a result of foreign currency basis spread as described in note 1e).

The table below provides further detail on the Group's cash flow hedges used in hedge accounting relationships.

2022 Group	Notional £m	Carrying amount (note 1) Assets £m	Liabilities £m	Change in fair value (charge) / credit (note 2) £m	Gains reclassified from OCI to Income Statement £m
Interest rate swaps	**2,134.5**	**8.9**	**(39.2)**	**(43.1)**	**(12.8)**
Society					
Interest rate swaps	**2,736.1**	**11.5**	**(82.0)**	**(78.3)**	**(12.8)**
2021 Group					
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)

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 2022 or 2021 in respect of the Group or Society's cashflow hedges.

Hedged items

The tables below provide further detail on the Group's hedged items:

Group 2022	Carrying amount Assets £m	Liabilities £m	Fair value adjustments on hedged item (note 1) £m	SOFP line	Change in fair value (charge) / credit (note 2) £m	Amount remaining on items de-designated from hedge relationship (note 3) £m
Cash flow hedges						
Floating rate assets	**1,231.0**	**-**	**n/a**	Note 4	**n/a**	**116.8**
Floating rate liabilities	**-**	**903.5**	**n/a**	Note 5	**n/a**	**(45.7)**
Fair value hedges						
Fixed rate mortgages	**19,632.8**	**-**	**(966.8)**	Note 6	**(770.3)**	**-**
Debt securities	**638.9**	**-**	**(99.8)**	Note 4	**(78.0)**	**-**
Fixed rate savings	**-**	**7,679.4**	**(132.7)**	Note 7	**(77.9)**	**-**
Covered bonds	**-**	**889.2**	**(44.3)**	Note 5	**5.1**	**-**
Subordinated liabilities	**-**	**351.7**	**(39.3)**	Note 8	**(24.8)**	**-**
Group 2021						
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 8	13.9	-

Notes to the Accounts (continued)

37. Derivative financial instruments (continued)

Society 2022	Carrying amount Assets £m	Carrying amount Liabilities £m	Fair value adjustments on hedged item (note 1) £m	SOFP line	Change in fair value (charge) / credit (note 2) £m	Amount remaining on items de-designated from hedge relationship (note 3) £m
Cash flow hedges						
Floating rate assets	**1,240.8**	**-**	**n/a**	Note 4	**n/a**	**116.8**
Floating rate liabilities	**-**	**1,495.3**	**n/a**	Note 5	**n/a**	**(45.0)**
Fair value hedges						
Fixed rate mortgages	**19,674.9**	**-**	**(964.8)**	Note 6	**(782.5)**	**-**
Debt securities	**638.9**	**-**	**(99.8)**	Note 4	**(78.0)**	**-**
Fixed rate savings	**-**	**8,663.5**	**(191.7)**	Note 7	**(148.4)**	**-**
Subordinated liabilities	**-**	**351.7**	**(39.3)**	Note 8	**(24.8)**	**-**
Society 2021						
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 8	13.9	-

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 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' line in the Income Statement: as presented in note 5a) 'Hedging instruments and hedged items' line.
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 lines that include these items are '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'.

Group 2022	Notional £m	Carrying amount Assets £m	Carrying amount Liabilities £m	Change in fair value recognised in OCI: credit / (charge) £m	Amount reclassified from OCI to Income Statement £m
Cross currency swaps	**891.6**	**-**	**(45.5)**	**3.8**	**-**
2021					
Cross currency swaps	891.6	-	(54.5)	(0.5)	-

The tables below provide an analysis of amounts recognised in other comprehensive income resulting from hedge accounting during the year:

Group	2022 Cash flow hedging reserve £m	2022 Cost of hedging reserve £m	2022 Total £m	2021 Cash flow hedging reserve £m	2021 Cost of hedging reserve £m	2021 Total £m
Balance at 1 January	**4.0**	**(3.5)**	**0.5**	(15.1)	(3.5)	(18.6)
Change in fair value of derivatives in effective hedging relationships:						
Held to hedge interest rate risk	(30.1)	3.8	**(26.3)**	13.6	(0.5)	13.1
Net amounts reclassified to profit or loss from derivatives:						
Held to hedge interest rate risk	65.1	-	**65.1**	13.1	-	13.1
Tax on movements in reserves during the year	(9.4)	(1.4)	**(10.8)**	(7.6)	0.5	(7.1)
Balance at 31 December	**29.6**	**(1.1)**	**28.5**	4.0	(3.5)	0.5

Society	2022 Cash flow hedging reserve £m	2022 Cost of hedging reserve £m	2022 Total £m	2021 Cash flow hedging reserve £m	2021 Cost of hedging reserve £m	2021 Total £m
Balance at 1 January	**1.4**	**-**	**1.4**	(12.9)	-	(12.9)
Change in fair value of derivatives in effective hedging relationships:						
Held to hedge interest rate risk	(64.1)	-	(64.1)	7.6	-	7.6
Net amounts reclassified to profit or loss from derivatives:						
Held to hedge interest rate risk	64.5	-	64.5	12.1	-	12.1
Tax on movements in reserves during the year	-	-	-	(5.4)	-	(5.4)
Balance at 31 December	1.8	-	1.8	1.4	-	1.4

Notes to the Accounts (continued)

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.

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	2022						
	Repayable on demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	No specified maturity £m	Total £m
Assets							
Cash in hand and balances with the Bank of England	3,423.8	-	-	-	-	96.7	**3,520.5**
Loans and advances to credit institutions	190.9	0.8	-	-	-	440.2	**631.9**
Debt securities	-	245.7	744.7	1,347.4	302.5	-	**2,640.3**
Derivative financial instruments	-	9.5	123.7	1,069.9	152.0	-	**1,355.1**
Loans and advances to customers held at amortised cost	147.1	22.9	43.2	854.6	23,384.5	-	**24,452.3**
Loans and advances to customers held at FVTPL	1.0	-	-	-	-	-	**1.0**
Equity release portfolio at FVTPL	-	3.6	14.0	63.7	197.4	-	**278.7**
Equity share investments at FVTPL	-	-	-	-	-	1.2	**1.2**
Trade receivables	34.9	28.4	-	-	-	-	**63.3**
Contingent consideration	-	-	-	-	-	-	**-**
Share warrants	26.6	-	-	-	-	-	**26.6**
Other assets	-	-	-	-	-	-	**-**
Total financial assets	**3,824.3**	**310.9**	**925.6**	**3,335.6**	**24,036.4**	**538.1**	**32,970.9**
Liabilities							
Shares	6,137.5	12,999.5	1,342.5	1,808.6	61.5	-	**22,349.6**
Amounts owed to credit institutions	20.8	3.3	0.4	1,913.6	-	1,025.2	**2,963.3**
Amounts owed to other customers	728.7	593.9	826.8	189.8	-	-	**2,339.2**
Debt securities in issue	-	0.3	845.7	1,745.6	-	-	**2,591.6**
Derivative financial instruments	-	16.0	51.7	244.8	103.1	-	**415.6**
Lease liabilities	-	7.8	23.0	67.1	15.1	-	**113.0**
Trade payables	-	7.9	-	-	-	-	**7.9**
Fair value of put option obligation	-	-	3.5	0.3	-	-	**3.8**
Subordinated liabilities	-	-	-	311.8	-	-	**311.8**
Subscribed capital	-	-	-	-	-	41.6	**41.6**
Total financial liabilities	**6,887.0**	**13,628.7**	**3,093.6**	**6,281.6**	**179.7**	**1,066.8**	**31,137.4**
Net liquidity gap	**(3,062.7)**	**(13,317.8)**	**(2,168.0)**	**(2,946.0)**	**23,856.7**	**(528.7)**	**1,833.5**

Notes to the Accounts (continued)

38. Liquidity risk (continued)

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

Society	**2022 Repayable on demand £m**	**Up to 3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**No specified maturity £m**	**Total £m**
Assets							
Cash in hand and balances with the Bank of England	3,423.8	-	-	-	-	96.7	**3,520.5**
Loans and advances to credit institutions	80.9	-	-	-	-	540.7	**621.6**
Debt securities	-	218.3	667.3	1,384.6	302.5	-	**2,572.7**
Derivative financial instruments	-	9.8	124.4	1,072.4	135.7	-	**1,342.3**
Loans and advances to customers held at amortised cost	2.1	22.4	41.4	752.8	21,540.8	-	**22,359.5**
Loans and advances to customers held at FVTPL	1.0	-	-	-	-	-	**1.0**
Equity release portfolio at FVTPL	-	3.6	14.0	63.7	197.4	-	**278.7**
Loans to subsidiary undertakings	363.8	-	-	-	-	-	**363.8**
Trade receivables	1.5	0.4	-	-	-	-	**1.9**
Total financial assets	**3,873.1**	**254.5**	**847.1**	**3,273.5**	**22,176.4**	**637.4**	**31,062.0**
Liabilities							
Shares	6,137.5	12,999.5	1,342.5	1,808.6	2.4	-	**22,290.5**
Amounts owed to credit institutions	20.8	217.3	0.4	1,913.6	-	1,025.2	**3,177.3**
Amounts owed to other customers	222.9	32.9	12.7	360.2	-	-	**628.7**
Debt securities in issue	-	-	845.7	1,546.9	-	-	**2,392.6**
Derivative financial instruments	-	17.0	40.7	315.5	103.1	-	**476.3**
Lease liabilities	-	0.5	1.6	6.4	2.6	-	**11.1**
Trade payables	-	1.5	-	-	-	-	**1.5**
Subordinated liabilities	-	-	-	311.8	-	-	**311.8**
Subscribed capital	-	-	-	-	-	41.6	**41.6**
Total financial liabilities	**6,381.2**	**13,268.7**	**2,243.6**	**6,263.0**	**108.1**	**1,066.8**	**29,331.4**
Net liquidity gap	**(2,508.1)**	**(13,014.2)**	**(1,396.5)**	**(2,989.5)**	**22,068.3**	**(429.4)**	**1,730.6**

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

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 £239.8m (2021: £305.4m) of funding obtained through the Group's securitisation issuances carried out through Darrowby No. 5 plc. The final maturity dates of the securitisation notes are significantly out into the future, however the Group can exercise call options to repurchase the outstanding notes at dates within the next 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 following table is an analysis of undiscounted gross contractual cash flows payable on financial liabilities:

Group	**2022**				
	Up to 3 months £m	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Shares	19,137.8	1,349.2	1,838.8	61.5	**22,387.3**
Amounts owed to credit institutions, other customers and debt securities in issue	2,438.8	1,771.2	4,132.3	-	**8,342.3**
Derivative financial instruments	24.0	99.9	197.1	30.5	**351.5**
Lease liabilities	4.7	27.1	70.3	21.5	**123.6**
Trade payables	7.9	-	-	-	**7.9**
Fair value of put option obligation	-	3.5	0.3	-	**3.8**
Subordinated liabilities	-	7.0	364.0	-	**371.0**
Subscribed capital	1.6	2.9	18.0	see note	**22.5**
	21,614.8	**3,260.8**	**6,620.8**	**113.5**	**31,609.9**

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

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 203 and 204), it is not possible to calculate the total amount of undiscounted gross interest that is payable beyond 5 years (i.e. into perpetuity). Also, as the PIBS have no specified contractual maturity, the amounts shown in the tables above do not anticipate any future repurchase of the PIBS by the Group.

The undiscounted gross contractual cash flows of debt securities in issue that have been issued as securitisation funding in the tables above have been calculated on the assumption that the call options referred to on page 206 are exercised.

The Group has off-balance sheet exposure from commitments to lend where a mortgage has been offered but not yet completed. The total amount of such loan commitments at 31 December 2022 is £2,112.5m (2021: £1,647.9m) which are due within 3 months.

Notes to the Accounts (continued)

38. Liquidity risk (continued)

Society	2022 Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Shares	19,137.8	1,349.2	1,838.8	2.4	**22,328.2**
Amounts owed to credit institutions, other customers and debt securities in issue	1,553.3	950.3	3,991.3	-	**6,494.9**
Derivative financial instruments	19.8	94.5	255.6	30.5	**400.4**
Lease liabilities	0.7	1.9	6.8	2.6	**12.0**
Trade payables	1.5	-	-	-	**1.5**
Subordinated liabilities	-	7.0	364.0	-	**371.0**
Subscribed capital	1.6	2.9	18.0	see note	**22.5**
	20,714.7	**2,405.8**	**6,474.5**	**35.5**	**29,630.5**

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

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 205 and 206), it is not possible to calculate the total amount of undiscounted gross interest that is payable beyond 5 years (i.e. into perpetuity). Also, as the PIBS have no specified contractual maturity, the amounts shown in the tables above do not anticipate any future repurchase of the PIBS by the Society.

Amounts owed to other customers in the Society tables above include deemed loans from the Group's securitisation vehicle Darrowby No. 5 plc, which arises from the funding transactions carried out through this entity. The undiscounted gross contractual cash flows arising on these loans have been calculated on the assumption that the call options referred to on page 206 are exercised.

The Society has off-balance sheet exposure from commitments to lend where a mortgage has been offered but not yet completed. The total amount of such loan commitments at 31 December 2022 is £2,024.5m (2021: £1,574.1m) which are due within 3 months.

39. Market risk

Market risk is the risk that the value of, or income arising from, the Group's assets and liabilities changes as a result of changes in market prices, the principal elements being interest rate risk (including the use of derivatives) and foreign currency risk.

The Group's Treasury function is responsible for managing the Group's exposure to all aspects of market risk within the operational limits set out in the Group's Treasury policy, which is reviewed and recommended by ALCO and approved by the Board. The Group's 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 2022 £m	Average 2022 £m	High 2022 £m	Low 2022 £m	As at 31 December 2021 £m
Static earnings-at-risk	**7.4**	**10.8**	**26.0**	**2.9**	3.8
Historical value-at-risk	**3.2**	**2.9**	**3.8**	**2.0**	1.2
2% parallel interest rate shift	**22.8**	**20.6**	**28.7**	**12.9**	7.0

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 (2021: 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.

During 2022 Skipton International Limited (SIL) commenced holding deposits from customers denominated in US dollars (USD). SIL manages its foreign currency risk by holding cash and debt securities denominated in USD; the objective is to minimise mismatches between the balance and maturity profile of USD assets and USD liabilities, and also mismatches between the related interest income and interest expense on USD assets and liabilities.

In addition, a number of the Group's businesses undertake transactions denominated in foreign currency as part of their normal business. Any amounts outstanding at 31 December 2022 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 146.

40. Credit risk

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group.

The Group faces this risk from its lending to:

- individual customers (retail mortgages);
- businesses (through past commercial lending and current debt factoring / invoice discounting);
- wholesale counterparties (including other financial institutions). Credit risk within our treasury portfolio arises from the investments held by the Group in order to meet liquidity requirements and for general business purposes; and
- for the Society, lending to other Group entities.

Changes in the credit quality and the recoverability of loans and amounts due from counterparties influence the Group's exposure to credit risk. The Group's strategy is to maintain a cautious approach to credit risk and new lending. Adverse changes in the credit quality of counterparties, collateral values or deterioration in the wider economy, including rising unemployment, changes in interest rates, deterioration in household finances and any contraction in the UK property market leading to falling property values, could affect the recoverability and value of the Group's assets and influence its financial performance. An economic downturn and falls in house prices and commercial property values would adversely affect the level of impairment losses.

The Group has embedded a comprehensive risk management framework with clear lines of accountability and oversight as part of its overall governance framework.

The Group has processes and policies to monitor, control, mitigate and manage credit risk within the Group's credit risk appetite. The Retail Credit Committee and the Group Wholesale Credit Committee provide oversight to the effectiveness of all credit management across the Group and the controls in place ensure lending is within the Board approved credit risk appetite. The reporting structure ensures timely and accurate reporting of all substantive risk matters to the Board and the Board Risk Committee. The Board receives monthly updates on the credit risk profile of the Group.

Scenario analysis has been undertaken to identify the impact of climate-related risks on the Group's credit risk management. This includes assessing the residential lending portfolio at property level to determine the potential impact of key climate-related physical and transitional risks; the results of this assessment did not lead to a change in carrying amounts as at 31 December 2022 or 31 December 2021. 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 £966.8m (2021: £183.2m credit) for the Group and £964.8m (2021: £182.3m credit) for the Society is included within loans and advances to customers. This is indirectly exposed to credit risk through the relationship with the underlying loans covered by the Group's hedging strategy.
- The Group has credit risk exposure from commitments to lend where a mortgage has been offered but not yet completed, which leads to the recognition of a financial asset (within loans and advances to customers) on completion of the mortgage. As outlined in note 1g), an impairment loss allowance is held against these commitments in accordance with IFRS 9. The total amount of such loan commitments at 31 December 2022 is £2,112.5m (2021: £1,647.9m) for the Group and £2,024.5m (2021: £1,574.1m) for the Society and the impairment loss allowance held against these commitments is £0.5m (2021: £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.

The Group also has credit exposures for the mortgage portfolios previously held by Amber Homeloans Limited (Amber) and North Yorkshire Mortgages Limited (NYM); these mortgage portfolios are now held by the Society, following the hive-up of those two businesses into the Society with effect from 1 June 2021. These portfolios comprise residential UK mortgages, including buy-to-let, across prime and non-prime lending markets. These portfolios closed to new customer origination and lending in 2008 and are managed by adherence to clear policies in relation to mortgage servicing and credit management.

Commercial lending to customers and businesses

The Society's commercial mortgage portfolio was closed to new lending in November 2008.

Other loans and advances

These include advances made by our factored debt and invoice discounting business, Skipton Business Finance Limited (SBF), which continue to be managed by appropriately skilled teams. In addition, other loans and advances include advances made to residential mortgage customers in Guernsey and Jersey by SIL; these are secured on shares in a property management company which owns the building in which the properties are located. These loans are monitored by appropriately skilled teams in SIL.

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	**2022**				
	Gross carrying amount £m	**ECL allowance (note 14) £m**	**Fair value adjustment for hedged risk £m**	**Carrying amount £m**	**%**
Residential mortgages	**25,097.3**	**(32.5)**	**(966.8)**	**24,098.0**	**98.6**
Loans fully secured on land^	**159.3**	**(9.9)**	**-**	**149.4**	**0.6**
Other lending:					
Debt factoring advances	**150.6**	**(1.2)**	**-**	**149.4**	**0.6**
Other loans	**55.5**	**-**	**-**	**55.5**	**0.2**
	25,462.7	**(43.6)**	**(966.8)**	**24,452.3**	**100.0**

Group	2021				
	Gross carrying amount £m	ECL allowance (note 14) £m	Fair value adjustment for hedged risk £m	Carrying amount £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

40. Credit risk (continued)

Society	2022				
	Gross carrying amount £m	**ECL allowance (note 14) £m**	**Fair value adjustment for hedged risk £m**	**Carrying amount £m**	**%**
Residential mortgages	**23,206.8**	**(31.9)**	**(964.8)**	**22,210.1**	**99.3**
Loans fully secured on land^	**159.3**	**(9.9)**	**-**	**149.4**	**0.7**
	23,366.1	**(41.8)**	**(964.8)**	**22,359.5**	**100.0**

Society	2021				
	Gross carrying amount £m	ECL allowance (note 14) £m	Fair value adjustment for hedged risk £m	Carrying amount £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

^ Also known as commercial mortgages.

For details on how the Group assesses ECLs see note 1g).

i) Residential mortgages

The majority of loans and advances to customers are secured on UK residential properties and are geographically diverse.

The tables below provide information on residential loans and advances by payment due status:

	Group 2022				**Society 2022**			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Not past due	20,685.8	4,264.8	8.5	**24,959.1**	18,799.9	4,263.0	8.5	**23,071.4**
Up to 30 days past due	-	49.3	2.9	**52.2**	-	47.8	2.9	**50.7**
31 to 60 days past due	-	27.6	4.9	**32.5**	-	27.1	4.9	**32.0**
61 to 90 days past due	-	9.7	8.1	**17.8**	-	8.9	8.1	**17.0**
Over 90 days past due	-	-	35.7	**35.7**	-	-	35.7	**35.7**
	20,685.8	**4,351.4**	**60.1**	**25,097.3**	**18,799.9**	**4,346.8**	**60.1**	**23,206.8**

	Group 2021				Society 2021			
	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

The tables below provide information on movements in the gross carrying amount of residential loans and advances to customers during the year:

	Group 2022				**Society 2022**			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount as at 1 January	**22,326.2**	**458.9**	**70.1**	**22,855.2**	**20,676.9**	**455.6**	**70.0**	**21,202.5**
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(4,106.4)	3,953.2	-	**(153.2)**	(4,104.3)	3,951.1	-	**(153.2)**
From stage 1 to stage 3	(3.4)	-	3.4	**-**	(3.4)	-	3.4	**-**
From stage 2 to stage 1	57.4	(61.5)	-	**(4.1)**	56.2	(60.2)	-	**(4.0)**
From stage 2 to stage 3	-	(8.7)	8.7	**-**	-	(8.7)	8.7	**-**
From stage 3 to stage 2	-	11.5	(12.0)	**(0.5)**	-	11.5	(12.0)	**(0.5)**
From stage 3 to stage 1	0.1	-	(0.1)	**-**	0.1	-	(0.1)	**-**
Modification of contractual cashflows	(39.4)	29.4	4.3	**(5.7)**	(39.4)	29.4	4.3	**(5.7)**
Increases due to origination	6,084.0	37.8	0.2	**6,122.0**	5,620.2	37.8	0.2	**5,658.2**
Decrease due to derecognition and repayments	(3,630.6)	(73.6)	(10.8)	**(3,715.0)**	(3,404.2)	(74.1)	(10.7)	**(3,489.0)**
Written off	(0.2)	(0.2)	(3.9)	**(4.3)**	(0.2)	(0.2)	(3.9)	**(4.3)**
Other movements	(1.9)	4.6	0.2	**2.9**	(2.0)	4.6	0.2	**2.8**
Gross carrying amount as at 31 December	**20,685.8**	**4,351.4**	**60.1**	**25,097.3**	**18,799.9**	**4,346.8**	**60.1**	**23,206.8**

	Group 2021				Society 2021			
	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

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 2022 there was a net increase in stage 2 loans of £3,892.5m for the Group and £3,891.2m for the Society. As outlined in note 1w), during 2022 the Group has revised its view on forward-looking economic indicators, and also the associated scenario weightings, to reflect the heightened economic uncertainties and rising interest rate environment; this caused PDs to increase and, as a result, a number of accounts which were previously held in stage 1 have met the 'significant increase in credit risk' criteria and migrated to stage 2.

Gains and losses arising during the year from loan modifications that did not result in derecognition were not significant. Amounts written off are in accordance with the Group's accounting policy for write-offs (see note 1g)). Amounts presented within 'other movements' in the tables above include movements in the Group's effective interest rate asset as described in note 1e).

For residential mortgages, stage 3 loans which no longer meet any of the default criteria are subject to a six month minimum probation period before they become eligible for transfer out of stage 3. At 31 December 2022, stage 3 loans include £20.4m for the Group (2021: £19.2m) and £20.4m for the Society (2021: £19.2m) 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:

	Group 2022				Society 2022			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance as at 1 January attributable by stage	3.4	2.3	4.9	**10.6**	3.3	2.3	4.9	**10.5**
Additional provision for payment deferrals (note 1)				**0.3**				**0.3**
Loss allowance as at 1 January				**10.9**				**10.8**
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(0.9)	13.5	-	**12.6**	(0.9)	13.5	-	**12.6**
From stage 1 to stage 3	-	-	0.2	**0.2**	-	-	0.2	**0.2**
From stage 2 to stage 1	-	(0.1)	-	**(0.1)**	-	(0.1)	-	**(0.1)**
From stage 2 to stage 3	-	(0.2)	0.4	**0.2**	-	(0.2)	0.4	**0.2**
From stage 3 to stage 2	-	0.3	(0.4)	**(0.1)**	-	0.3	(0.4)	**(0.1)**
Remeasurements within existing stage	4.7	1.0	(0.2)	**5.5**	4.2	1.0	(0.2)	**5.0**
Increases due to origination	4.5	0.5	-	**5.0**	4.5	0.5	-	**5.0**
Decrease due to derecognition and repayments	(0.5)	(0.3)	(0.3)	**(1.1)**	(0.5)	(0.3)	(0.3)	**(1.1)**
Changes due to modification without derecognition	-	0.7	0.2	**0.9**	-	0.7	0.2	**0.9**
Written off	-	-	(1.2)	**(1.2)**	-	-	(1.2)	**(1.2)**
	11.2	**17.7**	**3.6**	**32.8**	**10.6**	**17.7**	**3.6**	**32.2**
Decrease in additional provision for payment deferrals (note 1)				**(0.3)**				**(0.3)**
Loss allowance as at 31 December				**32.5**				**31.9**

	Group 2021				Society 2021			
	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

Note

1. An additional provision for credit losses was previously recognised to reflect the estimated impact on ECLs of payment deferrals granted in response to the COVID-19 pandemic where no other indicator of significant increase in credit risk had occurred; as at 31 December 2022 this additional provision is no longer held by the Group or by the Society (2021: Group £0.3m; Society £0.3m). When held, this additional provision was not allocated to the underlying loans and was not attributed to stages; it is shown within the total column of the tables above. Further details are included in note 1w).

The loss allowance as at 31 December 2022 includes post model adjustments totalling £13.3m (2021: £4.5m) for the Group and totalling £12.8m (2021: £4.5m) 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	2022							
	Gross carrying amount				Loss allowance			
Probability of default	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<0.15%	65.2	0.3	-	**65.5**	0.5	-	-	**0.5**
0.15% - <0.25%	1,265.7	0.1	-	**1,265.8**	0.4	-	-	**0.4**
0.25% - <0.5%	6,580.0	1.0	-	**6,581.0**	2.8	-	-	**2.8**
0.5% - <0.75%	7,468.3	1.4	-	**7,469.7**	3.5	-	-	**3.5**
0.75% - <2.5%	5,286.2	93.5	-	**5,379.7**	4.0	0.1	-	**4.1**
2.5% - <10%	20.4	1,746.0	-	**1,766.4**	-	2.8	-	**2.8**
10% - <100%	-	2,509.1	-	**2,509.1**	-	14.8	-	**14.8**
Default	-	-	60.1	**60.1**	-	-	3.6	**3.6**
	20,685.8	4,351.4	60.1	**25,097.3**	11.2	17.7	3.6	**32.5**
ECL coverage by stage (%)					**0.05%**	**0.41%**	**5.99%**	**0.13%**

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%

Society	2022							
	Gross carrying amount				Loss allowance			
Probability of default	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<0.15%	65.2	0.3	-	**65.5**	0.5	-	-	**0.5**
0.15% - <0.25%	1,265.7	0.1	-	**1,265.8**	0.4	-	-	**0.4**
0.25% - <0.5%	6,596.3	1.0	-	**6,597.3**	2.8	-	-	**2.8**
0.5% - <0.75%	5,566.1	1.4	-	**5,567.5**	2.9	-	-	**2.9**
0.75% - <2.5%	5,286.2	93.5	-	**5,379.7**	4.0	0.1	-	**4.1**
2.5% - <10%	20.4	1,746.0	-	**1,766.4**	-	2.8	-	**2.8**
10% - <100%	-	2,504.5	-	**2,504.5**	-	14.8	-	**14.8**
Default	-	-	60.1	**60.1**	-	-	3.6	**3.6**
	18,799.9	4,346.8	60.1	**23,206.8**	10.6	17.7	3.6	**31.9**
ECL coverage by stage (%)					**0.06%**	**0.41%**	**5.99%**	**0.14%**

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%

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	2022			2021		
	Gross carrying amount £m	ECL allowance £m	ECL coverage %	Gross carrying amount £m	ECL allowance £m	ECL coverage %
Over 30 days past due	37.3	1.2	3.2%	31.2	0.6	1.9%
In forbearance	10.5	0.1	1.0%	7.8	-	0.0%
In arrears	44.5	0.9	2.0%	43.6	0.2	0.5%
Term expired	24.8	0.2	0.8%	22.0	0.1	0.5%
Increase in PD since origination	4,234.3	15.3	0.4%	354.3	1.4	0.4%
	4,351.4	**17.7**	**0.4%**	458.9	2.3	0.5%

Stage 2 analysis Society	2022			2021		
	Gross carrying amount £m	ECL allowance £m	ECL coverage %	Gross carrying amount £m	ECL allowance £m	ECL coverage %
Over 30 days past due	36.0	1.2	3.3%	30.5	0.6	2.0%
In forbearance	8.7	0.1	1.1%	6.8	-	0.0%
In arrears	43.0	0.9	2.1%	42.1	0.2	0.5%
Term expired	24.8	0.2	0.8%	22.0	0.1	0.5%
Increase in PD since origination	4,234.3	15.3	0.4%	354.2	1.4	0.4%
	4,346.8	**17.7**	**0.4%**	455.6	2.3	0.5%

The tables below provide further information on the types of lending and geographical split:

Group	2022				2021			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Prime:								
Residential	16,746.1	2,278.4	36.8	**19,061.3**	16,802.7	302.3	43.1	17,148.1
Buy-to-let	3,818.2	1,899.8	6.9	**5,724.9**	5,264.6	64.7	5.7	5,335.0
Self build	7.0	3.3	0.5	**10.8**	10.7	1.8	0.5	13.0
Fast track	11.9	3.4	0.2	**15.5**	18.1	1.5	0.3	19.9
Self certified	88.7	128.4	13.1	**230.2**	182.6	64.1	14.6	261.3
Sub-prime^:								
Residential	3.2	6.1	0.9	**10.2**	7.6	4.9	1.9	14.4
Buy-to-let	3.3	6.6	-	**9.9**	13.3	1.1	0.1	14.5
Self certified	7.4	25.4	1.7	**34.5**	26.6	18.5	3.9	49.0
	20,685.8	**4,351.4**	**60.1**	**25,097.3**	22,326.2	458.9	70.1	22,855.2

Society	2022				2021			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Prime:								
Residential	15,931.6	2,275.8	36.8	**18,244.2**	15,941.7	300.4	43.0	16,285.1
Buy-to-let	2,747.5	1,897.8	6.9	**4,652.2**	4,477.0	63.3	5.7	4,546.0
Self build	7.0	3.3	0.5	**10.8**	10.7	1.8	0.5	13.0
Fast track	11.9	3.4	0.2	**15.5**	18.1	1.5	0.3	19.9
Self certified	88.0	128.4	13.1	**229.5**	181.9	64.1	14.6	260.6
Sub-prime^:								
Residential	3.2	6.1	0.9	**10.2**	7.6	4.9	1.9	14.4
Buy-to-let	3.3	6.6	-	**9.9**	13.3	1.1	0.1	14.5
Self-certified	7.4	25.4	1.7	**34.5**	26.6	18.5	3.9	49.0
	18,799.9	**4,346.8**	**60.1**	**23,206.8**	20,676.9	455.6	70.0	21,202.5

^ Sub-prime mortgages are defined as loans to borrowers that typically had weakened credit histories at the time the loan was advanced. Prior to 1 June 2021, these loans were held by the Group's specialist lending businesses Amber and NYM; these loans were hived-up into the Society with effect from 1 June 2021.

Group	2022				2021			
Region	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
North	647.3	128.3	2.5	**778.1**	782.1	16.6	2.9	801.6
Yorkshire	1,703.1	370.0	5.5	**2,078.6**	1,914.9	46.5	6.6	1,968.0
East Midlands	1,350.9	286.4	4.9	**1,642.2**	1,558.6	34.7	5.7	1,599.0
East Anglia	1,805.4	375.5	5.1	**2,186.0**	676.7	11.0	1.5	689.2
London	3,606.4	940.5	7.5	**4,554.4**	3,807.7	67.3	9.7	3,884.7
South East	3,124.1	647.9	10.8	**3,782.8**	4,401.3	93.1	13.7	4,508.1
South West	1,932.2	435.7	2.7	**2,370.6**	2,210.2	41.6	5.7	2,257.5
West Midlands	1,567.6	329.3	4.1	**1,901.0**	1,673.6	35.9	4.9	1,714.4
North West	2,009.5	423.6	9.3	**2,442.4**	2,074.1	52.5	9.7	2,136.3
Wales	615.7	127.5	1.7	**744.9**	699.8	19.3	2.1	721.2
Scotland	1,450.8	276.5	4.7	**1,732.0**	1,595.2	34.2	5.7	1,635.1
Northern Ireland	9.5	7.7	1.3	**18.5**	16.5	4.0	1.8	22.3
Channel Islands	863.3	2.5	-	**865.8**	915.5	2.2	0.1	917.8
	20,685.8	**4,351.4**	**60.1**	**25,097.3**	22,326.2	458.9	70.1	22,855.2

Society	2022				2021			
Region	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
North	643.6	128.3	2.5	**774.4**	779.0	16.6	2.9	798.5
Yorkshire	1,688.0	370.0	5.5	**2,063.5**	1,902.6	46.5	6.6	1,955.7
East Midlands	1,343.0	286.4	4.9	**1,634.3**	1,552.4	34.7	5.7	1,592.8
East Anglia	1,789.4	375.5	5.1	**2,170.0**	667.9	11.0	1.5	680.4
London	2,948.4	939.3	7.5	**3,895.2**	3,320.5	67.3	9.7	3,397.5
South East	3,000.9	647.0	10.8	**3,658.7**	4,323.2	92.2	13.7	4,429.1
South West	1,902.8	435.7	2.7	**2,341.2**	2,188.5	41.6	5.7	2,235.8
West Midlands	1,516.4	329.3	4.1	**1,849.8**	1,639.5	35.9	4.9	1,680.3
North West	1,918.0	423.6	9.3	**2,350.9**	2,010.0	52.3	9.7	2,072.0
Wales	612.0	127.5	1.7	**741.2**	697.3	19.3	2.1	718.7
Scotland	1,427.9	276.5	4.7	**1,709.1**	1,579.5	34.2	5.7	1,619.4
Northern Ireland	9.5	7.7	1.3	**18.5**	16.5	4.0	1.8	22.3
	18,799.9	**4,346.8**	**60.1**	**23,206.8**	20,676.9	455.6	70.0	21,202.5

Notes to the Accounts (continued)

40. Credit risk (continued)

Indexed loan-to-value information on the Group's residential loan portfolio is set out below:

Group	2022				2021			
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%	5,073.0	1,475.9	15.0	**6,563.9**	5,080.8	117.7	14.1	5,212.6
40% - 50%	3,571.1	1,034.9	16.1	**4,622.1**	4,032.0	83.5	10.0	4,125.5
50% - 60%	3,544.2	981.7	15.4	**4,541.3**	4,252.7	101.1	17.4	4,371.2
60% - 70%	3,930.0	695.9	7.7	**4,633.6**	3,930.4	94.3	17.3	4,042.0
70% - 80%	2,399.0	140.2	2.9	**2,542.1**	3,266.6	49.2	6.2	3,322.0
80% - 90%	1,811.5	16.3	0.8	**1,828.6**	1,340.9	9.4	2.2	1,352.5
90% - 100%	353.8	3.2	0.2	**357.2**	414.1	1.4	0.6	416.1
>100%	3.2	3.3	2.0	**8.5**	8.7	2.3	2.3	13.3
	20,685.8	**4,351.4**	**60.1**	**25,097.3**	22,326.2	458.9	70.1	22,855.2

Society	2022				2021			
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%	4,720.2	1,475.2	15.0	**6,210.4**	4,816.7	117.2	14.1	4,948.0
40% - 50%	3,225.0	1,033.5	16.1	**4,274.6**	3,750.9	83.0	9.9	3,843.8
50% - 60%	3,109.3	980.7	15.4	**4,105.4**	3,875.0	99.9	17.4	3,992.3
60% - 70%	3,456.9	695.9	7.7	**4,160.5**	3,512.9	94.1	17.3	3,624.3
70% - 80%	2,140.4	138.7	2.9	**2,282.0**	3,022.7	48.6	6.2	3,077.5
80% - 90%	1,793.0	16.3	0.8	**1,810.1**	1,284.8	9.1	2.2	1,296.1
90% - 100%	351.9	3.2	0.2	**355.3**	405.2	1.4	0.6	407.2
>100%	3.2	3.3	2.0	**8.5**	8.7	2.3	2.3	13.3
	18,799.9	**4,346.8**	**60.1**	**23,206.8**	20,676.9	455.6	70.0	21,202.5

For the year ended 31 December 2021, the Group indexed UK property prices using the quarterly Halifax regional non-seasonally adjusted index; with effect from 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).

There has been a marginal increase in the volume of 80-90% LTV lending within the year as we continue to deliver on our purpose of helping more people have a home. This has resulted in an increase in the overall percentage of the book with an LTV greater than 80%; 9.4% at 31 December 2022 (2021: 8.1%) and a slight increase in the average indexed loan-to-value of the Society's new lending in 2022 to 57.5% (2021: 56.4%). The quality of the lending remains high, with a well-managed spread of risk, carried out in a controlled manner being cognisant of the economic challenges that lie ahead. This is represented by the proportion of Group residential mortgage accounts in arrears by three months or more which remained low at 0.16% (2021: 0.22%).

At 31 December 2022, 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 40.9% (2021: 42.8%) and for Society residential mortgages was 40.5% (2021: 42.4%).

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.

Possessions

For the Group, at 31 December 2022 the balance of residential loans where the property has been taken into possession was £2.2m and represents less than 0.1% of total outstanding loans (2021: £2.1m; less than 0.1%). For the Society, at 31 December 2022 the balance of residential loans where the property has been taken into possession was £2.2m and represents less than 0.1% of total outstanding loans (2021: £2.1m; less than 0.1%). All possessions balances are classified as stage 3.

Forbearance activity

The tables below provide further information on residential mortgages regarded as being in forbearance as at 31 December 2022, showing the type of account renegotiations applied. For the purposes of these forbearance tables, the Group applies the Bank of England Prudential Regulatory Authority (PRA) definition of forbearance (which is aligned to the European Banking Authority, EBA, definition). Under the PRA definition, loans are required to meet certain payment and arrears criteria before they are deemed to exit forbearance; this includes a minimum two year probation period following the forbearance event (extended to three years in certain situations).

For the purposes of the tables below, the following loans are thus regarded as being in forbearance as at 31 December 2022:

- 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 2022); and
- any loan to which forbearance measures were applied and which remains on renegotiated terms at 31 December 2022 (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)).

Notes to the Accounts (continued)

40. Credit risk (continued)

Group 2022	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Term extension £m	Total renegotiations £m	%
Stage 1							
Not past due	20,685.8	0.2	15.6	7.8	0.4	24.0	0.1
	20,685.8	**0.2**	**15.6**	**7.8**	**0.4**	**24.0**	**0.1**
Stage 2							
Not past due	4,264.8	0.1	42.8	8.1	0.8	51.8	1.2
Past due up to 30 days	49.3	-	22.9	0.6	0.2	23.7	48.1
Over 30 days past due	37.3	-	13.3	0.5	-	13.8	37.0
	4,351.4	**0.1**	**79.0**	**9.2**	**1.0**	**89.3**	**2.1**
Stage 3							
Not past due	8.5	-	3.5	0.2	-	3.7	43.5
Past due up to 90 days	15.9	-	6.4	1.0	0.1	7.5	47.2
Over 90 days past due	35.7	-	17.9	1.2	0.2	19.3	54.1
	60.1	**-**	**27.8**	**2.4**	**0.3**	**30.5**	**50.7**
Gross carrying amount	**25,097.3**	**0.3**	**122.4**	**19.4**	**1.7**	**143.8**	**0.6**
Loss allowance	**(32.5)**	**-**	**(2.8)**	**(0.1)**	**-**	**(2.9)**	**8.9**
	25,064.8	**0.3**	**119.6**	**19.3**	**1.7**	**140.9**	**0.6**

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

Society 2022	Total £m	Capitalisation £m	Reduced payment £m	Transfer to interest only £m	Term extension £m	Total renegotiations £m	%
Stage 1							
Not past due	18,799.9	0.2	15.6	7.8	0.4	24.0	0.1
	18,799.9	**0.2**	**15.6**	**7.8**	**0.4**	**24.0**	**0.1**
Stage 2							
Not past due	4,263.0	0.1	42.2	6.9	0.8	50.0	1.2
Past due up to 30 days	47.8	-	22.9	0.6	0.2	23.7	49.6
Over 30 days past due	36.0	-	13.3	0.5	-	13.8	38.3
	4,346.8	**0.1**	**78.4**	**8.0**	**1.0**	**87.5**	**2.0**
Stage 3							
Not past due	8.5	-	3.5	0.2	-	3.7	43.5
Past due up to 90 days	15.9	-	6.4	1.0	0.1	7.5	47.2
Over 90 days past due	35.7	-	17.9	1.2	0.2	19.3	54.1
	60.1	**-**	**27.8**	**2.4**	**0.3**	**30.5**	**50.7**
Gross carrying amount	**23,206.8**	**0.3**	**121.8**	**18.2**	**1.7**	**142.0**	**0.6**
Loss allowance	**(31.9)**	**-**	**(2.8)**	**(0.1)**	**-**	**(2.9)**	**9.1**
	23,174.9	**0.3**	**119.0**	**18.1**	**1.7**	**139.1**	**0.6**

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

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 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Stage 1	**20,682.7**	22,324.2	**18,798.7**	20,675.0
Stage 2	**4,350.6**	458.7	**4,346.1**	455.4
Stage 3	**59.6**	69.3	**59.6**	69.2
	25,092.9	22,852.2	**23,204.4**	21,199.6
Gross loan balances	**25,097.3**	22,855.2	**23,206.8**	21,202.5
Negative equity	**4.4**	3.0	**2.4**	2.9
Capped collateral held in respect of possessions (included within stage 3 above)	**2.0**	1.9	**2.0**	1.9

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 2022 is £61,406.2m (2021: £53,425.3m) and for the Society is £57,294.9m (2021: £49,962.3m).

At 31 December 2022 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 £0.6m (2021: £0.8m) for the Group and £0.6m (2021: £0.8m) for the Society.

ii) Commercial mortgages

The commercial mortgage portfolio (also known as loans fully secured on land) is currently closed to new business.

The tables below provide information on commercial loans by payment due status.

	2022 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	2021 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Not past due	105.2	41.7	3.8	**150.7**	33.5	136.1	1.8	171.4
Up to 30 days	0.1	2.2	-	**2.3**	0.1	6.4	-	6.5
31 to 60 days	-	3.0	-	**3.0**	-	3.7	-	3.7
61 to 90 days	-	-	0.1	**0.1**	-	1.2	-	1.2
Over 90 days	-	-	3.2	**3.2**	-	-	12.2	12.2
	105.3	**46.9**	**7.1**	**159.3**	33.6	147.4	14.0	195.0

The table below provides information on movements in the gross carrying amount of commercial loans during the year.

	2022 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	2021 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount as at 1 January	**33.6**	**147.4**	**14.0**	**195.0**	36.0	161.9	21.1	219.0
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(4.3)	4.1	-	**(0.2)**	-	-	-	-
From stage 1 to stage 3	(0.8)	-	0.7	**(0.1)**	-	-	-	-
From stage 2 to stage 1	70.0	(75.3)	-	**(5.3)**	-	-	-	-
From stage 2 to stage 3	-	(0.7)	0.5	**(0.2)**	-	-	-	-
From stage 3 to stage 2	-	-	-	**-**	-	0.2	(0.2)	-
Modification of contractual cashflows	14.1	(10.6)	(5.6)	**(2.1)**	1.0	1.3	(6.1)	(3.8)
Decrease due to derecognition and repayments	(7.3)	(18.0)	(1.9)	**(27.2)**	(3.4)	(16.0)	(0.8)	(20.2)
Written off	-	-	(0.6)	**(0.6)**	-	-	-	-
Gross carrying amount as at 31 December	**105.3**	**46.9**	**7.1**	**159.3**	33.6	147.4	14.0	195.0

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)).

For commercial loans, stage 3 loans which no longer meet any of the default criteria are subject to a three month minimum probation period before they become eligible for transfer out of stage 3. At 31 December 2022, stage 3 loans include £nil being held in stage 3 under this probation period (2021: £nil).

The table below provides information on movements in the impairment loss allowance for commercial loans during the year.

	2022 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	2021 Group and Society Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance as at 1 January	**-**	**12.0**	**4.2**	**16.2**	-	13.5	4.3	17.8
Transfers due to changes in credit risk:								
From stage 1 to stage 2	-	0.3	-	**0.3**	-	-	-	-
From stage 2 to stage 1	0.9	(4.8)	-	**(3.9)**	-	-	-	-
From stage 2 to stage 3	-	(0.1)	-	**(0.1)**	-	-	-	-
From stage 3 to stage 2	-	-	-	**-**	-	0.1	-	0.1
Remeasurements within existing stage	0.2	(0.3)	(0.1)	**(0.2)**	-	(0.6)	0.2	(0.4)
Decrease due to derecognition and repayments	-	(1.0)	(1.4)	**(2.4)**	-	(0.6)	-	(0.6)
Changes due to modification without derecognition	0.2	1.7	(1.6)	**0.3**	-	(0.4)	(0.3)	(0.7)
Written off	-	-	(0.3)	**(0.3)**	-	-	-	-
Loss allowance as at 31 December	**1.3**	**7.8**	**0.8**	**9.9**	-	12.0	4.2	16.2
ECL coverage (%)	**1.23%**	**16.63%**	**11.27%**	**6.21%**	0.00%	8.14%	30.00%	8.31%

40. Credit risk (continued)

Given the size and nature of the Group's commercial portfolio, it is not meaningful to manage credit risk by reference to behavioural scores or PD percentages. Credit risk is predominantly managed by individual review of loans in accordance with certain criteria and includes the use of 'watchlists'. To aid an understanding of significant credit risk concentrations for the Group's commercial portfolio, the tables below provide analyses of loans by industry type, by geography and by loan-to-value percentage.

Industry analysis	**2022 Group and Society**				2021 Group and Society			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Leisure and hotels	7.7	8.2	0.5	**16.4**	-	11.8	6.6	18.4
Retail	3.3	-	0.4	**3.7**	0.3	4.1	0.3	4.7
Nursing / residential homes	1.7	4.1	0.7	**6.5**	9.7	-	0.4	10.1
Offices	1.3	0.5	-	**1.8**	-	2.1	-	2.1
Commercial and industrial units	90.6	32.6	5.5	**128.7**	22.3	127.8	6.7	156.8
Miscellaneous	0.7	1.5	-	**2.2**	1.3	1.6	-	2.9
	105.3	**46.9**	**7.1**	**159.3**	33.6	147.4	14.0	195.0

Geographical analysis	**2022 Group and Society**				2021 Group and Society			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
North	2.4	2.9	1.0	**6.3**	3.2	4.9	1.0	9.1
Yorkshire	7.9	7.7	0.1	**15.7**	2.6	10.8	5.5	18.9
East Midlands	4.0	7.4	-	**11.4**	2.0	12.6	1.7	16.3
East Anglia	11.5	0.6	-	**12.1**	0.8	2.9	-	3.7
London	28.5	4.4	2.4	**35.3**	2.2	38.2	2.4	42.8
South East	15.9	7.0	0.7	**23.6**	8.8	29.2	1.2	39.2
South West	10.8	4.7	0.6	**16.1**	3.0	16.9	0.5	20.4
West Midlands	6.3	5.5	0.4	**12.2**	7.0	7.0	-	14.0
North West	12.4	5.0	1.5	**18.9**	2.3	18.3	1.6	22.2
Wales	2.6	1.6	-	**4.2**	0.8	3.9	0.1	4.8
Scotland	3.0	0.1	0.4	**3.5**	0.9	2.7	-	3.6
	105.3	**46.9**	**7.1**	**159.3**	33.6	147.4	14.0	195.0

Loan-to-value	**2022 Group and Society**				2021 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
<40%	36.2	3.1	2.7	**42.0**	8.4	29.0	0.3	37.7
40% - 50%	17.0	2.3	0.4	**19.7**	6.1	20.0	3.3	29.4
50% - 60%	19.8	4.0	1.1	**24.9**	5.2	29.3	0.5	35.0
60% - 70%	10.9	5.2	-	**16.1**	8.6	24.1	-	32.7
70% - 80%	8.4	4.5	-	**12.9**	2.1	9.6	-	11.7
80% - 90%	4.4	3.4	0.8	**8.6**	1.1	7.1	-	8.2
90% - 100%	5.8	2.6	0.3	**8.7**	0.9	7.0	0.3	8.2
>100%	2.8	21.8	1.8	**26.4**	1.2	21.3	9.6	32.1
	105.3	**46.9**	**7.1**	**159.3**	33.6	147.4	14.0	195.0

At 31 December 2022 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 44.9% (2021: 48.5%). 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 2022 the balance of commercial mortgages where the property has been taken into possession was £nil for the Group and Society (2021: £nil). Possessions balances are classified as stage 3.

The tables below provide further information on commercial mortgages regarded as being in forbearance as at 31 December 2022, showing the type of account renegotiations applied. The tables below are presented on the same basis as the corresponding tables for residential mortgages, the basis for which is described on page 221.

Group and Society 2022	**Total £m**	**Capitalisation £m**	**Reduced payment £m**	**Transfer to interest only £m**	**Total renegotiations £m**	**%**
Stage 1						
Not past due	105.2	-	16.5	0.2	16.7	15.9
Past due up to 30 days	0.1	-	0.1	-	0.1	100.0
	105.3	**-**	**16.6**	**0.2**	**16.8**	**16.0**
Stage 2						
Not past due	41.7	-	17.6	-	17.6	42.2
Past due up to 30 days	2.2	-	2.1	-	2.1	95.5
Over 30 days past due	3.0	-	3.0	-	3.0	100.0
	46.9	**-**	**22.7**	**-**	**22.7**	**48.4**
Stage 3						
Not past due	3.8	-	0.4	0.4	0.8	21.1
Past due up to 90 days	0.1	-	0.1	-	0.1	100.0
Over 90 days past due	3.2	-	3.2	-	3.2	100.0
	7.1	**-**	**3.7**	**0.4**	**4.1**	**57.7**
Gross carrying amount	159.3	-	43.0	0.6	43.6	**27.4**
Loss allowance	(9.9)	-	(5.7)	-	(5.7)	**57.6**
	149.4	**-**	**37.3**	**0.6**	**37.9**	**25.4**

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	-	-	-	-	-
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

40. Credit risk (continued)

Collateral

The collateral held consists of properties held within the categories previously outlined. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

Fair value of capped collateral held

An analysis of capped collateral, where the collateral is capped to the lower of the value of the property and the amount outstanding on an individual loan basis, is shown below.

	Group and Society 2022 £m	Group and Society 2021 £m
Stage 1	104.9	33.4
Stage 2	41.5	141.9
Stage 3	6.7	11.3
	153.1	186.6
Gross loan balances	159.3	195.0
Negative equity	6.2	8.4
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 2022 is £354.4m (2021: £402.2m).

At 31 December 2022 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 £0.2m (2021: £nil) for the Group and the Society.

iii) Other lending

Other lending comprises the following:

Group	2022			2021		
	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	150.6	(1.2)	149.4	120.5	(1.0)	119.5
Other loans	55.5	-	55.5	65.4	-	65.4
	206.1	(1.2)	204.9	185.9	(1.0)	184.9

The table below provides information on movements in the gross carrying amount of other loans and advances during the year.

Group	2022				2021			
	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	180.8	5.1	-	185.9	152.4	4.5	-	156.9
Transfers due to changes in credit risk:								
From stage 1 to stage 2	(2.4)	2.4	-	-	(0.5)	0.5	-	-
From stage 1 to stage 3	(0.3)	-	0.3	-	-	-	-	-
From stage 2 to stage 1	0.2	(0.2)	-	-	0.5	(0.5)	-	-
From stage 2 to stage 3	-	(0.2)	0.2	-	-	(0.1)	0.1	-
From stage 3 to stage 1	0.1	-	(0.1)	-	-	-	-	-
Modification of contractual cashflows	0.1	-	-	0.1	-	-	-	-
Increases due to origination	63.5	0.1	-	63.6	59.8	1.3	-	61.1
Decrease due to derecognition and repayments	(41.6)	(1.6)	(0.2)	(43.4)	(31.4)	(0.6)	-	(32.0)
Write-offs	-	-	(0.1)	(0.1)	-	-	(0.1)	(0.1)
Gross carrying amount as at 31 December	200.4	5.6	0.1	206.1	180.8	5.1	-	185.9

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	2022				2021			
	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	-	1.0	-	1.0
Transfers due to changes in credit risk:								
From stage 1 to stage 2	-	0.5	-	0.5	-	0.3	-	0.3
From stage 2 to stage 1	-	(0.1)	-	(0.1)	-	(0.1)	-	(0.1)
From stage 2 to stage 3	-	(0.1)	0.1	-	-	(0.1)	0.1	-
Remeasurements within existing stage	0.1	(0.2)	-	(0.1)	-	(0.1)	-	(0.1)
Write-offs	-	-	(0.1)	(0.1)	-	-	(0.1)	(0.1)
Loss allowance as at 31 December	0.1	1.1	-	1.2	-	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 2022 and 31 December 2021, 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.

Notes to the Accounts (continued)

40. Credit risk (continued)

Other loans

The table below provides information on the gross carrying amount of other loans by payment due status.

Group	2022 Stage 1 £m	2022 Stage 2 £m	2022 Total £m	2021 Stage 1 £m	2021 Stage 2 £m	2021 Total £m
Not past due	55.4	-	55.4	65.4	-	65.4
61 to 90 days	-	0.1	0.1	-	-	-
	55.4	**0.1**	**55.5**	65.4	-	65.4

The other loans of **£55.5m** (2021: £65.4m) 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 £122.3m (2021: £126.5m).

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 2022 none of the Group or the Society's treasury assets were past due (2021: none past due). At 31 December 2022 the ECLs on the Group and the Society's treasury assets were all held as stage 1 (2021: all stage 1).

At 31 December 2022 and 31 December 2021, all the Group and the Society's treasury investments (except for certain collateral held at less than £0.1m) were assessed to have a probability of default (PD) of less than 0.15%.

The Group's accounting policies on impairment losses on treasury assets and how the Group assesses ECLs and PDs on treasury assets are detailed in note 1g).

At 31 December 2022, 100% (2021: 100%) of the Group's treasury investment assets (including cash in hand and with the Bank of England and excluding exposures to a central clearing house used to clear derivatives to manage interest rate risk in line with regulation) were rated A3 or better, and for the Society 98.4% (2021: 99.8%) 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 2022 £m	Group 2022 %	Group 2021 £m	Group 2021 %	Society 2022 £m	Society 2022 %	Society 2021 £m	Society 2021 %
Aaa	**1,611.9**	**23.7**	1,263.0	24.8	**1,627.5**	**24.2**	1,322.9	26.7
Aa1	**193.8**	**2.9**	211.3	4.1	**193.8**	**2.9**	211.3	4.3
Aa2	**96.2**	**1.4**	23.0	0.5	**96.2**	**1.4**	3.0	0.1
Aa3	**4,219.5**	**62.1**	2,902.2	57.0	**4,120.7**	**61.5**	2,788.1	56.3
A1	**251.4**	**3.7**	370.6	7.3	**157.3**	**2.3**	292.9	5.9
A2	**1.2**	**-**	125.5	2.5	**-**	**-**	125.6	2.5
A3	**40.3**	**0.6**	-	-	**40.3**	**0.6**	-	-
Unrated:								
Building Societies	**-**	**-**	-	-	**100.6**	**1.5**	9.9	0.2
Other	**378.4**	**5.6**	199.9	3.8	**378.4**	**5.6**	199.8	4.0
	6,792.7	**100.0**	5,095.5	100.0	**6,714.8**	**100.0**	4,953.5	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 2022 £m	Group 2022 %	Group 2021 £m	Group 2021 %	Society 2022 £m	Society 2022 %	Society 2021 £m	Society 2021 %
Cash in hand and balances with the Bank of England	**3,520.5**	**51.8**	2,433.6	47.7	**3,520.5**	**52.4**	2,433.6	49.0
Loans and advances to banks and building societies	**631.9**	**9.3**	468.7	9.2	**621.6**	**9.3**	386.4	7.8
Gilts	**288.3**	**4.2**	366.5	7.2	**234.8**	**3.5**	286.8	5.8
Certificates of deposit	**282.5**	**4.2**	334.9	6.6	**282.5**	**4.2**	314.9	6.4
Fixed rate bonds	**554.9**	**8.2**	757.6	14.9	**554.9**	**8.3**	757.6	15.3
Floating rate notes	**260.3**	**3.8**	283.9	5.6	**169.5**	**2.5**	193.3	3.9
Treasury bills	**367.9**	**5.4**	20.0	0.4	**318.5**	**4.7**	-	-
Covered bonds	**561.1**	**8.3**	260.3	5.1	**561.1**	**8.4**	260.3	5.3
Residential mortgage backed securities	**325.3**	**4.8**	170.0	3.3	**451.4**	**6.7**	320.6	6.5
	6,792.7	**100.0**	5,095.5	100.0	**6,714.8**	**100.0**	4,953.5	100.0

Geographical exposure	Group 2022 £m	Group 2022 %	Group 2021 £m	Group 2021 %	Society 2022 £m	Society 2022 %	Society 2021 £m	Society 2021 %
UK	**5,702.5**	**84.0**	3,909.8	76.7	**5,783.1**	**86.1**	3,894.4	78.6
Rest of Europe	**269.1**	**4.0**	189.8	3.7	**228.3**	**3.4**	159.6	3.2
Supranationals:								
Europe	**201.8**	**3.0**	289.7	5.7	**161.6**	**2.4**	249.5	5.0
Global	**295.1**	**4.3**	342.0	6.7	**280.0**	**4.2**	326.9	6.6
Africa	**26.5**	**0.4**	29.3	0.6	**26.5**	**0.4**	29.3	0.6
Asia	**128.5**	**1.9**	136.9	2.7	**103.3**	**1.5**	111.8	2.3
South America	**50.9**	**0.7**	53.8	1.1	**50.9**	**0.8**	53.8	1.1
North America	**115.1**	**1.7**	71.7	1.4	**81.1**	**1.2**	58.2	1.2
Rest of World	**3.2**	**-**	72.5	1.4	**-**	**-**	70.0	1.4
	6,792.7	**100.0**	5,095.5	100.0	**6,714.8**	**100.0**	4,953.5	100.0

Notes to the Accounts (continued)

40. Credit risk (continued)

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 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Gross carrying amount	67.0	75.5	1.9	1.7
Loss allowance	(3.7)	(4.4)	-	(0.2)
Net carrying amount	63.3	71.1	1.9	1.5

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Loss allowance as at 1 January	4.4	2.7	0.2	0.2
Net allowances made during the year	0.3	(0.2)	(0.2)	-
Hive-up of subsidiaries	-	2.9	-	-
Write-offs	(1.0)	(1.0)	-	-
Loss allowance as at 31 December	3.7	4.4	-	0.2

The table below provides information on the gross carrying amount of trade receivables by payment due status.

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Not past due	28.4	36.1	0.4	0.4
Up to 30 days past due	25.5	27.6	0.6	0.3
31 to 120 days past due	8.4	7.8	0.5	0.5
Over 120 days past due	4.7	4.0	0.4	0.5
	67.0	75.5	1.9	1.7

No collateral is held against trade receivables. At 31 December 2022 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 (2021: £nil) for the Group and £nil (2021: £nil) for the Society.

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 2022 the Group held three derivatives (2021: 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	2022				2021			
	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	1,355.1	(311.4)	(1,025.2)	18.5	227.9	(89.3)	(146.3)	(7.7)
Financial liabilities								
Derivative financial instruments	415.6	(311.4)	(61.8)	42.4	292.1	(89.3)	(129.7)	73.1

Society	2022				2021			
	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	1,342.3	(314.9)	(1,025.2)	2.2	229.7	(84.5)	(146.3)	(1.1)
Financial liabilities								
Derivative financial instruments	476.3	(314.9)	(162.4)	(1.0)	251.7	(84.5)	(139.5)	27.7

In respect of the Group's derivative liabilities, there is a net amount after offsetting of £42.4m (2021: £73.1m) between the value of the derivatives and the cash collateral pledged. This predominantly relates to the collateral arrangements for the two cross currency derivatives held by the Group where collateral is not required to be posted up to a threshold.

In respect of the Group's derivative assets, there is a net amount after offsetting of £18.5m (2021: £(7.7)m) between the value of the derivatives and the cash collateral held. This predominantly relates to the collateral arrangements for one of the derivatives of the Group where collateral is not required to be posted due to the nature of the agreement with the derivative counterparty.

Notes to the Accounts (continued)

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	2022 Amortised cost £m	2022 FVOCI £m	2022 FVTPL £m	2022 Total £m	2021 Amortised cost £m	2021 FVOCI £m	2021 FVTPL £m	2021 Total £m
Cash in hand and balances with the Bank of England	3,520.5	-	-	**3,520.5**	2,433.6	-	-	2,433.6
Loans and advances to credit institutions	631.9	-	-	**631.9**	468.7	-	-	468.7
Debt securities	-	2,640.3	-	**2,640.3**	-	2,193.2	-	2,193.2
Derivative financial instruments	-	-	1,355.1	**1,355.1**	-	-	227.9	227.9
Loans and advances to customers	24,452.3	-	1.0	**24,453.3**	23,024.8	-	1.2	23,026.0
Equity release portfolio	-	-	278.7	**278.7**	-	-	406.6	406.6
Equity share investments	-	-	1.2	**1.2**	-	8.5	1.7	10.2
Trade receivables	63.3	-	-	**63.3**	71.1	-	-	71.1
Contingent consideration	-	-	-	**-**	-	-	6.3	6.3
Share warrants	-	-	26.6	**26.6**	-	-	11.0	11.0
Other assets	0.3	-	1.4	**1.7**	-	-	1.9	1.9
Total financial assets	**28,668.3**	**2,640.3**	**1,664.0**	**32,972.6**	25,998.2	2,201.7	656.6	28,856.5
Other non-financial assets				**598.7**				611.5
Total assets				**33,571.3**				29,468.0
Shares	22,349.6	-	-	**22,349.6**	19,759.8	-	-	19,759.8
Amounts owed to credit institutions and other customers	5,302.5	-	-	**5,302.5**	4,452.6	-	-	4,452.6
Debt securities in issue	2,591.6	-	-	**2,591.6**	2,218.1	-	-	2,218.1
Derivative financial instruments	-	-	415.6	**415.6**	-	-	292.1	292.1
Lease liabilities	113.0	-	-	**113.0**	114.4	-	-	114.4
Trade payables	7.9	-	-	**7.9**	14.7	-	-	14.7
Fair value of put option obligation	-	-	3.8	**3.8**	-	-	8.6	8.6
Subordinated liabilities	311.8	-	-	**311.8**	336.3	-	-	336.3
Subscribed capital	41.6	-	-	**41.6**	41.6	-	-	41.6
Total financial liabilities	**30,718.0**	**-**	**419.4**	**31,137.4**	26,937.5	-	300.7	27,238.2
Other non-financial liabilities				**240.8**				265.4
Total liabilities				**31,378.2**				27,503.6

All financial assets and liabilities in the table above that are held as at FVTPL are mandatorily held as such.

Society	2022 Amortised cost £m	2022 FVOCI £m	2022 FVTPL £m	2022 Total £m	2021 Amortised cost £m	2021 FVOCI £m	2021 FVTPL £m	2021 Total £m
Cash in hand and balances with the Bank of England	3,520.5	-	-	**3,520.5**	2,433.6	-	-	2,433.6
Loans and advances to credit institutions	621.6	-	-	**621.6**	386.4	-	-	386.4
Debt securities	-	2,514.6	58.1	**2,572.7**	-	2,069.6	63.9	2,133.5
Derivative financial instruments	-	-	1,342.3	**1,342.3**	-	-	229.7	229.7
Loans and advances to customers	22,359.5	-	1.0	**22,360.5**	21,188.2	-	1.2	21,189.4
Equity release portfolio	-	-	278.7	**278.7**	-	-	406.6	406.6
Loans to subsidiary undertakings	363.8	-	-	**363.8**	257.0	-	-	257.0
Trade receivables	1.9	-	-	**1.9**	1.5	-	-	1.5
Total financial assets	**26,867.3**	**2,514.6**	**1,680.1**	**31,062.0**	24,266.7	2,069.6	701.4	27,037.7
Other non-financial assets				**204.6**				192.4
Total assets				**31,266.6**				27,230.1
Shares	22,290.5	-	-	**22,290.5**	19,749.3	-	-	19,749.3
Amounts owed to credit institutions and other customers	3,806.0	-	-	**3,806.0**	3,156.7	-	-	3,156.7
Debt securities in issue	2,392.6	-	-	**2,392.6**	1,911.3	-	-	1,911.3
Derivative financial instruments	-	-	476.3	**476.3**	-	-	251.7	251.7
Lease liabilities	11.1	-	-	**11.1**	11.5	-	-	11.5
Trade payables	1.5	-	-	**1.5**	0.1	-	-	0.1
Subordinated liabilities	311.8	-	-	**311.8**	336.3	-	-	336.3
Subscribed capital	41.6	-	-	**41.6**	41.6	-	-	41.6
Total financial liabilities	**28,855.1**	**-**	**476.3**	**29,331.4**	25,206.8	-	251.7	25,458.5
Other non-financial liabilities				**49.4**				48.0
Total liabilities				**29,380.8**				25,506.5

All financial assets and liabilities in the table above that are held as at FVTPL are mandatorily held as such.

b) Valuation of financial instruments carried at fair value

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy as explained below.

Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs used in measuring fair value:

Level 1

The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Group's Level 1 portfolio mainly comprises 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.

Notes to the Accounts (continued)

41. Fair values (continued)

Level 3

These are valuation techniques for which one or more significant inputs are not based on observable market data.

Valuation techniques include net present value by way of discounted cash flow models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, similar market products, foreign currency exchange rates and equity index prices. Critical judgement is applied by management in utilising unobservable inputs including expected price volatilities, expected mortality rates and prepayment rates, based on industry practice or historical observation. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants on an arm's-length basis.

Transfers between levels

The Group makes transfers between the different levels of the fair value hierarchy where the inputs used to measure the fair value of the financial instruments in question no longer satisfy the conditions required to be classified in a certain level within the hierarchy. Any such transfer between different levels of the fair value hierarchy is made at the date the event in question that results in a change in circumstances occurs.

On 30 June 2022 the Group's equity share investment in Commercial and Northern Limited (formerly Bank North Limited), designated at FVOCI, was transferred from Level 2 to Level 3; this was on the grounds that certain inputs into the fair valuation were no longer considered observable as at that date. On 31 December 2021 the contingent consideration asset held by the Group was transferred from Level 3 to Level 2; this was on the grounds that the fair value of this asset, determined by calculating the present value of expected future cashflows, was 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 2022 or the year ended 31 December 2021.

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	2022				2021			
	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	2,357.8	282.5	-	**2,640.3**	1,858.3	334.9	-	2,193.2
Equity share investments	-	-	-	**-**	-	8.5	-	8.5
Financial assets at FVTPL:								
Equity share investments	0.1	-	1.1	**1.2**	0.2	-	1.5	1.7
Derivative financial instruments	-	1,322.7	32.4	**1,355.1**	-	221.5	6.4	227.9
Equity release portfolio	-	-	278.7	**278.7**	-	-	406.6	406.6
Loans and advances to customers	-	-	1.0	**1.0**	-	-	1.2	1.2
Contingent consideration	-	-	-	**-**	-	6.3	-	6.3
Share warrants	-	-	26.6	**26.6**	-	-	11.0	11.0
Other assets	-	-	1.4	**1.4**	-	-	1.9	1.9
	2,357.9	**1,605.2**	**341.2**	**4,304.3**	1,858.5	571.2	428.6	2,858.3
Financial liabilities								
Financial liabilities at FVTPL:								
Derivative financial instruments	-	356.7	58.9	**415.6**	-	135.0	157.1	292.1
Fair value of put option obligation	-	-	3.8	**3.8**	-	-	8.6	8.6
	-	**356.7**	**62.7**	**419.4**	-	135.0	165.7	300.7
	2,357.9	**1,248.5**	**278.5**	**3,884.9**	1,858.5	436.2	262.9	2,557.6

Society	2022				2021			
	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	2,232.1	282.5	-	**2,514.6**	1,754.7	314.9	-	2,069.6
Financial assets at FVTPL:								
Derivative financial instruments	-	1,326.2	16.1	**1,342.3**	-	226.2	3.5	229.7
Debt securities	58.1	-	-	**58.1**	63.9	-	-	63.9
Equity release portfolio	-	-	278.7	**278.7**	-	-	406.6	406.6
Loans and advances to customers	-	-	1.0	**1.0**	-	-	1.2	1.2
	2,290.2	**1,608.7**	**295.8**	**4,194.7**	1,818.6	541.1	411.3	2,771.0
Financial liabilities								
Financial liabilities at FVTPL:								
Derivative financial instruments	-	417.4	58.9	**476.3**	-	94.6	157.1	251.7
	-	**417.4**	**58.9**	**476.3**	-	94.6	157.1	251.7
	2,290.2	**1,191.3**	**236.9**	**3,718.4**	1,818.6	446.5	254.2	2,519.3

The tables below analyse the movements in the Level 3 portfolio during the year:

Group	2022							
	Equity share investments £m	Equity release portfolio £m	Loans and advances to customers £m	Derivative financial instruments £m	Fair value of put option obligation £m	Share warrants £m	Other assets £m	Total £m
At 1 January	1.5	406.6	1.2	(150.7)	(8.6)	11.0	1.9	**262.9**
Transfers from Level 2	9.4	-	-	-	-	-	-	**9.4**
(Loss) / gain recognised in Income Statement	(0.4)[1]	(132.3)[2]	-	122.5[3]	0.2[4]	12.1[5]	-	**2.1**
Loss recognised in OCI	(9.4)[6]	-	-	-	-	-	-	**(9.4)**
Revaluations to goodwill	-	-	-	-	1.6	-	-	**1.6**
Accrued interest	-	10.0[7]	0.1[7]	1.7[7]	-	-	-	**11.8**
Repayments	-	(5.0)	(0.3)	-	-	-	-	**(5.3)**
Realised losses	-	(0.7)[8]	-	-	-	-	-	**(0.7)**
Exercise of put options by non-controlling	-	-	-	-	3.0	-	-	**3.0**
Additions / other	-	0.1	-	-	-	3.5	(0.5)	**3.1**
At 31 December	**1.1**	**278.7**	**1.0**	**(26.5)**	**(3.8)**	**26.6**	**1.4**	**278.5**

Notes

1. These are unrealised losses and are included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' line in the Income Statement; as presented in note 5a) within 'Equity share investments' line.
2. These are unrealised losses and are included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' line in the Income Statement; as presented in note 5a) within 'Equity release portfolio' line.
3. These are unrealised gains and are included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' line in the Income Statement; as presented in note 5a) within 'Derivatives associated with equity release portfolio' line.
4. Included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' line in the Income Statement; as presented in note 5a) within 'Put options held by minority shareholders' line.
5. Included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' line in the Income Statement; as presented in note 5a) within 'Share warrants' line.
6. Included in the 'Items that will not be reclassified to profit or loss: (Losses) / gains on equity share investments designated at FVOCI' line in the Statement of Comprehensive Income.
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.

Notes to the Accounts (continued)

41. Fair values (continued)

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' line in the Income Statement; as presented in note 5a) within 'Equity share investments' line.
2. These are unrealised gains and are included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' line in the Income Statement; as presented in note 5a) within 'Equity release portfolio' line.
3. These are unrealised losses and are included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' line in the Income Statement; as presented in note 5a) within 'Derivatives associated with equity release portfolio' line.
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' line in the Income Statement; as presented in note 5a) within 'Share warrants' line.
6. Included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' line in the Income Statement; as presented in note 5a) within 'Put options held by minority shareholders' line.
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.

Society	2022			
	Equity release portfolio £m	**Loans and advances to customers £m**	**Derivative financial instruments £m**	**Total £m**
At 1 January	406.6	1.2	(153.6)	**254.2**
(Loss) / gain recognised in Income Statement	(132.3)[1]	-	109.1[2]	**(23.2)**
Accrued interest	10.0[3]	0.1[3]	1.7[3]	**11.8**
Repayments	(5.0)	(0.3)	-	**(5.3)**
Realised losses	(0.7)[4]	-	-	**(0.7)**
Additions / further advances	0.1	-	-	**0.1**
At 31 December	**278.7**	**1.0**	**(42.8)**	**236.9**

Notes
1. Included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' line in the Income Statement; as presented in note 5a) within 'Equity release portfolio' line.
2. £122.5m is included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' line in the Income Statement; as presented in note 5a) within 'Derivatives associated with equity release portfolio' line. The remaining £(13.4)m is included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' line in the Income Statement; as presented in note 5a) within 'Hedging instruments and hedged items' line.
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	2021				
	Equity release portfolio £m	Loans and advances to customers £m	Derivative financial instruments £m	Amounts owed to credit institutions and other customers £m	Total £m
At 1 January	433.8	1.3	(176.8)	(117.8)	140.5
(Loss) / gain 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' line in the Income Statement; as presented in note 5a) within 'Equity release portfolio' line.
2. £32.8m is included in the 'Fair value gains / (losses) gains on financial instruments mandatorily held at FVTPL' line in the Income Statement; as presented in note 5a) within 'Derivatives associated with equity release portfolio' line. The remaining £(7.4)m is included in the 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL' line in the Income Statement; as presented in note 5a) within 'Hedging instruments and hedged items' line.
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.

Notes to the Accounts (continued)

41. Fair values (continued)

Equity share investments

The valuation of the Group's unlisted investments is typically regarded as a Level 3 valuation technique as certain inputs are not market observable. Until 30 June 2022 the valuation of the Group's equity share investment in Commercial and Northern Limited (formerly Bank North Limited) was regarded as Level 2; this was on the grounds that the valuation of this investment was based on latest available information that included, inter alia, information from periodic share issuances by Bank North. As noted on page 236, this investment was transferred to Level 3 with effect from 30 June 2022; this was on the grounds that there were no recent share issuances or other market observable inputs available when updating the fair value. Further details of the Group's equity share investments are found in note 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 237 to 239 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 £9.8m charge (2021: £5.5m credit).

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).

Share warrants and other assets

These assets relate to share warrants held in unlisted entities and amounts recognised, where appropriate, for additional share warrants yet to be received. The valuation of these assets is regarded as a Level 3 valuation technique as certain inputs into the valuation are not market observable. Further details are found in note 1e).

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.

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 2022 Carrying value £m	Group 2022 Fair value £m	Society 2022 Carrying value £m	Society 2022 Fair value £m
Financial assets				
Cash in hand and balances with the Bank of England	3,520.5	3,520.5	3,520.5	3,520.5
Loans and advances to credit institutions	631.9	631.9	621.6	621.6
Loans and advances to customers	24,452.3	23,593.3	22,359.5	21,572.2
Trade receivables	63.3	63.3	1.9	1.9
Loans to subsidiary undertakings	-	-	363.8	363.8
Other assets	0.3	0.3	-	-
	28,668.3	**27,809.3**	**26,867.3**	**26,080.0**
Financial liabilities				
Shares	22,349.6	22,209.5	22,290.5	22,209.5
Amounts owed to credit institutions	2,963.3	2,963.3	3,177.3	3,177.3
Amounts owed to other customers	2,339.2	2,327.9	628.7	628.0
Debt securities in issue	2,591.6	2,590.7	2,392.6	2,350.9
Lease liabilities	113.0	113.0	11.1	11.1
Trade payables	7.9	7.9	1.5	1.5
Subordinated liabilities	311.8	312.8	311.8	312.8
Subscribed capital	41.6	58.0	41.6	58.0
	30,718.0	**30,583.1**	**28,855.1**	**28,749.1**

	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

Notes to the Accounts (continued)

41. Fair values (continued)

Key considerations in the calculation of fair values of those financial assets and liabilities not presented within the Statement of Financial Position at fair value are set out below unless there is no significant difference between carrying value and fair value.

Loans and advances to customers

For fixed rate and tracker mortgage products, the Group has estimated the fair value of these products using discounted cash flows and has applied relevant current market product rates as discount rates in order to also incorporate an element of future expected credit losses. 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. All inputs to this valuation technique are market observable and as such they are categorised within Level 2 of the fair value hierarchy.

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.

42. Group segmental reporting

The Group's structure and reportable segments are outlined in the Strategic Report on pages 14 and 15.

As noted on pages 136 and 137, the Group's reportable segments have been revised with effect from 1 January 2022. Skipton Group Holdings Limited (SGHL), which was previously presented within the Mortgages and Savings division, is now presented within the Central division (the Central division was previously labelled 'Sundry including inter-divisional adjustments'); management considers that this revised presentation better reflects the nature of SGHL's current activities. The comparative amounts shown in the tables below for the year ended 31 December 2021 are restated accordingly.

Transactions between the segments are on normal commercial terms and conditions. The accounting policies of the reportable segments are consistent with the Group's accounting policies. The Group has not aggregated any of its operating segments for the purposes of financial reporting.

No geographical analysis is presented because substantially all of the Group's activities are conducted within the UK. Of the total external income, £50.4m (2021: £31.9m) was generated outside the UK.

A breakdown of the allocation of goodwill to each segmental area is included within note 21.

	2022				
	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Central £m	Total £m
Net interest income	414.9	(4.0)	4.1	9.4	**424.4**
Net non-interest income	36.3	1,021.1	33.1	(10.1)	**1,080.4**
Fair value gains on hedged items and derivatives	121.8	-	-	-	**121.8**
Fair value losses on equity release portfolio	(132.3)	-	-	-	**(132.3)**
Fair value gains on share warrants	-	12.1	-	-	**12.1**
Fair value gains on put options held by minority shareholders	-	0.2	-	-	**0.2**
Fair value losses on equity share investments mandatorily held at FVTPL	-	(0.5)	-	-	**(0.5)**
Profit on disposal of Group undertakings	-	-	-	0.1	**0.1**
Share of profits from joint ventures	-	1.4	-	-	**1.4**
Total income	**440.7**	**1,030.3**	**37.2**	**(0.6)**	**1,507.6**
Administrative expenses	(202.6)	(960.8)	(29.0)	3.9	**(1,188.5)**
Realised losses on equity release portfolio	(0.7)	-	-	-	**(0.7)**
Impairment and provisions for liabilities	(17.3)	(2.0)	(0.3)	-	**(19.6)**
Profit before tax	**220.1**	**67.5**	**7.9**	**3.3**	**298.8**
Taxation	(52.7)	(13.0)	(1.4)	(0.7)	**(67.8)**
Profit after tax	**167.4**	**54.5**	**6.5**	**2.6**	**231.0**
Total assets	**33,104.9**	**646.3**	**171.4**	**(351.3)**	**33,571.3**
Total liabilities	**31,110.0**	**413.3**	**159.6**	**(304.7)**	**31,378.2**

Total income can be analysed as follows:

	2022				
	Mortgages and Savings £m	Estate Agency £m	Investment Portfolio £m	Central £m	Total £m
External income	440.3	1,025.0	37.7	4.6	**1,507.6**
Income from other segments	0.4	5.3	(0.5)	(5.2)	**-**
Total income	**440.7**	**1,030.3**	**37.2**	**(0.6)**	**1,507.6**

Notes to the Accounts (continued)

42. Group segmental reporting (continued)

	2021				
	Mortgages and Savings Restated* £m	Estate Agency £m	Investment Portfolio £m	Central Restated* £m	Total £m
Net interest income	291.8	(6.2)	2.6	8.5	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	331.7	1,026.2	29.7	(3.3)	1,384.3
Administrative expenses	(171.5)	(915.6)	(24.1)	(13.9)	(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	172.2	111.3	5.5	(17.2)	271.8
Taxation	(38.9)	(16.5)	(1.3)	0.8	(55.9)
Profit / (loss) after tax	133.3	94.8	4.2	(16.4)	215.9
Total assets	29,006.2	693.8	141.7	(373.7)	29,468.0
Total liabilities	27,226.4	475.9	132.5	(331.2)	27,503.6

Total income can be analysed as follows:

	2021				
	Mortgages and Savings Restated* £m	Estate Agency £m	Investment Portfolio £m	Central Restated* £m	Total £m
External income	325.3	1,020.5	29.3	9.2	1,384.3
Income from other segments	6.4	5.7	0.4	(12.5)	-
Total income	331.7	1,026.2	29.7	(3.3)	1,384.3

* As noted on page 243, the amounts shown above for the year ended 31 December 2021 are restated to reflect that SGHL (previously presented within 'Mortgages and Savings') is now presented within 'Central' (the Central division was previously labelled 'Sundry including inter-divisional adjustments'). The impacts for 'Mortgages and Savings' are that profit after tax has increased by £1.4m, total assets has reduced by £30.2m and total liabilities has reduced by £20.3m. The corresponding impacts for 'Central' are that loss after tax has increased by £1.4m, the deduction against total assets has reduced by £30.2m and the deduction against total liabilities has reduced by £20.3m. These impacts are presentational only and there is no impact on total Group amounts reported for the year ended 31 December 2021.

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 35 and 36, 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 36. Throughout both the current year and the prior year, the Group complied with and maintained surplus capital above all externally imposed capital requirements.

44. Adoption of new and revised International Financial Reporting Standards

The Group adopted during the year the following amendments to existing accounting standards, which did not have a material impact on these financial statements:

- *Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37);*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);*
- *Reference to the Conceptual Framework (Amendments to IFRS 3); and*
- *Fees in the '10 per cent' test for derecognition of financial liabilities* (Amendments to IFRS 9).

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*);*
- *Definition of Accounting Estimates* (Amendments to IAS 8);
- *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2);
- *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (Amendments to IAS 12); and
- *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16).

45. Subsequent events

There have been no material subsequent events between 31 December 2022 and the date of approval of this Annual Report and Accounts by the Board.

Other Information

Other Information

Country by Country Reporting

Nature of the Group's activities

The Skipton Building Society Group holds an investment in a number of subsidiary undertakings. The Society and the majority of its subsidiary undertakings are incorporated in the UK, with the exception of the entities listed below. For a full list of the principal trading subsidiaries in the Group and the nature of their activities, see note 17a) of the financial statements.

Name of subsidiary undertaking	Principal business activity	Country of incorporation	% ownership interest 31.12.22
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.

2022 £m	UK	Australia	Guernsey	New Zealand	Jersey	Total
Total income by country	1,437.7	3.2	38.5	16.5	12.3	**1,508.2**
Inter-country adjustments	0.1	-	(0.1)	(0.6)	-	**(0.6)**
Consolidated income	**1,437.8**	**3.2**	**38.4**	**15.9**	**12.3**	**1,507.6**
Profit before tax by country	258.0	0.3	31.4	0.3	8.8	**298.8**
Inter-country adjustments	2.1	1.2	(0.8)	(2.5)	-	**-**
Consolidated profit before tax	**260.1**	**1.5**	**30.6**	**(2.2)**	**8.8**	**298.8**

£m	UK	Australia	Guernsey	New Zealand	Jersey	Total
Current tax expense	**50.7**	**0.1**	**3.1**	**(0.1)**	**0.9**	**54.7**
Corporation taxes paid	**65.3**	**0.1**	**1.7**	**-**	**0.8**	**67.9**
Public subsidies received^	**-**	**-**	**-**	**0.3**	**-**	**0.3**
Average number of employees	**16,765**	**15**	**68**	**223**	**6**	**17,077**

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

^ Public subsidies received relate to cash payments received from governments in the form of grants.

Other Information

Annual Business Statement

1. Statutory percentages

	As at 31 December 2022 %	Statutory Limit %
Lending limit	**3.65**	25.00
Funding limit	**21.07**	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

	2022 %	2021 %
As a percentage of shares and borrowings:		
(i) Gross capital	**8.42**	8.86
(ii) Free capital	**6.74**	6.89
(iii) Liquid assets	**22.46**	19.28
As a percentage of mean total assets:		
(i) Group profit after taxation	**0.73**	0.75
(ii) Group management expenses	**3.77**	3.90
(iii) Society management expenses	**0.66**	0.60
As a percentage of closing total assets:		
(i) Group profit after tax	**0.69**	0.73

These percentages form part of the audited Accounts.

Explanation

The above percentages have been calculated from the Group and Society Income Statements and Statements of Financial Position.

Shares, deposits and borrowings represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest and the fair value adjustments for hedged risk.

Gross capital represents the general reserve together with the fair value reserve, cash flow hedging reserve, cost of hedging reserve, translation reserve, subordinated liabilities, subscribed capital and non-controlling interests, as shown within the Group Statement of Financial Position. Free capital represents gross capital, less property, plant and equipment, right-of-use assets, investment property and intangible assets as shown within the Group Statement of Financial Position.

Liquid assets represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities. Mean total assets are the average of the 2022 and 2021 total assets. Management expenses represent administrative expenses.

3. Information relating to Directors at 31 December 2022

The Board of Directors at 31 December 2022, their dates of birth and dates of appointment as a Director are as follows:

	Date of birth	Date of appointment
A P Bottomley*	12 July 1965	1 January 2016
G V Burr	12 January 1963	27 April 2022
J R Coates	26 September 1951	27 March 2017
I M Cornelius*	11 February 1969	11 June 2012
I A Cummings	22 October 1961	1 July 2022
S A Haire*	18 April 1974	31 December 2022
D A Hall	9 November 1955	27 March 2017
H L Jackson	23 August 1965	24 October 2018
M J Lund	1 July 1957	25 April 2016
P W Moore	5 January 1960	1 February 2021
R S D M Ndawula*	24 February 1974	23 February 2015

* 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 2022 were as follows:

A P Bottomley	Building Society Customer Director	New Homes Group Limited Skipton Financial Services Limited Skipton Group Holdings Limited
G Burr	Non-Executive Director & Chair	Ingleby Farms & Forests Metro AG 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	Connells Limited *(resigned 31 December 2022)* Giggleswick School Jade Software Corporation Limited Skipton Group Holdings Limited Skipton Trustees Limited
I A Cummings	Non-Executive Director	Skipton Group Holdings Limited Rathbones Group Plc Rathbone Investment Management Limited
S A Haire	Building Society Group Chief Executive	Skipton Group Holdings Limited
D A Hall	Non-Executive Director	Aareal Bank AG Auxmoney Europe Holding Limited Moneta Money Bank Skipton Group Holdings Limited
H L Jackson	Non-Executive Director	Admiral Long Foundation Ikano Bank AB Rothesay Life PLC Rothesay Limited Skipton Group Holdings Limited Yorkshire Cancer Research

Annual Business Statement (continued)

3. Information relating to Directors at 31 December 2022 (continued)

M J Lund	Non-Executive Director	Coutts & Company Connells Limited Equiniti Financial Services Limited Skipton Group Holdings Limited
P W Moore	Non-Executive Director	Bank of Ireland (UK) PLC Connells Ltd 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 Chief Financial Officer	Connells Ltd Skipton Financial Services Limited Skipton Group Holdings Limited Skipton Group Limited Skipton International Limited Skipton Limited Skipton Mortgage Corporation Limited Skipton Mortgages Limited Skipton Premier Mortgages Limited Skipton Premises Limited Yorkshire Cancer Research

Messrs Bottomley, Cornelius, Haire and Ndawula have service contracts entered into on 1 January 2016, 7 December 2012, 14 July 2022 and 25 February 2015 respectively which may be terminated by either party giving one year's notice.

4. Principal office

Skipton Building Society is a building society incorporated and domiciled in the United Kingdom. The address of the principal office is The Bailey, Skipton, North Yorkshire, BD23 1DN.

Glossary

Set out below are the definitions of terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears	A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is overdue.
Asset backed securities (ABS)	An asset backed security is a security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. Typically these assets are pools of residential or commercial mortgages.
Buy-to-let mortgages	Mortgages offered to customers purchasing residential property to be rented to others to generate a rental income.
Common Equity Tier 1 capital	Common Equity Tier 1 (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	Capital Requirements Directive V (CRD V) became effective on 31 December 2020.
Debt securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings.
Debt securities in issue	Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and 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.

Glossary (continued)

Internal Liquidity Adequacy Assessment Process (ILAAP)	The Group's own assessment that current and projected levels of liquidity are sufficient and appropriate for the Group's plans, under a variety of stress scenarios. It also details the Group's compliance with the PRA's regulatory requirements.
Internal Ratings Based approach (IRB)	An advanced approach to measuring capital requirements in respect of credit risk. The IRB approach may only be used with permission from the PRA.
International Swaps and Derivatives Association (ISDA) Master Agreement	A standardised contract developed by ISDA and used to enter into bilateral derivatives transactions.
Investment grade	The range of credit ratings from Aaa to Baa3, as measured by external credit rating agencies.
Lending limit	Measures the proportion of business assets not in the form of loans fully secured on residential property. The calculation of the lending limit is explained in the Annual Business Statement.
Leverage ratio	The ratio of Tier 1 capital divided by total exposure, which includes on and off balance sheet assets, after netting derivatives.
Liquid assets	The total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.
Liquidity Coverage Ratio	A measure designed to ensure that financial institutions have sufficient high quality assets available to meet their liquidity needs for a 30 day liquidity stress scenario.
Liquidity ratio	Liquid assets as a percentage of shares, deposits and borrowings.
Loan-to-value ratio (LTV)	A ratio which expresses the balance of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTVs on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in a house price index).
Loans past due / past due loans	Loans on which payments are overdue including those on which partial payments are being made.
Loss given default (LGD)	An estimate of the loss that would be incurred should a borrower default on their credit obligations.
Management expenses	Management expenses represent administrative expenses. The cost to mean asset ratio (previously named the management expense ratio) is management expenses expressed as a percentage of mean total assets.
Material Risk Takers (MRTs)	A group of employees to which the FCA's Remuneration Code applies. MRTs consist of Executive Directors, Non-Executive Directors and certain senior managers who could have a material impact on the firm's risk profile.
Mean total assets	Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
Medium term notes (MTN)	Corporate notes continuously offered by an entity to investors through a dealer.
Member	A person who has a share investment or a mortgage loan with the Society, or is the holder of a Permanent Interest Bearing Share in the Society.
Mortgage backed securities (MBS)	Assets which are backed by underlying mortgage collateral.
Net interest income	The difference between interest received on assets and interest paid on liabilities.
Net interest margin	Net interest income as a percentage of mean total assets.
Permanent Interest Bearing Shares (PIBS) or subscribed capital	Unsecured, deferred shares that are a form of Tier 1 capital. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing members of Skipton Building Society.
Prime	Prime mortgages are those granted to the most credit worthy category of borrower.
Probability of Default (PD)	An estimate of the probability that a borrower will default on their credit obligations.
Put option	Where the Group acquires a majority shareholding in a subsidiary undertaking, but grants the non-controlling shareholders an option to sell their shares to the Group at some future date(s), a put option obligation exists.
Renegotiated loans	Loans are classed as renegotiated, with the customer's consent, when their terms have changed during the year. Loans and advances may be renegotiated whether or not the customer is experiencing financial difficulty in repaying their loan with the Group.
Repo / reverse repo	Short to medium term funding agreements which allow a borrower to sell a financial asset, such as an ABS or government bond, as security for cash. As part of the agreement the borrower agrees to repurchase the security at some later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo, which can typically be resold or repledged if desired.
Residential loans	Mortgage lending secured against residential property.
Residential mortgage backed securities (RMBS)	A category of ABS that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and / or principal).
Risk appetite	The articulation of the level of risk that the Group is willing to take in order to safeguard the interests of the Society's members whilst achieving business objectives.
Risk weighted asset (RWA)	The value of assets, after adjustment, under CRD V rules to reflect the degree of risk they represent.
Securitisation	A process by which a group of assets, usually loans, are aggregated into a pool which is used to back the issuance of new securities. A firm transfers these assets to a special purpose vehicle which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities. These securitisation structures use retail / residential mortgages as the asset pool.
Shares	Money deposited by non-corporate depositors in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.
Shares, deposits and borrowings	The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest and fair value adjustments for hedged risk.
Significant increase in credit risk	A significant increase in credit risk on a financial asset is judged to have occurred when an assessment using quantitative and qualitative factors identifies that the credit risk has increased significantly since the asset was originally recognised.
SPPI test	An assessment of whether the contractual terms of the financial asset give rise to cash flows that are in substance solely payments of principal and interest.
Stage 1 financial assets	Stage 1 financial assets are those which have not experienced a significant increase in credit risk since origination. 12 month ECLs are recognised and interest revenue is determined by the EIR on the gross carrying amount.
Stage 2 financial assets	Stage 2 financial assets have experienced a significant increase in credit risk since initial recognition. Lifetime ECLs are recognised and interest revenue is determined by the EIR on the gross carrying amount.
Stage 3 financial assets	Stage 3 financial assets are identified as in default and considered credit-impaired. Lifetime ECLs are recognised and interest revenue is determined by the EIR on the net carrying amount.
Subordinated debt / liabilities	A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors and investing members (other than holders of PIBS).
Sub-prime	Loans to borrowers typically having weakened credit histories that include payment delinquencies and in some cases potentially more severe problems such as court judgments and discharged bankruptcies.
Term Funding Scheme with additional incentives for SMEs (TFSME)	A scheme allowing eligible banks and building societies to access four-year funding at rates very close to Bank Base Rate, designed to incentivise eligible participants to provide credit to businesses and households to bridge through the period of economic disruption caused by COVID-19 – TFSME, which closed for drawdowns in 2021, included additional incentives to provide credit to SMEs.
Tier 1 capital	A measure of financial strength. Common Equity Tier 1 capital comprises general reserves from retained profits less regulatory adjustments.
Tier 2 capital	Tier 2 capital comprises the Society's PIBS.
UK CRR	UK Capital Requirements Regulation (UK CRR) implemented in 2022.
Wholesale funding	Amounts owed to credit institutions, amounts owed to other customers and debt securities in issue excluding balances deposited by offshore customers.

Glossary (continued)

Terms used within the Summary Group Responsible Business Report

Carbon neutral	A balance between the amount of CO_2 emitted into and removed from the atmosphere.
Carbon offsets	Actions intended to compensate for CO_2 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 CO_2 emissions released with equivalent amounts of captured, stored and / or offset.
Operational emissions	These are the GHG emissions through the running of an entity's buildings.
Scope 1 emissions	Direct emissions from owned or controlled sources – such as company cars.
Scope 2 emissions	Indirect emissions from purchased sources – such as electricity.
Scope 3 emissions	Other indirect emissions that occur in our value chain – such as business travel by grey fleet. It excludes scope 3 financed emissions.

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