# Annual Report & Accounts 2024

# Skipton Group

## We're driven by our mutual heritage

Skipton Building Society has come a long way since it was founded in 1853, supporting members with their financial wellbeing. What has never changed is its mutual values of looking after members, with our purpose having remained the same.

We are here to help people have a home, save for life ahead, and support long-term financial wellbeing.

## We are built on two core foundations – homes and money

### We help people have a home

We help people finance homes through Skipton Building Society and Skipton International Limited (SIL), and support people in buying, selling, and renting homes through our property group, Connells.

### We make money work harder

We are here to make members' money work harder, with a range of savings products, financial advice products, and services through Skipton Building Society and SIL.

## We're a financially strong and diverse organisation, with many areas of skills and knowledge

The Skipton Group model was developed in the 1980s. The aim was to build on the Society's mutual roots, by developing a diverse range of businesses that help people with a variety of financial needs.

Across our businesses we offer products and services that make a difference to millions of lives. We innovate, campaign on issues that matter, and strive to do things that benefit our communities and bring value to society as a whole. Our mutual backdrop gives us the opportunity to do that.

In addition to our Homes and Money businesses (Skipton Building Society, Skipton International and Connells Group), our diverse Group also includes innovative New Zealand-based AI-software company, Jade, and our invoice financing business, Skipton Business Finance (SBF).

## We're diverse and resilient

Leveraging the Group's structure, unique mix of businesses, and our proud mutual status allows us to give more to our members, where they need it most – to be there during the moments that matter.

It provides us with a diversified range of capabilities and enhanced financial strength; with our strong performance showing just how valuable our diverse Group is in meeting customers' financial needs.

## Building a better Society

We're harnessing the collective power of the Group to offer products and services to meet the needs of our members and customers, providing innovative and unique solutions to real-life problems.

We're also using our Group platform to be an advocate for change - we recognise the role we have as Skipton Group to enable us to become a powerful voice campaigning on societal issues.

SKIPTON BUILDING SOCIETY Since 1853 | Connells group | SKIPTON INTERNATIONAL | Sbf. Skipton Business Finance | jade

# Contents

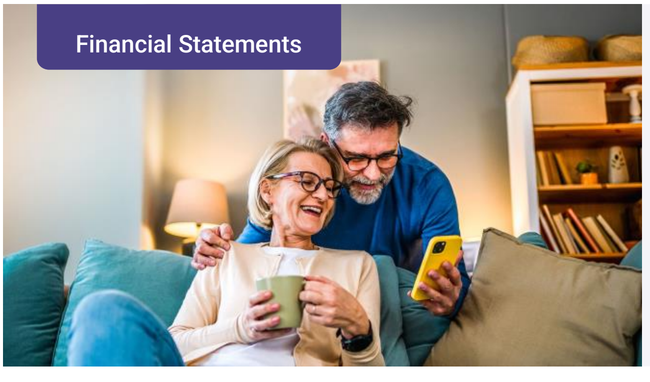
## Performance & Strategy



## Governance

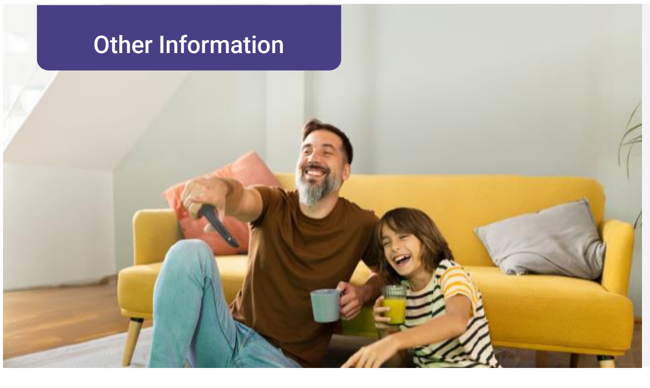


## Financial Statements





## Other Information





By clicking on the tabs at the top of each page, you can quickly and easily navigate to the beginning of each key section within this report.


Performance & Strategy | Governance | Financial Statements | Other Information


This report contains lots of charts and tables. We appreciate sometimes these don't work for everyone so if you have struggled understanding any of our report and would like the data in plain text, please let us know.

# Performance & Strategy

# Chair's Statement

> "Our mutual status and our values enable us to make decisions prudently and for the long term, which is very different to the major banks. We continue to safeguard Skipton's long-term stability and the Group's robust 2024 performance reflects this."
>
> **Gwyn Burr,**
> **Group Chair**

2024 has been another successful year for the Skipton Group. We have continued to invest in our products as we help more first-time buyers onto the property ladder, and we have worked hard to enhance our members' access to the advice they need to support their long-term financial goals. Our Group Chief Executive's Report contains more detail on these important areas.

Skipton Building Society's 172nd year saw a general election in the UK, which provided greater political certainty for the next few years, although some economic volatility persists. Inflation fell significantly, from 4.0% at the start of the year to 2.5% by December. Similarly, we saw interest rates begin to fall, with the Bank of England base rate at 4.75% by the end of the year. But, cost-of-living challenges do persist, and the interests of our members and customers remain our prime consideration.

## Our Group

Our Group is made up of diverse and strong businesses.

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

In 2024 we helped 41,658 customers secure a mortgage, including supporting over 20,000 first-time buyers to take their first step onto the property ladder. We significantly expanded our advice proposition and helped 13,998 young people to save for their first home or retirement with a Lifetime ISA. In doing so, we continued to share our success as a mutual and invest in competitive rates for our mortgage and savings members.

We made significant progress during 2024 on our transformation programme to build our capability and provide a digitally led, seamless experience for savings customers. This is expected to be fully completed during 2025 and provide members with more choice around how they want to open and manage their accounts.

**Connells**, our property group, delivered a significant increase in annual profits during 2024, providing £20m of dividends to the Society, reflecting an improving UK housing market and increased demand for lettings and rentals. The business grew its stock of houses offered for sale by 33%, and increased its market share during the year, to over 10%. The land and new homes division remains the leading agent in new homes sales.

**Skipton International Ltd (SIL)**, our Guernsey-based savings and mortgage bank, generated £31.0m of pre-tax profits in the year and invested significantly in enhancing its systems.

# Chair's Statement (continued)

**Skipton Business Finance (SBF),** our invoice financing business, achieved record profit in excess of £10m in 2024. This success was attributable to growing our geographical footprint that now incorporates Scotland. Monies advanced to clients also reached record levels of over £190m, with the business positioned for future growth through an enhanced customer proposition in 2025.

Jade, our AI-software business based in New Zealand, continued to grow during the year and increased its profitability by 8% to £1.4m.

## Our strategy

Our five-year Strategic Plan will maximise the unique opportunities of the Skipton Group. As we move into 2025 our priorities remain to help more people have a home, make money work harder and make membership matter. We will leverage our Group advantage, investing and collaborating to strengthen delivery of our objectives, outcomes and, ultimately, our purpose. The next five years will set us up to do even more - unlocking more opportunities, being even more innovative, and leading the way in the sectors in which our businesses operate.

The Board met regularly with the Group Executive Committee during 2024 to review progress against the Strategic Plan (further details of which are set out in the Strategic Report).

## Our colleagues

I am proud to share our ongoing success, driven by the dedication and enthusiasm of our colleagues. Their unwavering commitment to going the extra mile for our members and customers is truly inspiring.

In 2024, the Society remained steadfast in our commitment to building an engaged and valued workforce. We have enhanced our Diversity and Inclusion efforts by establishing a comprehensive baseline for colleague diversity data, setting clear improvement targets and investing in Employee Resource Groups and leadership skills to foster an inclusive culture. This provides a strong foundation to drive impact while also addressing increasing regulatory obligations. Our measures of progress and success will include strengthening colleague feedback during 2025 as we introduce new engagement and listening tools.

The Society's gender pay gap decreased slightly in 2024 from 21.7% in 2023 to 21.6%. We aspire to achieve gender parity in senior roles within the Society and will continue to strive for 50% representation by the end of 2027.

We are committed to supporting all colleagues wanting to advance in their careers across the Skipton Group, ensuring that we maintain and enhance an environment where all colleagues can thrive.

## Sustainability

Our businesses have collaborated to establish a Group-wide net zero commitment and are focused on developing our execution plan to achieve our net zero target by 2050, with the aim to agree interim targets for publication towards the end of 2025. Our efforts remain focused on reducing our emissions and exploring ways to support the decarbonisation of the UK housing stock, including applying learnings from the retrofit of a house in Skipton that was completed at the end of 2024.

This year, we have successfully established a Group Sustainability Committee to progress our approach to sustainability. We recognise the impact our individual businesses have on climate change, and we continue to take steps to minimise this. More details can be found in our 2024 Skipton Group Sustainability Report.

Built on the Society's mutual heritage, we remain committed to giving back to our communities. We continue to pledge 1% of our annual Group profit before tax to charitable causes every year that align closely with our purpose. Members will be able to vote on future strategic charity partnerships over the coming years. At the 2024 Annual General Meeting (AGM) members voted to give over £2m to Age UK over the next three years.

## Board changes

During 2024 we continued to strengthen our Board and conducted a full review of corporate governance arrangements across our Group, to ensure that the boards of our key subsidiaries operate with an appropriate level of independence and flexibility.

I was delighted to welcome Paul Chambers to the Board as Group Chief Financial Officer (CFO) in Q1 2024. Paul was introduced to our members at the 2024 AGM.

In November 2024 we welcomed Hasintha Gunawickrema to the Board as a non-executive director. Hasintha has held numerous executive positions in financial services throughout her career of more than two decades, including at HSBC in the UK and India. Hasintha also brings an impressive academic background, as an alumna of Harvard Business School, and we look forward to having her expertise on our Board.

# Chair's Statement (continued)

I would also like to thank Bobby Ndawula (our former Group Chief Financial Officer) and Sarah Whitney (non-executive director) for their contributions. Bobby and Sarah stepped down from the Board prior to the 2024 AGM.

Andrew Bottomley, the CEO of the Society's Money business, has announced he will be retiring in the spring of 2025 after more than nine years at Skipton. Andrew has been an exceptional leader of our Money business and leaves with our very best wishes and I thank him for his outstanding impact.

Following our review of Group governance arrangements, non-executive directors of the Society will no longer sit on subsidiary boards. Accordingly, Philip Moore will be stepping down as a director of the Connells Group and chair of its Board Audit and Risk Committee with effect from the date of the Society's AGM in April 2025. Philip has decided that this would also be the right time for him to step down as a non-executive director of the Society and he will not therefore be standing for re-election at the AGM. I would like to thank Philip for his many contributions to both boards and know that we will all wish him our very best for the future.

Mark Lund will also be retiring from the Board at the 2025 AGM. Mark has been a remarkable non-executive director over the last nine years and I have immensely valued his support as Senior Independent Director. Mark will remain as Connells Group's chair following the 2025 AGM and we hope to announce a new chair of Connells Group towards the end of 2025.

## Changes across Skipton Group

We have also made senior appointments to boards across the Skipton Group during the year.

In October 2024, Helen Charlesworth joined Connells Group as Chief Executive Officer, replacing Richard Twigg who had been serving as interim CEO since Autumn 2023 and has since reverted to his CFO role.

In October 2024, after an extensive external search, Eric Barnett was appointed as independent chair of SIL, replacing Bobby Ndawula.

Both appointments demonstrate our commitment to invest in talent and stand as testament to the attractiveness of the Skipton Group and its desire to make a difference.

SIL Chief Executive Officer Jim Coupe will begin his well-earned retirement in June 2025. Jim has been a driving force behind the growth of SIL since its inception and it is now one of the largest lenders of its kind, with mortgage lending surpassing £2bn. I would like to thank Jim for his work over the years.

We hope to announce the appointment of Jim's successor later in 2025.

## Outlook

I continue to be excited about our opportunities over the coming years for us to deliver real value for our members and customers.

My focus as we move into 2025 will be to ensure that the Group remains strong, agile and able to grasp the significant opportunities in an increasingly changing world.

We have a Group to be proud of – both individually as businesses and collectively as the Skipton Group. We are strong and resilient. We are ambitious and innovative. And we are making membership matter more than ever before.

G Burr

**Gwyn Burr**
Group Chair
25 February 2025

# Group Chief Executive's Report

"2024 has been a very successful year commercially, building the capability and collaboration across our Skipton Group, as we further embed our Group structure to enable us to give more back to our members and society."

**Stuart Haire,**
**Group Chief Executive**

**Collectively, we have one purpose - to help more people have a home, help people save for life ahead and support long-term financial wellbeing. As we navigate societal shifts, this is as relevant today as it has been since Skipton Building Society was founded back in 1853.**

Our core businesses are directly aligned to our members' needs; namely, to finance their homes (Home Financing and SIL), to make their money work harder (Money and SIL) and to help them buy and sell homes (Connells Group). These businesses directly benefit our members through their product and service offerings.

In 2024 we have delivered against our purpose, with over 20,000 first-time buyers given the keys to their first home, equating to 44% of our new lending.

**20,071** Keys for first-time buyers

(31 December 2023: 19,120)

As part of our commitment to providing free advice to all of our members, we also saw our skilled colleagues have over 39,000 advice conversations with members to help make their money work harder and support their long-term financial wellbeing.

**39,216** Non-regulated advice conversations held

(31 December 2023: N/A, new metric for 2024)

In Connells, our property group, we grew our profits by £47.5m, provided almost 79,000 exchanges on properties for sale to enable more people to get the keys to their home, and grew our lettings business to over 126,000 properties under management.

We grew our market share in the year and maintained our clear leadership position, with over 10% of UK house listings being dealt with through our estate agency arm.

**10.2%** Connells Group estate agency market share

(31 December 2023: 10.0%)

# Group Chief Executive's Report (continued)

Across our broader Group, we own Skipton Business Finance (invoice financing and asset-based lending) and Jade (AI and software company). These businesses both had a strong year of performance, with profits up 12% in Skipton Business Finance and 8% in Jade. The profits of these businesses are reinvested into the Society, creating a sustainable and resilient financial and service platform for our members and customers, both now and in the future.

In combination, our Group businesses delivered another year of excellent financial performance.

**£302.3m** Group underlying profit before tax

(31 December 2023: £308.6m)

Our Group mortgage and savings growth of 8.2% and 8.9% respectively, materially beat the market and somewhat offset the reduction in margins caused by our strong member pricing strategy and Bank of England base rate reductions.

Through high quality products and propositions, we grew our member base by 3% and now have over 1.26m members benefiting from Skipton products and services to support their financial wellbeing.

**1,266,608** Society members

(31 December 2023: 1,229,888)

Our members enjoyed improved customer satisfaction across our Society, with an overall increase of 1% from the end of 2023. Through our member panel, Trustpilot reviews and colleague listening, we strive to ensure our members' voices are always heard, so that we can continue to build on the excellent service we provide and are recognised for.

**90%** Society customer satisfaction

(31 December 2023: 89%)

In July we launched our Skipton Group Home Affordability Index, with our second iteration launched in February 2025. The index uses the collective power of our Group data to help first-time buyers understand housing costs in their area, and shed light on where the biggest challenges lie.

Our Index revealed that only one in eight first-time buyers can afford their first home in their local area, and 80% lack sufficient savings for their deposit. At Skipton it has always been our mission to change that; it is why we launched our market leading Track Record mortgage product in 2023, and why we innovated further across our entire product range throughout the year, supporting more members to get onto the housing ladder without a deposit, and our broader member base in having a place they call home.

Our collective Group data is our strength as we strive to enhance our products, driven by the needs of our members and society, so that we can enable more people to achieve their aspirations of home ownership.

## Key Findings, February 2025

Almost **90%** of potential first-time buyers across Great Britain cannot afford to get onto the property ladder based on their own financial situation

**6 of the 10** least affordable areas for first-time buyers are in Wales, with Scotland dominating the most affordable

**4 in 10** potential first-time buyers spend over **45%** of their income on essential housing costs

# Group Chief Executive's Report (continued)

## The Power of Skipton Group

Our Group is well positioned to drive innovative change and finding solutions for industry wide challenges in digitising the end-to-end home buying and selling journey. Approximately one third of house sales continue to fall through before completion, which can cause difficulties and challenges for all parties – delays and disappointment for our members and customers, and for the professionals involved throughout the journey.

Through the Connells Group's partnership and part ownership of Legal Marketing Services Ltd (LMS) (the UK's leading provider of conveyancing services), we successfully piloted and deployed a market first solution for streamlining and automating the proof of funds element of the transaction. Our Group structure allows us to play our part in the broader ecosystem.

Home ownership is only one of the life events that requires sound advice to achieve financial wellbeing.

## Free advice, accessible for all members

We have stood by our commitment to provide free access to financial education and advice for our members. We know the UK advice gap continues to widen and, unlike our competitors, we provide regulated financial advice for those with a minimum of £20,000 in assets to invest. In 2024 we have gone further; we also recognise that support and advice below that amount is crucial for many of our members. We launched our free My Money Review service at the start of the year and have further expanded it by launching My Money Enquiry (a lighter version of our My Money Review that can be completed over the counter in branch, over the phone, or via Skipton video link), offering free accessible advice to all of our members, regardless of how much they have to invest.

Our advice has already positively shaped the decisions that members have made. During the pilot of our My Money Review service, over 40% of members reassessed their financial planning, choosing options that are better suited to their needs, helping their money work harder.

**Over 40%** Members reassessed their financial planning after their advice conversation

This activity has been enabled by investment in our colleagues, upskilling them to hold advice conversations with confidence.

## Membership means more

Alongside helping our members align their savings, investments, and borrowings with their personal circumstances, we want them to feel rewarded for the trust they place in Skipton. This year we have developed more new member benefits: exclusive rates, products, and services which cater for a diverse range of needs. On average we paid 0.74% higher interest than the rest of the market average for banks and building societies (Source: CACI Current Account and Savings Database, Stock, Jan-Dec 2024), giving more value back to our members.

**£197m** Value returned to members through above market average savings rates

(31 December 2023: £148m)

We are member owned, and our members are central to our Society, so we are putting more focus on making membership truly matter. As part of our commitments we continue to invest in an ongoing programme of branch refurbishment and upgrading our colleague systems to help better serve our members through our telephony channel.

We are also acutely aware of the impact we have on the planet. By working across our Group companies and partnering with others, we have developed a greater understanding of the role we can play in supporting members as they seek to make their homes more sustainable and energy efficient. This culminated in the complete retrofitting of a house in Skipton which will become a show-home to de-mystify the retrofitting process.

To support our ambitions, we have strengthened our Group Executive team throughout the year, increasing diversity across our Group and fostering further collaboration and innovation.

Our passion and drive to deliver our purpose resonates throughout our Group, with colleagues coming together across all of our business lines to share knowledge and experience, solving challenges that our members, customers and society face.

We are undertaking big technological changes across the Group that support our members and customers to interact with us more digitally and more efficiently - whether through our branches, our contact centres, or through self-service functionality. We are committed to delivering products and services that are accessible and inclusive to all, balancing digital needs with our expert colleagues, and providing the excellent customer service that has long been associated with Skipton.

# Group Chief Executive's Report (continued)

We have implemented Microsoft Copilot, an Artificial Intelligence (AI) solution to help our colleagues to deliver more value, more efficiently.

We are also investing in retooling our businesses with automation and data capability, platform enhancements and digital assets to enhance the service we can provide.

I am proud that our dedication to our members has been reflected in the excellent customer satisfaction scores that we have seen across our businesses, and the recognition we have received from the industry through a multitude of awards.

## 2024 Awards

### Helping People Have a Home

**Moneyfacts Consumer Awards**

- Winner, Best Online Mortgage Provider (Homes)
- Highly Commended, First-Time Mortgage Buyers' Choice (Homes)

**MoneyAge Mortgage Awards**

- Winner, Best BTL Broker of the Year (Connells Group)
- Winner, Specialist Broker of the Year (Connells Group)

**YourMortgage.com**

- Winner, Best First-Time Buyer Mortgage Lender (Homes)

**What Mortgage**

- Winner, Best Intermediary Lender (Homes)

### Making Money Work Harder

**Moneynet Personal Finance Awards**

- Winner, Best Building Society Savings Provider (Money)

**Moneyfacts Consumer Awards**

- Winner, Offshore Account Provider of the Year (SIL)
- Highly Commended, High Street Savings Provider of the Year (Money)

### Serving our Members and Customers

**What Mortgage**

- Winner, Best National Building Society (Homes & Money)

**Feefo**

- Exceptional Service Award (Connells Group)
- Platinum Service Award (SIL)

## Conclusion and outlook

By combining our collective efforts across the Group, and unlocking the power of our data, I believe we can continue to provide more opportunities for members to have a home, save for life ahead and support long-term financial wellbeing. At a time when more people are struggling to buy their first homes or change their homes, and one in three people have no savings, it is more vital than ever that we play our role in building a more resilient society.

Alongside our products and services, raising awareness and lobbying for societal change is also core to our purpose. Financial education is essential to unlock better outcomes; whether it be tackling challenges for first-time buyers, narrowing the advice gap, or how we all play our part in reaching net zero by 2050. We understand that we cannot do this alone, but collectively we can make a difference, and we will play a leading role.

S Haire

**Stuart Haire**

Group Chief Executive

25 February 2025

# Strategic Report

Skipton Group

# Our Group Business Model

## Key Business Lines

The Skipton Group primarily comprises our Home Financing and Money businesses within the Building Society, mortgage lending and deposit taking by SIL and buying, selling and renting homes through Connells Group.

The Group's operating results are reviewed regularly by our Group Board for the following key business lines - these three key business lines support delivery of our purpose; to help more people have a home, help people save for life ahead and support long-term financial wellbeing.

**Skipton Building Society** is the UK's fourth largest building society, offering mortgages, savings and financial advice with a national presence represented by a network of 82 branches. Skipton Building Society is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

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

**Connells Group** is the UK's largest high street estate agency and property group with a c.10% market share in its estate agency arm. Across its 80+ brands and network of over 1,200 branches nationwide, Connells Group combines residential sales and lettings with a range of consumer and corporate services including land and new homes, mortgage services, conveyancing, auctions, surveying and valuations, commercial property services, Energy Performance Certificate (EPC) provision and asset management.

## Other Business Lines

We have other smaller business interests that are not separately reportable, primarily concerned with income generation and enabling capability to support delivery of our collective Group purpose. These smaller businesses are combined within the 'Other' category in our financial reporting, together with the impact of Group consolidation adjustments.

- **Skipton Business Finance (SBF)** provides invoice financing and bad debt protection to small and medium-sized enterprises, based at our Head Office in Skipton.
- **Jade Software Corporation** is based in New Zealand, specialising in digital and large IT enterprise solutions globally, and provides the Society's core database and software development language.

Together, we are stronger than the sum of our individual parts, and all our business lines play an integral part in delivering our purpose and ultimately making membership matter.

You can read more about how we segment our Group in Note 45.

# Our Group Business Model (continued)

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

Our Money business within the Society brings together a secure place for our members' savings with the provision of high-quality non-regulated free education and advice to our customers to support their long-term financial wellbeing. Combined with the additional provision of regulated Financial Advice, our offering sets us apart from many of our peers.

Our property business (Connells Group) is focused on delivering for customers and clients throughout the process of buying, selling and renting homes. Connells' services include new homes, mortgage services and conveyancing. The Connells Group also supports customers to have a home through its lettings business and is one of the largest providers of residential survey and valuation services in the UK.

To supplement our core activities, we also source funding from the wholesale markets, which diversifies our funding base and supports our long-term financial stability.

Our mutual status means we don't have shareholders or dividends to pay out. We are member-owned, and we have a responsibility to our members to remain financially sustainable, generating profit to invest back into our businesses for the future benefit of members. This means we reinvest our profits to support sustainable growth, to modernise and remain relevant with new capabilities and propositions, and to preserve a strong capital position, supporting and protecting our members, customers and creditors today and in the future.

## The Skipton Group Business Model

**Where the money comes from**

- Savings deposits from members and customers
- Deposits from other banks, institutions and other financing e.g. covered bonds
- Retained earnings from previous profits and dividends from our Group businesses

**What we do with it**

- Lend on mortgages to customers, through brokers and direct to customers
- Lend working capital to finance small and medium-sized businesses through SBF

**How we generate income**

- Fees and commissions charged for regulated Financial Advice, mortgages, buying, selling and renting homes and other financial products
- The difference between the interest we receive from mortgages and assets, and the interest we pay on savings and deposits from other banks and institutions

**Where we incur costs**

- Paying and developing our colleagues
- Distribution costs, e.g. our branches, offices and broker procuration fees
- Unpaid debts and other impairment losses
- Taxes

**What we use our profits for**

- Enhancing experiences and driving additional value for members and customers
- Providing multi-channel support to our members, customers and brokers
- Investing in the future of our Group, ensuring we maintain capital strength
- Committed to donating 1% of PBT to charity, to do good for society

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# Focusing on Ensuring Long-term Success

### Decision-making

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

The Group's 2025 – 2029 Corporate Plan is developed in line with this framework and was approved by the Board in December 2024.

### Strategic Priorities

2025 is about building on the foundations from 2024, delivering core capabilities for our members and customers and further enhancing our membership proposition, giving back even more value when and where it matters.

Our three key strategic priorities keep us focused on purposeful change as we continue into 2025:

- Helping more people have a home - We will continue to strive to make home-ownership a reality for more people, with a strong focus on first-time buyers.
- Making money work harder - We will invest more to ensure our members receive above-market average interest rates for their savings and have access to free financial advice to help them plan their financial futures.
- Making membership matter - Our members will see and feel the value of Skipton membership, being rewarded for their loyalty and tenure and having more of a voice in the running of their Society.

### The Board's Approach to Policies and Practices

The Board is responsible for approving the Group strategy, for managing risk, and overseeing its systems of internal control. The ongoing effectiveness of these controls are reviewed by the Board on a regular basis (see below).

The Society maintains a high standard of corporate governance for the benefit of its current and future members, and to conduct its business in a prudent and well organised manner. The Board's terms of reference clearly set out its responsibility for the overall stewardship of the Group in line with the Society's 'Principles of Governance', as set out in the Corporate Governance Report and available at skipton.co.uk/about-us/our-people/our-board.

Our strategic priorities, together with our strategic outcomes, are monitored and reported to the Board and senior management on an ongoing basis. This enables the Board's management of the business and its decision-making processes.

Respect for our environment and the communities in which we operate is also a key part (see Building a Sustainable Society, pages 32 to 38).

### Economic and market background

2024 was a year that brought extreme global weather events, continued fighting in Ukraine and the Middle East, and fifty countries voting in elections. Following the UK General Election result, a level of uncertainty remained regarding the impact of new fiscal policies.

Strong economic growth was seen in the first half of 2024, but the UK stagnated in the second half of the year, with business confidence having declined. Inflation continued to reduce gradually falling to 2.5% by December and the Bank of England also reduced bank base rate to 4.75% by the year end; while unemployment has remained broadly stable over the year. The UK housing market compared favourably to 2023, and key house price indices report that house prices increased marginally during 2024. However, the cost-of-living challenges remain, and changing customer behaviours have presented both challenges and opportunities across our diversified Group.

Looking ahead, UK growth outlook remains dampened, with economies across the globe facing significant uncertainties and continued geopolitical tensions. A significant cause of economic uncertainty in 2025 will be whether President Trump will press ahead with tariffs. Budget measures are set to weigh on private sector activity too, as a result of higher minimum wage and employer national insurance contributions; with government spending and investment now a greater driver of any expansion. Fiscal loosening means inflation is expected to remain stubbornly above the Bank of England's 2% target. However, further interest rate cuts are expected, though at a slower pace. Despite inflation returning to more normal levels and wage growth helping to soften cost of living pressures, there remains significant strain on some household finances though, with rising utility costs expected to impact disposable incomes.

While events and conditions evolve in the UK economy, the outlook for Skipton Group remains positive. The Group remains robust, with strong capital and liquidity ratios, healthy and sustainable growth in both mortgage and savings balances, good underlying profitability, and a diversified business model.

# Helping People Have a Home

**We will continue to innovate and provide solutions to support more people into homeownership and through the home buying and selling process, enabled by a seamless customer experience, and excellent broker relationships.**

Our ambition is to help drive societal change, becoming a key influencer in a thriving housing system and facing into the UK's housing crisis by supporting borrowers through enhanced and innovative products and propositions, and financial education. Our Homes business has three strategic priorities to realise our ambition:

- Helping People Have a Home
- Creating Outstanding Experiences
- Championing the Intermediary Market

## Helping People Have a Home

Following a successful launch last year, we continue to evolve and enhance our Track Record Mortgage (first-time buyer, no deposit required product), making it more accessible to more borrowers, with 613 (December 2023: 199) keys to first-time buyers through this product alone. Our enhancements throughout 2024 demonstrate our commitment to helping as many aspiring homeowners as possible.

Our research and insight through our Skipton Group Home Affordability Index demonstrates that finding a deposit is still one of the biggest barriers to homeownership, and whilst we have seen some strides in the industry to address this challenge, our Track Record product remains unique.

We further strengthened our proposition with the launch of our first-time buyer product range, which coincided with the launch of the Affordability Index.

2024 saw us partner with Channel 4 to produce the "Make Your Move" series, and with Phil Spencer's Move IQ to produce a YouTube Series and Podcast to help borrowers navigate the often-daunting journey to home ownership.

Finding the right education, coupled with data, is challenging, and can make the process feel too overwhelming for some aspiring first-time buyers. That's why across the Skipton Group we are passionate about campaigning for change – raising awareness and highlighting options that borrowers might not realise they have.

Our purpose driven ambition to support more first-time buyers is a core strategic focus. This year we have supported 20,071 (2023: 19,120) first-time buyers in having the keys to their first ever home.

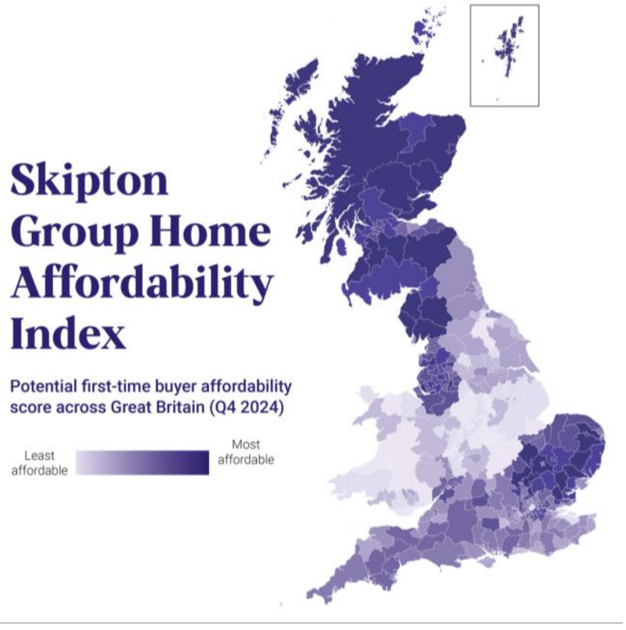
**44%** New lending to first-time buyers

(31 December 2023: 40%*) (*restated from 33%)

This represented 44% of all new lending (2023: 40% - restated*), with December 2024 being a record month of completions to this segment at 48%. As we move into 2025, continuing to innovate to positively impact the market through first-time buyer propositions will remain a priority for us.

We continue to support home ownership aspirations across our mortgage portfolio for home-movers and those remortgaging, providing affordable solutions through our broad product set.

## Skipton Group Affordability Index




## Britain's Most Affordable Local Authority Areas

| Ranking | Local Authority | Country/Region | % who can afford the average first time buyer home |
|---|---|---|---|
| 1 | Aberdeen City | Scotland | 31.0% |
| 2 | Aberdeenshire | Scotland | 28.2% |
| 3 | Na h-Eileanan Siar | Scotland | 25.1% |
| 4 | Argyll & Bute | Scotland | 25.0% |
| 5 | Scottish Borders | Scotland | 24.8% |
| 6 | Inverclyde | Scotland | 24.6% |
| 7 | Angus | Scotland | 24.4% |
| 8 | Shetland Islands | Scotland | 24.2% |
| 9 | Manchester City | North West | 23.1% |
| 10 | West Dunbartonshire | Scotland | 22.9% |

Source: Skipton Group Home Affordability Index

# Helping people have a home (continued)

We remain committed to driving a more sustainable housing market through creative solutions. We will use our Group to test and learn, developing opportunities to play our part in decarbonising homes, and taking learnings from our recent Regent Road Retrofit project in partnership with Leeds Beckett and Leeds universities to understand the costs, behaviours and experiences faced when undertaking a retrofit; to support and promote activity to a wider cross-section of customers.

To support our members, we continue to offer free Home Energy efficiency reports (EPC+) and lower-interest additional borrowing products for anyone who is looking to make energy efficient home improvements (see page 26 for further details).

“Skipton helped our family buy a large house so we could live together. It was life changing for us and we cannot thank them enough.”

Customer Relationship Survey, 2024

## Creating Outstanding Experiences

Our excellent customer and broker service continues to be a priority for us, we want to enable customers to interact seamlessly in their channel of choice. Throughout the year we have developed customer journey enhancements and despite a slight reduction, maintained excellent service, reflected in our market leading customer satisfaction. Work in this area continues into 2025.

**91%** Homes customer satisfaction

(31 December 2023: 93%)

Our customer satisfaction score is the percentage of members and customers surveyed that scored satisfaction as 5, 6 or 7 minus those scoring 1, 2 or 3 (on a scale of 1-7).

We will continue to invest in leveraging technology, data and insight to personalise and optimise customer and broker journeys. Our aspiration is for technology to do the ordinary, so that our people can continue to do the extraordinary, balancing our investment in both.

Our experienced colleagues are not targeted on call times, which means we will always dedicate the time needed to help understand and support our customers’ mortgage needs.

This service has contributed to our Homes business ranking number 1 for Net Promoter Score (NPS) in the BVA BDRC competitor monitoring syndicate survey in Q2 and Q3 2024. This is in addition to our strong customer satisfaction performance.

The experience of our brokers is just as important, and through our commitment to the intermediary market, we are proud to consistently maintain excellent broker feedback and broker satisfaction scores, which continues to be a future focus.

**89%** Broker satisfaction score

(31 December 2023: 92%)

Brokers satisfaction score is the percentage of brokers surveyed that scored satisfaction of 6 or 7 (on a scale of 1-7).

# Helping people have a home (continued)

Our average underwriting time from application to offer reflects our ability to use technology and combine it with our experienced colleagues to support customers. Our underwriting speed from application to offer remains excellent, whilst supporting strong growth of completions in 2024.

**9.2 days** Speed of underwriting (application to offer)

(31 December 2023: 9.0 days)

### Championing the Intermediary Market

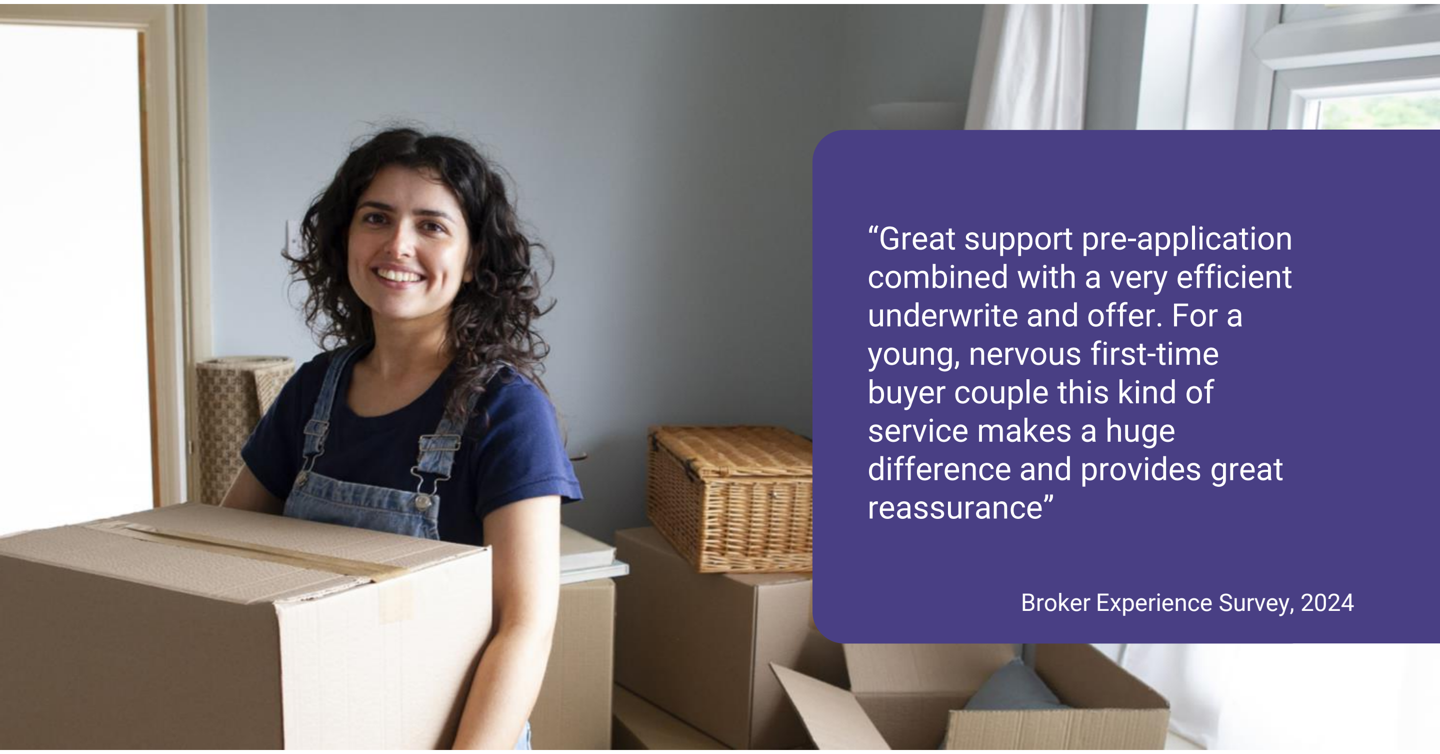
We will continue to advocate for brokers, strengthening our lending ambitions through a commitment to the intermediary market and being recognised as a lender of choice for first-time buyers.

Brokers are key to providing advice to borrowers who continue to have complex needs. As we see the market dynamics change, with interest rates reducing and new government intervention to support affordable housing, we expect to see more aspiring homeowners seek advice and reassurance on their journey to purchase their first home.

Maintaining our position as an intermediary led lender, we will continue to strengthen the excellent relationships we already possess, providing more options to brokers to help their clients through innovative products and propositions, listening to their feedback to enhance our offering.

The strengthened relationships we will drive will result in better experiences for brokers, customers and colleagues. Our continued focus on the Intermediary market will see increased advocacy amongst brokers, which in turn will be reflected in increased repeat business.

We continue to be recognised for listening to our borrowers and brokers, with Skipton being named the What Mortgage Awards 2024 – Best National Building Society for the 11th year in a row and Best Intermediary Lender.



> "Great support pre-application combined with a very efficient underwrite and offer. For a young, nervous first-time buyer couple this kind of service makes a huge difference and provides great reassurance"
>
> Broker Experience Survey, 2024

### Skipton International Limited (SIL)

Our lending spans into the Channel Islands, with SIL (our Channel Islands bank based in Guernsey) offering a UK mortgage proposition specifically for UK buy-to-let investors resident overseas.

The offering is simple and hassle-free, available online, by phone or video with a personal point of contact throughout.

SIL reports another successful year of mortgage lending, whilst also creating further roles in the Executive team and strengthening the control environment.

Looking forward, SIL will focus on enhancing its excellent customer service through new digital and self-service capabilities, and utilising our Group to collectively identify and implement new strategic growth opportunities.

# Helping people have a home (continued)

### Mortgage Lending Performance

Through our mortgage offerings for residential homeowners, buy-to-let landlords, and our offshore lending in the Channel Islands through SIL, 2024 has yet again been a year of growth for the Group.

**8.2%** **Group mortgage portfolio growth**

**(31 December 2023: 12.1%)**

Our Group mortgage portfolio grew by 8.2% (2023: 12.1%) whilst maintaining our prudent credit risk appetite. The Group has increased its market share of balances to 1.81% (2023: 1.69%) (Source: Bank of England statistics, 'Lending secured on dwellings').

The Group's UK residential mortgages in arrears by three months or more remained low, representing only 0.29% of mortgage accounts (2023: 0.23%) which compares to the industry average of 0.91% (Source: UK Finance industry arrears data (residential mortgages in arrears by more than three months).

This is testament to our strong up-front lending controls and proactive credit management, whereby we closely monitor and manage mortgages that have fallen into arrears, supporting borrowers to find solutions that are appropriate for their individual circumstances.

We remain focused on executing our lending strategy throughout 2025. Our primary focus will be on innovating when developing our propositions and delivering value to both customers and brokers through agile, impactful change. We will continue to push boundaries, ensuring that every step we take drives meaningful results and strengthens our position in the mortgage market.

### Home Buying and Selling

Across the Connells Group, we support around one in ten individuals looking to buy and sell homes in the UK through our estate agency network.

**10.2%** **Connells Group estate agency market share**

**(31 December 2023: 10.0%)**

We continue to innovate, champion and support industry initiatives that seek to improve the home buying and selling experience for all parties.

Our service in the industry is already award winning, being awarded the Exceptional Service Awards (Feefo) and the Gold and Platinum Fee Service Awards for 2023 and 2024, scoring 4.8/5.0 at 31 December 2024 (31 December 2023: 4.8/5.0).

*(Note: Feefo is the gold standard customer review platform with a minimum rating of 4.5/5.0 required).*

"I found Connells very friendly and approachable. I used them on my previous house move, and was confident using 23 years later."

Connells Feefo Review, 2024

# Helping people have a home (continued)

As the housing market recovered during 2024, with base rate pressures easing and house prices increasing, the UK property market showed resiliency and annual growth, providing further momentum as we move into 2025 to drive innovation across the sector. Our ambition is to continue to play an active part in this, driving a reduction in time from offer to completion for all parties, which we are uniquely placed to do, given our size and scale in the market.

The breadth of the Connells Group operations provides us with unique insights into some of the challenges that have hindered progress in the home buying and selling process in recent years. Our collaboration with Legal Marketing Services Ltd (LMS) and their partners, provided an opportunity to rapidly test and validate how key stakeholders in the journey can work together to overcome challenges to deliver a faster, more seamless and less stressful experience for all parties involved.

The partnership with LMS enabled us to launch a market first trial in September 2024 to test digitising the proof of funds element of the journey, which will move to full roll out upon proving success of the concept.

### Connells Group Performance

We are pleased to report another successful year for the Connells Group. Our mortgage services proposition continued to deliver for our customers, offering whole of market advice. Connells generated lending through the year of £31.7bn (2023: £30.9bn) across all UK mortgage providers, and continued to generate mortgage lending across our Skipton Group.

The Connells Group lettings business manages properties on behalf of landlords, with the number of properties under management at 31 December 2024 increasing by over 900 from 31 December 2023, generating further income for the Group.

**126,590** Connells lettings properties under management

(31 December 2023: 125,666)

Across the market, a reduction in rental properties overall has seen rental costs rising, albeit at a slower rate than in 2023. Combined with a reduction in mortgage interest rates, we expect this to fuel the first-time buyer market in 2025.

## Key Connells Performance Indicators

The number of properties for sale on which Connells Group exchanged contracts during the year was

**+11%** compared to 2023

**78,955** (December 2023: 70,971)

The properties available for sale across our 1,200+ estate agency branches was

**54 average**

up from 52 per branch at December 2023

House viewings in 2024 were

**+14%**

higher than the same period in 2023

The average tenancy length in months was

**30.0**

(December 2023: 29.6 months)

At end of tenancy, Connells Group re-let

**79%**

of properties in 2024 (2023: 77%)

Rental properties in arrears represents

**5.0%**

of tenancies managed (December 2023: 5.3%)

# Making Money Work Harder

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

Our ambition is to help members' money work harder for them. By giving more people access to financial education and advice, along with high quality products and services, we play our part in reducing the Advice Gap. An estimated 12.4 million adults in the UK fall into the Advice Gap which encompasses existing investors and cash savers with more than £10,000 in cash (Source: Boring Money, June 2024).

Our three strategic priorities for the Money business do just that:

- Offering High Quality Products and Services
- Broadening Access to Advice
- Making Every Interaction Count

## Offering High Quality Products and Services

As the base rate fell in 2024, we remained committed to paying competitive savings rates to our members and bolstering our offering with member exclusives. Our minimum variable savings rate in December 2024 was 2.80%.

Our existing members have benefited from an increased range of member exclusive products including a Regular Saver, Fixed Rate Member Bond, Member Income Bond, and Member Bonus Saver, which have provided over 107,000 new accounts for our members.

We have also strengthened our product offerings through the launch of new and innovative products, namely a Base Rate Tracker Bond and Over 66+ Income Bond. These complement our existing range and support a growing number of savers and investors to make their money work harder.

**1,004k** Savers and investors

(31 December 2023: 985k)

We delivered growth in our business without compromising on service, achieving an increase in net customer satisfaction of 4% when compared to December 2023 (being the percentage of members and customers surveyed that scored satisfaction as 5, 6 or 7 minus those scoring 1, 2 or 3 on a scale of 1-7).

**90%** Money customer satisfaction

(31 December 2023: 86%)

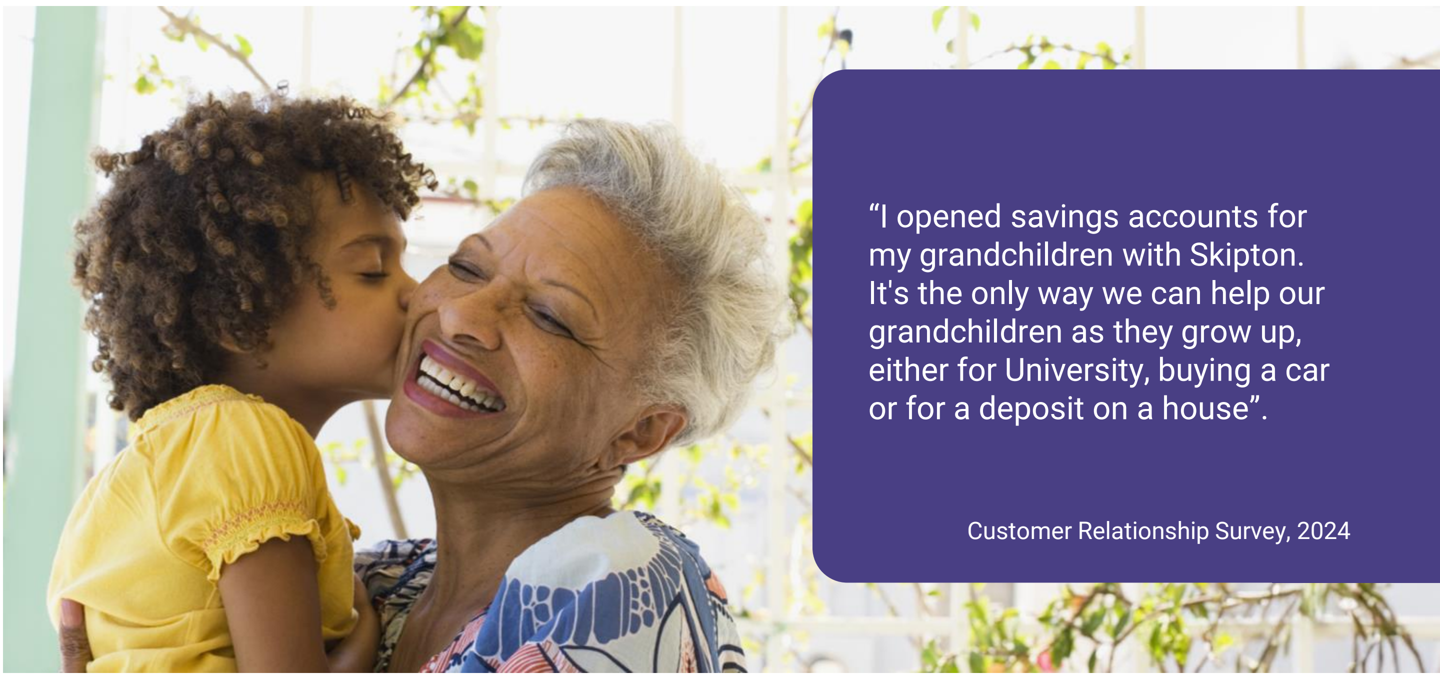
Our average time to speak to members through savings-related calls and webchats was 147 seconds (2023: 156 seconds), despite high levels of savings maturities. This has enabled us to maintain a strong Trustpilot rating of 4.3 stars out of 5 (31 December 2023: 4.3 stars).


We launched 'Love the Taxman' ISA campaign to help members make the most of tax-free savings through products available to them. To encourage members and customers to talk openly about money, we provided Savings Booths as part of UK Savings week in September 2024. We also focused an episode of 'Make Your Move', in partnership with Channel 4, on making better financial choices.

## Making Money Work Harder (continued)

Reflecting our continued efforts to delivering positive experiences and great outcomes to our members, we have maintained our award-winning customer service, consistently ranking towards the top across industry customer service league tables, as well as retaining the Fairer Finance Gold Award in their latest customer experience ratings. This demonstrates the skills, care and empathy with which our customer-facing colleagues engage our members.

Delivering good customer outcomes remains at the heart of our purpose. Our colleagues' continuous learning has ensured that we can have confident and trusted conversations with our members and customers, particularly when identifying vulnerabilities. We have specifically taken steps to adapt our services to become more accessible and inclusive. Amongst many initiatives last year, we added British Sign Language (BSL) interpretation to the disclosure videos in branches and started to introduce service counters that now have a lowered central section, making them more accessible.



"I opened savings accounts for my grandchildren with Skipton. It's the only way we can help our grandchildren as they grow up, either for University, buying a car or for a deposit on a house".

Customer Relationship Survey, 2024

### Broadening Access to Advice

Skipton is the only Building Society to still offer a direct Financial Advice proposition to support those who need it, reaffirming our purpose in supporting long-term financial wellbeing.

Our advice proposition supports customers through significant life events to help them confidently achieve their desired lifestyle, whilst also ensuring they can leave a meaningful legacy to their loved ones through Inheritance Tax Planning services.

We broadened our advice proposition by introducing free financial reviews with our skilled branch colleagues. We did this through the launch of the My Money Review and My Money Enquiry. Over 40% of members who attended the review took a different action as a result, and 97% were satisfied with the service they received. The feedback truly demonstrates the value we provide to our members.

Our proposition was supported by the launch of two public relations campaigns focused on the difference between the conversations that the nation have with their friends and family compared to a professional financial advisor. Supported by TV finance guru Tayo Oguntonade, we discussed why parents struggle to talk about money with their children and the importance of seeking accredited financial advice.

**39,216** **Non-regulated advice conversations held**

**(31 December 2023: N/A, new metric for 2024)**

Looking ahead to 2025, we expect to see the number of advice conversations increase, encouraging more members to make informed decisions to support their financial futures. We will achieve this goal by providing education and advice through our skilled colleagues and interactive tools. Data will also play a key part by informing our product offering and enabling us to personalise interactions.

# Making Money Work Harder (continued)

Research by Abrdn shows that:

> "44% of people in the UK are unable to answer important questions on interest rates, inflation or basic investment concepts, equating to 23.3million adults."
>
> Savings Ladder Index by Abrdn.

As we recognise the importance of educating members and helping them make sound financial decisions, we have collaborated with a third party to trial a free education offering with our member panel, enabling us to shape our future provision of education that is aligned to their needs.

Through our regulated financial advice provision, we have supported 5,385 customers (2023: 6,000) with needs ranging from Stocks & Shares ISAs through to accessing pension benefits, growing our funds under management in the year.

**£4.7bn** Funds Under Management

(31 December 2023: £4.3bn)

Aligned to our ESG ambitions, we have a set of investment options which integrate environmental, social and governance criteria, to screen out certain products or industries, such as those which produce tobacco, controversial weapons, and thermal coal.

### Making Every Interaction Count

Across our savings propositions, we have delivered significant enhancements to our journeys across digital and face-to-face channels, creating consistent, easier and more efficient experiences that embed Consumer Duty principles for the benefit of our members.

Whilst we strive to get things right for our customers first time every time, we recognise that on occasion things can go wrong. Where customers complain, we deal with these complaints efficiently and with empathy, putting right what has gone wrong. We aim to respond to complaints as quickly as possible, and more than half our complaints in 2024 for mortgages and savings were responded to within 3 days (54.3%). More details can be found on our website (within the 'Make a complaint' tab).

We look to continuously minimise complaints through our investment in new technology, including AI capabilities, and internal processes to maintain excellent customer service levels and support longer-term financial wellbeing. Notably, we have enabled our colleagues across the Money and Homes businesses to onboard customers in real-time to our Mobile App and Portal using the One Time Code offering. This means our members can gain immediate access to online platforms without the need to wait for information in the post.

Throughout our digital transformation programme activity in 2024 we have transitioned an additional seven of our most frequently issued communications to paperless, notifying approximately 130,000 members of their ability to switch to paperless preference for those key documents, with only 0.5% of those members opting out. We have also provided AI-enabled knowledge management support for over 1,000 colleagues to bring information to their fingertips when supporting our members.

Our ambition is to make our journeys fully omni-channel (available across all of our channels) where we see large volumes of interaction and where members tell us it matters the most. Journeys that are omni-channel enabled will increase as we move into 2025 and we launch our new Mobile App and Portal that we have created the foundations for in 2024.

**24%** of our savings journeys are omni-channel enabled

(31 December 2023: N/A, new metric for 2024)

Significant investment has been made into our technical and foundational capabilities that allow our colleagues to provide the best service to our members whenever they need it.

Through our regulated Advice proposition, we have collaborated with Focus Advice Technology to define, test and implement an Advice Engine to assist in building personalised financial Advice in real time. This innovative capability was recognised as market leading by the Financial Technology Research Centre at the Empowering Advice Through Technology event 2024 as the Best in Show Winner. The technology enables the Society to support more customers with their long-term financial wellbeing through the provision of Advice.

# Making Money Work Harder (continued)

We will continue to drive forward the technological and in-branch capabilities that will see us meet the needs of our members better, now and in the future, ensuring we enhance both our digital and ever important human interactions, while the banks withdraw from the high street with branch closures. Simplification and automation will drive efficiencies resulting in more streamlined journeys, and better experience for our members.

### Skipton International Limited (SIL)

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

SIL's retail deposits held strong at £2.42bn (December 2023: £2.45bn) despite not actively pursuing growth in balances in the period.

Growth will resume in 2025, which will be supported by investing in digital onboarding and maintaining excellent customer service levels though improved customer journeys and process enhancements. This is aligned to our Society aspirations in ensuring we are offering all of our Group customers and members the service they want.

Our dedication to our customers in the Channel Islands is also award winning, and we consistently achieve Feefo scores for service and product of >4.5/5.0 (note: Feefo is the gold standard customer review platform with a minimum of 4.5/5.0).

**4.7** out of 5.0 Feefo review score

(31 December 2023: 4.7/5.0)

SIL are a four-time Feefo Platinum Trusted Service Provider, having been awarded gold prior to this for eight years running.

"I was treated as an individual and my views and queries were respected by well trained staff"

Skipton International Ltd, Feefo Review, 2024

### Society Savings Performance

Across the Society and SIL, our savings offerings have resulted in another year of growth, through retaining and growing balances.

**1.35%** Society market share of savings balances

(31 December 2023: 1.30%)

The Money business' competitive savings rates resulted in total balances growing in the period by 8.9% to £28.3bn (2023: 15.4% to £26.0bn), compared to the UK savings market where net savings grew by only 5.1% (2023: 1.9%) (Source: Bank of England Statistics).

Being the UK's first, and one of the biggest providers of the cash Lifetime ISA (LISA), we hold balances of £1.2bn (2023: £1.2bn) for customers who are saving hard for their first home or planning for retirement. These customers benefited from government bonuses in the period of £56.2m (2023: £49.5m).

# Making Membership Matter

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

Key to our purpose and sitting at the heart of our collective Group businesses, is membership. We are growing membership in a sustainable manner and bringing the benefits of membership to an increasing number of people. Throughout the year, Society membership numbers grew by 36,720, taking our total membership base to 1,266,608 (2023: 1,229,888).

The branch network continues to play a key role in supporting our growing member base, and as part of our member commitments we will keep all of our branches open until at least 2026. The Society currently has 82 branches (with the wider Group totalling over 1,300 branches including those of Connells Group). We will continue to invest in our network to ensure our branches remain relevant now, and in the future, giving our members and customers the option to choose how they interact with us, such as by telephone, video, webchat and through our digital assets.

As part of our commitment to our branch network, we have invested in refurbishing the branch spaces, using our experienced colleagues in branches who are closest to our members and customers to assist with the design. We want our branches to be accessible, with an environment suited for a variety of member and customer needs. With a long proud history in Skipton, our flagship branch has already undergone refurbishment, reinforcing to our members that we'll be here for them for years to come, just as we have been for our 172-year history.

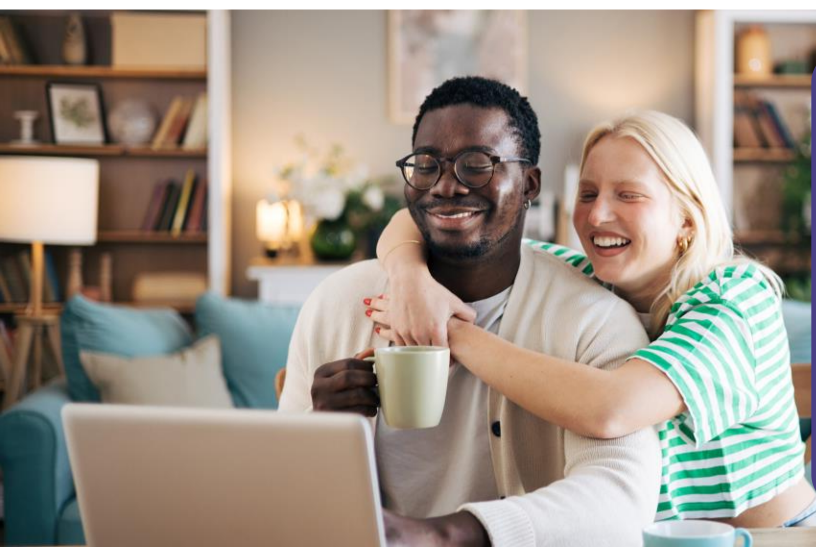
In 2024, we launched our Member Commitments. The promise we give to our members in 2025 is that you're more than a customer, to us, that means you deserve more. More value. More for you. More of a say. And that's exactly what we're committed to. We'll review our Commitments annually to ensure they remain relevant and valuable for our members.

**At Skipton Building Society, membership means more.**

We have three membership priorities:

- Creating Value Exchange
- Encouraging Meaningful Participation
- Supporting Communities

You can read more about these priorities on the following pages.



"Whether contacting Skipton in branch, online or on the phone, the team are always on hand to help. Nothing is too much trouble and information is easy to obtain. A building society that I am pleased to be a member of"

Customer Relationship Survey, July 2024

## Measuring Membership

Our three priorities within membership will be measured by surveying our members monthly to ask if we are delivering what matters to them:

- I am rewarded for being a member of Skipton Building Society
- There is an opportunity to influence decision making
- Skipton Building Society demonstrates a commitment to supporting local communities

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

**46.6%** Society membership score

(31 December 2023: N/A, new metric for 2024)

# Making Membership Matter (continued)

### Creating Value Exchange

We will demonstrate the value of membership through providing great value products and services, as well as rewarding and recognising the loyalty of members.

Member exclusive savings products with preferential interest rates have proven extremely successful, with over 107,000 of these taken by our members in 2024, and will be a continued feature of our approach in future years.

On average, we paid 0.74% higher interest (2023: 0.65% higher interest) than the rest of market average for banks and building societies (Source: CACI Current Account & Savings Database, Stock, January - December 2024). This equates to an extra £197m paid to members (2023: £148m).

**0.74%** Above market average savings rates

(31 December 2023: 0.65%)

Our member exclusive products and rates not only span our savings range, but we guarantee that our borrowers will always get our best deal too, with access to retention products which match or beat our on-sale range (subject to eligibility and individual circumstances).

Alongside our product rates, our members also benefit from access to free or discounted products through partnerships we have established. We continued to offer our members a free Energy Performance Certificate Plus (EPC) in partnership with Vibrant Energy (a Connells Group company) which includes recommendations for energy efficiency and improvements, and funding options where available. Since launch in November 2022, 10,417 surveys have been conducted providing over £774,000 of benefit to our members, with a further 75 scheduled (as of 31 December 2024).

In October 2024 we launched our Home Move box, helping first-time buyers and home movers settle into their new homes with some carefully selected gifts, and in December 2024 we empowered our colleagues to surprise members at moments that matter through meaningful acts of kindness.

We will continue to evolve our member proposition and complimentary services, either at a discounted rate or entirely free. Our members will feel recognised with rewards that are relevant and valuable to them.

### Encouraging Meaningful Participation

Members will have the opportunity to participate in making decisions about their Society, including having a say in who runs our Society and voting for our Board of Directors at the AGM, in person or online. We are proud that in our 2024 AGM, almost 64,000 of our members exercised their voting rights, an increase of over 4,300 from 2023.

Our members' voices matter and we continue to encourage member participation across a range of different forums, including growing our member panel and digital collaboration platforms, and we will invest in helping more members realise the true value of membership with the Society.

There are over 23,500 in our Member Panel, helping to shape the products and services they want to see.


"I have used Skipton for about 7 years and I have never had even a mildly unpleasant experience. I can speak with a person very quickly and they are always super polite and helpful. They are an outlier in today's world."

Skipton Building Society Trustpilot, July 2024

# Making Membership Matter (continued)

### Supporting Communities

Our support to wider society and making a real difference to our local communities continues to be a core priority of membership. Colleague volunteering opportunities have ensured we have continued to support local charities and communities throughout the year, with colleagues able to dedicate three days each to volunteering opportunities of their choice.

Core to our purpose, volunteering will continue to be a priority, supporting our communities in which we live and work, helping them to thrive.

We have an opportunity to further use branch spaces to provide community workshops which will help educate members and their communities on important topics including fraud, financial wellbeing and digital skills, for which we have a part to play.

Further, as we look to support causes in our local communities, we will provide every branch with more opportunities to do so, increasing the number of members who vote for our Charity Partners by elevating awareness of the impact we make.

**£3.3m** Donated to good causes in 2024

(December 2023: £2.9m)

The Skipton Group remains committed to donating 1% of its pre-tax profit to charity each year. For 2024 this means we have donated over £3m to over 500 charitable causes across our Group based on our 2023 pre-tax profits.

**Over 500** Number of charities supported in 2024

The causes we donate to are aligned to our overall purpose through charity partnerships and focused on three core areas to support our communities:

- Helping people to have a home
- Championing warm and efficient homes
- Supporting better financial education

Our members and colleagues have a say in which strategic charity partner we donate a proportion of our profits to. At our AGM in June 2024, our members voted to support Age UK with our 2023 donation to help people have a home, whilst our colleagues voted to support National Energy Action, aligned to championing warm and efficient homes.

We also continue to support colleague and community schemes through the Skipton Building Society Charitable Foundation (which has now donated over £3m since its launch in 2000).


This year we were delighted to support our communities to gift the magic of Christmas, with a £50,000 donation to Cash for Kids 'Mission Christmas' toy collection appeals across our entire branch network and Skipton customer service centre, and a host of PR activity to help amplify our campaign. We enrolled the support of BBC's Dilly Carter to help shout about our campaign, raising awareness and ensuring more children have a gift to open at this special time of year.

# Enabling our Strategy

**We will continue to invest in resilient technology as we innovate and build new platforms. Our systems will remain robust and make it even safer for members and customers to do business with us.**

The financial services sector is rapidly evolving due to technological advancements. The demand for digital experiences continues to grow as consumers want faster, more convenient, and secure transaction methods, which increases cybersecurity measures.

By working together across the Skipton Group, we maximise the value and sustainability of our technology investments and ensure our innovation supports our core purpose. Our technology choices, and use of data will enable products and propositions to be created to serve the needs of our members, customers and colleagues better.

### Technology and Data Transformation

Our commitment to service is driving significant activity across our digital transformation programme, replatforming our businesses with a cloud-first approach and integrating third party software with high quality, internally built software.

2023 marked the start of our digital transformation programme. We have progressed at pace throughout 2024, as we successfully built the foundations for our infrastructure.

This has been a tremendous effort from our colleagues, challenging ourselves to deliver the most value to our members. We have learnt to adapt - being brave in taking different decisions throughout our journey, championing an environment to be more agile in delivery, and pivoting where it made sense to do so.

Our digital transformation has seen us deliver some further key milestones throughout the year. We've migrated our telephony platform to the cloud, upgraded our mailroom facility, and utilised AI for document reading to drive efficiencies across our operations. We laid the foundations for an enhanced online authentication journey for our members who use our mobile app and portal, addressing some of the most common issues experienced and improving overall customer satisfaction.

We also launched a new Skipton Building Society and Skipton Group website to make Skipton more accessible and engaging for all our stakeholders.

In leveraging the power of our Group, we have also started to harness our incredible data assets which give us unique insights across the UK housing market, as demonstrated by the launch of the Skipton Group Home Affordability Index. This means we can make data led, strategic investments and decisions that drive tangible and purposeful difference and play a key role in supporting members and customers and driving societal change.

As we move forward, we will continue to bring together our data capability across the Group to support more members and customers achieve their aspirations of home ownership and long-term financial wellbeing through product solutions.

We've been recognised externally, and our progress in the transformation space has seen us receive two awards:

- Winner of the Most Effective Strategic Transformation Programme award at the European Contact Centre and Customer Awards
- Best Financial Services Transformation Project at the 2024 UK IT Awards

# Enabling our Strategy (continued)

## Enhancing Change Execution

Throughout the year, in order to deliver more value back to our members, we continued to accelerate our agile transformation activity, aligned to our cultural renovation and the desire to increase our agile maturity. We have invested in our colleagues by providing training and professional qualifications in the Scaled Agile Framework and in Product Ownership, which helps us to deliver change in a way that is aligned to industry standards. We have also trialled and implemented new ways of working by way of quarterly Programme Increment (PI) Planning, bringing colleagues together to plan the increments of work that deliver against our strategic priorities.

The dedication from our colleagues has been inspiring, having successfully completed three PI planning sessions with over 450 colleagues in attendance across two days every quarter. We have completed projects that deliver maximum value back to our members and customers, ensuring we are always regulatory compliant, that we fix any issues that don't deliver the service our customers and members expect from us, and deliver our strategy.

We recognise that our colleagues play a critical part in our technology enablement, and we will continue to build out our Group technology talent. Specifically, we are creating new technical councils across the Group and are ensuring strategic, architectural alignment across our technology assets, to allow us to innovate and deliver faster.

The Board and senior management remain committed to maintaining an inclusive culture where we continue to invest in our colleagues' skills, personal and career development and well-being.

By empowering colleague decision-making close to our members and customers, we can deliver on our purpose. We have implemented new systems and technology throughout the year to support our colleagues' development journeys and our overall culture, improving ways of working and promoting efficiencies.

The Skipton Group has also welcomed new faces to the Executive team throughout the year, bringing with them a wealth of experience and leadership in continuing to drive forward a sustainable business for our members.

In 2024, we completed our refurbishment of The Bailey, our head office in Skipton; home to c.1,964 colleagues. The refurbishment has provided more open and collaborative spaces for our colleagues to work face-to-face, championing innovation and really delivering value back to members.

## Being an Inclusive Employer of Choice

We are building an increasingly diverse pipeline of talent and investing in our places of work, not only through the branches but through our central contact centres.. Last year we defined a target ambition for our culture across the Society, building on the behaviours our colleagues showcase on a daily basis, and enabling us to further drive innovation in a changing world.

## Our Behaviours

- Be Accountable
- Be Brave
- Be Curious
- Be Collaborative

We believe that these behaviours and culture, along with the unique benefits and experiences our Skipton Group provides, offers something special to current and future employees.

## Enabling our Strategy (continued)

We launched a podcast to showcase some of our diverse talent discussing their career highs and important lessons they've learned over their careers. Titled 'Career Catastrophes' it proved popular charting the top 100 business podcasts in Apple Podcasts UK.

As we move into 2025, we will continue to build our Employee Value Proposition, bringing to life who we are and what we stand for. Our current and prospective employees will clearly understand our purpose, our culture and history, and our approach to personal development and career opportunities.

During 2024 we built on our commitment to build a truly diverse workforce across our Society, and across our Skipton Group. We are proud to have received the prestigious Silver Status as part of the Ministry of Defence's Employer Recognition Scheme supporting the Armed Forces community across Yorkshire and the Humber region. Our Society is a Disability Confident Committed Employer, as awarded by the Department of Work and Pensions. Our accreditation means we are committed to ensuring our recruitment process and our support to existing colleagues is inclusive and accessible to all.

We recognise that support and allyship across all areas of Diversity and Inclusion is of the upmost importance, and the Society is proud to have a variety of colleague-led Employee Resource Groups (ERG's) who have pursued a range of successful activities across the year. Most notably, the ERG's donated £5,000 per network to charities aligned to their specific values. The Gender Equity network supported the 'Pass On Preloved Items (POPI)' Baby Bank while the Women in Technology Group supported Disability Action Yorkshire.

The ERG's have also spearheaded a range of other noteworthy activities, including Skipton's support and attendance at Leeds Pride (co-ordinated by the Pride Alliance Group); keynote speakers during Black History month; and the continued partnership between Skipton and Women into Science and Engineering (WISE), with Skipton being a headline sponsor of the WISE annual conference (via the Women in Technology Group).

### Defining a Clear Colleague Experience

Throughout 2024 we have enabled more of our colleagues to focus on their personal development, providing online and in-person development materials tailored to individual development needs. We've also enhanced our management and leadership capabilities. Our colleagues have undertaken courses to increase self-awareness, develop leadership styles in line with the longer-term societal shifts that we see on a daily basis, and to underpin all of this, developed techniques to support more impactful conversations.

Supporting our colleagues enables us to foster talent across our Society and our Group, providing long term succession planning and sustainability for the future of our Group. We will continue to build Group wide programmes that develop leaders and colleagues, aligning systems, data and metrics to enhance career mobility, both nationally and internationally.

Supporting wellbeing in the workplace has never been so important. This has been emphasised as a key part of the role of our managers this year and our community of mental health first aiders are trained and upskilled on an ongoing basis, bringing mental health support to our leaders and colleagues.

# Enabling our Strategy (continued)

## Diversity and Inclusion

Inclusion is at the heart of the work we do at Skipton Group. Our commitment goes beyond compliance, we want to ensure every colleague feels respected, valued, and has a sense of belonging. This not only makes an impact on our colleagues and members, but it also makes a difference to the communities in which we serve.

Our aim remains to further build on our progress, to ensure our colleagues can perform at their full potential. We seek to provide a work environment that is safe and accessible, free from unfair treatment, discrimination and harassment and gives fair and equitable access to learning, development, reward and promotion opportunities.

We have a range of policies and practices which support these aims and monitor their application.

The Society's latest Gender Pay report, published in April 2024, highlights actions we've taken to increase the number of female applicants for senior roles. Our Employee Resource Groups are an integral part of Diversity and Inclusion. We value the contributions they provide in enhancing policies and processes and the support they provide for colleagues. In supporting these networks, they have each been provided with a budget, training, an Executive team sponsor and protected working time to drive activity forward.

Change activity continues to enhance our colleague data to understand our workforce and enable development through evidenced based and data driven initiatives. Throughout 2024 we enhanced the capability to overlay diversity data with people processes, identifying trends and providing interventions as required.

We have continued to partner with organisations like WISE (Women in Science and Engineering) to help us to further embed our commitment to ensuring gender parity across the Society. We are continuing our membership with Inclusive Employers and Progress Together, an organisation focused on increasing the representation of those from lower socio-economic backgrounds into senior roles in the financial sector.

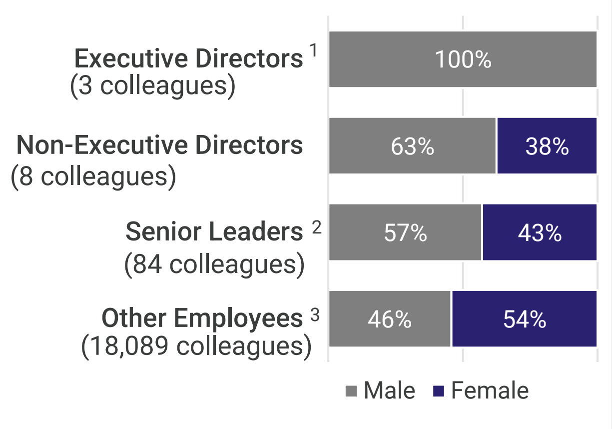
External benchmarking has been used to scrutinise our socio-economic background data, to further understand our baseline and make evidenced-based and data-driven decisions on interventions required to support progression for colleagues of all backgrounds.

Furthermore, we are continually reviewing and improving our People Policies, one example being development of a Colleague Transition policy which outlines the support and assistance that can be provided to colleagues who are undergoing gender reassignment. Updates to our processes will reflect the changes outlined in the policy to ensure they are inclusive for any colleagues transitioning.

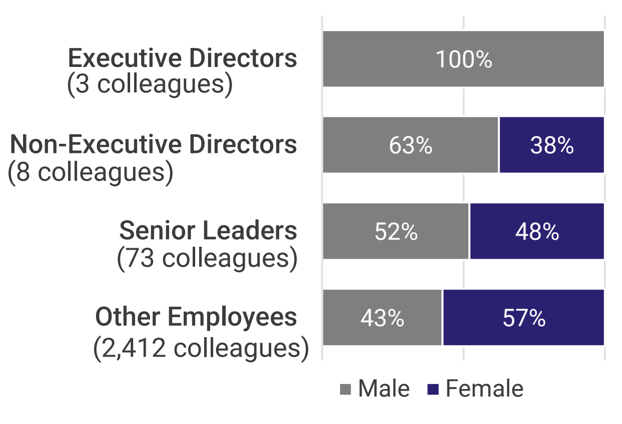
Through dedicated events, we bring our colleagues together to spotlight inclusion, with a dedicated month in June, and a fortnight in October. This year we have delivered over 40 sessions to colleagues on all areas of inclusion and wellbeing.

The split of colleagues by gender employed in the Group and Society as at 31 December 2024 is outlined below:

### Skipton Group




### Society




1. Society Board directors only
2. Comprises Society's senior leaders (other than executive directors) and executive directors of other Group businesses
3. Includes senior leaders of other Group businesses

# Building a Sustainable Society

### Responsible and sustainable

It is essential that businesses take action to help tackle the profound environmental and social challenges our country and our planet face. This is a responsibility we place significant importance on. As a member-owned business, we don't have shareholders or dividends to distribute. Instead, our responsibility is to maintain financial sustainability, generating profit that can be reinvested into our business for the long-term benefit of our members.

Our strategy for making positive change aligns with five of the United Nations (UN) Sustainable Development Goals. The Group's approach is also underpinned by an alignment with the UN Principles for Responsible Banking to which our banking businesses, the Society and SIL, are signatories.

Our separate 2024 Group Sustainability Report documents our progress on how we are evolving to meet social and environmental challenges, and the ways we are holding ourselves accountable.

**Goal 8**
**Decent Work and Economic Growth:**

*"Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all"*

As a leading lender and operating one of the largest networks of high street estate agencies, we're well placed to help widen access to financial services and the housing market, supporting both renters and homeowners.

**Goal 10**
**Reduced Inequalities:**

*"Reduce inequality within and among countries"*

With over 18,000 people working across the Group, we recognise there's a significant opportunity to champion diversity and inclusion across our businesses.

**Goal 11**
**Sustainable Cities and Communities:**

*"Make cities and human settlements inclusive, safe, resilient and sustainable"*

We can use our skills and knowhow to help members and customers make their homes more sustainable.

**Goal 13**
**Climate Action:**

*"Take urgent action to combat climate change and its impacts"*

We're committed to reduce our carbon footprint, and the emissions related to our lending and supply chain.

**Goal 16**
**Peace, Justice and Strong Institutions:**

*"Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels"*

Financial sustainability underpins our decision making, in turn creating mutual value for members, customers, colleagues and communities.

### Climate and Energy Efficiency

Ongoing higher energy costs combined with the UK's poorly insulated housing stock put a significant strain on the finances of many households, hitting those on the lowest incomes the hardest. That's why we will play our part to support customers with retrofitting and making their homes more energy efficient, in line with national net zero targets. Our ability, and the ability of our customers, to achieve net zero are heavily reliant on external factors. These include the actions of the UK Government and clear, early policy intervention, specifically those linked to upskilling and suitable home retrofit funding schemes. Please see Helping People Have a Home to read more on our retrofit project and Making Membership Matter to read about how we are supporting members and colleagues to improve the energy efficiency of their homes.

### Supporting our customers and communities

The Skipton Group is united by a common purpose to help more people have a home, help people save for life ahead and support long-term financial wellbeing. We believe this is the most significant contribution we can make to building a better, more sustainable society, fit for the future.

# Building a Sustainable Society (continued)

## Responsible supply chain

The Society works in partnership and closely monitors relationships with key suppliers. On an ongoing basis we assess any risk of adverse impact, on our customers, colleagues or the environment, as a result of these relationships. Our suppliers are requested to agree with the Society's Code of Conduct as part of our onboarding process. This includes commitment to being a responsible and sustainable business, as well as supporting our business ethics and complying with the Modern Slavery Act 2015.

Suppliers' service-delivery is tracked against key performance indicators to ensure the service provided is of an acceptable standard and the Society are working with EcoVadis, a sustainability ratings provider, to assess the sustainability standards within our supply chain.

In 2025, we will work across the Group to identify opportunities to reduce upstream emissions in our supply chain. This will involve developing and tracking a supplier engagement plan to understand our most critical ("material") suppliers' approach to reducing emissions – initially at a Society level but then expanding out to other Group companies. We appreciate that this will require supplier participation and there is a risk that some suppliers may not participate. The data we collect from this will therefore be limited.

## Being Accountable

The Group is committed to a zero-tolerance approach to instances of bribery or corruption across any area of our business. We have anti-corruption and anti-bribery policies in place in each business line, which are readily available. The policies provide guidance about what constitutes a bribe and 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 Skipton Group. In addition, our colleagues and employees are required to complete annual training to refresh their knowledge.

The Society's Board fully supports the objectives of the Modern Slavery Act 2015, further details of which can be found at skipton.co.uk/about-us/governance. We have a position of zero tolerance of modern slavery and human trafficking in any form in our UK business and supply chains. Suppliers to our UK-based business lines must comply with the Modern Slavery Act 2015, where applicable, and ensure their supply chain is transparent about the process through which employees are managed.

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

To read more on how we keep ourselves accountable and for details of our corporate governance, please see the Corporate Governance Report.

## Climate-related disclosures

The devastating effects of climate change are happening right now, including the extreme weather conditions we are seeing. Without urgent action, the impacts will become even more damaging in the future. So, to reduce the impacts of climate change, the UK has made a commitment: to reach net zero by 2050.

As a Group, we not only recognise the importance of reducing the impact our own operations have on the environment. We want to raise awareness and support members in decarbonising their homes – with emissions from households being a key contributor to the UK's carbon footprint.

The Group continues to embed climate resilience in our decision-making. We continue to follow the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and present information against the TCFD reporting framework, under the four pillars: Governance, Strategy, Risk Management, and Metrics and Targets. Further details on how we manage climate-related risk can be found in the Group Climate-related Disclosures published on our website www.skipton.co.uk.

# Building a sustainable Society (continued)

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

## Board oversight of climate-related risks and opportunities

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

### *Board Risk Committee (BRC)*

In 2024, the BRC was informed about climate-related issues on three separate occasions. Recent areas of focus include assessment of:

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

### *The Board Remuneration Committee*

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

### *The Board Audit Committee (BAC)*

The BAC is responsible for review and approval of external sustainability reporting, including the annual Climate-Related Financial Disclosures.

### *Board Training*

To help the Board provide effective oversight of our response to climate-related risks, a dedicated climate risk training session led by external specialists was held during 2024.

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

The Group Executive Committee and the boards of subsidiary firms are responsible for the proactive management of the financial and operational risks arising from climate change and the strategy to mitigate these risks. Climate-related risks are overseen by the Society's Executive Risk Committee which has a reporting line into the Group Executive Committee.

The Society has embedded capabilities to meet the requirements of the PRA's Supervisory Statement 3/19 (SS3/19) 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change'. Following the implementation of a new target operating model at the beginning of 2024, Senior Management Function responsibility for the identification and management of the financial risks from climate change transferred from the Group Chief Risk Officer to the Group Chief Financial Officer.

The Climate Change Risk Forum (CCRF) includes senior representation from around the Group and meets on a periodic basis to coordinate activity associated with the identification, assessment and monitoring of climate risk. During 2024, the CCRF members reviewed the key physical and transition risks to which the Group and the Society are exposed.

The Stress Testing Steering Committee, which has a reporting line into the Society's Executive Risk Committee, is responsible for review and challenge of the design of the climate risk scenarios, the assumptions applied and the outputs, with final approval provided by the BRC.

This year, we established the Group Sustainability Committee (Group SusCo) to provide executive oversight and monitoring of the delivery of the Group's approach to sustainability, including our approach to achieving net zero. During 2024, the Group SusCo received an update on the climate-related risk scenario analysis results and provided input into the Group net zero targets. Further information on the governance of sustainability matters can be found in the 2024 Group Sustainability Report.

Connells Group operates a group Audit & Risk Committee which reports directly to the Connells board. Management responsibility for financial risks from climate change is allocated to the Connells Group Chief Finance Officer. For the other main subsidiaries, the management responsibility sits with the respective CEOs and boards.

# Building a sustainable Society (continued)

**Strategy:** impacts of climate-related risks and opportunities on Skipton Group strategy and financial planning.

### Climate-related risks and opportunities the organisation has identified over the short, medium, and long-term

During 2024, the members of the Climate Change Risk Forum completed a review of the key climate-related risks that are likely to impact the Group. Further details on the potential risks identified can be found in the Group Climate-related Disclosures Report published on our website www.skipton.co.uk.

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

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

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

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

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

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

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

We are also taking action to help the transition towards a net zero carbon economy, including playing a bigger role to support the improvement of energy efficiency of UK homes and to support our customers to improve their residential energy efficiency.

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

To help inform our strategic planning and determine the impact of the financial risks from climate change on our overall risk profile and business strategy, in 2024 we performed detailed quantitative analysis, with qualitative assessments for less material exposures. In each case, through the combination of existing risk management practices and existing climate-related actions, no areas of concern were identified.

The most material risks are primarily focused on the impact of climate change on our residential mortgage portfolio. Dedicated quantitative climate risk stress testing on the Group's credit risk management was conducted across four climate risk scenarios, including a below 2°C scenario. The scenario narrative was created by Skipton, informed by climate pathways such as the Network for Greening the Financial System (NGFS) scenarios.

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

In addition, Connells Group have considered the relevant scenarios with quantitative modelling of a below 2°C scenario, with additional assumptions for the volume of properties sold.

# Building a sustainable Society (continued)

**Risk Management:** How Skipton Group identifies, assesses, and manages climate-related risks.

### Processes for identifying and assessing climate-related risk

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

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

### Processes for managing climate-related risks

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

Any postcode identified as potentially at risk of future coastal erosion requires a desktop or physical survey to capture local knowledge of the risks to each property.

The Society's loan conditions require insurance at the point of completion which provides assurance that the property is insurable at that point in time. Our concentration risk rules consider flood risk.

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

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

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

### Risk management framework

Our climate-related risk management processes are aligned and integrated into the Group's risk management processes. The Group has a formal structure for identifying and managing risks throughout the business. This framework is designed to support the delivery of the Corporate Plan in line with the Board's overall risk appetite and is based upon the three lines of defence risk management model with risks rated on magnitude and likelihood.

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

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

# Building a sustainable Society (continued)

**Metrics and Targets:** How Skipton Group assesses and manages climate-related risks and opportunities.

The metrics used to monitor climate-related risks are:

- Society mortgage portfolio properties classed in the highest flood risk category
- Society mortgage portfolio properties classed in the highest subsidence risk category
- Society mortgage portfolio properties at risk of being impacted by coastal erosion
- Society mortgage portfolio properties by current EPC category assessment level
- Connells Group professional indemnity claims caused by physical climate change
- Group scope 1 and 2 GHG emissions
- Estimations of Group scope 3 value chain emissions
- Estimations of Group scope 3 financed emissions for the mortgage portfolio (Society and SIL)

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

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

### Skipton's scope 1, 2 and 3 GHG emissions

Across the Skipton Group we collect data to monitor and assess energy used and emissions generated across our operations. Group emissions are reported under both the market-based and location-based methods.

Our scope 1 and 2 GHG emissions relate to the energy we use to operate our branches and offices, and our company owned or operated vehicles for our employees. Most of our operations are based in the UK, with smaller facilities in Australia, Guernsey, Jersey and New Zealand.

Our scope 1 and 2 location-based emissions have reduced 11% from 2023, and our energy consumption is down 9%. Our market-based emissions have reduced 47% due to increased purchasing of electricity from renewable sources, at 86% in 2024 (2023: 55%). We aim to purchase renewable electricity tariffs, with a renewable energy guarantee of origin (REGO) for our Group operations, with the Society purchasing a green gas tariff, with renewable gas certification (RGGO).

The work to lower energy used across our offices and branches has continued throughout 2024, switching to more energy-efficient LED lighting, and installing smart electricity and gas meters. Additionally, Connells Group continue the transition of their fleet to lower emission vehicles, with 20% of the fleet being hybrid or electric at the end of 2024.

We report estimated scope 3 data covering financed emissions from our lending for our residential and legacy commercial mortgage portfolio (Society and SIL). The GHG emissions are estimated based on the LTV ratio, property type, and EPC data available. As at 30 September, 81% of properties in our residential book had an EPC. In 2024, the total attributed mortgage financed emissions increased 11% from 2023, due to an overall growth in the mortgage balances and a slight increase in the overall LTV ratio.

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

# Building a sustainable Society (continued)

## Group GHG emissions and energy data (note 1)

| Scope 1 and 2 (notes 2 and 3) | Metric Detail | 2024 | 2023 |
|---|---|---|---|
| **Scope 1 - offices, branches and company vehicles** | $tCO_2e$ | 3,380 | 4,023 |
| **Scope 2 (location-based) electricity** | $tCO_2e$ | 5,343 | 5772 |
| **Scope 2 (market-based) electricity** | $tCO_2e$ | 1,231 | 4,618 |
| Scope 1 & 2 energy usage | kWh | 42,501,013 | 46,851,915 |
| Total scope 1 & 2 emissions (location-based) | $tCO_2e$ | 8,723 | 9,794 |
| Scope 1 & 2 emissions from UK operations | % | 99% | 99% |
| Total scope 1 & 2 emissions (market-based) | $CO_2e$ | 4,611 | 8,640 |
| Scope 1 & 2 location-based emissions intensity ratio | $tCO_2e$ / £m turnover | 5.39 | 6.30 |
| Scope 3 financed emissions (note 4) | | 2024 | 2023 |
| **Estimated attributed financed emissions - mortgage lending from residential and commercial mortgage portfolio** | Category 15 financed emissions ($tCO_2e$) | 267,117 | 241,102 |

**Notes**

1. Further information on our scope 1, 2 and 3 emissions, as well as our climate data limitations, can be found in the 2024 Group Sustainability Report.
2. For scope 1 and 2, where actuals data was not available, consumption was estimated using average consumption or proxy data. 2023 data has been restated due to improved data.
3. For market-based emissions where consumption was not on a renewable electricity tariff backed by a REGO certificate or the status was unknown, a residual or location-based factor has been applied. Our renewable gas certificates (RGGOs) are not currently used to count towards any scope 1 emission reductions for either the market or location-based method.
4. Estimated scope 3 financed emissions have been calculated based on an annual 30 September snapshot basis, using the GHG Protocol Partnership for Carbon Accounting Financials (PCAF 2019) standard and using PCAF's emission factors. The financed emissions data for 2023 has been restated due to application of an improved methodology for modelled EPCs and floor area data. The LTV attribution ratio applied in this method is based on the valuation of the property at loan origination.

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

We are committed to reducing the impact of our operations on the environment and to playing our part in achieving the UK economy net zero target by 2050.

We have agreed a Group-wide approach to reduce our scope 1 and 2, and selected categories of scope 3 value chain emissions, in line with net zero by 2050 or earlier. In addition, we have an ambition to reduce our financed emissions intensity ($kgCO_2e/m^2$) of our residential mortgage lending in line with a net zero pathway. Further information can be found in the 2024 Group Sustainability Report.

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

# Financial Review

"A robust financial performance across all businesses in our Group in 2024 ensures that we can continue to invest for the future benefit of our members whilst providing the products and service levels that they require today.

We have maintained our strong capital position and have continued to optimise our liquidity balances to ensure we remain resilient in challenging conditions"

**Paul Chambers,**
**Group Chief Financial Officer**

| Key Financial Performance Indicators | | | |
|---|---|---|---|
| **Group profit before tax** to ensure we generate the capital necessary to grow the business | 2024<br>2023<br>2022 | £318.6m<br>£333.4m<br>£298.8m | Page 40 |
| **Underlying Group profit before tax** to ensure we generate the necessary capital to grow the business (note 1) | 2024<br>2023<br>2022 | £302.3m<br>£308.6m<br>£297.7m | Page 41 |
| **Group net interest margin** (% of mean assets) to manage the earnings of our business | 2024<br>2023<br>2022 | 1.28%<br>1.53%<br>1.35% | Pages 42 - 44 |
| **Costs to mean assets** (Society only) to maintain a manageable cost base to ensure we remain efficient | 2024<br>2023<br>2022 | 0.73%<br>0.72%<br>0.66% | Page 42 |
| **Group retail funding** (as a % of total funding) to ensure we can fund most of our mortgages through retail savings | 2024<br>2023<br>2022 | 85.6%<br>83.2%<br>78.9% | Page 47 |
| **Liquidity Coverage Ratio (LCR)** (Prudential Group) to ensure we hold sufficient levels and quality of liquidity (note 2) | 2024<br>2023<br>2022 | 193%<br>173%<br>175% | Page 45 |
| **Common Equity Tier 1 (CET1) ratio** (Prudential Group) to ensure financial strength by having a strong (risk weighted) capital base (note 2, 3) | 2024<br>2023<br>2022 | 28.7%<br>26.0%<br>25.8% | Page 48 |
| **Leverage ratio** (Prudential Group) to ensure financial strength by having a strong (non-risk weighted) capital base (note 2, 3) | 2024<br>2023<br>2022 | 6.6%<br>6.7%<br>6.8% | Page 48 |

Notes
1. Included as a key measure in the executive directors' remuneration policy calculations. For further details see the Directors' Remuneration Report.
2. The Prudential Group comprises the entire Group except Connells Group, Jade Software Corporation Limited and a small number of other entities whose activities are not closely aligned with the core business.
3. These ratios apply International Financial Reporting Standard 9 (IFRS 9) transitional arrangements.

# Financial Review (continued)

## Financial performance

| Summary Group Income Statement | 2024 (£m) | 2023 (£m) |
|---|---|---|
| Net interest income | **488.4** | 542.8 |
| Fees and commissions receivable | **1,109.6** | 985.4 |
| Fair value gains on the financial instruments mandatorily held at FVTL | **18.0** | 23.5 |
| Other operating income | **3.2** | 2.9 |
| Total income | **1,619.2** | 1,554.6 |
| Administrative expenses | **(1,312.3)** | (1,224.8) |
| Operating profit before impairment loss and provisions | **306.9** | 329.8 |
| Impairment and provisions | **11.7** | 3.6 |
| Total Group profit before tax | **318.6** | 333.4 |
| Tax expense | **(78.1)** | (78.8) |
| Total Group profit for the year | **240.5** | 254.6 |

The Group delivered a robust financial performance in 2024, achieving £318.6m profit before tax (PBT) (2023: £333.4m) despite challenges from a shifting interest rate environment. Growth in estate agency and surveying income in Connells Group, driven by a resilient housing market, offset pressures on net interest income in the Society and SIL as Base Rate peaked mid-year before easing to 4.75% by November.

The Society delivered a resilient performance, generating £209.9m (2023: £283.7m) in profits (excluding income from shares in subsidiary undertakings). SIL performed similarly, with PBT of £31.0m (2023: £47.3m). Whilst the higher interest rate environment supported increased interest income, a proportionally larger increase in interest payable led to an anticipated decline in overall net interest compared to last year (as detailed on pages 42 to 44). In contrast, Connells Group achieved increased profits of £61.3m (2023: £13.8m), as housing market activity continued to improve (as detailed on page 44).

Managing our cost base remains a key component of our strategy. For the Group, administrative expenses increased in 2024 by £87.5m (7.1%) to £1,312.3m (2023: £1,224.8m). Spend in the year reflects further investment in our services and in our people, particularly in Connells Group where stronger trading led to an increase in variable compensation; enabling better outcomes for our members.

The Group recognised a reduction in expected credit losses on loans and advances to customers of £17.1m during the year (2023: £3.1m reduction) as the economic outlook started to improve. Movement in impairment in the year predominantly relates to loans and advances in the Home Financing business, and is detailed on page 43.

Ongoing proactive management of our credit risk exposure from our mortgage portfolios remains a key priority, in order to minimise losses to the Group and to help our customers through financial difficulties wherever possible. The Group adopts a responsible approach to mortgage lending, ensuring 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.

Consolidated total assets have increased by 4.8% to £39.0bn (2023: £37.2bn) predominantly due to growth in our mortgage balances, which was partly offset by a reduction in surplus liquidity as we sought to optimise our asset mix.

Both residential mortgages and retail savings have seen strong growth in a competitive market; helping more people have a home and make their money work harder. Our mortgage balances remain mostly funded by retail deposits, our primary source of funding – in line with our mutual ethos; whilst we also make use of longer-term funding from the wholesale markets to minimise refinance risk, accessing funds from a number of diverse sources. This balanced approach helps us offer competitive rates and align the duration of our funding with the longer-term mortgages many of our members want.

In the year, the Society raised funding by the issuance of a new covered bond through the wholesale markets, further details of which are noted on page 47.

# Financial Review (continued)

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.

Capital resources are in excess of regulatory requirements, with substantial buffers across risk-based and leverage frameworks. Skipton's Common Equity Tier 1 (CET1) ratio increased to 28.7% (2023: 26.0% - restated), driven by increased total regulatory capital; and the leverage ratio was 6.6% (2023: 6.7%).

## Alternative performance measures

The Board monitors and reports profits at a statutory level, governed by accounting standards and practices, and at an 'underlying' level to give greater transparency of the performance of the Group's ongoing trading activities. Per the Group's policy on alternative performance measures agreed by the Board Audit Committee, we also report earnings before interest, tax, depreciation and amortisation (EBITDA) for Connells' Group.

| Underlying Group Profit | 2024 (£m) | 2023 (£m) |
|---|---|---|
| Total Group profit before tax | **318.6** | 333.4 |
| Less fair value gains in relation to the equity release portfolio^ | **(9.3)** | (11.0) |
| Less fair value gains on share warrants and equity share investments | **(7.0)** | (13.8) |
| **Underlying Group Profit before Tax** | **302.3** | 308.6 |

^The £9.3m gain (2023: £11.0m gain) is comprised of fair value losses of £12.6m (2023: £9.2m gains) and fair value gains of £21.9m (2023: £1.8m gains) on the associated derivatives held to economically hedge these fair value movements, as shown in Note 5 to the Accounts.

### Underlying Group PBT

Underlying profit is used to measure the progress of the Group against its strategic objectives and the Board uses this measure to aid in strategic decision-making. 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 part of the Group's core strategy and thus 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 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.
- Fair value gains or losses on equity share investments and share warrants are recognised through the Income Statement (except for certain investments elected to be recognised through other comprehensive income). As 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.

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

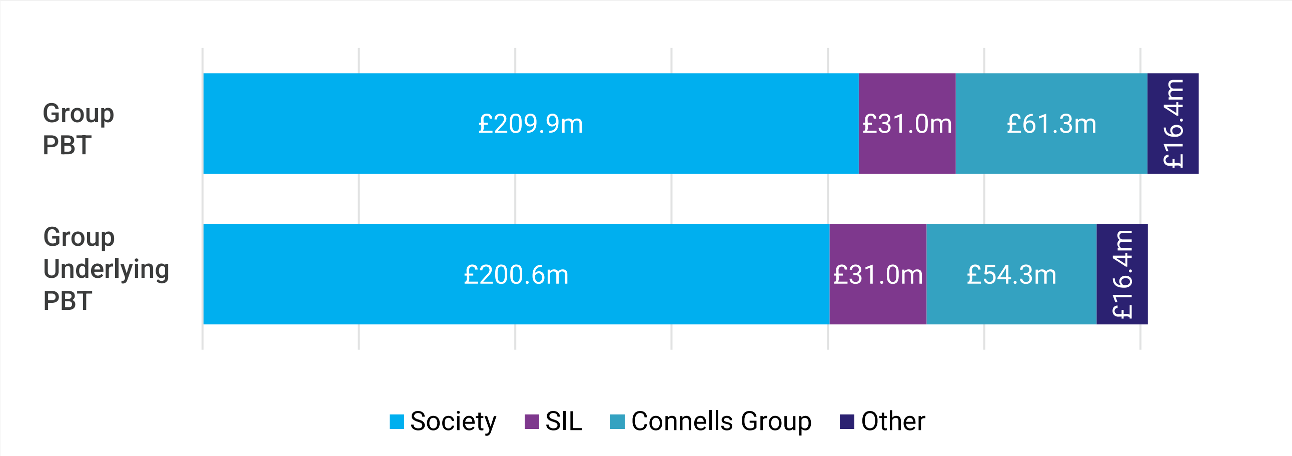
The Group's policy is to not adjust for amortisation charges or acquisition costs when calculating underlying profits. Therefore, amortisation charges arising from the acquisition of Countrywide by Connells Group in March 2021 are included within underlying PBT - these charges will not recur in the medium term.

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

# Financial Review (continued)

## Performance by segment

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




| Group PBT | 2024 (£m) | 2023 (£m) |
|---|---|---|
| Society | **209.9** | 283.7 |
| SIL | **31.0** | 47.3 |
| Connells Group | **61.3** | 13.8 |
| Other^ | **16.4** | (11.4) |
| Total | **318.6** | 333.4 |

| Group Underlying PBT | 2024 (£m) | 2023 (£m) |
|---|---|---|
| Society | **200.6** | 272.7 |
| SIL | **31.0** | 47.3 |
| Connells Group | **54.3** | 2.5 |
| Other^ | **16.4** | (13.9) |
| Total | **302.3** | 308.6 |

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

## Society

The Society reported lower underlying pre-tax profits of £200.6m for the year (2023: £272.7m).

Net interest income earned on assets (principally mortgages, other loans and advances, and liquidity), less that paid on liabilities (principally retail savings, wholesale funding, subscribed capital and subordinated debt) amounted to £407.2m (2023: £458.7m).

The Society's net interest margin was lower for 2024 at 1.14% (2023: 1.39%). The Base Rate remained at 5.25% throughout the first half of the year, creating opportunities to generate higher interest income, which we are investing to deliver future benefits for our members; before the first reduction of 0.25% on 1 August. Interest payable rose more quickly, however, as we continue to ensure our members receive above-market interest rates on their savings; ultimately impacting upon interest margin.

Administrative expenses for the Society, including depreciation and amortisation, increased by £22.9m compared to last year, rising to £262.0m (2023: £239.1m). Of this increase, £5.0m relates to the Bank of England levy, which replaced the Cash Ratio Deposit scheme, used to fund the Bank's policy functions.

We are investing heavily in our service, through improved digital pathways, in order to create excellent customer and member experiences; and in our people, including colleague pay awards, together with continued investment in our principal office and branch network. In the short term this has meant an increase in costs through targeted investments, however our focus on efficiencies and service enhancement remains.

Despite increased investment, our ratio of costs to mean assets, a traditional measure of efficiency, remained relatively stable at 0.73% (2023: 0.72%) reflecting our strong balance sheet growth (as outlined on pages 45 to 47). This is expected to reduce significantly over the life of our Corporate Planning horizon, post-investment, as cost savings come to fruition.

# Financial Review (continued)

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

**9.0%** Mortgage book growth rate

(2023: 12.3%)

Gross mortgage advances in our Home Financing business were £5,940m (2023: £6,326m), whilst net lending was £2,375m (2023: £2,883m). Despite the uncertain economic environment, the Home Financing business achieved strong net mortgage book growth in the period of 9.0% (2023: 12.3%), without compromising the quality of our mortgage assets.

**0.29%** Residential mortgages in arrears by three months or more

(2023: 0.23%)

Residential mortgages in arrears by three months or more totalled 541 cases representing only 0.29% of mortgage accounts (2023: 419 cases, representing 0.23%). An increase in arrears was anticipated as cost-of-living pressures started to flow through to customers, particularly for those coming off low fixed rates. However, arrears remain low, and this is testament to our aforementioned proactive credit management. Despite the increase in arrears, impairment held against residential mortgages has reduced.

At the year end, the Home Financing business's residential impairment loss allowance was £12.8m (2023: £27.9m), with a related credit to the Income Statement of £14.1m (2023: £3.5m credit). These movements reflect the impact of changes to the Group's forward-looking economic assumptions, which have been updated during the year to reflect changes in the external environment, and the impact of revisions to certain judgemental adjustments, including improving affordability in line with the reducing Base Rate (as discussed further in Note 1v) to the Accounts).

The commercial lending portfolio, closed to new business since 2008, stands at £114.3m (2023: £135.2m) with an average loan size of £231.2k. The proportion of accounts in arrears by three months or more in this portfolio was 1.69% (2023: 1.62%). The commercial impairment loss allowance stood at £4.7m (2023: £9.0m), with a related credit to the Income Statement of £2.9m (2023: £0.9m credit). The reduction in the impairment allowance is principally due to changes in portfolio quality, with the level of allowance required reducing over time as this closed book continues to run-off.

Home Financing holds an equity release mortgage book which is closed to new business. We have seen a net fair value gain on our equity release portfolio and associated derivatives of £9.3m (2023: net gain of £11.0m). This net fair value gain is driven by changes in market expectations of long-term interest rates, inflation and house price growth.

*Refer to Note 15 and Note 18 to the Condensed Consolidated Financial Statements for further details on loans and advances to customers and our equity release portfolio.*

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

**8.9%** Savings balance growth rate

(2023: 15.4%)

Savings balances increased by £2,317m in the year, which represents growth of 8.9% (2023: 15.4%) compared to the UK savings market where net savings grew by only 5.1% (Source: Bank of England Statistics, December 2024).

**167,660** Lifetime ISA customers

(2023: 164,956)

LISA customers continue to be well represented in our customer base and at 31 December 2024 we had 167,660 LISA customers (2023: 164,956) with total balances of £1,170m (2023: £1,153m), saving hard for their first home or for later life.

The Society's net non-interest income, which is predominantly made up of financial advice fees and commissions receivable, was £43.9m (2023: £39.9m). Funds under management, as part of our financial advice offering, totalled £4.7bn as at the year end (2023: £4.3bn).

# Financial Review (continued)

### Skipton International Limited (SIL)

SIL recorded underlying pre-tax profits in the year of £31.0m (2023: £47.3m). The decrease in profits reflects an increase in cost of funds, due to the higher interest rate environment; which has impacted SIL's net interest margin, reducing to 1.97% (2023: 2.37%) combined with a reduction in the balance sheet, as noted below.

Furthermore, SIL has strengthened its customer offering and strategic implementation, and continued to increase capacity in back-office teams, while improving their control environment, which has resulted in an increase in administration expenses during the year. The ratio of costs to mean assets increased to 0.81% (2023: 0.47%) due to the higher costs, impacting PBT, with administrative expenses as a percentage of income rising to 41.2% (2023: 19.9%). Administrative expenses rose by 79.8% to £21.4m (2023: £11.9m) as a result of this investment. Excluding investment-related costs of £6.3m, administrative expenses total £15.1m.

SIL's savings book reduced by 1.2% in the year to £2,418m (2023: £2,446m). SIL also reported a reduction in its mortgage book, which decreased by 2.3% to £2,101m (2023: £2,151m); the quality of the mortgage book remains good, with only 10 cases in arrears by three months or more (2023: four cases).

The business has purposefully slowed growth in the year as it focusses on a project to transition its offering in order to better support clients in the future.

### Connells Group

An improvement in UK housing market conditions in 2024, as interest rates stabilised and macroeconomic factors such as inflation reduced, created a more positive outlook. Whilst the general election provided further clarity to the market, helping Connells Group to achieve underlying PBT of £54.3m (2023: £2.5m). EBITDA, a more commonly used performance measure in the estate agency industry, was £108.3m (2023: £63.7m).

The number of properties that the business arranged the sale of during the year was 11% higher than in 2023, reflecting the improved market conditions and growth in market share. The surveying business also benefitted from the increased activity, whilst average fees have been strong. The financial services proposition continues to perform well. The number of mortgages arranged increased by 7%, with the value of lending generated for UK mortgage providers during the year totalling £31.7bn (2023: £30.9bn).

The lettings business has continued to grow, with properties under management increasing to 126,590 at the year end (2023: 125,666). The Group is currently re-letting over 79% (2023: 77%) of properties at the end of their tenancies and rental arrears have remained low, representing just 5.0% of tenancies managed (2023: 5.3%).

Administrative expenses totalled £1,008.9m (2023: £938.6m), an increase of £70.3m (7.5%) on last year. This was driven in the main by higher wages and salaries, taking into account annual pay increases and higher variable pay as a result of improved trading in the year. With over 15,000 employees, there will be cost pressures in 2025 as a result of the increase in National Living Wage and employer's national insurance contributions from April 2025. Nevertheless, Connells intends to make significant investment in technology in 2025 to support its people, customers and provide a platform for further growth.

Connells Group enters 2025 with a 33% higher sales pipeline than 2024, due to the higher level of sales towards the end of the year. Mortgage rates continue to be stable, inflation has reduced, and the Bank of England Base Rate is trending down slowly. While changes to stamp duty for first-time buyers and second homeowners will have an impact on transactions, there remains steady levels of stock and there are a good number of buyers in the market. Sales are expected to continue at or above current levels into 2025, and Connells Group is well placed to take advantage of whatever market conditions prevail.

### Other

SBF generated a pre-tax profit of £10.8m, up 12.4% on last year (2023: £9.6m). Total drawn funds stood at £190.1m as at 31 December 2024, a record level (2023: £171.2m), despite total client numbers remaining largely static at 871 (2023: 872). The growth in PBT and total lending is aligned with SBF's key strategic priority to onboard larger transactions and to increase product penetration across their client portfolio, whilst maintaining credit risk appetite. The quality of SBF's lending continues to be good, with impairment as a percentage of drawn funds remaining low at 0.78% (2023: 0.94%).

Jade reported a profit of £1.4m for the year (2023: £1.3m). The total of the other remaining business lines, including the impact of Group consolidation adjustments, increased overall Group profit by £4.2m (2023: decrease to profits of £22.3m).

During the year, the remaining participant in the Connells management incentive scheme left the scheme resulting in a release to the liability previously held and an associated credit to the income statement of £4.2m.

# Financial Review (continued)

## Financial position

A summary Statement of Financial Position is set out below:

| Assets | 2024 (£m) | 2023 (£m) |
|---|---|---|
| Liquid assets | **6,694.8** | 7,092.7 |
| Loan and advances to customers held at amortised cost | **30,601.1** | 28,161.4 |
| Loans and advances to customers held at FVTPL | **0.9** | 0.9 |
| Equity release portfolio | **277.2** | 293.3 |
| Derivatives | **752.1** | 1,000.8 |
| Fixed and other assets | **689.2** | 672.8 |
| **Total** | **39,015.3** | 37,221.9 |

| Liabilities | 2024 (£m) | 2023 (£m) |
|---|---|---|
| Shares | **28,268.5** | 25,949.8 |
| Borrowings | **6,786.0** | 7,316.9 |
| Derivatives | **225.1** | 452.2 |
| Other liabilities | **336.5** | 354.8 |
| Subordinated liabilities and subscribed capital | **731.8** | 726.9 |
| Reserves | **2,667.6** | 2,421.5 |
| Non-controlling Assets | **(0.2)** | (0.2) |
| **Total liabilities and equities** | **39,015.3** | 37,221.9 |

Consolidated total assets have increased by 4.8% to £39.0bn at 31 December 2024. This overall balance sheet growth is predominantly due to our increased trading, with good growth in both our mortgage and savings books. Our financial position is analysed below by our key balance sheet areas.

## 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 193% (2023: 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 2024 were £6.7bn (2023: £7.1bn). When measured as a percentage of shares, deposits and borrowings, the liquidity ratio remained strong at 19.1% (2023: 21.3%) providing the Group flexibility in an unpredictable market.

At 31 December 2024, the Society held £5.8bn (2023: £5.9bn) of High Quality Liquid Assets (HQLA) as analysed below:

| Liquidity | 2024 (£m) | 2023 (£m) |
|---|---|---|
| Balances with the Bank of England | **1,928.6** | 3,155.5 |
| Gilts | **885.5** | 369.4 |
| Treasury bills | **321.3** | 493.6 |
| Fixed rate bonds | **1,267.6** | 580.0 |
| Floating rate notes | **-** | 169.6 |
| Residential mortgage backed securities | **619.9** | 408.2 |
| Covered bonds | **770.1** | 758.6 |
| **Total** | **5,793.0** | 5,934.9 |

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

| Group | 2024 (£m) | 2023 (£m) |
|---|---|---|
| Certificates of deposit | **-** | 97.9 |
| Cash with other Institutions | **1.0** | 0.5 |
| **Total** | **1.0** | 98.4 |

*The tables above differ to the total amount of liquid assets shown within the Group's Statement of Financial Position (2024: £6.7bn; 2023: £7.1bn) due to certain items that are excluded from these tables, such as liquid assets used as collateral and those used in repurchase (or 'repo') transactions.

# Financial Review (continued)

The Group's treasury investments are held to provide liquidity and over 99% (2023: over 99%) of the Group's treasury investments, excluding exposures to a central clearing house used to clear derivatives, are rated A3 or better. The Group's policy is that 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 (2024: 140.3%; 2023: 137.1%) is well in excess of the regulatory requirement of 100%, confirming that the Group holds sufficient stable funding to meet this requirement.

The Group regularly conducts an Internal Liquidity Adequacy Assessment Process (ILAAP) in accordance with the Prudential Regulation Authority's (PRA) liquidity guidelines and the Board remains satisfied that the Group has sufficient liquid assets at its disposal in order to meet its obligations as they fall due.

### Loans and advances to customers

The Group continues to grow its mortgage assets in a controlled manner, lending within clearly defined risk appetites through both the Home Financing business and SIL. The Group achieved net mortgage growth of 8.2% (2023: 12.1%) with mortgage balances increasing in the year from £28.6bn at the end of 2023 to £30.9bn. The Group has continued to lend to a broad range of borrowers, within our credit risk appetite, throughout the year. New lending, delivered through both mortgage intermediaries and our own distribution channels, amounted to £6.1bn (2023: £6.7bn). Net mortgage lending totalled £2.3bn (excluding impairment and fair value adjustments for hedged risk) (2023: £3.1bn). Of the new lending in the year, more than ever was in relation to first-time buyers, which represented c.44% of all new lending.

The average residential loan-to-value (LTV) ratio (calculated on a valuation-weighted basis) on new lending has increased slightly to 65.3% (2023: 63.0%). We consider our new lending to remain prudent and the mortgage book to be well diversified by geographical location. As at 31 December 2024, the average valuation-weighted LTV of the total residential mortgage book (excluding equity release) was 46.1% (2023: 44.5%).

Our well-managed spread of risk ensures that the quality of the Group's lending remains high, as such we are well placed to deal with uncertainty ahead. This is evidenced by the proportion of residential mortgage accounts in arrears by three months or more which remained low at 0.29% (2023: 0.23%) excluding non-UK lending; this compares favourably with the industry average of 0.91% (2023: 0.91%) of UK mortgages in arrears by more than three months (Source: UK Finance).

The Group's commercial mortgage portfolio reduced in the year by 15.5% to £114.3m. The average LTV of this portfolio reduced from 42.5% to 42.3% and the proportion of accounts in arrears by three months or more in this portfolio was 1.69% (2023: 1.62%).

At 31 December 2024, the fair value of the Group's equity release portfolio was £277.2m (2023: £293.3m). The decrease in fair value of equity release mortgages is primarily due to movements in external market rates which form the basis of the rate at which the portfolio's cash flows are discounted to (see Note 18 for further details).

We aim to 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 43 to the Accounts. As a signatory to the Mortgage Charter, which outlines the standards lenders have agreed to uphold for customers affected by the increase in mortgage rates and the elevated cost of living, further demonstrates our commitment to our customers and members.

# Financial Review (continued)

## Funding

The Group, through our Money business, continues to manage the mix of retail and wholesale funding in the best interests of members. Optimising the mix of retail and wholesale funding is essential to our 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.

The Group remains primarily funded by retail savings:

| Group | 2024 (£m) | 2023 (£m) |
|---|---|---|
| Shares held by individuals (note 1) | **27,943.5** | 25,678.6 |
| Wholesale funding (note 2) | **4,368.3** | 4,870.9 |
| **Total** | **32,311.8** | 30,549.5 |

**Notes**

1. Excludes shares held by others and fair value adjustments totalling £325.0m (2023: 271.2m) which are classified as wholesale funding.
2. Wholesale funding balances exclude £2,417.7m (2023: 2,446.0m) of offshore funding in our Channel Islands based business, SIL.

## Retail funding

As a mutual building society we remain committed to providing savers with competitive returns along with offering excellent customer service, which is reflected in the 8.9% increase in retail savings balances during the year, as detailed on page 43.

In addition to our UK retail funding, the Group also accepts deposits through SIL (our Channel Islands based business). SIL's funding base totalled £2.4bn (2023: £2.4bn); these balances are included in 'Amounts owed to other customers' within the Group Statement of Financial Position.

## Wholesale funding

At 31 December 2024 the Society's wholesale funding ratio was 14.4% (2023: 16.8%), with £4.4bn (2023: £4.9bn) of our funding coming from the wholesale markets, as analysed below:

| Group | 2024 (£m) | 2023 (£m) |
|---|---|---|
| Repo and other secured agreements | **1,019.2** | 1,472.0 |
| Deposits | **913.8** | 984.2 |
| Certificates of deposit | **5.1** | - |
| Covered bonds | **1,934.9** | 2,251.5 |
| Securitisation | **491.6** | 186.0 |
| Fair value adjustments | **3.7** | (22.8) |
| **Total** | **4,368.3** | 4,870.9 |

In June 2024, the Society issued a €500m 5-year covered bond and in October the Society successfully completed its sixth securitisation transaction through Darrowby No. 6 plc, allowing the Society to raise £500m of funding.

At 31 December 2024 the Society had £1.0bn outstanding under the Bank of England's 'Term Funding Scheme with additional incentives for SMEs' (TFSME) (2023: £1.35bn of TFSME outstanding), which is all due for repayment in October 2025.

The credit ratings of the Society are assigned by two major credit rating agencies, Fitch and Moody's. In October 2024 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 July 2024 Fitch also affirmed the Society's mortgage covered bonds at 'AAA' with a Stable Outlook. In July 2024 Moody's affirmed the Society's Baseline Credit Assessment (BCA) at 'A3', it's 'A2' long-term deposit and senior debt ratings with a Stable Outlook, and Short-term at 'P-1'. Moody's also assigns 'Aaa' to the Society's Mortgage Covered Bonds. The ratings reflect the continued financial strength of the Society, which compares favourably to other large building societies.

The Society's current credit ratings, which have not changed since 2021, are summarised below:

| Group | 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 transaction (Darrowby No. 6 plc) is 'Aaa' rated by both agencies.

# Financial Review (continued)

## Capital (unaudited)

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

We monitor our capital at a prudential consolidation group level (comprising the entire Group except Connells Group, Jade Software Corporation Limited and a small number of other entities whose activities are not closely aligned with the core business) and at a Society only level by applying the Capital Requirements Directive V (CRD V) effective from December 2020, and the UK Capital Requirements Regulation (UK CRR), as implemented from January 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 to both, the analysis throughout this Capital section has been disclosed at a prudential consolidation group level only.

We have PRA permission to apply the internal ratings-based (IRB) approach to certain credit risk exposures. From 1 January 2022, we apply a temporary model adjustment (TMA) to the Society's regulator-approved IRB model output. The Society submitted an update to the incumbent regulator-approved IRB model to the PRA in 2021 and a revised version addressing the PRA feedback in 2024. During 2024, the TMA has been updated to adjust IRB outputs to align with the IRB models that were resubmitted to the PRA in January 2024. Until the updated 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 we do not expect there to be, any material changes to the risk profile or strategy of the Society as a result of changes to the TMA.

Total regulatory capital has increased by £179.9m from 31 December 2023 to £2,415.1m as at 31 December 2024 (2023: £2,235.2m). This is mainly due to the retained profits accumulated during 2024.

Risk weighted exposure amounts (RWAs) have reduced by £155.1m in the year to £8,277.4m (2023: £8,432.5m - restated). The decrease is principally driven by the updates made to the IRB models described above, partially offset by strong residential mortgage book growth in the year.

The Common Equity Tier 1 (CET1) ratio has increased to 28.7%, up from the restated 26.0% as at 31 December 2023, driven by the increase in total regulatory capital, and the reduction in RWAs. The leverage ratio has reduced to 6.6% (2023: 6.7%) mainly due to the growth of the balance sheet during year driven by an increase in mortgage lending.

The following table shows the composition of the prudential group's regulatory capital as at 31 December 2024. IFRS 9 *Financial Instruments* transitional arrangements are applied throughout.

| Group | 2024 (£m) | 2023 (£m) |
|---|---|---|
| Capital resources | | |
| CET1 capital | **2,375.1** | 2,195.2 |
| Total Tier 1 Capital | **2,375.1** | 2,195.2 |
| Total Tier 2 capital | **40.0** | 40.0 |
| Total regulatory capital | **2,415.1** | 2,235.2 |
| Risk weighted assets | **8,277.4** | 8,432.5* |
| Capital and leverage ratios (note 1) | | |
| CET1 capital | **28.7%** | 26.0%* |
| Tier 1 ratio | **28.7%** | 26.0%* |
| Total capital ratio | **29.2%** | 26.5%* |
| Leverage ratio (note 2) | **6.6%** | 6.7% |

*These comparative figures are restated following a review of the interpretations and capital calculations in relation to the risk exposure amount for operational risk. The impact of the restatement is a decrease to CET1, Tier 1 and total capital ratios of 0.3% as at 31 December 2023. There was no change to the leverage ratio as at 31 December 2023.

**Notes**

1. The capital ratios are calculated as relevant capital divided by RWAs. The leverage ratio is calculated as Tier 1 capital divided by total exposure, i.e. total assets per the prudential consolidation group, less deposits with central banks and regulatory adjustments.
2. The leverage ratio represents the UK regulatory regime, which excludes deposits with central banks from the leverage exposure measure.

# Financial Review (continued)

## 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, the UK CRR and the PRA rulebook.

The Group completes an Internal Capital Adequacy Assessment Process (ICAAP) at least annually to assess current and projected capital requirements to support the current risks in the business and future risks arising from the Corporate Plan. The ICAAP considers all of 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 (MREL)

MREL is a regulatory requirement set by the Bank of England to ensure institutions can cover losses that would need to be absorbed in the event of a resolution scenario. The amount of MREL that institutions need to have is linked to the resolution strategy chosen for each firm.

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

At 31 December 2024, total MREL resources, including MREL eligible senior non-preferred debt, were 37.6% of RWAs (2023: 34.8% - restated). The increase in the year is mainly due to the retained profits accumulated during the year, combined with the decrease in RWAs described above. At 37.6%, this exceeds the 2024 MREL requirement of 20.1%.

## 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 for the majority of requirement for residential mortgages in the Group, 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 2024 this was £170.2m (2023: £172.6m - restated).

The Pillar 2A capital requirement for 31 December 2023 has been restated following a review of the interpretations and capital calculations in relation to the risk exposure amount for operational risk.

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

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

## Taxation

The Group tax charge for the year is £78.1m (2023: £78.8m) with an effective tax rate of 24.6% (2023: 23.7%). For the Society, the tax charge for the year is £56.7m (2023: £76.8m) with an effective rate of 23.1% (2023: 24.7%). In addition to UK corporation tax payable on its profits, the Society's taxable profits above £100m are subject to a 3% banking surcharge which increases the tax charge for 2024 by £3.3m for both the Group and Society (2023: £9.1m). The Group's effective tax rate is offset by the impact of lower tax rates in other jurisdictions, whilst the Society's effective rate of tax is also impacted by non-taxable dividend income of £36.0m (2023: £27.0m).

A reconciliation of the effective tax rate to the statutory tax rate in the UK is provided in Note 12. More detailed tax disclosures are provided in Note 33 to the Accounts and in the Country by Country Reporting section.

Further details of the Group's taxation strategy can be found at www.skipton.co.uk/about-us/governance.

Taxes borne are a direct cost, which impact the financial results of the Group - the table below shows the total UK tax contribution borne in the year:

| Group | 2024 (£m) | 2023 (£m) |
|---|---|---|
| Corporation tax | **73.5** | 74.1 |
| Taxes on property | **18.9** | 16.1 |
| Employment taxes | **79.8** | 73.0 |
| Irrecoverable VAT | **22.5** | 19.7 |
| **Total** | **194.7** | 182.9 |

# Financial Review (continued)

## Pension funds

The Group manages three funded defined benefit schemes as described in Note 34 to the Accounts. Using the methodology set out in IAS 19 *Employee Benefits*, the aggregate valuation of the three schemes at 31 December 2024 was a combined deficit of £3.8m (2023: £26.2m deficit). The decrease in the deficit in 2024 was largely due to a lump sum payment of £23.0m to the Skipton (2015) Scheme on 2 January 2024.

We continue to take steps to manage the Group's exposure to the schemes and all schemes are closed to new members and to future accrual of benefit. The actuarial valuation deficits, as described in Note 34 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 addition to the lump sum payment above, the Group also made two further payments to the Skipton Building Society (2015) Group Pension Scheme in January 2025 to facilitate a full Scheme buy-in with Rothesay.

The first was a loan to the Scheme of £14.6m in recognition of the fact the Scheme holds illiquid assets of the same value. The loan will be repaid as the illiquid assets currently held by the Scheme mature. The second was a payment of £10.7m to top up the Scheme's assets to the buy-in policy's value of £101m.

Successfully entering in to a buy-in with Rothesay removes much of the future volatility in the Scheme and further de-risks the Society's exposure to the Scheme as the insurance policy will provide the necessary money to pay members' benefits.

This transaction will be reflected in the 2025 accounts of the Society; refer to Note 48 for further details.

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.

# Risk Overview

The UK growth outlook remains uncertain, with the economy remaining subdued throughout much of 2024, and economies across the globe still facing significant uncertainties and continued geopolitical tensions. Despite inflation returning to more normal levels through 2024, and wage growth helping to soften cost-of-living pressures, there remains significant strain on some household finances, with inflation remaining slightly above its target and unemployment forecast to rise slowly through 2025.

The reduction in the Bank of England's base rate in the second half of 2024, and likely further reductions, together with changing customer behaviours, presents both challenges and opportunities across our diversified Group. Following the UK General Election result, a level of uncertainty remains regarding the impact of new fiscal policies, as set out in the new government's first Budget.

## Principal Risks and Uncertainties

The outlook for the Group remains positive, but the performance of the UK economy in the coming years may impact our performance against the Group's 5-year Corporate Plan. At this stage, other than the challenges remaining in the economic environment, and uncertainty around government policy following the General Election, the Directors do not consider that the principal risks and uncertainties affecting the Group have changed materially since the publication of the 2023 Annual Report and Accounts and the 2024 interim financial management report. However, these continue to evolve, and will continue to be managed throughout 2025 and beyond.

The Board promotes the need to maintain a forward-looking focus and run appropriate severe scenarios to test the Group's resilience to these and possibly other unforeseen risk events, and is confident that the Group is well placed to react appropriately.

## Emerging Risks and Uncertainties

The FCA's Disclosure and Transparency Rules require that the Annual Report and Accounts must include a description of the principal risks and uncertainties for the 2025 financial year.

The principal financial and non-financial risks faced by the Group, which are common to most financial services firms in the UK, and how the Group seeks to mitigate them, can be found in the Risk Management Report, with the most significant emerging risks described below, together with mitigating actions we are taking to manage the risk:

| Risk description | Mitigation |
|---|---|
| **Economic environment and geopolitical** | |
| A significant escalation in ongoing or new conflicts, a significant change in government policy or sudden economic impacts to the housing market could detrimentally impact growth plans. | Macroeconomic and geopolitical risks continue to be closely monitored across all Group businesses, as the near-term outlook remains uncertain.<br>Risks associated with the housing market and future trajectory for UK inflation and interest rates are closely managed as part of our strategic planning, to ensure any potential consequences can be considered and acted on in a timely manner.<br>Continued monitoring of both direct and potential secondary impact risks associated with ongoing or new conflicts remains a key consideration.<br>The impact of changes to existing or new policies resulting from the change in UK government will be closely monitored through 2025 and beyond. |
| **Technology and innovation** | |
| Potential for losses or operational disruptions that can arise from the use, ownership, operation, influence, and adoption of technology e.g. cybersecurity, Artificial Intelligence (AI), cloud, third party risk management. | The Group continues to strengthen our governance, processes and controls, including robust cybersecurity measures, regular system maintenance, and disaster recovery planning.<br>The Group has an ambitious change agenda and continues to invest in innovation and the integration of third-party software with internally built platforms through our change management approach. Informed decision making enables us to strike a balance between the opportunities of utilising technology such as cloud, and managing any associated risks, to ensure our technology and processes are secure and resilient by design. |

# Risk Overview (continued)

| Risk description | Mitigation |
|---|---|
| **Regulatory environment** | |
| Potential for losses or adverse outcomes arising from failure to comply with applicable laws, regulations, and industry standards. | Well established processes are in place to enable compliance with existing and new regulations across the Group.<br>The embedding of Consumer Duty principles will continue to minimise conduct related risks and support good customer outcomes, and work is underway to ensure we are well prepared for emerging regulatory expectations including the Basel 3.1 reforms and the UK Corporate Governance Code. All Group businesses maintain an open relationship with regulators. |
| **Operational resilience** | |
| A major operational risk event such as a cyber-attack or national infrastructure failure could disrupt our ability to provide key services to members and customers. | The Group has a robust approach to scenario planning to ensure effective plans are in place to respond and recover from a material risk event.<br>As the Group increases reliance on outsourced service providers, we will continue to enhance our 'outsourcing and third-party risk management' processes and controls to ensure such providers are capable of maintaining their services and service standards to us, even in a stressed environment. |
| **Market environment** | |
| Mortgage credit conditions have the potential to be more challenging in 2025. | Our diversified business model ensures the Group is well placed to respond to a variety of market conditions and remains both financially and operationally resilient.<br>Regular stress testing is performed to ensure the Group has considered severe but plausible scenarios and maintains the ability to withstand any such stresses. |
| **Environmental, Social and Governance (ESG) and Climate risk** | |
| The risk associated with increased supervisory expectations and regulatory requirements for ESG and disclosure requirements. | The Group is committed to embedding the management of ESG and climate risk across its businesses. Our 2024 Group Sustainability Report details our approach to managing these risks.<br>The Group will continue to review available data sources and enhance our methodology and processes to improve the robustness of our ESG governance and reporting, aligned with emerging developments and regulatory requirements in 2025 and beyond. |
| **Changing customer behaviours** | |
| The risk of an adverse impact on profitability if customers are more actively seeking a better rate through ease of switching and increased competition. | Enabling current and future members to interact with us through a channel that suits their needs and delivers good outcomes remains a key focus.<br>The Group is responding to these risks by investing in digital infrastructure, enhancing our customer engagement strategies, and adapting our product offerings to meet evolving customer needs and behaviours.<br>Supporting more of our members to interact digitally and removing more paper from our journeys supports our ambitions to become paperless. |
| **Group reputational risk** | |
| The risk that a significant event within a Skipton Group business detrimentally impacts the Group or an individual Group business, leading to operational, financial and reputational impacts. | 2024 has seen the development of a more prominent Skipton Group brand, as we look to develop opportunities for members, customers and colleagues by harnessing the power of the Group.<br>We have strengthened our Group operating model and risk management framework; this will continue through 2025 to ensure the right resources and capabilities are in place to minimise any associated risks. |

# Other Information

### Non-financial Information Statement

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

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

| Non-Financial information | Further Detail |
|---|---|
| Business model | Pages 13 and 14 |
| Key performance indicators | Pages 16 to 27, and page 39 |
| Key risks | Pages 51 to 52, and pages 95 to 104 |
| Climate matters | Pages 32 to 38 |
| Environmental matters | Pages 32 to 38 |
| Colleagues | Pages 64 |
| Societal matters | Pages 32 to 38 |
| Respect for human rights | Pages 29 to 31, page 33 and 64 |
| Anti-corruption and anti-bribery | Page 33 |

This Strategic Report was approved by the Board of Directors on 25 February 2025 and signed on behalf of the Board by:

P Chambers

**Paul Chambers**
Group Chief Financial Officer

# Governance

# Board of Directors

# Board of Directors

## Gwyn Burr
Non-Executive Director

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

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

### Appointed to the Board: 2022

- Chair of the Board
- Chair of the Board Nominations Committee
- Chair of the Non-Executive Remuneration Committee

## Stuart Haire
Executive Director

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

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

### Appointed to the Board: 2022

- Group Chief Executive
- Chair of the Group Executive Committee
- Member of the Non-Executive Remuneration Committee

# Board of Directors (continued)

## Andrew Bottomley
Executive Director

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

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

Andrew will retire from Skipton Group in June 2025.

### Appointed to board: 2016

- Chief Executive Officer - Money
- Member of the Group Executive Committee
- Member of the Non-Executive Remuneration Committee

## Iain Cummings
Non-Executive Director

"I was attracted to an organisation that takes a long-term view and focuses on delivering value to its members, through supporting them with their mortgages to helping them plan and save for their future. In what was a year of significant change for the Society, my main priority was to ensure a smooth transition for our new Group Chief Financial Officer. This year, I'll be focusing on our assessment of our controls over financial reporting to meet the requirements of the updated Corporate Governance Code and our realisation of the value for members from the considerable levels of investment and change within the Society."

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

### Appointed to board: 2022

- Chair of the Board Audit Committee
- Member of the Board Change Committee
- Member of the Board Nominations Committee
- Member of the Board Risk Committee

# Board of Directors (continued)

## Heather Jackson
Non-Executive Director

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

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

**Appointed to board: 2018**

- Chair of the Board Change Committee
- Member of the Board Nominations Committee
- Member of the Board Remuneration Committee
- Member of the Board Risk Committee

## Mark Lund
Non-Executive Director

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

Mark's experience at senior leadership level in financial advice and investment management enables him to provide relevant insight which is particularly important as the Society develops its financial advice business. He has more than 40 years' experience in commercial and financial services. His previous roles include CEO of St James's Place plc, CEO of Virgin Direct and Director of Henderson Investors plc. He is a non-executive director of Coutts & Co.

Mark will retire from Skipton Group Board in April 2025, but will remain on Connells board as Chair.

**Appointed to board: 2016**

- Deputy Chair of the Board
- Senior Independent Director
- Member of the Board Audit Committee
- Member of the Board Nominations Committee
- Member of the Board Remuneration Committee
- Chair and independent non-executive director of Connells

# Board of Directors (continued)

## Steven Davis
Non-Executive Director

"As our Consumer Duty Board Champion, I've continued to spend time with our colleagues to ensure we're delivering good customer outcomes and meeting our regulatory requirements. This year I'm particularly keen to understand the key frustrations for our members across all channels and to support the organisation in delivery of our business plan. I've always been driven by making a difference for both customers and colleagues. We are very fortunate to have colleagues who are passionate about doing the right thing for our members."

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

### Appointed to board: 2023

- Chair of the Board Remuneration Committee
- Member of the Board Nominations Committee

## Denis Hall
Non-Executive Director

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

Denis has worked in senior risk roles with Citibank, Deutsche Bank and GE Capital. He brings a wide knowledge of risk management, regulation and financial services enabling him to Chair the Board Risk Committee and provide support, advice and challenge to the executive team on risk management issues. Denis is a non-executive director of Germany's Aareal Bank where he sits on the Risk Committee and is Chair of the Audit Committee. He's also a non-executive director for Moneta Bank in the Czech Republic where he sits on both the Risk and Audit Committees and non-executive director and Chair of the Risk and Audit Committee for Auxmoney Holding in Ireland.

### Appointed to board: 2017

- Chair of the Board Risk Committee
- Member of the Board Audit Committee
- Member of the Board Nominations Committee

# Board of Directors (continued)

## Philip Moore
Non-Executive Director

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

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

Phillip will retire from Skipton Group Board in April 2025.

**Appointed to board: 2021**

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

## Paul Chambers
Executive Director

"My priority in 2025 is to continue to understand the drivers of profitability across our Group. We need to ensure we optimise profit levels in an environment of increased downward pressure on interest margins, in our lending and deposits businesses, and continued inflationary pressures on our expenses. This will support us in our objective of making membership mean more, whilst continuing to fund the transformation of our products and services across our Group."

Paul brings over 25 years' financial services experience, across international banking, wealth management and management consulting. He joined the board from Standard Chartered Group, where he held a number of senior leadership roles, the most recent being Group Financial Controller. Paul has an extensive track record of leading diverse teams through periods of change, from market entry to market exit. This includes launching new products and services, reporting and control process re-design, and core system change.

**Appointed to board: 2024**

- Group Chief Financial Officer
- Member of the Group Executive Committee
- Member of the Non-Executive Remuneration Committee

# Board of Directors (continued)

## Hasintha Gunawickrema
Non-Executive Director

"Skipton's mission of helping people into homes, saving for the future, and enjoying long-term financial security, resonates deeply with my own values. I firmly believe that financial services have the potential to create meaningful and positive changes in people's lives. As a mutual organisation owned by its members, Skipton's focus on giving back to the community and prioritising its members' needs is something I am passionate about. I look forward to making a real difference in people's lives through integrity, responsibility, and a commitment to their long-term well-being."

Hasintha brings 21 years of experience in financial services, working at Barclays Bank and HSBC Bank plc in Europe, India and the UK. In that time, she has led large-scale initiatives aimed at driving growth, including business, risk, digital, and culture transformation programs. Hasintha is an alumna of Harvard Business School and is a member of the Chartered Institute of Management Accountants (CIMA) - UK. She's a coach and mentor, dedicated to empowering future leaders.

### Appointed to board: 2024

- Member of the Board Nominations Committee

### Board Changes throughout 2024

During 2024 we continued to strengthen our Board and conducted a full review of corporate governance arrangements across our Group, in order to ensure that the boards of our key subsidiaries operate with an appropriate level of independence and flexibility.

Bobby Ndawula and Sarah Whitney stepped down from Skipton Group Board in 2024.

# Directors' Report

# Directors' Report

Dear Member,

The Directors have pleasure in presenting the Group's Annual Report & Accounts for the year ended 31 December 2024.

The financial information included in this Directors' Report is taken from the statutory Accounts on pages 142 to 293 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 2024 and 2023 is set out in the Strategic Report.

**Gwyn Burr,**

**Group Chair**

### Business objectives

The business objectives of the Group are set out in 'Our Group Business Model' and 'Focusing on Ensuring Long-term Success' sections of the Strategic Report.

### Business review and future developments

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

### Profits and capital

Group profit before tax (PBT) was £318.6m (2023: £333.4m). Total profit after tax (attributable to the Group) transferred to the general reserve was £240.5m (2023: £254.6m).

Total Group reserves at 31 December 2024 (excluding non-controlling interests) were £2,667.6m (2023: £2,421.5m) including the fair value reserve of £(10.6)m (2023: £(9.5)m), the cash flow hedging reserve of £16.6m (2023: £4.9m), the cost of hedging reserve of £(1.4)m (2023: £(0.5)m), and the translation reserve of £3.2m (2023: £4.6m).

Gross capital at 31 December 2024 was £3,399.2m (2023: £3,148.2m) including £690.2m (2023: £685.3m) of subordinated liabilities and £41.6m (2023: £41.6m) of subscribed capital. The ratio of gross capital as a percentage of shares, deposits and borrowings at 31 December 2024 was 9.70% (2023: 9.46%) and the free capital ratio was 8.31% (2023: 7.98%). The Annual Business Statement gives an explanation of these ratios.

### Mortgage arrears

Group mortgage balances at 31 December 2024 included 80 cases (2023: 57) either in possession or where payments were 12 months or more in arrears. The capital balances of these loans were £14.1m (2023: £8.0m - restated). The total amount of arrears on these loans was £1.3m (2023: £0.7m).

### Charitable and political donations

In the year, the Group made charitable donations of £3.3m in relation to our 2023 commitment to donating 1% of pre-tax Group profits. A further £1.8m was paid over, as pledged at 31 December 2023 to fulfil our commitment on year end 2022's results, taking the total donated in relation to 2022 PBT to £2.9m. Our performance this year means we will donate £3.1m (being 1% of pre-tax Group profits for 2024), which will be paid in 2025.

No contributions were made for political purposes (2023: £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 2024 for the Group was 11 days (2023: 11 days).

# Directors' Report (continued)

### Principal risks and uncertainties

The principal risks and uncertainties are set out in the 'Principal risks and uncertainties' section of the Risk Management Report and in Notes 41 to 43 to the Accounts.

### Financial risk management objectives and policies

Details of the key risks to which the Group is exposed in relation to its financial instruments, and how these risks are managed, are set out in the 'Principal risks and uncertainties' section of the Risk Management Report and in Notes 41 to 43 of the Notes to the Accounts.

### Colleagues

The Group remains committed to its policy of treating all colleagues and job applicants fairly, ensuring equal opportunities. Our policy is that no colleague, or potential colleague, is treated less favourably on any grounds including age, race, colour, religion, nationality, ethnic origin, gender, marital status or sexual orientation. We also give all applications from disabled people full consideration in relation to the vacancy concerned and their own aptitudes and abilities. In the event of an existing colleague becoming disabled, we make every effort to maintain their present position or to employ them in alternative suitable work.

We also aim to provide high quality relevant training and development opportunities to all colleagues, which enables them to achieve their full potential and helps the Group meet its corporate objectives.

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

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

### Property, plant and equipment

The Directors consider that the overall market value of the freehold and leasehold properties occupied by the Group, excluding the principal office of the Society, is in excess of their corresponding book value that is included within property, plant and equipment (per Note 21 to the Accounts). In arriving at this view, the Directors have taken account of the value-in-use, together with internal and external valuations of the Group's property portfolio.

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

### Investment property

The Directors have considered the overall market value of investment properties. In arriving at a view, the Directors review internal valuations, and obtain external market valuations for investment properties, at least every three years. The Directors consider that the overall market value of the investment properties held are in excess of their corresponding book values that are included within investment properties (per Note 23 to the Accounts).

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

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

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

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

The Group and Society Annual Accounts are required by law and UK-adopted International Accounting Standards, in accordance with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 that are applicable, to present fairly the financial position and the performance of the Group and the Society. The Building Societies Act 1986 provides in relation to such annual accounts that references in the relevant part of that Act to annual accounts giving a true and fair view are references to their achieving a fair presentation.

# Directors' Report (continued)

Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, group financial statements are required to be prepared in accordance with UK-adopted international accounting standards.

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

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

In addition to the Annual Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Group.

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

The Directors have decided to prepare voluntarily a report on the relevant aspects of 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 applicable matters. This is set out in the Corporate Governance Report.

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

### Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Group:

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

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

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

### Directors' responsibilities in respect of going concern

The Group's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance, including the impact of climate risks are set out in the Strategic Report and the 'Principal risks and uncertainties' section of the Risk Management Report. In addition, Notes 41 to 43 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.

# Directors' Report (continued)

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 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 1b) of Notes to the Accounts.

### Directors' statement of longer-term viability

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

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

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

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

The Directors have assessed the viability of the Group with the period of assessment being a five-year period, to the end of 2029. 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 2025 – 2029 business plans through the Group's Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process. The key economic stress test modelled reflected sticky inflation, above the 2% target initially, before falling significantly leading to deflation. The Bank of England proceeding with caution, maintaining Base Rate until the end of 2025, before gradually reducing. UK real GDP contracts by 5.4%, while house prices fall for 11 straight quarters, with a decline of 32%. Furthermore, the government 10-year bond yield trends upward and the stock market plunges; with income tax rises significantly reducing disposable income. A further scenario, relatively aligned to the key assumptions, was also modelled, whereby Base Rate fell quickly, with inflation also falling, though not turning deflationary; and GDP flexed to align to this. The Directors concluded that the impact of these severe economic environments would not threaten the longer-term viability of the Group.
- Reverse stress testing carried out by the Group, which considers scenarios specific to the Group, including operational issues and external threats, 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 two scenarios where there is a disorderly transition 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.

# Directors' Report (continued)

- 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 growth outlook for the UK remaining subdued, with a level of uncertainty remaining regarding the impact of new fiscal policies, whilst economies across the globe still face significant uncertainties and continued geopolitical tensions. Despite inflation returning to more normal levels, and wage growth helping to soften cost-of-living pressures, there will also remain significant strain on some household finances.
- A number of severe but plausible scenarios, arising from the principal risks, which are remote, but if they arose could threaten the longer-term viability of the Group.

There are inherent limitations in preparing long-term financial plans with regard to a number of factors including, but not limited to, social, economic, political, regulatory and climate factors. The Directors consider that the outer years of the financial planning period are more difficult to predict and therefore these years have a greater degree of uncertainty. For example, the external environment remains uncertain and although inflationary pressures are easing and the peak in bank base rate appears to have been reached, we expect competitive pressures to remain in the mortgage and savings markets. These impacts may have an effect on the performance of the Group within the Group's financial planning period; the extent of the impact is currently unknown.

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

## Directors

The Directors of the Society at 31 December 2024, along with their roles and membership of board committees, are set out in the Corporate Governance Report. During the year, the composition of the Board was refreshed to ensure it continues to have an effective balance of skills, knowledge, experience and diversity to deliver on Skipton's strategic priorities. Details of changes to the executive and non-executive directors of the Society in the year are set out in the 'Board changes' section of the Chair's Statement.

Details of Directors' service contracts or letters of appointment are disclosed in the Corporate Governance Report. No Director of the Society had any interest in the shares of any Group undertaking as at 31 December 2024.

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 2025 AGM.

## Auditor

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

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

## Responsibility statement of the Directors in respect of the Annual Report & Accounts

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

- The Annual Accounts, prepared in accordance with UK-adopted International Accounting Standards in accordance with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 that are applicable, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Society; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

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

Signed on behalf of the Board:

G Burr

**Gwyn Burr**
Group Chair
25 February 2025

# Corporate Governance Report

Skipton Group

# Corporate Governance Report

Dear Member,

On behalf of the Board of directors, I am pleased to present the Group's Corporate Governance Report, which details how the Group's governance framework operated in 2024.

As Chair of the Skipton Group, I understand the importance of good governance in being accountable to members of the Society. Good governance is at the heart of a well-run business and I am committed to ensuring we meet best practice standards.

**Gwyn Burr,**

**Group Chair**

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. There is a regulatory requirement for building societies to have regard for the Code, and as it represents best practice within the industry, the Board is committed to adhering to it in so far as it applies to building societies, and has readily embraced its provisions. This report benchmarks the Society against the present version of the Code, which is applicable to listed entities with accounting periods commencing on or after 1 January 2019. A copy of the Code is available at frc.org.uk.

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

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

During 2024, other than the points listed above, the Board believes that the Society complied with all other aspects of the Code.

On 22 January 2024, a revised 2024 code was published which applies to listed entities with accounting periods commencing on or after 1 January 2025. The principal changes are those around internal controls, in particular, Principle O and a new Provision 29, effective from 1 January 2026, which asks boards to make a declaration in relation to the effectiveness of their material internal controls. The Society is currently working to evaluate how this is incorporated in future reporting. Other changes include a requirement for boards to examine how culture is monitored and how the desired culture has been embedded; and ensuring that directors' remuneration includes malus and clawback provisions. Culture is covered in the People section of this report and our Directors' Remuneration Report includes details of malus and clawback provisions applicable to directors. We remain committed to complying with the provisions in the revised Code when they come into force.

# Corporate Governance Report (continued)

## Governance Framework

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

The Group's governance arrangements are designed to ensure that it meets the requirements and expectations of its members, colleagues and regulators. The Group is run by the Board of Directors and assisted by board Committees, which are responsible for a range of activities. More information on these Committees is included on page 74.

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

Each Group subsidiary is governed by a board. Each subsidiary board is responsible for the prudent management of the subsidiary's businesses, operating within the Board's appetite for risk and delegated authorities from the Board, to deliver agreed Corporate Plan objectives.

The boards of Connells Group, Jade and SIL have historically contained at least one shareholder non-executive director (appointed by the Society or the direct parent company). A full review of corporate governance arrangements across our Group was conducted in 2024 to ensure that the boards of our key subsidiaries operate with an appropriate level of independence and flexibility.

Mark Lund (the Deputy Chair and Senior Independent Director (SID) of the Society) is also the Chair of the Connells board. Philip Moore (a non-executive director of the Society) is chair of the Connells Board Audit and Risk Committee - as detailed in my Chair's Statement, Philip Moore will be stepping down from his Connells and Society roles at the Society's AGM in April 2025). Eric Barnett is the Independent Chair of SIL, Anthony Chapman is the Chair of SBF and Sue Suckling is the Chair of Jade.

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.

## The Role of the Board

The Board's terms of reference clearly set out its responsibility for the overall stewardship of the Group within the context of the Group's 'principles of governance' which are described below:

| | |
|---|---|
| Governing Body | **The Society is headed by an effective Board which is responsible for the long-term success of the Group.**<br><br>The Board formulates strategy and establishes the Society's risk appetite and balance sheet strategy. It is organised 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.**<br><br>The governance framework clarifies the respective roles and responsibilities of directors and senior executives in order to facilitate Board and management accountability to the Group and the Society's members. This ensures a balance of authority such that no single individual has unfettered powers. It has clear lines of sight into activities to enable challenge and oversight, allowing the Board to obtain assurance over performance, the integrity of reporting and effectiveness of control implementation. |
| Recognise and Manage Risk | **The Board has a sound system of risk oversight, risk management and internal control supported by timely and transparent reporting.**<br><br>The governance framework identifies, assesses, manages and monitors risk on an ongoing basis. It informs management and the Board of material changes to the risk profile of the Group and facilitates challenge of the effectiveness of actions taken to mitigate risk. It is designed to be forward-looking in approach to reduce both the likelihood and the impact of known risks crystallising. |

# Corporate Governance Report (continued)

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

### Culture

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

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

### Board meetings

The Board met nine times during 2024. In line with good governance the non-executive directors also meet, without the executive directors present after each Board meeting. The attendance record of each director at each Board and Board committee meeting is set out on page 80.

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

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

Each Board meeting receives:

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

# Corporate Governance Report (continued)

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

| Responsibility | Key Activity |
|---|---|
| Strategy | • Approved the ongoing Corporate Plan and monitored delivery of the strategic actions identified to achieve the Group's strategy.<br>• Reviewed progress on the delivery of each of the Society's key strategic change projects, particularly focusing on the development of the Society's digital capabilities. |
| Risk Management and Regulatory Matters | • Approved the Society's risk appetite and monitored ongoing adherence.<br>• Approved the Board Risk Appetite Statement, the Internal Liquidity Adequacy Assessment Process (ILAAP) and the Internal Capital Adequacy Assessment Process (ICAAP).<br>• Approved the Society's Recovery Plan and Resolvability Assessment Framework (RAF) to ensure that adequate provisions and processes are in place to protect the Society's business and its members.<br>• Reviewed and approved the Society's Health and Safety Return.<br>• Approved the Consumer Duty Board Assessment.<br>• Approved the Operational Resilience Self-Assessment. |
| Performance and Financial Reporting | • Reviewed and approved the Society's interim and full year financial results.<br>• Reviewed and approved the Society's Annual Report & Accounts and Summary Financial Statements.<br>• Approved the Society's costs budget for 2025.<br>• Approved the Society's Long-term Viability Statement.<br>• Approved the Letter of Representation to the Auditors.<br>• Reviewed and approved the Quarterly Performance Reviews and reforecasts. |
| People and Culture | • Appointed Paul Chambers as an executive director on 26 March 2024 .<br>• Appointed Hasintha Gunawickrema as non-executive director on 1 November 2024.<br>• Reviewed the 2025-2029 Colleague Plan.<br>• Considered the outcome of the 2024 Colleague Membership Survey.<br>• Considered the annual report on Gender Pay Gap within the Society.<br>• Received an update on the colleague listening sessions.<br>• Approved the Board Composition Policy. |
| Environmental, Social and Governance (ESG) | • Completed the annual review and approved the terms of reference of the Board and each of its committees (with the exception of Board Change and Board Risk Committees, which have been reviewed by those committees and are due to be presented for Board approval in Q1 2025).<br>• Monitored progress on the Board Effectiveness Action Plan resulting from the external board effectiveness review.<br>• Approved arrangements connected with the Society's annual general meeting.<br>• Approved the Society's Modern Slavery and Human Trafficking Statement.<br>• Reviewed and approved the Society's Speak Out (Whistleblowing) Policy and received the Whistleblowing Champion's Annual Report.<br>• Approved the Group Sustainability Report.<br>• Approved updated Group governance arrangements, following review.<br>• Approved conflicts of interest and directors' outside interests, as necessary. |

# Corporate Governance Report (continued)

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

**Board Structure at 31December 2024**

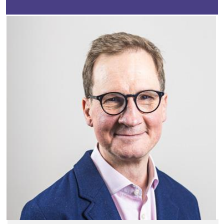
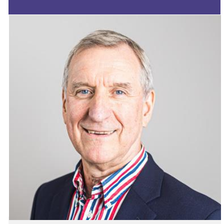
## Group Chair: Gwyn Burr

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

## Board: 11 Directors

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

| | |
|---|---|
| **Non-Executive Directors** | Gwyn Burr, Iain Cummings, Steven Davis, Hasintha Gunawickrema, Denis Hall, Heather Jackson, Mark Lund, Philip Moore |
| **Executive Directors** | Stuart Haire, Andrew Bottomley, Paul Chambers |

| Board Audit Committee | Board Change Committee | Board Nominations Committee | Board Remuneration Committee | Board Risk Committee | Non-Executive Remuneration Committee |
|---|---|---|---|---|---|
|  |  |  |  |  |  |
| **Iain Cummings** (Chair) | **Heather Jackson** (Chair) | **Gwyn Burr** (Chair) | **Steven Davis** (Chair) | **Denis Hall** (Chair) | **Gwyn Burr** (Chair) |
| **Members: Non-executive directors** | | | | | |
| Dennis Hall<br>Mark Lund<br>Philip Moore | Iain Cummings | Iain Cummings<br>Steven Davis<br>Hasintha Gunawickrema<br>Denis Hall<br>Heather Jackson<br>Mark Lund<br>Philip Moore | Mark Lund<br>Heather Jackson | Heather Jackson<br>Iain Cummings<br>Philip Moore | |
| **Members: Executive directors** | | | | | |
| | | | | | Stuart Haire<br>Andrew Bottomley<br>Paul Chambers |

# Corporate Governance Report (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 comprises:

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

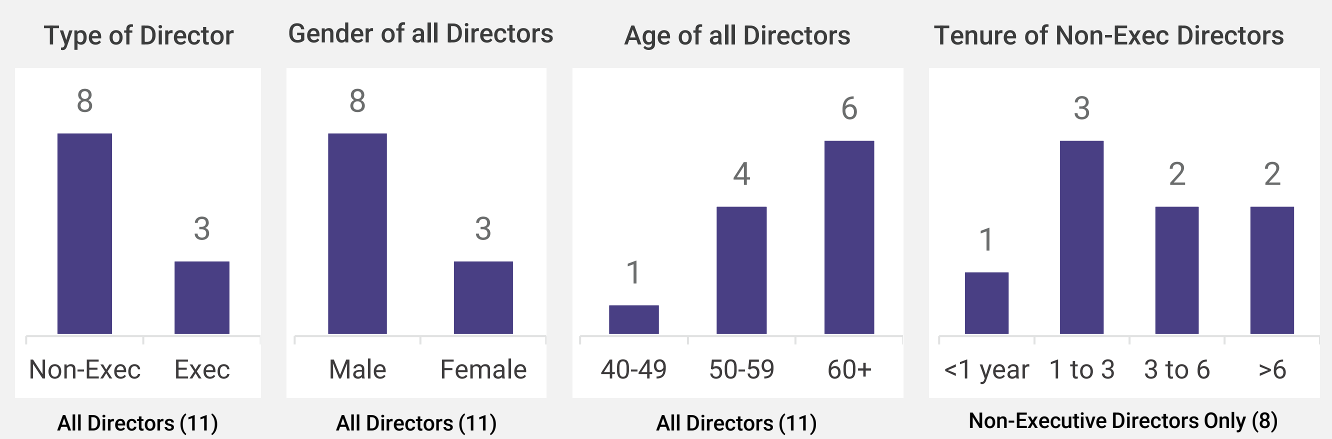
The terms of reference of all Board committees are available at skipton.co.uk/about-us/governance or from the Group Secretary and General Counsel, on request.

## Board Composition

Under the Society's Rules, the Board must comprise no more than 15 and no less than six directors and, under the UK Corporate Governance Code, at least half of the Board should comprise non-executive directors. At 31 December 2024, the Board comprised the Chair, seven independent non-executive directors and three executive directors. This composition is designed to be able to meet the needs of the Group and allow for appropriate and efficient operation of the Board's committees. Details of the Society's directors are set out in the Board of Directors section.

Mark Lund and Philip Moore will step down from the board at the 2025 AGM. An independent recruitment search firm, Russell Reynolds, which has no connection to the Society or any individual directors, has been appointed to assist in the recruitment of the non-executive director vacancies. Andrew Bottomley will also step down from the Board at the AGM and will not be replaced on the Board.

The diagrams below set out the current composition of the Board in respect of tenure, age, gender and the number of executive and non-executive directors.




At 31 December 2024, three members (27%) of the Board were female. Improving this ratio and harnessing the benefits of diversity is a key consideration in all new recruitment to the Board. The Society is a signatory to the Women in Finance Charter, which underlines the Board's commitment to gender equality.

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

# Corporate Governance Report (continued)

### Appointments to the Board and its committees and at executive level

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

NomCo has succession planning as a key area of focus and conducts an annual review of the structure, size and composition of the Board to ensure it contains the required balance of skills, knowledge and experience relevant to the activities of the Group. This review assesses what is required both in the short-term and the longer-term to deliver the Group's strategy in light of its priorities and changing customer behaviours. A formal review was undertaken by NomCo in Q1 2024, following receipt of the external Board evaluation undertaken by Clare Chalmers Ltd in late 2023. Details of the outcome of the evaluation are noted in the Board evaluation section below. NomCo also considered board composition when it met in Q4 2024.

Succession requirements must cater for both planned and unplanned events. To this end, the Board has undertaken a review of succession planning for senior executives. The succession planning work for that group and their direct reports also considers all aspects of diversity including gender balance. Succession plans are designed to ensure that those identified as having potential at these levels and in the talent pool below are provided with relevant development opportunities and, where appropriate, that effective contingency arrangements are in place.

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

### Tenure, election and re-election of Directors

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

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

### Independence

No non-executive directors have any direct business relations with the Society or any of its subsidiaries or have any personal or family ties with any of the businesses' advisers, other directors, or senior employees.

The Board considers all the non-executive directors to have been independent at the time of their appointment and to have continued to be so in accordance with the criteria set out in the Code.

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

# Corporate Governance Report (continued)

## Division of responsibilities

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

**Chair of the Board**
Gwyn Burr

### Responsibilities

- Managing and providing leadership to the Board and Group, safeguarding and promoting the long-term success and sustainability of the Society in the interests of current and future members.
- Establishing agendas for Board meetings, ensuring they are appropriately focused on strategy, performance, culture and risk management matters, and proactively manage the annual calendar of business to ensure the most appropriate use of the Board's time.
- Fostering a culture where Board members are able to challenge issues openly and encourage and manage strong debate whilst achieving decisions on issues considered by the Board.
- Demonstrating ethical leadership and upholding the highest standards of integrity and probity, setting clear expectations concerning the Society's and Group's culture and behaviour.
- Building an effective and diverse Board reflecting an appropriate balance of skills and experience given the Group's current and future activities.
- Leading the development of, and monitoring the effective implementation of, policies and procedures for the training and professional development of all the non-executive directors.
- Ensuring effective communication with all stakeholder groups, and communicating with the Society's members on behalf of the Board.
- Supporting the Group Chief Executive and leading the annual appraisal of the Group Chief Executive.

**Group Chief Executive**
Stuart Haire

### Responsibilities

- Delivering the strategy for the Group as set by the Board.
- Ensuring the prudent day-to-day management of all Group businesses.
- Providing leadership and direction to, and developing the vision and strategy of, the Group.
- Communicating the purpose, vision, strategy and performance of the Skipton Group to members, colleagues, regulators and other stakeholders.
- Building and leading an effective Group executive team to manage Group businesses in the longer-term interests of the Society's members.
- Ensuring that effective succession and development plans are in place and implemented for all key executive roles.
- Leading the Group Executive Committee to successfully deliver agreed plans, objectives and targets within the Board agreed appetite for risk.
- Monitoring the effective implementation of policies and procedures for the induction, training and on-going development of all individuals performing designated senior management functions on behalf of the Group.

# Corporate Governance Report (continued)

The Senior Independent Director and Deputy Chair plays a key role in supporting the Chair in leading the Board of Directors and acting as s sounding board and source of advice for the Chair and the Board. The purpose of the role is set out below.

**Senior Independent Director, Deputy Chair,**
Mark Lund

## Responsibilities

- In conjunction with the Chair providing support and challenge to the Group Chief Executive and other members of the senior management team, and building a working relationship with them, that enables this to happen effectively.
- Upholding high standards of integrity and probity and supporting the Chair and Executive directors in instilling the appropriate culture, values and behaviours in the boardroom and beyond.
- Working closely with the Chair, deputise for the Chair in their absence and act as a sounding board, sharing with the Chair other representative duties and providing support as and when required.
- Acting as an intermediary for other Directors as and when necessary.
- Be available to meet with any directors or other key stakeholders, including regulators, to understand their concerns and, in the event that contact with the Chair and/or Group Chief Executive is inappropriate or has failed, to present their views to the Board as a whole.
- Lead the annual performance evaluation of the Chair, meeting with the Non-executive directors (without the Chair or Executive directors present) for this purpose, ensuring that views of the Executive directors are also taken into account.

As highlighted in the Chair's Statement, Mark Lund will also be retiring from the Board at the 2025 AGM, and his replacement as Senior Independent Director will be announced at the earliest opportunity.

### Time commitment

One of the criteria which the Board takes into consideration when recruiting a non-executive director is their ability to commit sufficient time to take on the position. In addition, throughout their term of office with the Society, directors are required to inform the Chair in advance of any other positions that they wish to take up so that the time commitment and any potential conflict of interest can be considered.

| Role | Expected Annual Commitment |
|---|---|
| Chair | 80 – 100 days |
| Senior Independent Director & Deputy Chair | As required to fulfil the role |
| Non-executive directors | 30 – 36 days |
| **Committee Chairs (in addition to above commitments)** | **Expected Monthly Commitment** |
| Board Audit Committee | 2 to 2.5 days per month |
| Board Change Committee | 1.5 to 2 days per month |
| Board Remuneration Committee | 2 days per month |
| Board Risk Committee | 3 to 3.5 days per month |

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

# Corporate Governance Report (continued)

## Conflicts of interest

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

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

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

## Induction and professional development

On appointment, new directors receive a comprehensive and tailored induction programme covering the Group's businesses and regulatory environment. The Code specifies that directors must have access to the necessary resources to update their knowledge and capabilities. In addition, each director undergoes an annual "fit and proper" assessment in compliance with regulatory requirements, one element of which is competence and capability. Ongoing training and development needs are identified and addressed through regular review and usually take the form of attendance at external seminars and Board training sessions led by relevant internal and external specialists. Those directors from a non-banking background are provided with specific training on the capital and liquidity regimes governing the Society's operations. Non-executive directors are encouraged to liaise with individual members of the Group Executive Committee to demonstrate support and to undertake subsidiary, branch and department visits on an ongoing basis.

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

All directors also have access to independent professional advice, if required, at the expense of the business and have the benefit of appropriate liability insurance cover.

## Board evaluation

The Board undertakes an annual performance and effectiveness evaluation of itself and its committees. At least every three years this review is conducted by an external facilitator. Following the completion of a competitive tendering process, the Board engaged Clare Chalmers Ltd to undertake the 2023 annual performance evaluation of the Board and its committees. Claire Chalmers Ltd has no connection with the Board or any individual directors.

This review was completed in Q4 2023. The methodology included observing Board and Board committee meetings, one-to-one interviews with all non-executive and executive directors and an opportunity for Board members to ask questions and discuss the findings of the final report. The outcomes of the review were discussed at the Board meeting in February 2024.

The review concluded that the Board brings strong and relevant skills and is an engaged and interactive environment, with plenty of valuable debate and challenge. Clare Chalmers' report highlighted three key strengths of the Board: (i) making space for strategic decisions, (ii) a Board training programme identifying and actioning individual and collective training and development needs and (iii) the Board's consideration of membership into its decision making.

In terms of continuous improvement, the suggested areas of focus arising from the 2023 external Board and Board committee evaluation process were:

- The Board has recognised the need to take a more forward-looking approach to succession planning and Board composition planning, considering the skills the Board needs for the future.
- The Board will continue to increase focus on oversight of Group subsidiaries, with a focus around risk appetites across the Group.

# Corporate Governance Report (continued)

- The Board recognised the need to formalise senior management succession planning processes and ensure talent, development and other people-related topics come to the Board more regularly.

The key suggestions for enhancement were used to inform a Board Effectiveness Action Plan for 2024, the progress of which has been monitored during 2024 and will continue to be monitored beyond by the Board. The annual internal Board evaluation process is underway with surveys completed in December 2024.

### Individual review

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

### Remuneration

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

### Directors' service contracts and notice periods

The executive directors are engaged on rolling service contracts which can be terminated by either the Society or the director giving one year's notice. Unless notice to terminate is given by either party, the contracts continue automatically.

All non-executive directors are provided with a letter of appointment on joining the Board and do not have service contracts.

## Accountability & 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 in the Board Audit Committee Report.

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

### Risk management and internal control

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

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

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

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

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

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

# Corporate Governance Report (continued)

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

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

To further strengthen the standard of Group governance, a new Group Risk Management Framework ('GRMF') was approved by the Board Risk Committee in July 2024. The GRMF defines clear risk management roles and responsibilities, governance structures and risk reporting expectations across all Group businesses. The Board is satisfied that the Group maintained an adequate system of internal control during 2024, with a clear focus on risk management. This was carried out in a manner that met the requirements of the Code and good business practice generally.

## Board and Committee membership attendance record

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

| | Scheduled Board | Board Audit Committee | Board Change Committee | Board Nominations Committee | Board Remuneration Committee | Board Risk Committee | NED Remuneration Committee |
|---|---|---|---|---|---|---|---|
| Gwyn Burr | 9 of 9 | | | 3 of 3 | | | 1 of 1 |
| Andrew Bottomley | 9 of 9 | | | | | | 1 of 1 |
| Paul Chambers[2] | 7 of 7 | | | | | | 1 of 1 |
| Iain Cummings | 9 of 9 | 5 of 5 | 4 of 4 | 3 of 3 | | 9 of 9 | |
| Steven Davis | 9 of 9 | | | 3 of 3 | 7 of 7 | | |
| Hasintha Gunawickrema[3] | 1 of 1 | | | 1 of 1 | | | |
| Stuart Haire | 9 of 9 | | | | | | 1 of 1 |
| Denis Hall | 9 of 9 | 5 of 5 | | 3 of 3 | | 9 of 9 | |
| Heather Jackson | 9 of 9 | | 4 of 4 | 3 of 3 | 7 of 7 | 9 of 9 | |
| Mark Lund | 9 of 9 | 5 of 5 | | 3 of 3 | 7 of 7 | | |
| Bobby Ndawula[4] | 2 of 2 | | | | | | |
| Philip Moore | 9 of 9 | 5 of 5 | | 3 of 3 | | 9 of 9 | |
| Sarah Whitney[5] | 1 of 1 | | | | | | |

**Notes**

1. Where directors are not available to attend meetings, they still receive all papers and provide feedback as appropriate.
2. Paul Chambers was appointed as an executive director on 26 March 2024.
3. Hasintha Gunawickrema was appointed as a non-executive director on 1 November 2024.
4. Bobby Ndawula resigned from the Board on 26 March 2024.
5. Sarah Whitney resigned from the Board on 29 February 2024.

# Corporate Governance Report (continued)

## 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 any 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. A 'member' is different to a shareholder of a listed company, whose owners may include institutional shareholders.

The vast majority of the Society's customers are, therefore, its members. Against a backdrop of significant economic and political uncertainty, it is of the utmost importance that we understand our members and listen closely to their views. In recognition of this, the Society actively seeks feedback from members on all aspects of its activities and strives to respond quickly to points requiring action.

The insights generated from our member research have been used to develop marketing campaigns, improve products and member journeys, and to inform our strategic planning. All our research is conducted by skilled Market Research Society registered practitioners, employed both in-house and through carefully selected partners (including award-winning research agencies).

Further, to help fulfil our aim of allowing meaningful participation, we've recently grown our Member Panel to over 23,000 panellists. Over the last year, Panel feedback has helped us better understand topics such as 'home mover boxes', new savings product ideas, the 'greening' of UK homes and a range of proposed new mortgage functions.

We understand that now, more than ever, our members want to make the most of their money and we were able to make various improvements in 2024 that have benefitted our members:

- We expanded our member exclusive savings range further, giving members access to exclusive savings rates. Throughout 2024 we saw over 107k accounts opened.
- Alongside our member exclusive range, we continued to offer competitive savings rates across the entire range and as at 31 December 2024 we paid 0.74% above market average.
- We developed new products and functionality to suit our customer needs.
- We developed our support for members, through a My Money Review or Enquiry where our skilled colleagues provide advice to help members make clear, informed decisions; helping their money work harder.
- We are one of only a handful of providers to offer multiple Cash ISA account functionality for current year ISA subscriptions, giving our members more choice in how they split their ISA allowance.
- We're here to help more people than ever have a home and have continued to innovate to make this a reality.
- We continue to be the largest high street provider of the Lifetime ISA, a product designed to give a boost to first-time buyers saving for a deposit. We've enabled bonus payments from the Government of over £50m in 2024.
- In September, following feedback, we expanded our Track Record product range to make it available to more first-time buyers. We also offer mortgages on properties bought through Government Schemes including Shared Ownership and LIFT, as people continue to need a variety of solutions to take their first step onto the ladder.
- We created a first-time buyer helpdesk, to provide would-be buyers with access to help and advice when they need it, throughout the buying journey.
- Helping homeowners and landlords to reduce their carbon footprint remains a priority for us and we understand that the first step is access to expert guidance. That's why we continue to offer free EPC+ reports to all our members.
- This year has also seen us complete a full retrofit on a Society owned property with a view to supporting our customers in understanding the practicalities of installing carbon-reducing measures in their own homes. We'll also use our findings to influence policy makers.

In 2024 the Society has continued to achieve extremely high levels of net member satisfaction, scoring 90% in 2024.

As a mutual organisation it's important for us to be transparent in sharing our member feedback. This has been demonstrated by our continued pursuit to gain public reviews from members via our partnership with Trustpilot. Since integrating this with our existing ongoing research programme towards the end of 2020, we have maintained a strong rating of 4.3 stars out of 5 as at 31 December 2024.

## Our people

It is important to us that we have a thorough understanding of our peoples' views regarding their experience of working at the Society and we do this

# Corporate Governance Report (continued)

in a number of ways – through team meetings, surveys, employer review websites, listening sessions and independent assessments. We have built on our work in 2023 and continued to evolve our approach to colleague listening and involvement during 2024, focusing more on developing our culture and ways of working. The Behaviours Framework has been incorporated into our strategic communications, leadership definition, performance management and approach to colleague recognition.

Colleagues have been active in our work around culture and the behavioural shift as a result. Our target culture recognises our cultural strengths, our colleagues' desire for change and a focus on delivering the best for our members.

Part of our evolving approach to colleague listening and participation is the desire to influence the large and small details that form part of the everyday colleague experience. In terms of the large details, we have a programme to transform our technology, customer and colleague journeys where we are directly engaging with colleagues on how we build our systems and processes. As part of our Transformation Programme, we actively involve colleagues in testing the customer engagement platform, asking them to be critical and find what worked and what we can improve on.

In terms of the smaller but important details, additional emphasis has been placed on leaders listening to their teams for feedback and to act upon this locally, empowering both leaders and colleagues. The changes to the organisational structure were designed with outcomes such as better decision-making, communication and engagement in mind, by having more empowered colleagues closer to senior leaders to influence how we work. We feel it is important that the experience of colleagues and utilisation of feedback should be active locally through all leaders and teams, rather than centrally, and we've invested in training all our leaders in conversational skills to support this. We will continue to use colleague feedback to inform our work and plan to build on that following a successful pilot, by moving to a pulse format approach to colleague listening in 2025, which will further enhance the way we engage with our colleague base.

In line with the Code's requirements, the Board appointed non-executive director Philip Moore to be the director responsible for providing a further avenue for the voice of our people to be heard at the Board table. In 2024, he continued to conduct a series of 'listening sessions' where up to 20 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, ideas on what we could do better and any other topic they wish to raise. A summary of the feedback from each session has been shared with the Board. Together with regular personal communications from members of the Group Executive Committee in the form of videos, we have also continued to hold quarterly Strategic Updates where colleagues can ask questions of the Group Chief Executive and the Group Executive Committee regarding our direction of travel.

### Suppliers

The Group closely monitors all its business relationships with suppliers, on an ongoing basis, assessing any risk of an adverse impact on our members, customers, our people and the environment in which we operate as a result of these relationships, or as a result of our policies.

There is a continuing focus on the development of the supplier management framework 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 include how timely and accurate we are when paying invoices, if our corporate responsibility values are clear and views on whether we live these, and strength of relationships and comparison of our approach to other clients. Previous feedback has been very positive and the latest survey was issued to suppliers in Q4 2024 with an update to the Board planned for Q1 2025.

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

### Regulators

Fostering a positive relationship with our regulators is a key priority for the Board and senior management team, supported by continuous dialogue as appropriate. This involves not only the provision of prescribed reports but updates from the senior management team on matters we believe should be drawn to our regulators' attention. The Board sees it as important that regulatory bodies are kept up to date with strategic and operational developments within the Group and that they maintain ongoing confidence in the Board and management team.

### Banking counterparties

Senior executives and our Treasury team hold meetings with banks and debt investors, where appropriate, to update them on the Group's

# Corporate Governance Report (continued)

performance and respond to any questions. This is a long-established arrangement which continues to work well.

### Whistleblowing (speaking out)

The Society has in place arrangements to ensure that colleagues speak up and can raise concerns in confidence and anonymously, and that these can be investigated and properly dealt with.

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

The Society provides training on whistleblowing annually to all colleagues and on induction for new colleagues. The Society makes use of a channel which enables colleagues and third parties to report concerns via Safecall, an independent third party.

Each major business within the Group maintains its own whistleblowing policy. The Board's commitment to whistleblowing is supported by the appointment of a non-executive director as the Speak Out Champion for this important area. This is the responsibility of Iain Cummings, who also chairs the Board Audit Committee.

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

### The Annual General Meeting (AGM)

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

All eligible members are encouraged to vote at the AGM (either personally or by appointing a representative), although the voting form also includes a 'vote withheld' option. Members can vote either at the AGM in person, by post or online. All votes are returned to independent scrutineers. A poll is called in relation to each item of business 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 all directors, appointment or re-appointment of the external auditor and the Directors' Remuneration Report.

I am pleased to report that no resolution received less than 91% support from members at the 2024 AGM.

### Board priorities in 2025

Together with the senior leadership team, the Board will continue to focus on the delivery of the Group's strategy in 2025 through our Corporate Plan. Other priorities for the Board in 2025 include:

- Continuing to enhance Group oversight and governance arrangements across the Group, including implementing all applicable requirements of the revised UK Corporate Governance Code published in January 2024;
- Continuing its oversight of Consumer Duty following on from the training and updates received during 2024;
- Continuing to oversee the actions arising from the 2023 externally facilitated review of the Board's own effectiveness;
- Fostering an open and inclusive culture which supports and promotes individual personal development through the performance and accountability evaluation mechanism;
- Maintaining a focus on geopolitical risks and the potential impact of those risks on members and the communities served by the Group;
- Continuing its oversight of the Society's and the Group's change programmes; and
- Maintaining oversight of legal and regulatory changes which affect the operation of the Group.

### Conclusion

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

Signed on behalf of the Board:

G Burr

**Gwyn Burr**
Group Chair
25 February 2025

# Board Audit Committee Report

Skipton Group

# Board Audit Committee Report

Dear Member,

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

The report focuses mainly on the following three areas:

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

**Iain Cummings,**

**Chair of the Board Audit Committee**

### Membership and attendees

The members of the Board Audit Committee during the year were:

| | |
|---|---|
| Iain Cummings | Non-executive director (Chair) |
| Denis Hall | Non-executive director |
| Mark Lund | Non-executive director |
| Philip Moore | Non-executive director |

The Committee is currently comprised of four members, all of whom are independent non-executive directors.

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

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

### Meetings

The Committee held five scheduled meetings during 2024 aligned to our financial calendar and reporting dates. The attendance of members at these meetings is set out in the Corporate Governance Report.

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

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

### 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. 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 and have regard to the FRC's Audit Committee and the External Audit: Minimum Standard guide.

# Board Audit Committee Report (continued)

Our primary responsibilities are:

- 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 and, reviewing and approving any formal announcements relating to the Group's financial performance and reviewing and challenging, as necessary. We also review the appropriateness of our accounting policies and the significant estimates and judgements in relation to the financial statements;
- to review the effectiveness of the Group's internal controls, including financial controls and risk management systems;
- to review the effectiveness and independence of the Group Internal Audit and Compliance Monitoring functions and the performance of the Group Chief Internal Auditor. This includes considering the adequacy of internal audit's resources, its periodic audit plans, performance against these plans, their material findings and delivery of actions to address them;
- to provide advice to the Board on whether the Annual Report & Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the Group's strategy, business model and performance; and
- 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. We also review their approach to our audit, their levels of materiality and their reports.

The Committee's Terms of Reference were reviewed in October 2024. As part of the review, specific responsibilities under the Model Risk Management framework and external sustainability reporting were added.

The minutes of the Board Audit Committee are distributed to the Committee members following each meeting and I, as Chair of the Committee, provide a report to the next Board meeting on the key matters considered after any recommendations requiring full Board approval.

### New guidance

In May 2023, the Financial Reporting Council (FRC) published Audit Committees and the External Audit: Minimum Standard ('Minimum Standard') which is intended to enhance performance and ensure a consistent approach across audit committees within the FTSE350 in relation to their oversight responsibilities for the external audit. During the year we compared our existing practices to the Minimum Standard and identified a small number of enhancements to ensure that we meet or exceed all of its requirements. These are already being addressed and will be completed during 2025.

### Activities of the Committee during the year

During 2024 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 and the interests of its members. 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.

Through the Committee, the Group Internal Audit function provides independent assurance to the Board on the effectiveness of the internal control framework. Group Internal Audit derives its authority from the Board, through the Board Audit Committee, and has unrestricted access to all Group records, physical properties, and personnel as required for the effective delivery of audit activity.

The information received and considered by the Committee during 2024 provided assurance that there were no significant control failings that would lead to a material impact on the Group's financial statements.

Group Internal Audit is supported by external co-source partners who provide specialist technical support when required. The Group Chief Internal Auditor reports to me and as a Committee we are responsible for ensuring that Group Internal Audit has adequate skills and resource levels that are sufficient to provide the level of assurance required.

# Board Audit Committee Report (continued)

The Committee is satisfied that, throughout 2024, Group Internal Audit had an appropriate level of resources in order to carry out its responsibilities effectively and that it continues to do so.

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

We review reports produced by Group Internal Audit that detail material findings, recommendations and the status of management actions in response. Group Internal Audit also verify the completion of management actions using a risk-based approach and updates the Committee on progress. 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, and this is reported to and discussed at a meeting of the Committee.

During the year, key areas reviewed were as follows:

- the governance framework and key controls around significant prudential and financial risk, including capital and liquidity management;
- key programme and project management controls for material projects in place to support the delivery of business strategy;
- key controls around cyber security, operational resilience and information technology;
- key controls to ensure regulatory compliance in areas including model risk management, Consumer Duty and responsible lending for example; and
- a number of specific areas of internal control in the Group's subsidiaries, including key change projects.

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 effectiveness of the function against Global Internal Audit Standards. The most recent review took place in 2024 and the Committee oversaw the selection of a suitable third party to conduct this. We also received their report and discussed it with the reviewer. The Committee were pleased to note that Internal Audit 'generally conforms' (the highest rating attainable) with the Standards and compared favourably with peer organisations. The Committee will now oversee actions to address recommendations by the reviewer which will enhance the effectiveness of our Group Internal Audit function further.

The Committee also has oversight responsibility for the Society's Compliance Monitoring function that provides second line assurance over conduct risk on activities regulated by the FCA, as well as assurance over financial crime and data protection. The Compliance Monitoring Plan includes control reviews, shorter focused reviews and customer outcomes testing which includes, but is not limited to, investment, pension, mortgage and protection advice, credit management, complaint handling and post-sale customer outcomes. Consideration is given to Consumer Duty as part of all relevant reviews and consumer duty specific reviews are also included in the plan where relevant. The Compliance Monitoring function's six-monthly plan of work was approved by the Committee and the outputs 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 and conducted the annual review of the Whistleblowing policy. Awareness of whistleblowing arrangements is maintained through internal communication and is covered as part of colleague induction and ongoing development. The Committee also received updates from the Director of Group Finance on tax matters impacting the Group.

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

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

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

### b) Financial reporting

The Committee considered the financial information published in the Group's annual and interim financial statements and the accounting policies adopted by the Group, presentation and disclosure of financial information and, in particular, the key estimates and judgements made by management in preparing the financial statements. The Directors are responsible for preparing the Annual Report & Accounts.

At the request of the Board, we considered whether the 2024 Annual Report & Accounts were fair, balanced and understandable and whether they provided the necessary information for members to assess the Group's position and performance, business model and strategy.

# Board Audit Committee Report (continued)

This assessment included:

- review of reports from management on significant accounting matters and judgements and consideration of whether these treatments were appropriate;
- consideration with management of leading reporting practices and recommendations, including those published by the FRC and major audit firms;
- consideration of the main events during the financial year and how these are reported in our financial statements;
- review of the alternative performance measure of underlying profit before tax (defined in the Strategic Report), to ensure compliance with our policy on these metrics and fair presentation;
- a thorough review was undertaken by the Financial Reporting team to ensure there was appropriate supporting evidence for the content of the Annual Report & Accounts;
- obtaining confirmation that all key control procedures over financial reporting had been completed at the Society and its subsidiaries;
- obtaining confirmation of reviews by the Financial Reporting team and the Group Executive Committee, including details of matters raised and their conclusions;
- reviewing drafts of the financial statements and discussion of key matters; and
- consideration by the Committee of comments raised by our external auditors and actions taken by management to address these.

The Committee is satisfied that, taken as a whole, the 2024 Annual Report & Accounts are fair, balanced and understandable and include the necessary information as set out above. The Committee has confirmed this to the Board, whose statement in this regard is set out in the Directors' Report. We paid particular attention to matters we considered to be important by virtue of their impact on the Group's results, and particularly those which involved a high level of complexity, judgement or estimation by the Board.

The key areas of estimate and judgement that we considered in reviewing the 2024 Annual Report & Accounts are set out below:

| Significant Matter | Committee Action Taken |
| --- | --- |
| Going concern and longer-term viability review | The Committee reviewed the adoption of the going concern assumption for the Interim Accounts and the Annual Accounts, adopting the same comprehensive approach for both reporting periods. This involved rigorous consideration, based on reports produced by key risk functions around the business as requested by the Committee, of our current and projected liquidity, capital and funding positions, together with the Group's principal risks. Risks considered include those arising from business activities (for example credit risk, liquidity risk, operational risk and conduct risk), from market changes, from social, economic and political factors (such as the impact of the new Labour government in the UK and Donald Trump's second term as US President, on-going geopolitical conflicts and external pressures on oil prices) 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 remained appropriate.<br>The Committee reviewed the statement on the longer-term viability of the Group in the Directors' Report, together with papers produced by management and key risk functions in support of this statement. This included consideration of the Group's latest corporate plans, and impact on the Group's liquidity, capital and funding positions, and the impact of risks from business activities, from market changes, from social, economic and political factors, from climate change and from stress scenarios. The stress scenarios considered included scenarios that could cause the Group to fail; the Committee concluded that the likelihood of any such scenario materialising in a way that would threaten the Group's longer-term viability is sufficiently low. Based on this analysis, the viability statement was recommended to, and approved by, the Board. |

# Board Audit Committee Report (continued)

| Significant Matter | Committee Action Taken |
|---|---|
| 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 identification of potential impairment, the definition of default and the determination of a significant increase in credit risk.<br>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 changes in the external environment, the key driver of movement in residential impairment during the period being changes to Bank of England Base Rate, HPI growth and unemployment. We noted that, in particular, revision of the Group's view of future interest rates has resulted in a decrease in the Group's loan impairment provisions; this is reflected both in the modelled impairment amounts and in the post model adjustments.<br>With respect to climate-related risks, the results of scenario analysis performed by management during the year have not materially impacted the Group's loan impairment provisions.<br>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.<br>We have examined and challenged the assumptions adopted and have scrutinised reports produced by management. 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.<br>The Committee has also monitored the level of impairment held against treasury assets under IFRS 9, including scrutinising reports produced by the Asset & Liability Management function. We consider the level of impairment held against these assets to be appropriate. |
| Revenue recognition within the Estate Agency division | The Committee has considered the risk relating to the recognition of revenue within the Estate Agency division, as described by the external auditor within the Independent Auditor's Report. The Committee reviewed reports prepared by management and by EY regarding the effectiveness of key controls over the revenue recognition process. The Committee also considered the results of external audit testing performed in this area, including testing performed in previous years, which has not identified any evidence of material misstatement or management override in this respect.<br>The Committee is comfortable that this matter has been appropriately considered and disclosed within these Accounts. |
| Defined benefit pension liability | The Group manages three funded defined benefit pension schemes, as presented in Note 34 to the Accounts.<br>The Committee has examined and challenged the pension scheme assumptions adopted in these Accounts and is satisfied that these are reasonable and appropriate; this included consideration, in particular, of scheme asset valuations, given the volatility of market pricing during the year. |
| Impairment of estate agency right-of-use assets | The Committee has considered the risk relating to the impairment of estate agency right-of-use assets. The Committee reviewed assessments prepared by management and the results of impairment testing performed where indicators of impairment exist. The Committee is satisfied that the level of provision held against right-of-use assets is appropriate. |

# Board Audit Committee Report (continued)

| Significant Matter | Committee Action Taken |
|---|---|
| Fair valuation of the equity release portfolio | The Group holds an equity release portfolio which is closed to new business. The Group has internally devised a fair valuation model, using inputs including mortality rates, voluntary prepayment rates, estimates of future RPI and a house price index, and associated volatility, to predict future cash flows on the portfolio. As the valuation technique uses some inputs that are not based on observable market data, judgement is required in determining appropriate assumptions.<br>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.<br>The Group hedges the interest rate and inflation risk arising from its equity release portfolio through the use of derivatives. These derivatives are valued using discounted cash flow models which include estimated redemption profiles and, due to the long-dated nature of these derivatives, any changes to estimates or assumptions can have a significant effect on the valuation of the derivatives. As the underlying mortgage portfolio is not held at amortised cost under IFRS 9, hedge accounting cannot be applied. Both the equity release portfolio and the swaps are held at fair value through profit and loss.<br>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 1v) 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 1f) to the Accounts. This method includes an estimation of mortgage product lives. The Committee reviewed the reports prepared by management to support these estimates and is satisfied with the conclusions reached in this respect. |
| Derivatives and hedge accounting | The Group uses fair value and cash flow hedge accounting to manage its interest rate and foreign currency risk.<br>The Committee has examined and challenged the valuation of derivative financial instruments and is satisfied that these are reasonable and appropriate. |
| Group conduct and regulatory provisions | A new risk has been recognised by the external auditor in response to the conduct and regulatory compliance matters at Connells Limited and Skipton International Limited. The Committee is comfortable that these matters have been appropriately addressed. |
| Loan impairments relating to Skipton International Limited | A new risk has been recognised by the external auditor in respect of impairment relating to the SIL loan book. This was the result of more granular Group scoping and risk assessment performed under the revised international standard on auditing, ISA 600 (Special considerations – Audits of Group Financial Statements (including the work of component auditors)). The Committee has considered this risk and is satisfied that the level of impairment held relating to SIL loans is appropriate. |

# Board Audit Committee Report (continued)

### 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 covered the external audit of the previous Annual Report & Accounts, and included 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 and quality of communication between the external auditor and senior management;
- the skills and experience of the audit team and their understanding of the business;
- 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.

The Committee considered the results of this review and concluded that the external auditor had performed an audit of good quality and that they were sufficiently independent.

During the year, the Committee also oversaw the transition to our new audit engagement partner. A change was required to comply with the independence rules and having overseen the selection of our new partner in 2023, we monitored the transition this year to ensure that there was no adverse impact on our audit.

The Committee also reviewed and reaffirmed our policy on non-audit services which can be provided by our external auditors. The Committee reviews fees paid to the Group's auditor regularly and is satisfied that the level of non-audit fees paid to our external auditors complies with this policy and does not compromise their independence. Details of the fees paid to EY for audit and non-audit services are set out in Note 7 to the Accounts; non-audit fees during the year represented 5.4% of total EY audit fees for the Group (2023: 8.6%). To further maintain auditor independence, the Group has processes in place regarding the employment of former employees of the auditor.

EY were appointed as external auditor following a competitive tender process and their appointment was approved by members at the AGM on 29 April 2019. EY were reappointed as the Society's external auditor at the 2023 AGM and the Audit Committee has recommended to the Board that they be approved for reappointment as external auditor at the 2024 AGM. The Committee also reviewed advisory and consulting fees paid to other firms which could be suitable auditors of the Group. This is done periodically to ensure that if a change of auditor is required, we have appropriate options.

### Effectiveness of the Board Audit Committee

The effectiveness of the Committee was assessed at the end of 2024 as part of the annual Board effectiveness review and it was concluded that we operated effectively during the year.

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

I Cummings

**Iain Cummings**
Chair of the Board Audit Committee
25 February 2025

# Board Change Committee Report

Skipton Group

# Board Change Committee Report

Dear Member,

On behalf of the Board Change Committee, I am pleased to present the Committee's annual report covering the role of the Committee and how it has discharged its responsibilities during 2024.

**Heather Jackson,**

**Chair of the Board Change Committee**

## Members of the Board Change Committee

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

The Committee was established by the Board during 2023 to oversee and govern the increasing scale and complexity of the Group's on-going change strategy.

The Committee held four meetings during 2024. Attendance of its members at those meetings is set out in the Corporate Governance Report.

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

## Role and Responsibilities of the Committee

The Committee seeks to ensure change is delivered as efficiently and effectively as possible and that the impact on members, customers and colleagues is considered.

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.

The Committee's role is to provide guidance, challenge and advice to the Board, helping to shape how change is delivered across the Group. The Change Portfolio is the programmes of work, systems and controls through which changes to our business are prioritised, coordinated and implemented. The Committee's primary responsibilities are:

- To oversee the alignment of the Change Portfolio with the technology and people strategies and be satisfied that the Change Portfolio supports the Group's wider strategic vision;
- To oversee the Change Portfolio agenda and methodology, including the capacity to resource and absorb change;
- Review of significant change proposals before presentation to the Board for approval;

# Board Change Committee Report (continued)

- Review of assurance reports and management actions to address any findings;
- Scanning the horizon for future industry trends and opportunities in technology that could impact or benefit the Group or the implementation of its strategy; and
- To oversee and challenge change initiatives including:
  - progress and delivery, including risk management, benefits and outcomes;
  - financial management, including spend and benefits delivery;
  - the overall approach, including 'lessons learned' when initiatives are completed;
  - adequacy of resource, including appropriate levels of resourcing roles, responsibilities and skills; and
  - appropriate use of data.

## Activities of the Committee

Throughout 2024 the Committee has focused on:

- The alignment and delivery of the Change Portfolio to the Skipton Group Corporate Plan, including the forward plans, outcomes delivered and investment required;
- Promoting standardisation of approaches to change delivery; reviewing the effectiveness and value delivery of these; and optimising across the Group where appropriate;
- Reviewing the progress being made to deliver the Society's Digital Transformation Programme including the benefits and impact from a member perspective;
- Fostering enhanced monitoring and evaluation of Change Programmes including member and colleague impacts, resourcing and timely delivery of the intended benefits;
- Understanding the recruitment and training strategies taken to ensure that knowledge and skills supporting change continue to be fit for the present and future;
- Overseeing the use of new technologies - using cloud to provide greater flexibility in technology. Enabling our customer-facing colleagues to use an AI tool providing better, more accurate data quickly when handling customer queries; and
- Reviewing the Data Strategy for the Skipton Group with focus on opportunities for our members and colleagues.

## Looking forward

In the course of 2025, the work of the Committee will continue to evolve and will include:

- Considering the change and technology required to support the aims of the Group's Corporate Plan (including looking at how data is used, cyber and cyber security, and appropriate further use of Artificial Intelligence (AI) in the future);
- Reviewing the member and colleague impact from change alongside oversight of delivery, risk, financial management and implementation of change across the Group;
- Reviewing of the resourcing strategies for change across the Skipton Group and fostering the sharing of Group skills and experiences to best effect; and
- Continuing to explore new industry and technology developments relevant to the work of the Committee and understanding how those developments can assist how we better serve our members in the future, including helping members to understand and make the most of our developing services.

## Conclusion

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

H Jackson

**Heather Jackson**

Chair of the Board Change Committee

25 February 2025

# Risk Management Report

Skipton Group

# Risk Management Report

Dear Member,

As the Chair of the Board Risk Committee, I am pleased to present the 2024 Risk Management Report. This report explains the risk management practices we operate at Skipton, and what we believe to be the principal risks facing the Society and its Group businesses (collectively referred to as the Group).

During 2024 some of the challenges seen in 2023 have begun to ease, with inflation significantly reduced compared to a year ago and the cost-of-living crisis softening for some. Our focus has been, and continues to be, on supporting our members, customers and colleagues, whilst growing our business safely.

**Denis Hall,**

**Chair of the Board Risk Committee**

In addition to closely monitoring the economic challenges, the Group businesses have maintained focus on the full range of risks we face.

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

## Committee focus

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

- **Liquidity management**, to ensure that the Group maintains a prudent liquidity position and is well placed to respond to the uncertain environment, whilst maintaining our longer-term funding strategy to diversify our funding base;
- **Capital and MREL**, to ensure that the Group maintains and forecasts sufficient capital resources to support our corporate plan, and potentially respond to a severe economic stress. We took strides to enhance our capital management framework in line with industry standards;
- **Interest rate risk**, to ensure that the Group has an effective balance sheet strategy and hedging arrangements in place to manage interest rate risk;
- **Credit performance**, 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 economic uncertainty;
- **Climate risk**, to ensure that the Society is developing an appropriate strategy and framework to enable it and its Group businesses to respond to the risks arising and ensure that these are effectively governed;
- **Model risk management**, to ensure that statistical models used to support business decision-making continue to be compliant with regulations, and are accurate and fit for purpose;
- **Operational resilience**, to ensure that the Society and its Group businesses remain able to provide a reliable and resilient service to members and customers and can recover in a swift and organised manner in the event of an operational failure;
- **Cyber threats**, to ensure that the Group has an appropriate risk framework and continuous improvement plan in place to reduce the likelihood of a successful attack. We remain alert to the risk arising from geopolitical tensions and continue to develop our monitoring regime and defence systems; and

# Risk Management Report (continued)

- **Conduct risk**, to ensure training and competence standards are appropriate, that members and customers receive good outcomes at fair value and that documentation standards substantiate this. Having successfully implemented the new Consumer Duty regulation, this is now being embedded across relevant business areas to strengthen the management of conduct risk.

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

### Risk overview

Day-to-day operation of the business naturally exposes the Group to a range of potential risks. To limit the level of risk accepted by the Group in the normal course of business, the Board has established a risk appetite. This is reviewed, at least annually, in the context of the prevailing environment in which the Group is operating in.

The risk appetite covers all key risks including liquidity risk, capital risk, interest rate risk and operational risk. 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 risks across the Group are identified, reviewed, managed, and reported on.

The Board Risk Committee is supported by an Executive Risk Committee which is chaired by the Group Chief Risk Officer. This is the primary Executive body which meets regularly to oversee and monitor the key risks across the Group. The Executive Risk Committee oversees several sub-committees which focus on specific risks including credit risk, conduct risk and operational risk.

At a subsidiary level, Connells Limited and Skipton International Ltd both operate their own Audit & Risk Committees which report directly to their respective boards. The Group Chief Risk Officer maintains oversight of all subsidiary firms in relation to risk management and control.

### Membership and attendees

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

| | |
|---|---|
| Denis Hall | Non-executive director (Chair) |
| Iain Cummings | Non-executive director |
| Heather Jackson | Non-executive director |
| Philip Moore* | Non-executive director |

** Philip Moore is not standing for re-election in 2025*

### Group Risk management framework

The Group has a formal structure for identifying and managing risks throughout the business. This framework is designed to enable delivery of 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:

### The 'Three Lines of Defence' model

**1 Line management**

The first line of defence is line management within the businesses who, through the implementation of the organisation's risk framework, identify, assess, and manage risk.

**2 Group Risk function**

The second line of defence is our Group Risk function and risk teams in the businesses. These teams challenge, monitor, guide and support the businesses in managing their risk exposure. The Board Risk Committee Chair is responsible for maintaining the independence of the second line of defence to ensure there are no obstacles to its independent challenge of the first line.

**3 Group Internal Audit**

The third line of defence, provided by Group Internal Audit, is designed to provide risk-based 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.

# Risk Management Report (continued)

The Board Risk Committee, in conjunction with the Board Audit Committee, oversees the effective operation of our 'three lines of defence' model. The principal risks and uncertainties faced by the Group, which are managed within the framework described above, are set out later in this report.

## Risk Environment

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

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

Alongside these prudential risk drivers, the management of conduct and operational risk is also key to the ongoing success of the Group. Central to managing these risks is maintenance of a robust product governance framework, to ensure that we develop and market compliant and fair products and services designed to meet the needs of our target market. We regularly review our existing processes and products to ensure we continue to provide good customer outcomes and 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.

Despite some ongoing uncertainty with the economic and political environment in 2024, including elevated inflation and interest rates, the Society's and SIL's mortgage books remained resilient and are not showing any material signs of stress. However, we remain vigilant for any credit deterioration in the year ahead and are ready to support any member who may be concerned about facing financial difficulty. We partner with external agencies including the Citizens Advice Bureau and Payplan who provide free debt advice to the public. We were amongst the first Banks and Building Societies to sign up to the new Mortgage Charter when the Government introduced this in June 2023 and we continue to shape forbearance solutions with those customers who need support.

Following the annual rate of inflation reaching a 41-year high of 11.1% in October 2022, it continued to reduced gradually during 2024 and fell to 2.5% by December. The Bank of England has also reduced bank base rate, from 5.25% in August 2023 to 4.75% at the year end, and market analysts believe it will reduce further during 2025. Despite bank base rate and mortgage rates remaining elevated, unemployment has remained broadly stable during the year and is currently 4.4%, below official estimates from a year ago. Our latest projections forecast that unemployment will rise slowly through 2025 before peaking in 2026, which has been reflected in our forward-looking loan impairment provisions held in our balance sheet.

The housing market in 2024 compared favourably to 2023 although remained slightly subdued in some segments due to the General Election taking place in July. That said, key House Price Indices report that house prices have increased marginally during the year. Through our Estate Agency division, we are carefully monitoring the housing market and we expect 2025 to be stronger.

Notwithstanding interest rates remaining elevated, mortgage arrears levels remained under control throughout 2024, reflective of relatively stable levels of unemployment. We monitor our credit risk metrics monthly, and thus far have not seen any material number of mortgage in distress. However, we remain alive to the impact of increased mortgage interest rates and do expect to see some members encounter difficulties with mortgage affordability, and potentially for arrears volumes to increase during 2025.

A key driver of profit for the Society and SIL is the margin earned on mortgages offered to customers. During 2024 there continued to be significant competition in the mortgage market. Despite this, our margin remained strong. We anticipate a highly competitive mortgage market continuing throughout 2025.

The results of the Connells Group 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. Any slowdown in the housing market puts pressure on Connells' group income levels, but the business is partially protected against the performance of its core business through its own diversification into complementary businesses such as lettings and property asset management. As a result of the improved property market compared to 2023, Connells Group delivered an above-plan profit for the year.

# Risk Management Report (continued)

## Principal Risks and Uncertainties

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

The Risk Committees are also alert to the need to be alert to new, emerging risks and new, emerging regulations or corporate governance standards. These are considered at each meeting of the Committee and by the Group Chief Risk Officer on a day-to-day basis. A watching brief is then maintained, as appropriate, by both first and second line teams to determine whether the key risk profiles of any Group business need to be updated to incorporate the potential new risks. Our reporting process provides the Board and Board Risk Committee with continuous assessment of the risk environment across the Group and allows it to challenge management on its mitigation plans in a timely manner.

Over the following pages, the prudential risks and key mitigants are set out.

| Business risk | |
|---|---|
| Risk definition | The risk of failing to formulate and deliver the strategy and/or a lack of response to changes in the external environment affecting the sustainability of the business. |
| Risk mitigation and management | The Group Executive Committee and the Boards of subsidiary businesses are responsible for ensuring that business risk is effectively managed.<br><br>Potential sources of business risk include revenue volatility due to factors such as macro-economic and geopolitical conditions, inflexible cost bases, structural inefficiencies, or new market entrants with lower cost structures.<br><br>Delay or inability to respond to changing customer behaviours is a risk, as customers' preferred means of accessing financial services evolves in a rapidly changing digital environment. The Group addresses these risks within its Corporate Plan which is approved by the Board along with the Group's key strategies. The Board Risk Committee is also provided with the results of stress and scenario tests to assess the potential impact on the Group of a stressed business environment, such as a severe economic downturn. This enables the Committee to monitor the risk impact on business strategies and to determine whether changes to these may be required to protect the sustainability of the Group. In line with regulatory requirements the Group maintains recovery plans detailing the steps it would take to sustain itself through such severe business stresses. |

| Capital and MREL risk | |
|---|---|
| Risk definition | The risk of not maintaining sufficient capital and MREL (minimum requirement for own funds and eligible liabilities) levels to support day to day operations, withstand stressed economic conditions and meet regulatory requirements. |
| Risk mitigation and management | The Internal Capital Adequacy Assessment Process (ICAAP) is conducted to assess the Society's and the Prudential Group's current and projected capital and MREL requirements to mitigate the current risks in the business and any future risks arising from the Corporate Plan.<br><br>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 Board also receives regular reporting on capital adequacy levels. |

# Risk Management Report (continued)

| Capital and MREL risk (continued) | |
|---|---|
| Risk mitigation and management (continued) | The Group currently adopts the following approaches to calculating its Pillar 1 minimum capital requirements:<br>• Internal Rating Based (IRB) approach for residential mortgage exposures of the Society;<br>• 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);<br>• Standardised approach for other lending exposures;<br>• Standardised approach for treasury portfolios; and<br>• Standardised approach for operational risk and market risk.<br>MREL is the minimum amount of own funds (capital resources) and eligible liabilities that must be satisfied to provide for the recapitalisation of the Prudential Group under a gone concern scenario. The ICAAP sets out our expectations of MREL requirements over the Corporate Plan horizon, and how we expect to meet those requirements. We also consider the impact of emerging capital regulation over the same period, including the reforms to the Basel III regulation, and how we expect to meet those new requirements. The capital and MREL actual positions versus the requirements are reported to the Board on a monthly basis. |

| Climate risk | |
|---|---|
| Risk definition | The risk of the commercial impact that climate and environmental changes present to our business model. |
| Risk mitigation and management | Climate change, considered as the combination of extreme weather events and longer-term climate modifications, presents both risks and opportunities for the Group and our customers.<br>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.<br>The Group’s Executive Committee and the Boards of subsidiary firms are responsible for the proactive management of the financial and operational risks arising from climate change and the strategy to mitigate these risks.<br>Our approach to managing the risks from climate change is summarised as follows:<br>• *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;<br>• *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. The Group has continued to embed the management of climate risk across the businesses during 2024. This includes producing our management information to provide regular monitoring of climate risk exposures across a range of business areas and reviewing our mortgage new lending controls with respect to flood risk and coastal erosion at least annually. |

# Risk Management Report (continued)

| Conduct risk | |
|---|---|
| Risk definition | The risk of delivering poor or inappropriate outcomes for customers. |
| Risk mitigation and management | Any failure to develop appropriate internal processes and controls to deliver suitable mortgage, pensions and investment advice to customers to meet their financial needs, and to comply with other conduct requirements, could lead to poor customer outcomes, customer dissatisfaction and potential regulatory criticism.<br><br>Ensuring fair value and good customer outcomes across our channels, products and services is at the heart of what we do; we consider the recently introduced Consumer Duty to be good for the sector. An Executive sponsored programme was in place to ensure we met the Consumer Duty implementation timeline of July 2024 for closed products and services (having previously met the timeline for existing products and services by July 2023). Our focus is now on embedding Consumer Duty and on continuing to deliver good outcomes for our members and customers. Our three lines of defence provide ongoing monitoring and assurance over processes and controls. |

| Credit risk | |
|---|---|
| Risk definition | The risk of financial losses or adverse impacts on the business's performance and solvency due to the failure of its borrowers or counterparties to meet their contractual obligations. |
| Risk mitigation and management | The Group faces credit risks from its lending to:<br>• Individual customers (retail mortgages);<br>• Businesses through historical commercial lending and ongoing debt factoring and invoice discounting; and<br>• Wholesale counterparties for the purposes of liquidity management.<br><br>Retail and commercial credit exposures are managed by a team of experienced professionals, with oversight provided by the Retail Credit Committee.<br><br>The Group has established comprehensive risk management processes in accordance with the Board's credit risk appetite which defines a number of limits regarding concentration risk as well as customer and collateral credit quality to which all our mortgage lending activity must adhere.<br><br>The credit decisioning process applies credit scoring, affordability assessment and lending policy criteria which is supported by manual underwriting. All aspects of the automated credit decisioning process are subject to regular development, as well as model governance. The lending quality and controls are managed within risk framework requirements and all lending is in line with the Board's risk appetite.<br><br>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.<br><br>The legacy commercial mortgage portfolio which is UK-based, was closed to new lending in November 2008.<br><br>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. |

# Risk Management Report (continued)

| Interest rate risk | |
|---|---|
| Risk definition | The risk of exposure of the Group's financial condition to adverse movements in market interest rates. |
| Risk mitigation and management | Interest rate risk arises from mortgages, savings and other financial products we offer. This risk is managed through the use of appropriate financial instruments, including derivatives used to hedge exposures, with established risk limits, reporting lines, mandates and other control procedures.<br>Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between market rates), and net margin duration risk (the risk that the cost of funding increases before we are able to re-price our mortgages) are regularly reported to the Asset & Liability Committee, the Board Risk Committee and the Board. These risks are also managed within established risk limits and other control procedures.<br>The Group's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly, in line with PRA guidance. |

| Liquidity risk | |
|---|---|
| Risk definition | The risk of being unable to meet current and future financial obligations as they fall due or only able to do so at excessive cost. |
| Risk mitigation and management | The liquidity strategy is to ensure liquidity is held in sufficient quantity and diversity to support the Corporate Plan and to meet the Board's Liquidity Risk Appetite and regulatory requirements. There is flexibility within the plan, supported by the strong governance around liquidity management, to adapt to changing circumstances. The Group also has access to adequate levels of contingent liquidity.<br>The Internal Liquidity Adequacy Assessment Process (ILAAP) is conducted at least annually for Board approval, 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.<br>There are risks to future funding conditions given the market-wide refinancing of the government established TFSME (Term Funding Scheme), including collateral management risk, geopolitical risks and the risk of increased competition for retail deposits. Early warning indicators are therefore regularly assessed to ensure liquidity is maintained at appropriate levels and reported to the Asset & Liability Committee and the Board on a monthly basis.<br>Over the life of the Corporate Plan, there are increasingly larger retail and wholesale maturities, resulting in a more dynamic liquidity requirement and heightened risk. To mitigate this, we may carry excess liquidity at times as the Group pre-funds ahead of large maturities. |

| Wholesale Credit risk | |
|---|---|
| Risk definition | The risk of unexpected credit losses resulting from a counterparty default. |
| Risk mitigation and management | The Group Wholesale Credit Committee manages treasury credit exposures, with oversight provided by the Asset & Liability Committee.<br>Wholesale credit risk is the counterparty credit risk resulting for transactions undertaken by Group Treasury, which is primarily from the high quality liquidity held by the Group to mitigate liquidity risk. It also arises from counterparty exposures where the Group has transacted derivatives to hedge interest rate risk as well as secured funding transactions.<br>Counterparty credit risk is managed across the Group within limits, on size and duration of exposure, defined within the Treasury Policy, which is approved at least annually by the Asset & Liability Committee and the Board Risk Committee. The posting of collateral is also used to mitigate counterparty credit risk in respect of derivatives. |

# Risk Management Report (continued)

| Model risk | |
|---|---|
| Risk definition | The risk of financial loss or a poor strategic or business decision as a result of errors, weaknesses or failures in the design or use of a model. |
| Risk mitigation and management | The Model Risk Committee (MRC) provides a formal forum for monitoring and managing model risk in the Group. MRC manages model risk with reference to a defined Model Risk Appetite and Governance Policy which have both been approved by the Board Risk Committee. The MRC also provides regular updates on model compliance to the Executive Risk Committee and Board Risk Committee.<br><br>The use of models for informing important business and strategic decisions has grown significantly in recent years, and the Group continues to invest in Model Risk Management.<br><br>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 governance processes, including updated policies, standards and procedures.<br><br>New IRB models have been submitted for regulatory approval, which meet increased regulatory requirements that 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 | |
|---|---|
| Risk definition | The risk of losses, resulting from inadequate or failed internal processes, people and systems, or from external factors. |
| Risk mitigation and management | The key operational risks the Group face include:<br>• Information Security – Cyber Threat: We remain vigilant to the continued Cyber threat across the globe and perform continuous improvement activities to mature our control environment and protect our customers and colleagues.<br>• Change Demand & Delivery: The volume and pace of change across the Group remains significant both from a strategic, organisational and regulatory perspective. Balancing 'run the business' and 'change the business' priorities is a key focus to ensure successful delivery of our ambitious growth and change agenda, whilst maintaining operational resilience, a stable IT infrastructure and robust cyber and economic crime defences.<br>Given the volume of change underway and planned, the Board established a new sub-committee to oversee this Change agenda. The Board Change Committee consists of two members of the Board Risk Committee to ensure a joined up view of change risk is maintained.<br>• Financial Crime & Fraud: Our well established financial crime, fraud monitoring and management processes continue to be enhanced in recognition of both the economic backdrop and the ever changing and complex financial crime landscape.<br>• 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.<br>• People Risk - Attract & Retain Talent: Attracting and retaining talent in a competitive market is a key priority across the Group and our focus on culture, colleague experience and our employee value proposition will support in this area. Improving Line Manager capability also remains a key focus area. The importance of having robust succession plans in place across the Group remains a priority. |

# Risk Management Report (continued)

| Operational risk (continued) | |
|---|---|
| Risk mitigation and management (continued) | • Operational Resilience: A strong focus remains on the Group's operational resilience which is the ability to prevent, adapt, respond to, recover and learn from operational disruptions, to ensure we can continue to provide important and critical business services to our customers at all times. We conduct regular scenario testing to ensure we have fit-for-purpose processes in place to handle any disruption.<br>• Outsourcing and Third Party: We have 'outsourcing and third party management' processes to onboard new material suppliers and we work together with existing material suppliers to ensure they are capable of maintaining their services to us, even in a stressed environment. Given increased dependency on third parties, this is an area we continue to invest in.<br>• Legal & Regulatory Risk: All Group businesses maintain an open relationship with regulators and ensure there is a significant focus on meeting new and existing legal and regulatory requirements.<br>• Data: All Group businesses are committed to protecting customer data which is achieved by having robust frameworks, processes and governance in place. |

| Reputational risk | |
|---|---|
| Risk definition | The risk of an incident or issue presenting a challenge that has possible financial, operational, and/or reputational impact on a Group business or the Skipton Group brand. |
| Risk mitigation and management | The Group Executive Committee and the Boards of Group businesses are responsible for ensuring that reputational risk is effectively managed and, where appropriate, escalated through the Group Risk Management Framework. Such risk can arise through the poor management of risks or can be a standalone significant or major risk event that has a material impact on one or more subsidiaries from a financial, operational and/or reputational perspective.<br>This risk is managed by:<br>• Working within our Group Risk Management Framework which has 'Reputational Risk' as a key consideration;<br>• Closely managing the Skipton and Skipton Group reputation through proactive and reactive external communications, marketing, public affairs, and issues and crisis management preparedness:<br>• Continuing to invest in our control environment;<br>• Continuing to focus on our purposeful delivery of providing member value through high quality service, helpful and competitive product offerings and good consumer outcomes. |

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/about-us/pillar-3-disclosure.

### Conclusion

The geopolitical and economic events that shaped 2024 are being closely monitored by the Group. Some economic uncertainty exists in the markets in which we operate, 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.

D Hall

**Denis Hall**

Chair of the Board Risk Committee

25 February 2025

# Directors' Remuneration Report

Skipton Group

# Directors' Remuneration Report

Dear member,

On behalf of the Board Remuneration Committee, I am pleased to share the Directors' Remuneration Report. This sets out the details of the executive directors' pay, incentives and benefits and the non-executive directors' fees for the year ending 31 December 2024.

This report also includes our revised Directors' Remuneration Policy, with detail on how the Society intends to implement it during 2025.

Our remuneration strategy has been enhanced to increase the alignment of directors' pay with the Society's performance and the long-term interests of members.

**Steven Davis,**

**Chair of the Board Remuneration Committee**

The focus of the Committee is to set the Remuneration Policy, including base pay, variable remuneration and other benefits for executive directors and material risk takers (MRTs). The Committee also has oversight of reward for the broader colleague population and across the wider Skipton Group.

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

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

1. Annual statement explaining the priorities of the Committee and summarising the remuneration policy for executive directors.
2. An 'At a glance summary' of the key performance measures which inform our remuneration awards and the outcomes for the executive directors for 2024.
3. The Directors' Remuneration Policy, which has been reviewed with the updated policy intended to apply to the three performance years from 2025 to 2027. The Remuneration Policy is included in full in this report and will be put to an Advisory Vote at the AGM in April 2025.
4. The Annual Report on Remuneration in 2024, which explains how we applied our existing remuneration policy in 2024 and how we intend to apply the revised policy in 2025.

## Annual Statement

The key matters discussed, and the decisions made by the Committee during 2024 are set out below.

| Remuneration component | Action taken |
|---|---|
| **Directors' Remuneration Policy** | The Committee undertook a detailed review of the Directors' Remuneration Policy and agreed updates and changes to the policy. Following a comprehensive review of the competitiveness of the Society's approach to remuneration, the structure of variable pay has been assessed with a view to future-proofing the Society's ability to remain competitive in the market for executive talent and ensure focus on long term objectives. We are therefore proposing to introduce a Long-Term Incentive Plan (LTIP) for the executive directors and selected members of the Group Executive Committee. |
| **2023 SVPA* outturns & payments** | Approved annual discretionary bonus awards for all employees in scope of the PRA and FCA remuneration rules in respect of the performance year 2023, considering the Group Chief Risk Officer's risk report, the Group Chief Financial Officer's sustainability review, performance outcomes versus scheme measures and related personal performance objectives. |
| **2024 bonus plan design** | Considered and approved the design of the Society's and other Group bonus plans and bonus metrics for performance year 2024. |
| **2024 SVPA measures & targets** | Determined the updated key performance measures and targets across the following areas:<br>• Financial<br>• Customer and Colleague<br>• Environmental, Social and Corporate Governance (ESG)<br>• Personal performance objective targets |
| **2025 bonus plan design** | Considered and approved the design of the Society's bonus plans and the bonus metrics for performance year 2025. |

*** SVPA stands for** Single Variable Pay Arrangement which is the discretionary annual bonus plan in which the executive directors and selected members of the Group Executive Committee participate.

# Annual Statement (continued)

### Variable remuneration in respect of performance for 2024

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

### Financial and Customer performance

The Committee chose to focus on two key financial metrics for 2024, namely adjusted Group profit and adjusted Society profit. Overall, as set out in the Group Chief Executive's Report and in the Financial Review part of the Strategic Report, Skipton Group's financial performance in 2024 has been strong.

The Group delivered robust financial performance, despite challenges from a shifting interest rate environment. In 2024 our delivery against our purpose saw an increase in financial advice conversations, increased new lending to first-time buyers, growth in Connells' market share and profits, and strong performance from Skipton Business Finance and Jade. The combined success across the businesses that make up the Skipton Group resulted in an increase year-on-year for the adjusted Group profit metric pay out, at 81.9% of maximum (2023: 55.7%).

Despite anticipated declines in net interest income the Society delivered a resilient, above target performance. In addition to growing our customer base to over 1.27m customers, mortgage and savings growth from a strong member pricing strategy offset some reduction in margins. As a result, the adjusted Society profit metric pay-out remains strong but decreased on prior year, to 66.6% of maximum (2023: 78.3%).

Our customer base has grown in 2024, and we have seen improved customer satisfaction through our offering of both great service and products. In 2024 a customer satisfaction score of 90.2% was achieved, which is within the top decile of Financial Services organisations, and an increase on last year's performance. The net customer satisfaction performance measure achieved 9 out of 10 and will pay out at 90% (2023: 60%).

### Non-financial performance

In line with the aim to simplify our bonus plans and align metrics to the Corporate Plan, three key non-financial performance metrics were included for 2024.

We continued to focus on our Environmental, Social and Governance (ESG) strategy with a carbon footprint metric, supporting the creation of a Group-wide approach to sustainability by setting a target for the Group and not just the Society. The ESG metric achieved 10 out of 10, paying out maximum (100%).

A Diversity and Inclusion metric, focused on meeting our Women in Finance Charter target, was again included with an ambitious target. The Society achieved an outcome of 46.7% against the 2024 Women in Finance target (47.4% in 2023), which is a strong outcome compared to the national average of 35% across Financial Services organisations. The D&I metric score achieved 5 out of 10, paying out at threshold (51%).

A new people-driven metric was introduced in 2024, enabling us to track progress against our cultural transformation. This metric achieved 7 out of 10, paying out at 70%. This will be further built on in 2025 with the introduction of a new employee net promoter score (eNPS) in the bonus metrics.

### Performance awards for 2024

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

With the close of the year, the Committee reviewed the performance of all 2024 bonus metrics and outcomes, assessing whether the proposed incentive payments for 2024 clearly reflect performance outcome in terms of financial and non-financial contributions. A colleague's individual performance against personal objectives is also taken into account.

The Committee reflected on the outcomes under the SVPA scheme, considering financial and non-financial performance, plus personal performance. Incentive payments awarded were between 37.4% and 39.3% of salary, where the maximum potential bonus under the scheme is 50% of salary.

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

# Annual Statement (continued)

### 2025 look forward

At Skipton Group, we seek to offer an overall reward package that is market competitive, compelling to new hires, fair and equitable to existing colleagues.

The current Directors' Remuneration Policy, set out in the 2021 Annual Report and Accounts, was approved at the 2022 AGM, receiving 90.26% of votes in favour. During 2024, the Committee undertook a comprehensive review of the Directors' Remuneration Policy considering whether the current remuneration structure remains fit for purpose. The Committee's review set out to ensure the Policy continues to support Skipton Group's strategy, as set out in the Corporate Plan, and the aim of providing a compelling market competitive total reward package to recruit, retain and motivate high calibre executives.

In addition, the Committee considered whether the current policy aligns reward with members' interests, and long-term sustainable business performance.

As a consequence of the policy review, conducted with the assistance of independent experts, the Committee has agreed that the scope of variable pay should be broadened to include a mix of short-term and long-term performance incentives. The current short-term incentive plan (the SVPA) remains fit for purpose but only provides for short-term, annual focus.

To ensure our executives are incentivised to drive long-term sustainable success which is aligned with the interest of members, and to support a strong and integrated Skipton Group - the success of which will benefit all members and the Society; it is proposed to introduce a new Long Term Incentive Plan (LTIP) in 2025. The purpose of this plan is to:

- incentivise selected senior Skipton Group executives to deliver on the Group's long-term strategy over a multi-year period, thereby contributing to the long-term stability of the Skipton Group and creating value for the Society and its members;
- improve the competitiveness of the total remuneration package for senior Skipton Group executives relative to those roles at other financial services groups including mutuals; and
- to support the retention of high calibre senior executives.

The Directors' Remuneration Policy is set out in full in this report with additional detail regarding the specifics of the LTIP set out on page 114. No other material changes to the policy are proposed.

In line with the regulatory requirements for listed companies, we voluntarily choose to put the directors' remuneration policy to a member vote at least every three years. The updated policy is intended to apply for three years (2025/2026/2027) to the AGM in 2028 and will be put to an advisory vote at our AGM in 2025.

As mentioned in the Chair's Statement, Andrew Bottomley has announced his retirement from the Society in 2025. The Board Remuneration Committee has determined that a pro-rata SVPA bonus award is to be considered for the period in office for performance year 2025.

In addition, Mark Lund will be stepping down as a non-executive director in 2025. I would like to take this opportunity to thank Mark for all his contribution to the work of the Committee. His replacement will be announced in due course.

### Conclusion

On behalf of the Committee, I hope this report gives you a clear view of how we have implemented the remuneration policy in 2024 and how we are investing to support the Group's ambitions and strategic priorities set out in our Corporate Plan. The Committee recommends that the members vote in favour of the advisory resolution to approve both the 2024 Directors' Remuneration Report and the updated Policy at the forthcoming AGM.

S Davis

**Steven Davis**

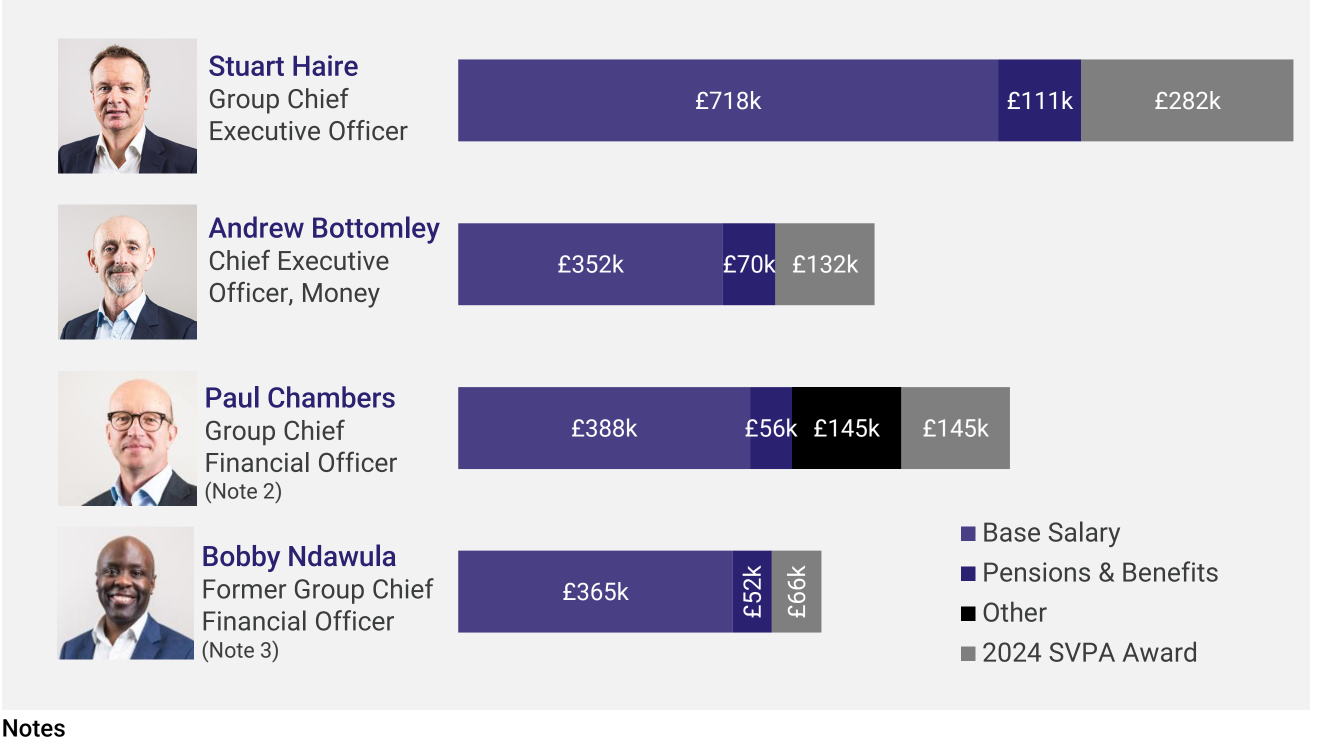
Chair of the Board Remuneration Committee

25 February 2025

# 2. At a Glance Summary

### Payments made to Executive Directors 2024

The table below summarises the total payments made to executive directors in respect of the 2024 financial year. The figures shown in the graph are included in the single figure table on page 119. Further details on the variable pay awards, the performance measures, and the extent to which they are achieved are on pages 120 to 121.




**Notes**

1. Benefits includes all taxable benefits (e.g. private medical insurance, car allowance, health assessment, life assurance, group income protection, accommodation, and travel).
2. Paul Chambers commenced employment with the Society on 6 February 2024 and was appointed to the Board on 26 March 2024. Whilst we stated in last year's report that Paul was expected to receive a lost opportunity award of £250,000, the Society only actually paid him £145,000 as his forfeited award was part paid by Standard Chartered.
3. Bobby Ndawula's employment with the Society ended on 22 November 2024. The amount awarded to him under the SVPA takes into consideration the period in office from 1 January to 31 May 2024. His garden leave commenced on 1 June 2024.

### Remuneration in the Society

Whilst the key focus of the Board Remuneration Committee is remuneration for the Group Executive Committee, we also monitor how executive remuneration aligns with the wider Society colleague population.

The table below gives a snapshot of average pay increases and bonus awards by level in 2024.

| | Average Pay Increase | Average Bonus Award |
|---|---|---|
| Group Chief Executive | 4.00% | 39.3% |
| Executive Directors | 4.00% | 37.4% |
| Other Group Executive Committee members | 4.40% | 34.8% |
| Senior Leaders | 5.15% | 19.9% |
| All other colleagues | 5.02% | 9.2% |

The pay increase agreed for all colleagues in the Society was 5%, effective 1st January 2024. A small number of colleagues received an additional amount where competitive external market conditions brought about recruitment and retention challenges in certain areas of the business. The Society also offered an enhanced increase for those below the Real Living Wage. An additional one-off payment of £500 was paid in February 2024 to the lowest earners across the Society.

# 3. Directors' Remuneration Policy

During 2024, the Committee undertook a detailed review of the current Directors' Remuneration Policy. This section sets out in full the proposed updated policy for our executive directors and non-executive directors. We will seek member support by way of an advisory vote at the 2025 AGM. The updated Policy is intended to apply for three years from that date unless amendments are required in the interim, in which case a further advisory vote will take place.

### 2025 Policy changes

In performing its review, the Committee thought it timely and appropriate to assess whether the structure of remuneration packages for executive directors enables the Group to sufficiently attract, retain and incentivise them whilst also driving the behaviours to successfully deliver the Group's long-term strategic priorities and member value.

The Committee also considered the Society's general remuneration principles which are applied to the remuneration of all Society colleagues. These principles reflect the specific regulatory requirements of the PRA and FCA with regards to remuneration, and governance.

Input was sought from the Society's Chair, the Board, the Committee's independent external advisers and members of senior management.

As a consequence of the review, the one key change proposed to the Directors' Remuneration Policy is the introduction of a Long-Term Incentive Plan (LTIP). The LTIP is designed to incentivise the group executive team to deliver on the long-term strategy of the Group by rewarding for performance over a multi-year period. This would contribute to the long-term stability of the Group, creating long term value for members, while at the same time improving the competitiveness of the total remuneration package available to executive directors, and so supporting both the attraction and retention of talent in an increasingly competitive market.

Where appropriate, the Committee would be able to make discretionary annual LTIP awards to executive directors that could pay out a maximum opportunity of 75% of base salary for achieving stretching performance over 3 years. Target performance over the same 3 years would deliver 45% of base salary. Awards would be subject to a participant meeting financial and non-financial measures over a forward-looking, three-year performance period. All LTIP awards would be deferred in their entirety and would be subject to malus and clawback, in line with regulatory requirements. Benchmarking by our external advisors has shown that, with the addition of the LTIP, total executive reward will be comparable to the external market which is in line with our pay approach for all colleagues.

The introduction of an LTIP will require some minor changes to the operation of the SVPA so that they complement each other. In all other aspects, the proposed updated policy remains substantively unchanged. Some sections have been redrafted to improve clarity and simplicity, and to enable the Committee to respond appropriately to regulatory and market change over the next three years.

### Policy on remuneration of executive directors

The table below shows the key elements of remuneration for executive directors and the reasons for their inclusion.

| Base salary | |
|---|---|
| How the element supports our strategy | Supports the recruitment and retention of executive directors with the necessary experience and expertise to deliver the Group's long-term strategic priorities. |
| Operation | Base salary is typically reviewed annually and reflects the size of the role and responsibilities, and the skills and experience of the individual as well as the individual's performance.<br><br>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 incentive awards. |

## 3. Directors' Remuneration Policy (continued)

| Base salary (continued) | |
|---|---|
| **Maximum potential value** | There is no set maximum. However, in setting appropriate salary levels and in determining appropriate increases to base salary, the Committee takes into account a number of factors, including, but not limited to:<br>▪ The scope of the role.<br>▪ Pay levels in comparable organisations.<br>▪ Pay increases elsewhere within the Group.<br>▪ Individual performance.<br>Increases to base salary are determined annually by the Committee, using data for similar positions in comparable organisations as a reference point. The data is independently commissioned, and the Society aims to position executive directors appropriately within this reference group. |
| **Performance conditions and assessment** | None applicable. |

| Pension | |
|---|---|
| **How the element supports our strategy** | Provides post-retirement benefits for participants in a cost-efficient manner. |
| **Operation** | 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 savings.<br>One executive director has a legacy pension arrangement. |
| **Maximum potential value** | The pension allowance rate for executive directors aligns with the rate available to all other colleagues (currently 10% of base salary). Andrew Bottomley is an exception and receives a 15% contribution. |
| **Performance conditions and assessment** | None applicable. |

| Benefits | |
|---|---|
| **How the element supports our strategy** | Provides a range of flexible and market competitive benefits to support executive directors in carrying out their roles effectively. |
| **Operation** | A number of benefits are provided to executive directors, including a car or car allowance, private medical insurance, health assessment, life insurance and group income protection benefits.<br>The Committee reviews benefits from time to time and may make changes, for example, to reflect market practice or the needs of the business. |
| **Maximum potential value** | There is no set maximum. The Society bears the cost of providing benefits, which may vary from year to year. The maximum potential value will depend on the type of benefit and cost of providing it, which will vary according to market rates. |
| **Performance conditions and assessment** | None applicable. |

## 3. Directors' Remuneration Policy (continued)

| Annual Discretionary Bonus Plan - SVPA | |
|---|---|
| **How the element supports our strategy** | ▪ Supports the attraction and retention of executive directors.<br>▪ Supports the delivery of a high-performance culture.<br>▪ Rewards short-term annual performance within the context of achieving corporate goals and objectives as set out in our Corporate Plan.<br>▪ Encourages positive behaviours and sustainable performance to support the achievement of strategic goals. |
| **Operation** | Performance is assessed against a balanced scorecard of measures to determine the amount of the award for any particular year (see details below on performance conditions and assessment).<br>Awards are granted on a discretionary basis and are normally paid 50% in cash and 50% in contingent cash (an instrument that pays out in full so long as the CET1 capital ratio of the Society does not fall below a specified percentage) or an alternative instrument as the Committee deems appropriate, in line with regulatory requirements.<br>Awards will be paid out in a manner which ensures that, in combination with LTIP awards, the minimum regulatory requirements in respect of deferral periods for total variable pay are met or exceeded.<br>▪ The non-deferred portion is normally paid following the end of the performance year.<br>▪ The element delivered as contingent cash, or an alternative instrument, is subject to a retention period to the extent required by regulation.<br>All awards are subject to malus and clawback in line with regulatory requirements. Awards are also subject to any other terms as may be required by law or regulation from time to time. |
| **Maximum potential value** | The maximum incentive which may be earned for any year under the SVPA is 50% of base salary.<br>No incentive is paid for performance below the threshold level, with a varying of levels of pay-out for performance between threshold and maximum. On-target performance generally attracts an incentive of 60% of the maximum. |
| **Performance conditions and assessment** | The performance measures and targets attached to the SVPA will be determined by the Committee from year to year. A mix of financial and non-financial (including personal) measures will be used. Financial measures will account for a maximum of 50% of the SVPA opportunity.<br>The types of measures and/or weightings attached to each individual measure may vary from year to year as determined by the Committee.<br>The measures and weightings are set at the beginning of the relevant financial year. Targets are set in the context of the corporate plan and are discussed at the Board and approved by the Board Remuneration Committee. Where targets attached to the SVPA are considered commercially sensitive, they will be disclosed retrospectively along with the assessment of performance against those targets.<br>Performance against the measures is reviewed and approved by the Committee. All assessments of performance are ultimately subject to the Committee's discretion. In addition, the Committee retains discretion in exceptional circumstances to change performance measures and targets, and the weightings attached to performance measures part-way through a performance year ,if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate. |

## 3. Directors' Remuneration Policy (continued)

| Long Term Incentive Plan (LTIP) | |
|---|---|
| **How the element supports our strategy** | • To incentivise executive directors to deliver on the long-term strategy of the Group over a multi-year period, thereby contributing to the long-term stability of Skipton and creating value for the Society and its members.<br>• Improves the competitiveness of the total remuneration package for executive directors relative to those roles at other financial services groups, including mutuals.<br>• Supports the attraction and retention of high calibre individuals. |
| **Operation** | • Awards are discretionary and normally granted subject to achievement of satisfactory performance over the prior year. The first awards under the LTIP may be granted in 2025 subject to satisfactory performance in 2024.<br>• Awards are then normally subject to a forward-looking, three-year performance period which runs from the start of the year in which the grant is made.<br>• Maximum awards will only be paid where there has been outstanding performance. The award levels may be varied in exceptional circumstances.<br>• Awards are normally paid 100% in contingent cash (an instrument that pays out in full so long as the CET1 capital ratio of the Society does not fall below a specified percentage) or an alternative instrument as the Committee deems appropriate, in line with regulatory requirements.<br>• Contingent cash, or an alternative instrument, is subject to a retention period to the extent required by regulation.<br>• All awards under the LTIP are deferred. The length of deferral applied will be at the discretion of the Committee and in line with the relevant regulatory requirements.<br>• All awards are subject to malus and clawback in line with regulatory requirements. |
| **Maximum potential value** | The normal LTIP grant is up to 75% of base salary. However, in exceptional circumstances, the Committee may make an LTIP grant of up to 125% of base salary. In 2025, LTIP grants will not exceed 75% of base salary.<br><br>No pay-out is made where performance is assessed by the Committee as being below the threshold level, with varying levels of pay-out for performance between threshold and maximum. On-target performance generally attracts an incentive of 60% of the maximum. |
| **Performance conditions and assessment** | The Committee takes into consideration performance over the initial performance period when determining whether an LTIP grant will be made.<br><br>Forward-looking performance is assessed over a three-year period and against a mix of financial and non-financial measures in line with the Group's long-term strategy.<br><br>Both performance measures and individual measures, plus weightings attached to measures, may vary from year to year as determined by the Committee.<br><br>In addition, the Committee retains discretion to, in exceptional circumstances, change performance measures and targets and the weightings attached to performance measures part-way through a performance period if there is a significant and material event which causes the Committee to consider that the original measures, weightings and targets are no longer appropriate.<br><br>Performance against the measures is reviewed and approved by the Committee. All assessments of performance are ultimately subject to the Committee's discretion. |

# 3. Directors' Remuneration Policy (continued)

### Committee's discretion in relation to the operation of the SVPA and LTIP

The Committee also has the discretion to cease or amend the operation of either arrangement where this is necessary to ensure the arrangements continue to meet the Committee's overriding remuneration principles and risk criteria.

### Policy on remuneration of non-executive directors

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

The table below sets out the elements of non-executive directors' remuneration and the policy on how each element is determined:

| Element | Approach to determination |
|---|---|
| Base fees | Fees are typically reviewed annually. They are determined based on responsibilities and the time commitment required for Board and Board Committee meetings.<br>Reviews also consider fees paid by comparable financial services organisations and any other relevant comparator group(s) that the Committee deems appropriate. |
| Additional fees | Additional fees may be paid for additional responsibilities, such as committee chairing or other duties, as the Committee deems appropriate. |
| Other items | Non-executive directors are not eligible to participate in any form of performance pay plans and do not receive pensions or other benefits. Travel and subsistence expenses, including between home and Skipton offices, are reimbursed. In addition to reimbursement for expenses, any tax that arises on those expenses is settled by the Society on behalf of the non-executive directors. |

### Approach to recruitment remuneration

Overall, the Committee aims to recruit executive directors using remuneration packages that are market-competitive and as consistent as possible with the remuneration structures of existing executive directors. In doing so, the Committee seeks to pay no more than necessary to attract talented individuals to work for the Society. Typically, newly recruited executive directors will be eligible to receive the same remuneration elements as existing executive directors, as set out in the policy table above.

Our intention would be to offer any new executive director benefits in line with the policy set out in the policy table. However, if individual circumstances require, the Committee may offer a new recruit such additional benefits as might be required to secure their services.

This may, for example, include payment of relocation allowances and similar costs for new executive directors. The Committee will act to ensure that any such allowances and payments are not excessive.

In addition to ongoing remuneration arrangements, the Society may, where necessary, make replacement awards to 'buy-out' any remuneration awards or opportunities that an incoming executive director has forfeited in order to join the Society. Where this is necessary, the Committee will ensure that the overall value does not exceed the value of remuneration being given up and will take into account regulatory requirements, performance conditions and timing of payments. The awards will be subject to malus and clawback in line with regulations.

The Committee does not expect to make additional recruitment arrangements (such as signing on bonuses) as standard practice but may (in line with regulations), from time to time, consider it necessary to do so in order to secure the appointment of the candidate.

Newly appointed non-executive directors will receive fees in line with the policy outlined in the table above.

## 3. Directors' Remuneration Policy (continued)

### Directors' service contracts and notice periods

The executive directors are employed on rolling service contracts which can be terminated by either the Society or the director giving one year's notice. Unless notice to terminate is given by either party, the contracts continue automatically. Non-executive directors have letters of appointment.

### Policy on termination payments

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

Executive directors are entitled to be paid their base salary and contractual benefits (including pension contributions) during the notice period. The Society has the discretion to pay these as a lump sum in lieu of notice.

In the following (good leaver) circumstances an individual will be eligible for a payment under the incentive schemes:

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

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

Under the SVPA and LTIP, unvested deferred awards will normally lapse on leaving unless good leaver circumstances apply, in which case the awards will normally continue to vest on the original vesting dates, subject to the performance conditions and rules of the relevant plan. Provided the individual is a good leaver, they will be eligible to be considered for an SVPA award in respect of their final year of employment. Normally, individuals will not be eligible to be considered for an LTIP in their final year of employment.

On termination, awards will be treated in accordance with the relevant plan rules or other terms on which they were granted. Under both the SVPA and LTIP, the Committee retains the discretion to adjust the proportion of the outstanding payments or deferred awards that are retained by a leaver, based on the facts and circumstances of their departure. Malus and clawback will continue to apply to all leavers and may be invoked to adjust awards if issues come to light. Any variable pay awards subject to deferral and/or retention periods, as well as any 'in-flight' LTIP awards, will continue to be paid at the usual payment date. The Committee will have discretion to accelerate payments in exceptional circumstances (such as in the case of death).

The Committee has the discretion to make further payments that it deems reasonable in the circumstances, for example relating to loss of statutory rights, professional advice, and any accrued but untaken leave.

### Consideration of remuneration arrangements elsewhere in the Society

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

Since 2019, the Society has designated a non-executive director to have a particular focus on engagement with colleagues. This contributes to ensuring that colleague views are reflected in Board discussions and decision making.

### Consideration of member views

The Committee has, for a number of years, invited members to vote on the Directors' Remuneration Policy and annual Remuneration Report. A significant majority of members have voted in favour at previous AGMs. We also receive feedback from individual members on specific aspects of directors' remuneration and we take this into account when determining remuneration policy and outcomes.

# 3. Directors' Remuneration Policy (continued)

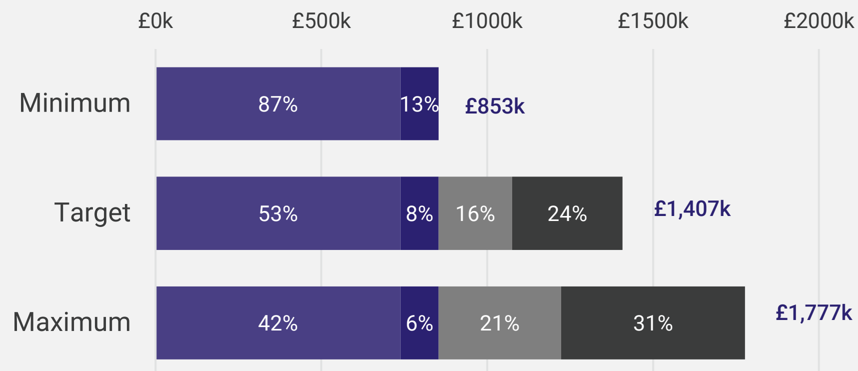
### Potential remuneration based on performance

The charts below set out the potential value each of the executive directors could earn under the proposed directors' remuneration policy, in different performance scenarios using an LTIP grant value of 75%: Minimum (i.e. fixed pay, pension and benefits only, zero variable pay), Target (i.e. fixed pay, pension, benefits and 50% of the maximum variable pay that may be awarded) and Maximum (i.e. fixed pay, pension, benefits and the maximum variable pay that may be awarded).

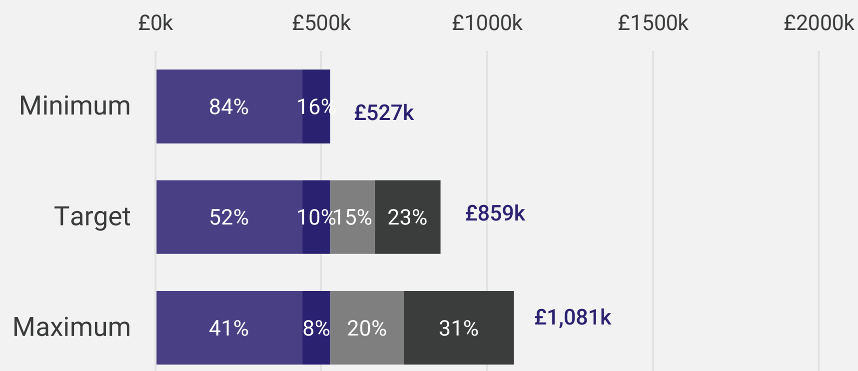
The Committee intends to keep the LTIP grant levels under review over the course of the three-year policy to ensure they remain appropriate, therefore the potential value illustrated may be subject to change but will not exceed the maximum values set out within this policy.

A significant proportion of the potential remuneration of the executive directors is payable based on the achievement of stretching performance measures and subject to deferral, malus and clawback. No payments relating to LTIP awards will be made until after the end of the forward-looking three-year performance period.

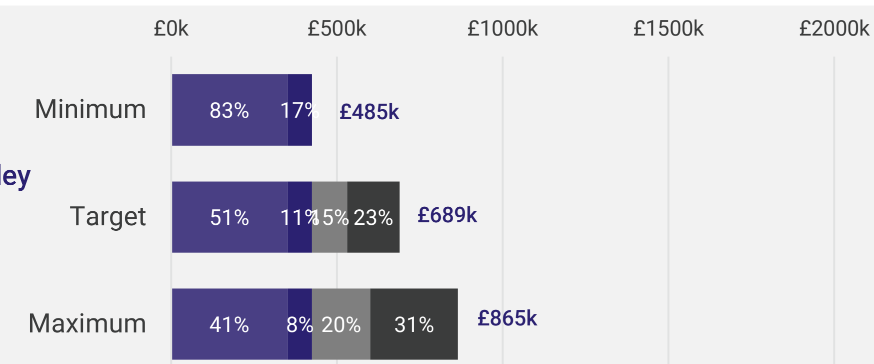
**Stuart Haire**
Group Chief Executive Officer




**Paul Chambers**
Group Chief Financial Officer
(Note 2)




**Andrew Bottomley**
Chief Executive Officer, Money




■ Salary ■ Pension & Benefits ■ SVPA ■ LTIP

# 4. Annual Report on Remuneration in 2024

The Annual Report on Remuneration explains how we applied our existing remuneration policy in 2024 and how we intend to implement the revised policy in 2025. The Committee is comfortable that the current policy operated as intended and that the overall 2024 remuneration paid to executive directors, as set out below, is appropriate.

### Key metrics for Remuneration in the SVPA for 2024

The Strategic Report provides a comprehensive explanation of the Group's purpose and strategy. To keep us focused on delivering our strategy we have three key priorities:

- Help more people have a home
- Make money work harder
- Make membership matter

These ensure we are driving the Group forwards and working together to deliver more for the Society's members. In addition, the Strategic Report explains how Environmental, Social and Corporate Governance (ESG) are woven through the strategy.

The table below highlights how the measures in the SVPA have aligned with strategic priorities and ESG and financial sustainability throughout 2024.

| SVPA Measures | Weighting | | Alignment | | | |
|---|---|---|---|---|---|---|
| | Group CEO | Other Executive Directors | Homes | Money | Members | ESG |
| Group PBT (adjusted)* | 25% | 20% | ✓ | ✓ | ✓ | |
| Society PBT (adjusted)* | 20% | 25% | ✓ | ✓ | ✓ | |
| Net customer satisfaction | 15% | 15% | ✓ | ✓ | ✓ | |
| Colleague engagement & culture | 5% | 5% | ✓ | ✓ | ✓ | |
| ESG – carbon footprint | 2.5% | 2.5% | | | | ✓ |
| D&I – Women in Finance | 2.5% | 2.5% | | | | ✓ |
| Personal Objectives – how & what | 30% | 30% | ✓ | ✓ | ✓ | ✓ |

* For bonus purposes, the Group and Society profit are adjusted for those items that are not considered part of the Group's core strategy, to give greater transparency of the performance of ongoing trading activities - as defined within the Strategic Report; or for those items that are outside of the directors' control.

| Features of the SVPA Scheme | Alignment | | | |
|---|---|---|---|---|
| | Homes | Money | Members | ESG |
| Risk adjustment | ✓ | ✓ | ✓ | ✓ |
| Sustainability review (financial sustainability of the Group) | | | ✓ | |
| Deferral of at least 50% of incentive | | | ✓ | |
| Discretion to reduce/defer/recover payments | ✓ | ✓ | ✓ | |

# 4. Annual Report on Remuneration in 2024 (continued)

## Executive Directors' Remuneration

The total remuneration of each executive director in 2024 and 2023 is set out in the single figure tables below:

### 2024 Audited

| Executive Director | Role | Salary £000 | Benefits[1] £000 | Pension[2] £000 | Total Fixed Remuneration £000 | SVPA £000 | Other £000 | Total Remuneration £000 |
|---|---|---|---|---|---|---|---|---|
| Stuart Haire | Group Chief Executive | 718 | 39 | 72 | 829 | 282 | - | 1,111 |
| Andrew Bottomley | CEO, Money | 352 | 17 | 53 | 422 | 132 | - | 554 |
| Paul Chambers[3] | Group Chief Financial Officer | 388 | 17 | 39 | 444 | 145 | 145 | 734 |
| Bobby Ndawula[4] | Group Chief Financial Officer | 365 | 15 | 37 | 417 | 66 | - | 483 |
| **Total Remuneration** | | **1,823** | **88** | **201** | **2,112** | **625** | **145** | **2,882** |

**Notes**

1. Includes all taxable benefits (private medical insurance, car allowance, health assessment, life assurance, group income protection and travel and accommodation).
2. Current executive directors receive 10% of base salary paid into the pension scheme up to the tax approved pension limits with any balance paid to them, with the exception of Andrew Bottomley who receives 15%.
3. Paul Chambers started his employment with the Society on 6 February 2024. Whilst we stated in last year's report that Paul would receive a lost opportunity award of £250,000, the Society actually paid him £145,000 for his forfeited performance year 2023 bonus.
4. Bobby Ndawula's employment with the Society ended on 22 November 2024. The amount awarded to him under the SVPA takes into consideration the period in office from 1 January to 31 May 2024 His garden leave commenced on 1 June 2024.

### 2023 Audited

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

**Notes**

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

# 4. Annual Report on Remuneration in 2024 (continued)

## Base Salary & Fees

The Chair and non-executive directors took no increase in fees in 2024. Pay awards for the executive directors were made in line with the colleague population, effective 1 January 2024.

| Executive Director | Role | % increase | January 2024 | January 2023 |
|---|---|---|---|---|
| Stuart Haire | Group Chief Executive | 4.00% | £717,600 | £690,000 |
| Andrew Bottomley | CEO, Money | 4.00% | £351,942 | £338,405 |
| Paul Chambers(1) | Group Chief Financial Officer | - | £430,000 | - |
| Bobby Ndawula | Group Chief Financial Officer | 4.00% | £407,569 | £391,893 |

Note:

1. Paul Chambers joined on 6 February 2024 and the salary stated is effective from then.

## Variable Pay: Single Variable Pay Arrangement (SVPA)

The SVPA is a discretionary incentive plan designed to reward performance on an annual basis within the context of achieving corporate goals and objectives as set out in our Corporate Plan, encouraging positive behaviours and maintaining sustainable performance to support the achievement of strategic goals. Participation in the plan relating to any financial year shall be at the discretion of the Board Remuneration Committee.

The table below summarises the measures, performance targets, outcomes and weightings of the 2024 SVPA.

| 2024 Performance Measures | Performance Target Range: Threshold - Maximum | Performance relative to Targets | Outcome | Weighting Group Chief Executive | Weighting other Executive Directors |
|---|---|---|---|---|---|
| Adjusted Group PBT(1) | £237.6m - £335.4m | Above target / below maximum | £310.1m | 25% | 20% |
| Adjusted Society PBT(1) | £173.5m - £244.9m | Above target / below maximum | £210.8m | 20% | 25% |
| Society net customer satisfaction | 5/10 – 10/10 | Above target / below maximum | 9/10 | 15% | 15% |
| Colleague engagement and culture | 5/10 – 10/10 | Above target / below maximum | 7/10 | 5% | 5% |
| ESG – carbon footprint | 5/10 – 10/10 | At or above maximum | 10/10 | 2.5% | 2.5% |
| ESG – Women in Finance | 5/10 – 10/10 | At or above threshold / below target | 5/10 | 2.5% | 2.5% |
| Personal Objective: performance has been assessed against both the delivery of the Society performance scorecard as well as individuals' goals, values and Behaviours i.e. the "how" and the "what". | | | | 30% | 30% |

Note:

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

At the end of the year, the Committee reviewed the annual performance under the SVPA for all the executive directors and selected Group Executive Committee members. The incentive outcomes for 2024 are based on the performance relative to target for the SVPA measures. They also reflect the Committee's assessment of performance achieved against 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 37.4% and 39.3% of base salary reflecting the robust performance of the Group over the year.

# 4. Annual Report on Remuneration in 2024 (continued)

### Risk considerations

To ensure that rewards are based on sustainable performance, set in a multi-year period, the Board Remuneration Committee conducts a sustainability review for senior schemes (SVPA and senior leaders), one year after the original performance year. The review also considers feedback from the Board Risk and Board Audit Committees provided as part of the annual risk assessment process. The sustainability review conducted in February 2025 for the 2023 SVPA and senior leaders' schemes demonstrated that 2023 performance levels had been maintained in 2024. The Board Remuneration Committee therefore concluded that no adjustment to the 2023 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, malus and clawback. Where the Remuneration Committee determines that risk adjustment is required, payments due from the scheme and deferred payments (if applicable) may be postponed, reduced, or cancelled for some, or all, participants. In certain circumstances, the business may need to apply clawback arrangements and require repayment of an appropriate amount of variable pay relating to the event which has occurred.

The Board 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 2024.

### Deferral arrangements

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

For executive directors whose remuneration is over the 'de-minimis' limit, variable pay awards are required to have a deferral period of 7 years, with 60% deferred. Regulations also require 50% of total variable pay award to be delivered as an 'instrument' and subject to a holding period of 12 months. The Society uses contingent cash to fulfil the 50% instruments requirement. All payments are subject to malus and clawback.

The table below sets out how deferral has operated during 2024, detailing the percentage of the executive directors' 2024 SVPA awards which will be paid per year, made up of payments in cash and instruments (contingent cash payments).

| | Non-deferred | | | Deferred | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Mar 25 | Mar 26 | Mar 27 | Mar 28 | Mar 29 | Mar 30 | Mar 31 | Mar 32 | Mar 33 |
| Cash | 20% | - | - | 6% | 6% | 6% | 6% | 6% | - |
| Instrument | - | 20% | - | - | 6% | 6% | 6% | 6% | 6% |

### Payments to former directors

A payment of £90,302.38 was made to David Cutter in March 2024 in respect of vested deferred payments in 2024 from the 2016, 2017, 2018 and 2019 SVPA schemes. A further payment of £9,674.68 was made in September 2024 in respect of vested deferred payment from the 2016 SVPA scheme.

A payment of £75,852.04 was made to Ian Cornelius in March 2024 in respect of vested deferred payments in 2024 from the 2018, 2019, 2021 and 2022 SVPA schemes.

### Payments for loss of office

In agreement with the Board, Bobby Ndawula stepped down from the role of Group Chief Financial Officer on 31 May 2024. His period of garden leave commenced on 1 June until his employment with the Society ended on 22 November 2024. The Board Remuneration Committee determined that a pro-rata SVPA bonus award was to be considered for the period in office for performance year 2024. An award of £66,056.67 was made for the period in active employment in addition to payment of deferred awards. Deferred awards for completed performance periods and for part completed performance periods will be paid on the due date.

The CEO Money, Andrew Bottomley, has announced his intention to retire from the Society in 2025. The Board Remuneration Committee has determined that a pro-rata SVPA bonus award is to be considered for the period in office for performance year 2025. Deferred awards for completed performance periods and for part completed performance periods will be paid on the due date.

# 4. Annual Report on Remuneration in 2024 (continued)

## Non-Executive Directors' remuneration

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

The table below sets out the annual fees payable for all non-executive director roles in 2024.

| | 2024 (£) | 2023 (£) |
|---|---|---|
| Chair | 260,000 | 260,000 |
| Non-Executive Directors base fee | 70,000 | 70,000 |
| Senior Independent Director ("SID") fee | 78,613 | 78,613 |
| Chair of Board Audit and Board Risk Committees fee | 25,000 | 25,000 |
| Chair of Board Remuneration Committee fee | 20,000 | 20,000 |
| Chair of Board Nominations Committee fee[1] | - | - |
| Chair of Board Change Committee fee | 20,000 | 20,000 |
| Board Audit, Board Risk, Board Change and Board Remuneration Committee membership fees | 10,000 | 10,000 |

Note:
1. There is no separate Nominations Committee chair fee as the Board Chair assumes this role.

The actual total fees and expenses for the non-executive directors in 2024 and 2023 are set out below. Detailed information regarding the non-executive directors may be found in the Corporate Governance Report.

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| Non-Executive Director | Fees £000 | Taxable Expenses (1) £000 | Total £000 | Fees £000 | Taxable Expenses (1) £000 | Total £000 |
| Gwyn Burr (Chair) | 260 | 3 | 263 | 260 | - | 260 |
| Mark Lund (Deputy Chair) (2) | 146 | 6 | 152 | 149 | 3 | 152 |
| Iain Cummings | 115 | 6 | 121 | 101 | 2 | 103 |
| Steven Davis (3) | 110 | 6 | 116 | 66 | 2 | 68 |
| Hasintha Gunawickrema (4) | 12 | 1 | 13 | - | - | - |
| Denis Hall | 105 | 6 | 111 | 105 | 3 | 108 |
| Heather Jackson | 110 | 4 | 114 | 104 | - | 104 |
| Philip Moore (5) | 133 | 5 | 138 | 133 | 1 | 134 |
| Sarah Whitney (6) | 22 | 3 | 25 | 80 | 1 | 81 |
| | **1,013** | **40** | **1,053** | 998 | 12 | 1,010 |

Notes

1. Expenses relate to reimbursement of travel and subsistence between home and the Skipton head office, including for attendance at Board and Committee meetings. In addition to reimbursement for expenses, any tax that arises is settled by the Society on behalf of the non-executive directors.
2. Mark Lund is the Senior Independent Director for the Skipton Board. He was re-appointed as Chair of Connells, following Sarah Whitney's departure, on 1 March 2024. The annual payment of £50,000 received as Chair of Connells board is included in the table above.
3. Steven Davis received a one-off fee in 2024 for additional duties carried out on behalf of the Board.
4. Hasintha Gunawickrema was appointed as a non-executive director effective 1st November 2024.
5. Philip Moore is Chair of Connells Audit & Risk Committee, and also a non-executive director of Connells Limited, for which he receives an annual fee of £35,000, included in the table above.
6. Sarah Whitney was Chair of Connells board until 29 February 2024, for which she received a fee of £50,000. The pro-rata amount is included in the table above.

# 4. Annual Report on Remuneration in 2024 (continued)

## Remuneration in the Society

### Our Reward principles and aims

Our Board Remuneration Committee does not consult colleagues on remuneration policy for Directors, but it does take into consideration remuneration arrangements for the wider population in the Society when determining executive remuneration. A set of fair pay principles has been developed taking into consideration the views of colleagues from across the Society and these underpin the Society's current and future reward strategies.

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

### Cascade of remuneration in the Society

All employees of the Society receive base pay and benefits consistent with market practice and are eligible to participate in the Society's pension plan and in the incentive arrangements relevant to their role. Members of the Group Executive Committee and other selected senior managers may be eligible to participate in the SVPA on the same terms as the executive directors, subject to the discretion of the Group Chief Executive and the Committee. The award size for these individuals may be lower than for the executive directors.

A variable pay arrangement for all colleagues (excluding those in the SVPA) is in place, so that everyone employed by the Society will have the opportunity to share in the Society's success. The key measures for the scheme are aligned with those that apply for senior management.

The table below summarises colleague participation by seniority in the Society's range of remuneration programmes:

| Basic Package | 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 2024 align with the wider organisation?

| | Average Pay Increase | | Year on year change | Average Bonus Award | | Year on year change |
|---|---|---|---|---|---|---|
| | 1 Jan 2024 | 1 Jan 2023 | | 2024 | 2023 | |
| Group Chief Executive | 4.00% | - | +4% | 39.3% | 33.8% | +5.5% |
| Executive Directors | 4.00% | 6.00% | -2% | 37.4% | 34.7% | +2.7% |
| Other Executive Committee Members | 4.40% | 15.00% | -10.6% | 34.8% | 32.3% | +2.5% |
| Senior Leaders | 5.15% | 6.5% | -1.35% | 19.9% | 20.5% | -0.6% |
| Other Colleagues | 5.02% | 6.0% | -0.98% | 9.2% | 9.6% | -0.4% |

In 2023, some members of the Group Executive Committee took on extended responsibilities across the Group, therefore receiving higher than average pay increases.

# 4. Annual Report on Remuneration in 2024 (continued)

### CEO Pay Ratio

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

For the purposes of this year's disclosure, the pay ratio calculation uses the Society's April 2024 gender pay gap data to identify the three appropriate colleagues for comparison with the CEO. This methodology is referred to as 'Option B'. This data is used to identify the best equivalent for three colleagues whose hourly rates of pay are at the 25$^{th}$, 50$^{th}$ and 75$^{th}$ percentiles for the Group and their total pay and benefits figure for 2024 is then calculated. A sample of colleagues with hourly pay rates either side of the initially identified individuals are also reviewed to ensure that the appropriate representative colleagues are selected.

The table below sets out the total remuneration of the Group Chief Executive and the total remuneration of employees who sit at the 25th, 50th and 75th percentiles for the Society.

| Year | Method(1) | 25$^{th}$ percentile pay ratio | Median pay ratio | 75$^{th}$ percentile pay ratio |
|---|---|---|---|---|
| 2021 Ratio | Option B | 54:1 | 38:1 | 22:1 |
| 2022 Ratio 1(2) | Option B | 74:1 | 55:1 | 39:1 |
| 2022 Ratio 2(3) | Option B | 29:1 | 21:1 | 15:1 |
| 2023 Ratio(4) | Option B | 35:1 | 27:1 | 19:1 |
| 2024 Ratio | Option B | 36:1 | 26:1 | 18:1 |

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

The CEO pay ratio for 2023/24 has seen a decrease year on year. Median total remuneration across the Society has increased by 15.2%, versus an increase of 9% for the Group Chief Executive.

The total remuneration and salary values for the 25$^{th}$, 50$^{th}$ (median) and 75$^{th}$ percentile employees in 2024 are:

| Gender pay data | 25$^{th}$ percentile pay ratio | Median pay ratio | 75$^{th}$ percentile pay ratio |
|---|---|---|---|
| Salary (£) | 27,549 | 38,548 | 54,047 |
| Total Remuneration (£) | 30,054 | 42,053 | 58,961 |

### Material Risk Takers (MRT)

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

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

Details of the MRTs' remuneration arrangements for 2024 are included in the Pillar 3 document which is available at skipton.co.uk/about-us/pillar-3-disclosure.

# 4. Annual Report on Remuneration in 2024 (continued)

## Statement of implementation of Remuneration Policy in 2025

### Base Salary

The Committee approved a pay award of 3% for the executive directors which will be effective from 1 January 2025. The average increase across the wider workforce is 3%.

Following a review by our independent remuneration advisors, and consideration of external market benchmarks, the Committee has awarded the Chair a fee increase of 11.5%. Effective 1 January 2025, the Chair will receive an annual fee of £290,000. The increase in fees for the non-executive directors is in line with the Society pay increase of 3%.

### Single Variable Pay Arrangement (SVPA)

The maximum bonus opportunity will remain 50% of base salary, with the target opportunity 30% of base salary. Malus and clawback provisions apply.

The performance measures included in the SVPA have been reviewed for 2025 to maintain a clear link between the bonus plan and how it supports and re-enforces business strategy. The measures and weightings for the 2025 SVPA are set out in the table below. The targets set and the extent of their achievement will be disclosed in the 2025 Annual Report as the Board Remuneration Committee considers them to be commercially sensitive at this point in time.

| | Performance Measures | Group CEO and Group CFO | Other EDs |
|---|---|---|---|
| Financial | Adjusted Group PBT | 17.5% | - |
| | Adjusted Society PBT | 17.5% | 35.0% |
| | Society Admin Expenses | 10.0% | 10.0% |
| | **Financial : total weighting** | **45.0%** | **45.0%** |
| Customer & Colleague | Society net customer satisfaction | 15.0% | 15.0% |
| | Colleague Engagement (eNPS Peakon) | 5.0% | 5.0% |
| | **Customer & colleague: total weighting** | **20.0%** | **20.0%** |
| ESG | Diversity & Inclusion – Ethnicity<br>Diversity & Inclusion – Women in Finance | 5.0% | 5.0% |
| | **ESG: total weighting** | **5.0%** | **5.0%** |
| Personal objectives | Personal objective / performance – what? | 15.0% | 15.0% |
| | Personal objective / performance – how? | 15.0% | 15.0% |
| | **Personal objectives: total weighting** | **30.0%** | **30.0%** |

With the new LTIP awards meeting the regulatory requirements in relation to deferral, SVPA awards will be paid upfront. They will be split 50/50 between cash and contingent cash (an instrument that pays out in full so long as the CET1 capital ratio of the Society does not fall below a specified percentage). The cash portion will be paid shortly after performance assessment. The contingent cash portion will be subject to a 12-month retention period, while this continues to be a regulatory requirement.

# 4. Annual Report on Remuneration in 2024 (continued)

## Statement of implementation of Remuneration Policy in 2025

### Long Term Incentive Plan

Subject to achievement of satisfactory performance over the 2024 performance year, it is intended that the first LTIP awards will be made at 75% of base salary, . The performance measures proposed for the first 2025 award of the LTIP are as follows:

| | Performance Measures | Executive Directors |
|---|---|---|
| Financial | Adjusted Group profit after tax | 40% |
| | Growth in mortgage balances | 30% |
| Non-financial | Basket of strategic milestones (linked to Corporate Plan) | 20% |
| | Risk scorecard | 10% |

The LTIP awards will be deferred in their entirety and delivered wholly in contingent cash (an instrument that pays out in full so long as the CET1 capital ratio of the Society does not fall below a specified percentage). The awards will vest in line with regulatory requirements. A 12-month retention period will follow each vesting, to the extent this continues to be required by regulation.

### The Committee and its advisers

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

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

In addition to Committee members, regular attendees at Committee meetings include the Group Chief People Officer, the Group Secretary and General Counsel, and PwC, our independent external consultants. The Group Chair has a standing invitation to all meetings of the Committee. The Group Chief Executive, Group Chief Risk Officer and the Director of Reward and Governance attend meetings by invitation. The Committee met 10 times in 2024.

| The purpose of the Board Remuneration Committee |
|---|
| • To determine, on behalf of the Board, the Directors' Remuneration Policy |
| • Ensure that remuneration arrangements support and encourage desired behaviours and culture |
| • Maintain policies which are compliant with applicable governing laws and regulations and aligned, where appropriate, to the remuneration expectations of the PRA and FCA and those set out in the UK Corporate Governance Code |
| • Ensure appropriate governance of remuneration practices across the Skipton Group, which is defined as Skipton Building Society and its subsidiary undertakings, including the following key businesses: Connells, SBF, SIL, and Jade; and to exercise effective oversight of these |
| • Ensure that remuneration policies, principles and practices are appropriate, market competitive, compelling to new hires and fair and equitable to existing colleagues, to enable the Group to attract, retain and reward people with the right skills experience, knowledge and behaviours to support achievement of the Group's strategic objectives and the successful delivery of its long-term strategy and to promote long-term sustainable success. |

# 4. Annual Report on Remuneration in 2024 (continued)

Amongst its other duties, the Committee specifically:

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

The Committee ensures that clear remuneration principles for the Society and its subsidiaries are set and agreed annually. For the PRA and FCA regulated businesses, the principles set out appropriate standards for remuneration design, governance, risk management, and, where applicable, remuneration for MRTs. The Group Chief Risk Officer updates the Committee on risk related matters and provides information and insight as part of the risk adjustment process.

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

### Independent Advisers

PwC were appointed as independent external consultants by the Committee in 2015 following a review of potential advisers. PwC is a signatory to the voluntary Code of Conduct in relation to remuneration in the UK. During the year, PwC have supported the Committee on a range of items advising on regulatory reporting and risk adjustment, carrying out the non-executive directors benchmarking exercise, advising on the Long-Term Incentive Plan and on executive director remuneration. The Committee is satisfied that the advice received is objective and independent. PwC's fees in respect of remuneration services provided in 2024 were £191,485 (net of VAT).

In addition to remuneration, PwC provide other services to the Society such as accounting, internal audit, and tax advice.

### Statement of voting at the 2024 AGM

The Committee has, for a number of years, invited members to vote (on an advisory basis) on the Remuneration Policy every 3 years and annual Remuneration Report every year, and takes member feedback into account when determining policy and outcomes.

Our Directors' Remuneration Report for the year ending 31 December 2023 received strong support at the AGM held in April 2024, the results of which were as follows:

| Votes For | Votes Against | Votes Withheld |
|---|---|---|
| 57,427 (91.9%) | 5,061 (8.1%) | 1,490 |

We will be seeking an advisory vote on the Directors' Remuneration Report for the year ended 31 December 2024 and the updated Directors' Remuneration Policy at the AGM to be held in April 2025.

I would like to thank members for their ongoing support and encourage you to vote in favour of both resolutions.

S Davis

**Steven Davis**

Chair of the Board Remuneration Committee

25 February 2025

# Financial Statements

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

Skipton Group

# Independent Auditor's Report to Members

## 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 2024 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 (together, the 'Group') for the year ended 31 December 2024 which comprise:

| Group | Society |
|---|---|
| Consolidated Statement of Financial Position as at 31 December 2024 | Statement of Financial Position as at 31 December 2024 |
| Consolidated Income Statement for the year ended 31 December 2024 | Income Statement for the year ended 31 December 2024 |
| Consolidated Statement of Comprehensive Income for the year ended 31 December 2024 | Statement of Comprehensive Income for the year ended 31 December 2024 |
| Consolidated Statement of Changes in Member Interests for the year ended 31 December 2024 | Statement of Changes in Member Interests for the year ended 31 December 2024 |
| Consolidated Statement of Cash Flows for the year ended 31 December 2024 | Statement of Cash Flows for the year ended 31 December 2024 |
| Related notes 1 to 48 to the financial statements, including material accounting policy information | Related notes 1 to 48 to the financial statements including material accounting policy information |
| Information in respect of Country by Country Reporting on pages 295 – 296 | |
| Information identified as "audited" within the Directors' Remuneration Report and information identified as forming part of the audited accounts in the Annual Business Statement | |

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.

# Independent Auditor's Report to Members (continued)

## Conclusions relating to going concern

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

- We obtained the Directors' going concern assessment, including the cash flow forecasts for the going concern period covering the 12 months from the date of signing this audit opinion.
- We compared the budgeted financial information with historical actual results, in order to form a view on the reliability of the forecasting process.
- We assessed the results of the Directors' 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 and Society's ability to continue as a going concern.
- We reviewed the Group and Society's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Society's ability to continue as a going concern for a period of 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 and Society's ability to continue as a going concern.

## Overview of our audit approach

| | |
|---|---|
| Audit scope | • We performed an audit of the complete financial information of two components, audit procedures on specific balances for a further eight components, and centralised procedures on financial control and reporting, derivative financial instruments and hedge accounting, defined benefit pension schemes, information technology and taxation |
| Key audit matters | • Measurement of loan impairment relating to retail and commercial mortgages<br>• Fair value of the equity release portfolio<br>• Revenue recognition in respect of estate agency income<br>• Impairment of estate agency right of use of branch assets |
| Materiality | • Overall Group materiality of £15.9m which represents 5% of PBT. |

## An overview of the scope of the Society and the Group audits

### Tailoring the scope

In the current year our audit scoping has been updated to reflect the new requirements of ISA (UK) 600 (Revised). We have followed a risk-based approach when developing our audit approach to obtain sufficient appropriate audit evidence on which to base our audit opinion. We performed risk assessment procedures, with input from our component auditors, to identify and assess risks of material misstatement of the Group financial statements and identified significant accounts and disclosures. When identifying components at which audit work needed to be performed to respond to the identified risks of material misstatement of the Group financial statements, we considered our understanding of the Group and its business environment, the potential impact of climate change, the applicable financial framework, the group's system of internal control at the entity level, the existence of centralised processes, applications and any relevant internal audit results.

# Independent Auditor's Report to Members (continued)

The scoping for the current year is as follows:

| Component | Scope | Key locations |
|---|---|---|
| Skipton Building Society | Full | United Kingdom |
| Connells Limited | Full | United Kingdom |
| Skipton International Limited | Specific | Channel Islands |
| Skipton Business Finance Limited | Specific | United Kingdom |
| Skipton Covered Bonds Limited Liability Partnership | Specific | United Kingdom |
| Darrowby No.5 PLC | Specific | United Kingdom |
| Darrowby No.6 PLC | Specific | United Kingdom |
| Skipton Group Holdings Limited | Specified Procedures | United Kingdom |
| Jade Software Corporation Limited | Specified Procedures | New Zealand, United Kingdom |
| Skipton Investments Limited | Specified Procedures | United Kingdom |

We determined that centralised audit procedures can be performed across the identified components in the following key audit areas: financial control and reporting, derivative financial instruments and hedge accounting, defined benefit pension schemes, information technology and taxation.

| Key audit area on which procedures were performed centrally | Component subject to central procedures |
|---|---|
| Financial control and reporting | All components |
| Derivative financial instruments and hedge accounting | All relevant components (Skipton Building Society, Skipton International Limited, Skipton Covered Bonds Limited Liability Partnership, Darrowby No.5 PLC, Darrowby No.6 PLC) |
| Defined benefit pension schemes | Connells Limited (for one scheme held within this component) |
| Information technology | All components except Connells Limited, Skipton International Limited, Jade Software Corporation Limited |
| Taxation | All components except Skipton International Limited |
| Fees and commissions receivable | Jade Software Corporation Limited |

We identified two components as individually relevant to the Group due the identified risks of material misstatement of the group financial statements being associated with the reporting components and the financial size of the component relative to the Group.

For those individually relevant components, we identified the significant accounts where audit work needed to be performed at these components by applying professional judgement, having considered the group significant accounts on which centralised procedures will be performed, the reasons for identifying the financial reporting component as an individually relevant component and the size of the component's account balance relative to the group significant financial statement account balance.

We then considered whether the remaining group significant account balances not yet subject to audit procedures, in aggregate, could give rise to a risk of material misstatement of the group financial statements. We selected eight components of the group to include in our audit scope to address these risks.

Having identified the components for which work will be performed, we determined the scope to assign to each component.

# Independent Auditor's Report to Members (continued)

Of the ten components selected, we designed and performed audit procedures on the entire financial information of two components ("full scope components"). For five components, we designed and performed audit procedures on specific significant financial statement account balances or disclosures of the financial information of the component ("specific scope components"). For the three remaining in-scope components, we performed specified audit procedures to obtain evidence for the relevant assertions.

We performed full scope audit procedures over all key audit matters.

The audit procedures in respect of the following key audit matters were performed by the Group audit team:

- Measurement of loan impairment relating to retail and commercial mortgages;
- Fair value of the equity release portfolio

Audit procedures over the following key audit matters were performed by the Connells Limited component audit team:

- Revenue recognition in respect of estate agency income
- Impairment of estate agency right of use of branch assets

The Group audit team's involvement with the Connells Limited component team and procedures performed included:

- Risk assessment procedures and determining the type and extent of work to be undertaken at each of the components;
- Regular interactions throughout the course of the audit, including planning meetings, maintaining regular communications on the status, and meetings on results and conclusions;
- Undertaking component site visits as necessary; and
- Reviewing key working papers and taking responsibility for the scope and direction of the audit process

### 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 Group audit engagement team, or by component auditors operating under our instruction.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visited component teams and held meetings with them to discuss the audit approach and any issues arising from their work. During the current year's audit cycle, visits were undertaken by the Group audit team to the component teams in the Channel Islands and United Kingdom, as well as a schedule of planned meetings held remotely. This schedule involved meeting with local management, attending planning and closing meetings, and reviewing relevant audit working papers on risk areas. The Group audit 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. Where relevant, the section on key audit matters details the level of involvement we had with component auditors to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

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 Skipton Building Society. The Group and the Society has determined that the most significant future impacts from climate change on their operations will be from physical and transitional risks. These are explained on pages 32 - 38 in the Strategic Report. The Group and Society have also explained their climate commitments on page 34 of that report. 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 long-term net zero targets. Significant judgements and estimates relating to climate change are included in note 1 and note 43. 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.

# Independent Auditor's Report to Members (continued)

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating Directors' 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 associated sensitivity disclosures, 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 in their assessment of going concern and viability and associated disclosures.

Based on our work, whilst we have not identified the impact of climate change on the financial statements to be a standalone key audit matter, we have considered the impact on the following key audit matter: Measurement of loan impairments relating to retail and commercial mortgages. Details of the impact, our procedures and findings are included in our explanation of key audit matter below.

## 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 separatee opinion on these matters.

**The following risks have been identified as key audit matters.**

### Measurement of loan impairments relating to retail and commercial mortgages

#### Risk

**(Group – 31 December 2024 £19.6m, 31 December 2023 £39.6m;**

**Society – 31 December 2024 £17.5m, 31 December 2023 £36.9m)**

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 Society may incur within the retail and commercial mortgage books. This calculation is complex and subjective due to the high uncertainty associated with the assumptions used. This includes the impacts of the continuing uncertain geopolitical and economic outlook. As a result, there is a need for the Directors to exercise judgement and perform assessments to consider whether these risks are appropriately captured through models or should be captured through the recording of post model adjustments.

Key judgements and estimates include:

- 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, collateral valuations and modelling assumptions used to build the models and calculate the ECL.
- The application of multiple economic scenarios, including the appropriate weightings for the various scenarios.

Due to the degree of judgement that needs to be exercised by the Directors around the key assumptions into the Society's ECL model as well as the complexity of the calculation, this was considered a key audit matter.

# Independent Auditor's Report to Members (continued)

## Measurement of loan impairments relating to retail and commercial mortgages (continued)

### Our response to the risk

We gained an understanding of the Society's processes, controls and assumptions used in the impairment process in order to evaluate the compliance of the Society's methodology with the requirements of IFRS 9.

Our substantive audit procedures over the residential and commercial IFRS 9 provision models included assessing the appropriateness of model design and the calculations used, challenging and substantiating key assumptions, such as: definition of default, probability of default (PD), loss given default (LGD), significant increases in credit risk (SICR) and the staging applied, forward looking assumptions, and the determination of lifetime PDs.

We tested the assumptions, inputs and model calculations used in a risk-based sample of ECL models with the involvement of our internal credit modelling specialists. This included assessing the appropriateness of the model design, model performance and ECL replication testing.

We performed testing over completeness and accuracy of data used in the ECL models and calculation by reconciling, and performing sample tests of key data fields used in the model, to source data and corroborative evidence.

With the support from our internal valuation specialists, we independently challenged the valuation of collaterals for a sample of commercial loans at the balance sheet date and considered assumptions about future recoverability.

We assessed the Society's staging criteria and independently reperformed staging on a sample of loans in stages 1, 2 and 3 for commercial loans and on the full population of residential loans to verify whether they were allocated appropriately, with reference to the Society's SICR criteria.

We assessed the base case and alternative economic scenarios adopted by the Directors utilising economic 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, were reasonably captured within the loan loss provision.

With our credit modelling specialists, we assessed the completeness and valuation of post model adjustments using our knowledge and experience across the UK lending sector and tested material adjustments for reasonableness of estimation with reference to observable market data.

We also assessed a sample of individual loans classified as performing loans, where no specific provision was held to determine whether their stage classification was appropriate.

Our procedures included a series of "stand back" analyses, including industry benchmarking, internal consistency checks and analytical reviews.

### Key observations communicated to the Board Audit Committee

We are satisfied that the ECL provisions were reasonable and recognised in accordance with IFRS 9. We highlighted the following matters to the Board Audit Committee that contributed to our overall conclusion:

- Results of our testing of models, model assumptions, the key data elements used for ECL calculation, including the reasonableness of the macroeconomic variables, scenarios and weightings used.
- Accuracy of staging and the reasonableness of management's staging criteria, and our independent sensitivity analysis on the staging criteria to assess appropriateness.
- Reasonableness and adequacy of the post-model adjustments recorded to reflect risk in the portfolios.
- Individually assessed impairments, the overall reasonableness of the provisions, including assumptions applied.

# Independent Auditor's Report to Members (continued)

## Fair value of equity release portfolio

### Risk

**(Group and Society – 31 December 2024 £277.2m, 31 December 2023 £293.3m)**

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 economically manage the interest rate risk and reduce overall income statement volatility that would otherwise result from changes in the fair value of the equity release mortgage portfolio.

The fair value of the equity release portfolio is determined using a complex model which uses a Monte Carlo simulation and a number of different judgmental assumptions to derive an estimated value. Two of the equity release swaps are also valued using a Monte Carlo based model. The key assumptions used in the models include:

- Discount rates, including illiquidity premia.
- Mortality rates.
- Future increases in house prices ('HPI').
- Prepayment rates

Due to the degree of judgement that needs to be exercised by the Directors around the key assumptions into the valuation model, and the complexity of the calculation, this was considered a key audit matter.

### Our Response to the risk

We gained an understanding of the Society's processes, controls, assumptions used in the valuation of the equity release portfolio. We assessed the Society's accounting policies and methodologies related to the fair value of the equity release portfolio and the corresponding swaps for compliance with applicable accounting standards.

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 modelled fair values against this range. Our valuation specialists assessed the valuation methodologies used in relation to the swaps, and independently calculated a range of 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 performed testing over the completeness and accuracy of data used in the equity release models and underlying calculations. This involved testing a sample of key data fields used in the model to source data and corroborative evidence.

### Key observations communicated to the Board Audit Committee

We consider that the valuation of the portfolio was reasonable. We highlighted to the Board Audit Committee the following matters which were relevant to our conclusion:

- Reasonableness of the models used to calculate the fair value of the equity release portfolio and associated swaps.
- Reasonableness of key assumptions deployed in the valuation of the equity release portfolio and corresponding swap models in the context of the portfolio and current market conditions.

# Independent Auditor's Report to Members (continued)

## Revenue recognition in respect of estate agency income

### Risk

**(Group – 31 December 2024 £1,056.2m, 31 December 2023 £936.6m)**

There is a risk that management may override controls and post manual journals in order to overstate revenue. This risk is specific to manual revenue journals posted during the financial year within the estate agency revenue streams which are material to the Group.

Given the manual nature and volume of revenue transactions in the Connells Limited estate agency component, this was considered a key audit matter.

### Our Response to the risk

We gained an understanding of the Group's processes and controls relevant to the recognition of estate agency income. We assessed the Group's accounting policy for estate agency income for compliance with IFRS 15.

We performed cut off testing on a sample of transactions falling either side of the 31 December 2024 year end date.

We performed data analysis procedures to assess the recognition of revenue throughout the year. We performed testing over significant revenue streams using either data analysis tools or alternative substantive procedures. Where we used data analysis tools, we tested the correlation of revenue to trade receivables and cash receipts to verify the occurrence of revenue. Our alternative substantive procedures included tracing from origination of revenue through to the general ledger to assess whether 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.

### Key observations communicated to the Board Audit Committee

We concluded that the estate agency income recognised by the Group was reasonably measured. We communicated to the Board Audit Committee the following matters which were relevant to our conclusion:

- We identified a correlation of transactions between revenue, trade receivables and cash.
- We did not identify any evidence of material misstatements in the revenue recognised or any instances of management override.

# Independent Auditor's Report to Members (continued)

## Impairment of estate agency branch right of use assets

### Risk

**(Total right of use assets, Group: 31 December 2024 – £90.4m; 31 December 2023 - £100.9m)**

Right of use assets are assessed for impairment by the Directors at each reporting date.

There is a risk that the impairment related to right of use assets is incorrectly measured due to inaccurate assessment of impairment indicators.

Due to the year on year volatility in profitability of the Connells Limited component, we considered that impairment risk is most prevalent in the estate agency business given the significant value of right of use assets held within that component.

### Our Response to the risk

We gained an understanding of the Group's processes and controls relevant to the assessment for impairment of estate agency branch right of use assets. We developed an understanding of the Group's accounting policy for impairment of estate agency right of use of branch assets to assess whether this was in compliance with the requirements of accounting policies.

We challenged and validated the impairment analyses prepared by the Directors on the right of use assets.

We reviewed the cash generating units (CGUs) with indicators of impairment and obtained supporting evidence to ascertain whether they should be impaired or not.

We challenged and validated where lossmaking branches were unimpaired, obtaining and assessing additional evidence to corroborate the Directors' assessments.

### Key observations communicated to the Board Audit Committee

We considered that the valuation of these assets was reasonably stated. We communicated the following matters relevant to our conclusion to the Board Audit Committee:

- Reasonableness of the valuation of these assets and the compliance of that valuation with the requirements of applicable accounting standards.
- Reasonableness of the impairment analyses prepared by the Directors.

# Independent Auditor's Report to Members (continued)

### 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 £15.9m (2023: £17.0m), which is 5% of profit before tax (2023: 5% profit before tax).

We determined materiality for the Society to be £10.8m (2023: £14.2m), which is 5% of adjusted profit before tax (2023: 5% of adjusted profit before tax). We adjusted the Society's pre-tax profit by removing dividend income from shares from subsidiary undertakings.

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

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2023: 75%) of our planning materiality, namely £11.9m (2023: £12.7m). We have set performance materiality at this percentage due to our previous experience as auditors of the Group, from which we concluded that there is a lower expectation of material financial statement inaccuracies due to our assessment of the financial reporting control environment, and only minor audit differences resulting from our prior and current year work. Our approach is consistent with the prior year.

Audit work was undertaken at component locations for the purpose of responding to the assessed risks of material misstatement of the group financial statements. 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 £2.4m to £10.3m (2023: £2.5m to £9.9m).

### Reporting threshold

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

We agreed with the Board Audit Committee that we would report to them all uncorrected audit differences in excess of £0.8m (2023: £0.8m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds

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

### Other information

The other information comprises the information included in the annual report other than the financial statements, information of Country by Country Reporting, information identified as "audited" within the Directors' Remuneration Report, information identified as forming part of the audited accounts in the Annual Business Statement, 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 to Members (continued)

### Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- The Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- Proper accounting records have not been kept by the Society; or
- The Group or Society's financial statements are not in agreement with the accounting records; or
- We have not received all the information and explanations and access to documents we require for our audit.

### Corporate Governance Statement

We have reviewed the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Society's voluntary compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement are materially consistent with the financial statements or our knowledge obtained during the audit:

- The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 65 - 67;
- The Directors' explanation as to its assessment of the Society's prospects, the period this assessment covers and why the period is appropriate set out on pages 66 - 67;
- The Directors' statement on fair, balanced and understandable set out on page 67;
- The Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 51 - 52;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 79 - 80; and;
- The section describing the work of the Board Audit Committee set out on pages 85 - 91.

### Directors' Remuneration Report

The Society voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The Directors have requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 64 - 65, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Society or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# Independent Auditor's Report to Members (continued)

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Society and the Directors.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant were the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Building Societies Act 1986.
- We understood how the Group is complying with those frameworks by making enquiries of key 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 meetings 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 key 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 Group audit team had regular communication with component teams to discuss the audit which included if there were any instances of non-compliance with laws and regulations and how these were responded to.
- The Group operates in the financial services sector which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Other matters we are required to address

- Following the recommendation from the Board Audit Committee, we were appointed by the Society on 10 May 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is six years, covering the years ending 31 December 2019 to 31 December 2024 .
- The audit opinion is consistent with the additional report to the Board Audit Committee.

### Use of our report

This report is made solely to the Society's members, as a body, in accordance with Section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Blake Adlem (Senior statutory auditor)**

for and on behalf of Ernst & Young LLP, Statutory Auditor

Edinburgh

25 February 2025

# Primary Statements

Skipton Group

# Income Statements

| For the year ended 31 December 2024 | | Group (£m) | | Society (£m) | |
|---|---|---|---|---|---|
| | Notes | 2024 | 2023 | 2024 | 2023 |
| Interest receivable and similar income: | | | | | |
| Accounted for using effective interest rate method | 2 | **2,069.8** | 1,746.4 | **2,056.9** | 1,740.5 |
| Other | 2 | **32.5** | 33.6 | **26.6** | 25.1 |
| Total interest receivable and similar income | 2 | **2,102.3** | 1,780.0 | **2,083.5** | 1,765.6 |
| Interest payable and similar charges | 3 | **(1,613.9)** | (1,237.2) | **(1,676.3)** | (1,306.9) |
| **Net interest receivable** | | **488.4** | 542.8 | **407.2** | 458.7 |
| Fees and commissions receivable | 4 | **1,115.5** | 993.7 | **36.0** | 34.6 |
| Fees and commissions payable | | **(5.9)** | (8.3) | **(3.3)** | (3.4) |
| Fair value gains on financial instruments mandatorily held at FVTPL | 5 | **18.0** | 23.5 | **12.2** | 20.7 |
| Income from shares in subsidiary undertakings | | **-** | - | **36.0** | 27.0 |
| Other operating income | 6 | **3.2** | 2.9 | **9.4** | 8.8 |
| **Total income** | | **1,619.2** | 1,554.6 | **497.5** | 546.4 |
| Administrative expenses | 7 | **(1,312.3)** | (1,224.8) | **(262.0)** | (239.1) |
| **Operating profit before impairment and provisions** | | **306.9** | 329.8 | **235.5** | 307.3 |
| Impairment and provisions | 8 | **11.7** | 3.6 | **10.4** | 3.4 |
| **Profit before tax** | | **318.6** | 333.4 | **245.9** | 310.7 |
| Tax expense | 12 | **(78.1)** | (78.8) | **(56.7)** | (76.8) |
| Profit for the year | | **240.5** | 254.6 | **189.2** | 233.9 |

| | | | | |
|---|---|---|---|---|
| **Attributable to:** | | | | |
| Members of Skipton Building Society | **240.5** | 254.8 | **189.2** | 233.9 |
| Non-controlling interests | **-** | (0.2) | **-** | - |
| Profit for the year | **240.5** | 254.6 | **189.2** | 233.9 |

Segmental performance of the Group is shown in Note 45.

The accompanying Notes form part of these financial statements.

# Statements of Comprehensive Income

| For the year ended 31 December 2024 | | Group (£m) | | Society (£m) | |
|---|---|---|---|---|---|
| | Notes | 2024 | 2023 | 2024 | 2023 |
| Profit for the year | | **240.5** | 254.6 | **189.2** | 233.9 |
| Other comprehensive (expense) / income: | | | | | |
| Items that will not be reclassified to Income Statement: | | | | | |
| Remeasurement losses on net defined benefit obligations | 34 | **(3.7)** | (4.5) | **(2.7)** | (0.2) |
| Gains on equity share investments designated at FVOCI | | **-** | 0.2 | **-** | - |
| Income tax on items that will not be reclassified to Income Statement | 38 | **1.0** | 1.1 | **0.8** | 0.1 |
| Net other comprehensive expense that will not be reclassified to Income Statement | | **(2.7)** | (3.2) | **(1.9)** | (0.1) |
| Items that may subsequently be reclassified to Income Statement: | | | | | |
| Cash flow hedging reserve: | | | | | |
| Losses taken to equity | | **(29.6)** | (48.4) | **(35.2)** | (25.5) |
| Realised losses transferred to Income Statement | | **45.9** | 14.1 | **45.9** | 14.1 |
| Fair value reserve: | | | | | |
| (Losses) / gains taken to equity | | **(1.7)** | 1.7 | **(1.8)** | 0.5 |
| Impairment loss allowance on debt securities held at FVOCI | 14 | **-** | (0.1) | **-** | (0.1) |
| Cost of hedging reserve: | | | | | |
| (Losses) / gains taken to equity | | **(1.2)** | 0.8 | **-** | - |
| Exchange differences on translation of foreign operations | | **(1.4)** | (0.3) | **-** | - |
| Income tax on items that may be reclassified to Income Statement | 38 | **(3.7)** | 9.2 | **(2.5)** | 3.1 |
| Net other comprehensive income / (expense) that may subsequently be reclassified to Income Statement | | **8.3** | (23.0) | **6.4** | (7.9) |
| Other comprehensive income / (expense) | | **5.6** | (26.2) | **4.5** | (8.0) |
| Total comprehensive income | | **246.1** | 228.4 | **193.7** | 225.9 |

| | | | | |
|---|---|---|---|---|
| Attributable to: | | | | |
| Members of Skipton Building Society | **246.1** | 228.6 | **193.7** | 225.9 |
| Non-controlling interests | **-** | (0.2) | **-** | - |
| Total comprehensive income | **246.1** | 228.4 | **193.7** | 225.9 |

The accompanying Notes form part of these financial statements.

# Statements of Financial Position

| As at 31 December 2024 | | Group (£m) | | Society (£m) | |
|---|---|---|---|---|---|
| | Notes | 2024 | 2023 | 2024 | 2023 |
| **Assets** | | | | | |
| Cash in hand and balances with the Bank of England | | **1,930.6** | 3,266.2 | **1,930.6** | 3,266.2 |
| Loans and advances to credit institutions | 13 | **414.6** | 488.8 | **397.8** | 497.7 |
| Debt securities | 14 | **4,349.6** | 3,337.7 | **4,340.1** | 3,206.5 |
| Derivative financial instruments | | **752.1** | 1,000.8 | **743.0** | 1,003.0 |
| Loans and advances to customers held at amortised cost | 15 | **30,601.1** | 28,161.4 | **28,334.9** | 25,864.9 |
| Loans and advances to customers held at FVTPL | 19 | **0.9** | 0.9 | **0.9** | 0.9 |
| Equity release portfolio held at FVTPL | 18 | **277.2** | 293.3 | **277.2** | 293.3 |
| Current tax asset | | **3.0** | 0.9 | **-** | - |
| Investments in subsidiary undertakings and joint ventures | 20 | **11.2** | 10.3 | **509.3** | 478.1 |
| Property, plant and equipment | 21 | **80.9** | 74.5 | **43.1** | 39.0 |
| Right-of-use assets | 22 | **90.4** | 100.9 | **8.3** | 10.0 |
| Deferred tax asset | 33 | **6.3** | 20.9 | **11.2** | 16.7 |
| Other assets | 25 | **181.2** | 152.1 | **22.9** | 24.4 |
| Intangible assets | 24 | **311.4** | 313.2 | **4.2** | 0.2 |
| Retirement benefit surplus | 34 | **4.8** | - | **4.8** | - |
| **Total assets** | | **39,015.3** | 37,221.9 | **36,628.3** | 34,700.9 |
| **Liabilities** | | | | | |
| Shares | 26 | **28,268.5** | 25,949.8 | **28,254.1** | 25,922.3 |
| Amounts owed to credit institutions | 27 | **1,599.6** | 2,093.4 | **1,800.6** | 2,302.7 |
| Amounts owed to other customers | 28 | **2,751.1** | 2,808.8 | **1,268.9** | 807.7 |
| Debt securities in issue | 29 | **2,435.3** | 2,414.7 | **1,930.1** | 2,242.5 |
| Derivative financial instruments | | **225.1** | 452.2 | **282.2** | 508.7 |
| Current tax liability | | **2.7** | 2.4 | **2.7** | 0.6 |
| Lease liabilities | 30 | **92.1** | 103.0 | **8.6** | 10.3 |
| Other liabilities | 31 | **86.6** | 85.9 | **11.0** | 19.2 |
| Accruals and deferred income | | **114.7** | 107.9 | **27.6** | 31.8 |
| Provisions for liabilities | 32 | **31.8** | 29.4 | **5.3** | 0.6 |
| Retirement benefit obligations | 34 | **8.6** | 26.2 | **-** | 15.9 |
| Subordinated liabilities | 35 | **690.2** | 685.3 | **690.2** | 685.3 |
| Subscribed capital | 36 | **41.6** | 41.6 | **41.6** | 41.6 |
| **Total liabilities** | | **36,347.9** | 34,800.6 | **34,322.9** | 32,589.2 |

Consolidated Statement of Financial Position continues on page 146.

# Statements of Financial Position (continued)

| As at 31 December 2024 | | Group (£m) | | Society (£m) | |
|---|---|---|---|---|---|
| | Notes | 2024 | 2023 | 2024 | 2023 |
| **Members' interests** | | | | | |
| General reserve | | **2,659.8** | 2,422.0 | **2,314.7** | 2,127.4 |
| Fair value reserve | | **(10.6)** | (9.5) | **(10.6)** | (9.3) |
| Cash flow hedging reserve | | **16.6** | 4.9 | **1.3** | (6.4) |
| Cost of hedging reserve | | **(1.4)** | (0.5) | **-** | - |
| Translation reserve | | **3.2** | 4.6 | **-** | - |
| **Attributable to members of Skipton Building Society** | | **2,667.6** | 2,421.5 | **2,305.4** | 2,111.7 |
| Non-controlling interests | | **(0.2)** | (0.2) | **-** | - |
| **Total members' interests** | | **2,667.4** | 2,421.3 | **2,305.4** | 2,111.7 |
| **Total liabilities and members' interests** | | **39,015.3** | 37,221.9 | **36,628.3** | 34,700.9 |

The accompanying Notes form part of these financial statements.

These Accounts were approved by the Board of Directors on 25 February 2025 and were signed on its behalf by:

Gwyn Burr,
Chair

Stuart Haire,
Group Chief Executive

Paul Chambers,
Group Chief Financial Officer

# Statements of Changes in Member Interests

For the year ended 31 December 2024

| Group (£m) | General reserve | Fair value reserve | Cash flow hedging reserve | Cost of hedging reserve | Translation reserve | Sub-total | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2024** | **2,422.0** | **(9.5)** | **4.9** | **(0.5)** | **4.6** | **2,421.5** | **(0.2)** | **2,421.3** |
| Profit for the year | 240.5 | - | - | - | - | 240.5 | - | **240.5** |
| **Other comprehensive (expense) / income net of tax:** | | | | | | | | |
| Remeasurement losses on defined benefit obligations | (2.7) | - | - | - | - | (2.7) | - | **(2.7)** |
| Net losses from changes in fair value | - | (1.1) | (21.3) | (0.9) | - | (23.3) | - | **(23.3)** |
| Realised losses transferred to Income Statement | - | - | 33.0 | - | - | 33.0 | - | **33.0** |
| Exchange differences on translation of foreign operations | - | - | - | - | (1.4) | (1.4) | - | **(1.4)** |
| Other comprehensive (expense) / income | (2.7) | (1.1) | 11.7 | (0.9) | (1.4) | 5.6 | - | **5.6** |
| Total comprehensive income / (expense) for the year | 237.8 | (1.1) | 11.7 | (0.9) | (1.4) | 246.1 | - | **246.1** |
| Balance at 31 December 2024 | **2,659.8** | **(10.6)** | **16.6** | **(1.4)** | **3.2** | **2,667.6** | **(0.2)** | **2,667.4** |

# Statements of Changes in Member Interests (continued)

**For the year ended 31 December 2023**

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

# Statements of Changes in Member Interests (continued)

### For the year ended 31 December 2024

| Society (£m) | General reserve | Fair value reserve | Cash flow hedging reserve | Total |
|---|---|---|---|---|
| **Balance at 1 January 2024** | **2,127.4** | **(9.3)** | **(6.4)** | **2,111.7** |
| Profit for the year | 189.2 | - | - | **189.2** |
| **Other comprehensive (expense) / income net of tax:** | | | | |
| Remeasurement losses on defined benefit obligations | (1.9) | - | - | **(1.9)** |
| Net losses from changes in fair value | - | (1.3) | (25.3) | **(26.6)** |
| Realised losses transferred to Income Statement | - | - | 33.0 | **33.0** |
| **Other comprehensive (expense) / income** | (1.9) | (1.3) | 7.7 | **(4.5)** |
| **Total comprehensive income / (expense) for the year** | 187.3 | (1.3) | 7.7 | **193.7** |
| **Balance at 31 December 2024** | **2,314.7** | **(10.6)** | **1.3** | **2,305.4** |

### For the year ended 31 December 2023

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

The accompanying Notes form part of these financial statements.

# Statements of Cash Flows

| For the year ended 31 December 2024 | | Group (£m) | | Society (£m) | |
|---|---|---|---|---|---|
| | Notes | 2024 | 2023 Restated * | 2024 | 2023 Restated * |
| Cash flows from operating activities | | | | | |
| **Profit before tax** | | **318.6** | 333.4 | **245.9** | 310.7 |
| Adjustments for: | | | | | |
| Impairment credits on financial instruments | 37ai) | **(15.9)** | (2.0) | **(16.7)** | (4.1) |
| Depreciation and amortisation | 20, 21, 22, 23 | **70.0** | 74.2 | **8.5** | 8.1 |
| Impairment of property, plant and equipment, right-of-use assets, investment property and intangible assets | 20, 21, 22, 23 | **3.1** | 2.3 | **-** | 0.2 |
| (Profit) / loss on disposal of property, plant and equipment, investment property and intangible assets | | **(0.7)** | (0.2) | **0.6** | 0.2 |
| Fair value gains on financial instruments held at FVTPL | 37aii) | **(18.0)** | (23.5) | **(12.2)** | (20.7) |
| Interest on subordinated liabilities and subscribed capital | 3 | **34.1** | 27.1 | **34.1** | 27.1 |
| Interest on lease liabilities | 3 | **3.1** | 2.3 | **0.3** | 0.3 |
| Income from shares in subsidiary undertakings | | **-** | - | **(36.0)** | (27.0) |
| Other non-cash movements | 37aiii) | **(5.0)** | (34.1) | **(2.7)** | 7.6 |
| | | **389.3** | 379.5 | **221.8** | 302.4 |
| Changes in operating assets and liabilities: | | | | | |
| Movement in prepayments and accrued income | | **(3.4)** | (12.2) | **0.7** | (2.3) |
| Movement in accruals and deferred income | | **6.8** | 4.9 | **(4.2)** | 8.5 |
| Movement in provisions for liabilities | | **(10.1)** | (5.3) | **(0.2)** | (0.2) |
| Net movement in derivatives | | **43.6** | (116.2) | **42.9** | (136.1) |
| Movement in loans and advances to customers | | **(2,345.1)** | (3,085.1) | **(2,376.0)** | (2,878.6) |
| Movement in shares | | **2,317.2** | 3,470.8 | **2,317.2** | 3,470.8 |
| Net movement in amounts owed to credit institutions and other customers | | **(551.6)** | (400.2) | **(41.0)** | (695.5) |
| Net movement in debt securities in issue | | **(5.9)** | (198.4) | **(312.4)** | (150.1) |
| Net movement in loans and advances to credit institutions | | **169.2** | 76.5 | **180.9** | 112.6 |
| Net movement in other assets | | **(44.7)** | 20.0 | **(0.3)** | (0.4) |
| Net movement in other liabilities | | **32.8** | 5.8 | **(7.7)** | 9.8 |
| Contributions to defined benefit scheme | | **(26.0)** | (8.4) | **(23.0)** | (1.7) |
| Income taxes paid | | **(68.3)** | (58.3) | **(50.8)** | (60.3) |
| Net cash flows from operating activities | | **(96.2)** | 73.4 | **(52.1)** | (21.1) |

* The information shown above for the year ended 31 December 2024 is restated to reflect the appropriate presentation for certain non-cash movements (see Note 1c) for details).

# Statements of Cash Flows (continued)

| For the year ended 31 December 2024 | | Group (£m) | | Society (£m) | |
|---|---|---|---|---|---|
| | Notes | 2024 | 2023 | 2024 | 2023 |
| **Net cash flows from operating activities** | | **(96.2)** | 73.4 | **(52.1)** | (21.1) |
| **Cash flows from investing activities** | | | | | |
| Purchase of debt securities | 14 | **(4,402.0)** | (2,476.7) | **(3,986.6)** | (2,294.0) |
| Proceeds from maturities and disposals of debt securities | | **3,374.5** | 1,828.5 | **2,830.1** | 1,713.2 |
| Dividends received from subsidiary undertakings | | **-** | - | **36.0** | 27.0 |
| Increase in loans to subsidiary undertakings | 20a) | **-** | - | **(31.2)** | (8.9) |
| Purchase of non-controlling interests | | **-** | (0.2) | **-** | - |
| Other investing activities | 37bi) | **(41.0)** | (26.5) | **(14.6)** | (6.2) |
| **Net cash flows from investing activities** | | **(1,068.5)** | (674.9) | **(1,166.3)** | (568.9) |
| **Cash flows from financing activities** | | | | | |
| Exercise of share options in subsidiary management incentive scheme | 31 | **-** | (2.5) | **-** | - |
| Exercise of put options held by non-controlling shareholders | | **-** | (0.4) | **-** | - |
| Proceeds from issue of subordinated liabilities | | **-** | 350.0 | **-** | 350.0 |
| Interest paid on subordinated liabilities and subscribed capital | | **(33.5)** | (23.0) | **(33.5)** | (23.0) |
| Interest paid on lease liabilities | 30 | **(3.1)** | (2.3) | **(0.3)** | (0.2) |
| Payment of lease liabilities | 30 | **(39.3)** | (41.2) | **(2.3)** | (2.4) |
| **Net cash flows from financing activities** | | **(75.9)** | 280.6 | **(36.1)** | 324.4 |
| | | | | | |
| Net decrease in cash and cash equivalents | | **(1,240.6)** | (320.9) | **(1,254.5)** | (265.6) |
| Cash and cash equivalents at 1 January | | **3,294.3** | 3,615.2 | **3,239.1** | 3,504.7 |
| **Cash and cash equivalents at 31 December** | | **2,053.7** | 3,294.3 | **1,984.6** | 3,239.1 |

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

| As at 31 December 2024 | | Group (£m) | | Society (£m) | |
|---|---|---|---|---|---|
| | Notes | 2024 | 2023 | 2024 | 2023 |
| Cash in hand and balances with Bank of England | | **1,930.6** | 3,266.2 | **1,930.6** | 3,266.2 |
| Mandatory reserve deposit with Bank of England * | | **-** | (106.6) | **-** | (106.6) |
| | | **1,930.6** | 3,159.6 | **1,930.6** | 3,159.6 |
| Loans and advances to credit institutions | 13 | **123.1** | 134.7 | **54.0** | 79.5 |
| **Cash and cash equivalents at 31 December** | | **2,053.7** | 3,294.3 | **1,984.6** | 3,239.1 |

* From 1 March 2024 the mandatory reserve deposit with the Bank of England has been replaced with a Bank of England levy; the levy recognised by the Group and Society for the year ended 31 December 2024 is charged to the Income Statement within the line 'Administrative expenses'.

The accompanying Notes form part of these financial statements.

# Notes to the Accounts

Skipton Group

# 1. Accounting policies

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

## a) Basis of preparation

The Annual Accounts of the Group and the Society are prepared 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 continue to develop, 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 approach to net zero, initiatives are in place across the Group to reduce emissions and to support wider Environmental, Social and Governance (ESG) areas; progress made against emission reduction targets is monitored by management. As set out in the Strategic Report, during 2024 the Group has continued to support the drive for energy efficient homes; this includes our Energy Performance Certificate (EPC) Plus scheme that offers free EPC reports to Society members and colleagues, and sharing our experiences as we completed the Big Retrofit project near our Head Office in Skipton. Reaching the Group's net zero target depends on many external factors, including government policies, suppliers and customers. While these uncertainties may impact or challenge the Group in meeting its climate-related targets, the focus remains on reducing emissions within its control. 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) Going Concern

The Annual Accounts are prepared on a going concern basis (see Directors' Report).

## c) Changes to material accounting policies and other prior period adjustments

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

### Prior period adjustments

i) During the year ended 31 December 2024, the Group reviewed its application in prior periods of the requirements of IAS 7 *Statement of Cash Flows*. This review identified material misstatements where the Group (and Society) had previously inappropriately classified non-cash movements in the operating section of the Statements of Cash Flows. There was no impact on net cash flows for the affected period and no impact on cash held at the end of that period. This error was corrected by the re-classification of the affected amounts from the 'Changes in operating assets and liabilities' section to the 'Adjustments to operating profits' section, and hence there was no net impact on cash flows from operating activities. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, comparative amounts are restated as set out in the tables below.

# 1. Accounting policies (continued)

### Statements of Cash Flows, year ended 31 December 2023

| Group (£m) | Previously reported | Adjustments | Restated |
|---|---|---|---|
| Within reconciliation of 'Net cash flows from operating activities' | | | |
| Adjustments for: | | | |
| Fair value gains on financial instruments held at FVTPL | (23.3) | (0.2) | **(23.5)** |
| Other non-cash movements | (40.4) | 6.3 | **(34.1)** |
| Changes in operating assets and liabilities: | | | |
| Movement in fair value of derivatives | 390.9 | (507.1) | **(116.2)** |
| Movement in fair value adjustments for hedged risk | (444.1) | 444.1 | **-** |
| Movements in debt securities | (56.9) | 56.9 | - |

### Statements of Cash Flows, year ended 31 December 2023

| Society £m | Previously reported | Adjustments | Restated |
|---|---|---|---|
| Within reconciliation of 'Net cash flows from operating activities' | | | |
| Adjustments for: | | | |
| Fair value gains on financial instruments held at FVTPL | (9.2) | (11.5) | **(20.7)** |
| Other non-cash movements | (15.3) | 22.9 | **7.6** |
| Changes in operating assets and liabilities: | | | |
| Movement in fair value of derivatives | 371.7 | (507.8) | **(136.1)** |
| Movement in fair value adjustments for hedged risk | (435.5) | 435.5 | **-** |
| Movements in debt securities | (60.9) | 60.9 | - |

ii) During the year ended 31 December 2024, the Group reviewed its application in prior periods of the requirements of IFRS 7 *Financial Instruments – Disclosures* with respect to the disclosure of undiscounted gross contractual cash flows payable on financial liabilities. This review identified material misstatements where amounts previously reported by the Group (and Society) had included certain items that were not correctly calculated in accordance with IFRS 7 requirements. This matter impacts only the table 'analysis of undiscounted gross contractual cash flows payable on financial liabilities' that is presented for disclosure purposes in Note 41 Liquidity Risk. There is no impact for affected periods on the Group or Society's Income Statements, Statements of Financial Position or Statements of Cash Flows. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, comparative amounts are restated as set out in the tables below.

# 1. Accounting policies (continued)

## Note 41 Liquidity Risk, year ended 31 December 2023

| Group (£m) | Up to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Within table 'analysis of undiscounted gross contractual cash flows payable on financial liabilities' | | | | | |
| Previously reported: | | | | | |
| Amounts owed to credit institutions, other customers and debt securities in issue | 2,542.1 | 1,987.8 | 3,299.4 | - | **7,829.3** |
| Derivative financial instruments | 50.3 | 198.2 | 529.7 | 240.6 | **1,018.8** |
| Adjustments: | | | | | |
| Amounts owed to credit institutions, other customers and debt securities in issue | 48.7 | (45.1) | (134.2) | - | **(130.6)** |
| Derivative financial instruments | (6.8) | (78.8) | (241.2) | (194.8) | **(521.6)** |
| Restated: | | | | | |
| Amounts owed to credit institutions, other customers and debt securities in issue | 2,590.8 | 1,942.7 | 3,165.2 | - | **7,698.7** |
| Derivative financial instruments | 43.5 | 119.4 | 288.5 | 45.8 | **497.2** |

## Note 41 Liquidity Risk, year ended 31 December 2023

| Society (£m) | Up to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Within table 'analysis of undiscounted gross contractual cash flows payable on financial liabilities' | | | | | |
| Previously reported: | | | | | |
| Amounts owed to credit institutions, other customers and debt securities in issue | 1,680.1 | 1,176.0 | 2,921.8 | - | **5,777.9** |
| Derivative financial instruments | 58.6 | 202.7 | 586.1 | 241.2 | **1,088.6** |
| Adjustments: | | | | | |
| Amounts owed to credit institutions, other customers and debt securities in issue | 16.9 | (8.5) | (48.5) | - | **(40.1)** |
| Derivative financial instruments | (9.2) | (69.6) | (273.3) | (195.5) | **(547.6)** |
| Restated: | | | | | |
| Amounts owed to credit institutions, other customers and debt securities in issue | 1,697.0 | 1,167.5 | 2,873.3 | - | **5,737.8** |
| Derivative financial instruments | 49.4 | 133.1 | 312.8 | 45.7 | **541.0** |

# 1. Accounting policies (continued)

## d) Basis of consolidation

### Subsidiary undertakings

Subsidiary undertakings are entities controlled by the Group. Control exists when the Group 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 1e)). 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 noncontrolling shareholders to require the Group to purchase their shares at some point in the future. In accordance with IAS 32 *Financial Instruments: Presentation*, the Group recognises the present value of these options as a financial obligation, along with recognition of further goodwill on the future purchase of remaining non-controlling interests. Under this accounting policy the Group consolidates 100% of the results of such subsidiary undertakings to reflect the 100% implicit ownership in the recording of the future purchase of the non-controlling interests' shareholdings (i.e. the put option liability).

Any changes in the valuation of a put option obligation in respect of an entity acquired after 1 January 2010 are credited or charged through the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'. Put options issued prior to 1 January 2010 are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements (2003)* and IFRS 3 *Business Combinations (2004)* and any adjustment to the Group's estimation of the present value of the put option liability results in an adjustment to goodwill. Dividends paid to the non-controlling interests are charged through the 'Administrative expenses' line in the Income Statement. The change in fair value of the liability due to the accretion of the discount of the liability is expensed through the Income Statement line 'Interest payable and similar charges'.

### Joint ventures

A joint venture is an undertaking in which the Group has joint control and has rights to the net assets of the arrangement.

The results and assets and liabilities of joint ventures are accounted for in these consolidated financial statements using the equity method of accounting. Investments in joint ventures are carried within the Statement of Financial Position at cost, as adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments.

# 1. Accounting policies (continued)

### 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 14. These structured funding entities are not consolidated into the Group Accounts because the Group does not have the ability to direct the activities of the entities in question and does not control these entities through voting rights, contractual rights, funding agreements or any other means. The Group's involvement is in relation to investment activity only.

### Interests in unconsolidated structured entities

The Group's interests in unconsolidated structured entities refer to involvement that exposes the Group to variability of returns from the performance of the structured entities.

### Income derived from involvement with unconsolidated structured entities

Interest income on funding provided to unconsolidated structured entities is recognised within interest receivable in the Income Statement.

### Special purpose funding vehicles

The Society has transferred the beneficial interest in certain portfolios of loans and advances to customers to special purpose funding vehicles (SPVs). These SPVs enable the subsequent raising of debt, either by the SPVs or the Society, to investors who gain the security of the underlying assets as collateral. The SPVs are fully consolidated into the Group Accounts in accordance with IFRS 10.

The transfers of the beneficial interest in these loans to the SPVs are not treated as sales by the Society and are not derecognised. The Society continues to recognise these assets within its own Statement of Financial Position after the transfer because it retains substantially all the risks and rewards of these mortgage portfolios through the receipt of interest income and deferred consideration from the SPVs for the transfer of the beneficial interest in the mortgage loans. For securitisations, in the accounts of the Society, the proceeds received from the transfer of mortgage loans are accounted for as a deemed loan repayable to the SPV and are included in 'Amounts owed to other customers' within the Society's Statement of Financial Position.

Where the Society issues the debt, as is the case for the covered bonds (see Note 20a)), 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.

# 1. Accounting policies (continued)

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 1f).

To manage currency risk arising from the Euro-denominated covered bond issuances, the LLP has entered into a cross-currency swap transaction. The derivative is designated in a hedge accounting relationship against the term advance, which mirrors the conditions of the debt issued, effectively hedging the debt issued by the Society. In accordance with IFRS 9, any cost for currency basis spread priced within the cross-currency swap is permitted to be excluded from the hedge relationship and is recognised directly in reserves (the cost of hedging reserve). The Group has elected to apply this treatment for this hedge relationship. See Note 1f) for further details.

Further details on the nature and amount of the beneficial interest transferred to the SPVs can be found in Note 16 to these financial statements.

## e) Intangible assets

### Goodwill

Goodwill arising on the acquisition of Group undertakings or other businesses represents the excess of the fair value of the consideration paid over the fair value of separately identifiable net assets acquired at the date of acquisition. Goodwill arising on the acquisition of subsidiary undertakings is included in the 'Intangible assets' line within the Statement of Financial Position. Goodwill arising on the acquisition of joint ventures, associates or other businesses is included within the carrying value of the underlying investment within the Statement of Financial Position.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses, and is reviewed for impairment, at least, at each reporting date. Any impairment is recognised in the Income Statement.

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

The impairment test compares the carrying value of the CGU (or group of CGUs), being its net assets plus associated goodwill, to its associated value in use. The value in use calculations are carried out by discounting the forecast future cash flows of the CGU (or group of CGUs) to present value (see Note 24). 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 (or group of CGUs), and then to reduce the carrying amounts of the other assets in the CGUs on a pro-rata basis.

# 1. Accounting policies (continued)

### 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.

## f) Financial assets

In accordance with IFRS 9, the financial assets of the Group are each classified into one of three categories (amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL)), further details of which are provided below.

In classifying each financial asset, the Group assesses:

- The objective of the business model in which the financial asset is held; and
- Whether the contractual cash flows of the financial asset are ‘solely payments of principal and interest’ (SPPI).

Financial assets are reclassified when, and only when, the Group changes its business model for managing the assets.

### Business model assessment

The Group’s business model assessment is made at a portfolio level as this best reflects the way the business is managed and how information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management’s strategy focuses on earning contractual interest income, matching the duration of the financial assets to the duration of any related liabilities or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group’s management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group’s continuing recognition of the assets.

# 1. Accounting policies (continued)

### 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 1h)), 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.

# 1. Accounting policies (continued)

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 20a). 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 1h) 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.

# 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 44b). The impact of applying reasonably possible alternative assumptions of certain inputs into the valuation of the portfolio is found in Note 1v).

Interest income on the equity release portfolio is recognised in the Income Statement on an effective interest basis. Fair value gains or losses on the portfolio are recognised within the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'. Realised losses recognised on redemption of loans within the portfolio are recognised within the Income Statement line 'Impairment and provisions'.

# 1. Accounting policies (continued)

## 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 44b). All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

In valuing derivatives used to hedge our mortgage and savings portfolios, the Group has not valued them as one net pool for market risk and credit risk management purposes as permitted under IFRS 13, but has valued each derivative individually.

# 1. Accounting policies (continued)

Interest on derivatives is included within interest receivable where the derivative economically hedges an asset and within interest expense where the derivative economically hedges a liability, to align the recognition with its economic purpose.

Fair value gains and losses on derivatives and hedged items that are posted to the Income Statement are recognised in the Income Statement line 'Fair value gains / (losses) on financial instruments mandatorily held at FVTPL'.

To the extent that the hedge is effective, unrealised fair value gains and losses on cash flow hedging derivatives are recognised in the cash flow hedging reserve.

Where the Group enters into a cross-currency swap, as is the case for the issuance of Euro-denominated covered bonds (see page 158), the Group recognises the movement in the fair value of these derivatives as follows:

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

### Equity share investments

Under IFRS 9 equity share investments are measured at FVTPL, except where an election is made at initial recognition to irrevocably designate an equity share investment that is not held for trading to be classified as FVOCI. The FVOCI election can be made on an instrument-by-instrument basis. The Group has made no FVOCI elections in respect of its existing equity share investments; the Group's equity share investments are therefore held at FVTPL. They are initially recognised at fair value, with subsequent changes in fair value being recognised in the Income Statement. Transaction costs are expensed to the Income Statement.

### Share warrants

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

### Debt securities

The Society holds in its Statement of Financial Position residential mortgage backed securities that were issued in previous periods by the Group's securitisation vehicles. Certain tranches of these securities are held at FVTPL because they fail the SPPI test due to an elevated level of credit risk relative to other tranches.

# 1. Accounting policies (continued)

## g) Financial liabilities

In accordance with IFRS 9, the financial liabilities of the Group are classified as measured at either amortised cost or FVTPL. A financial liability is classified as at FVTPL if it meets the definition of 'held for trading', which includes derivatives (except for derivatives that are financial guarantee contracts or which are designated and effective hedging instruments). On initial recognition the Group may irrevocably designate as FVTPL a financial liability that otherwise meets the requirements to be measured at amortised cost if so doing results in more relevant information; this can be either because it eliminates or significantly reduces an accounting mismatch that would otherwise arise, or because a group of financial liabilities is managed and evaluated on a fair value basis.

Financial liabilities at FVTPL are measured at fair value. Gains and losses, including any interest expense, are recognised in profit or loss unless the financial liability is one that was designated as FVTPL, in which case fair value changes are presented as follows:

- The amount of fair value change that is attributable to changes in the credit risk of the liability is presented in other comprehensive income (except where this would create or enlarge an accounting mismatch in profit or loss); and
- The remaining amount of fair value change is presented in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with any interest expense being recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The financial liabilities of the Group have been classified as set out below:

Borrowings, comprising shares, deposits and debt securities in issue, and subordinated liabilities are recognised initially at fair value, being the amounts deposited or proceeds issued, net of premia, discounts and transaction costs incurred. Borrowings and subordinated liabilities are subsequently measured at amortised cost using the effective interest method. Derivative liabilities and the fair value of the put option obligation are measured at fair value through profit or loss.

Permanent Interest Bearing Shares (PIBS) with no fixed maturity are classified as financial liabilities as opposed to equity instruments since their terms do not permit the Directors discretion to avoid the payment of interest, as the only instance where interest could not be paid on these instruments would be where capital levels are insufficient to allow such a payment to be made. PIBS are carried at amortised cost.

Where financial liabilities are hedged, the Group elects to use fair value hedging for those hedged financial liabilities. This treatment has been adopted to reduce the volatility that would otherwise exist given that the interest rate risk element of the underlying liabilities is economically hedged by derivatives which are held at fair value through profit or loss.

Within the Society's Statement of Financial Position, the deemed loan to the Society from Darrowby No. 6 plc (and in 2023 from Darrowby No. 5 plc) is measured at amortised cost; management considers that amortised cost best reflects the economic value of the deemed loan, which is based on the value of the pool of mortgages that is used as collateral for the securitisation transaction (and this pool is also held at amortised cost).

# 1. Accounting policies (continued)

## h) 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, as set out in Note 1f)). 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 (where a firm offer has been made to the customer);
- 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.

### 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. The assessment of impairment requires a number of estimates and assumptions, details of which are included in Note 1v). The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. 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 the measurement of ECLs relating to residential mortgages and to treasury assets, the Group typically assesses the probability of default, the expected exposure at the time of default, and the loss that is expected to arise on default. The probabilities of default are adjusted to take account of expected customer redemptions.

For commercial mortgages, the Group applies an average loss rate approach. A lifetime coverage ratio is calculated, based on cumulative losses to date divided by the total value of loan balances redeemed over that period. The lifetime coverage ratio is applied to accounts held in stage 2 and stage 3, discounted at each account's EIR, to determine expected lifetime losses. For stage 1 accounts, a 12-month coverage ratio is applied, discounted at each account's EIR, to determine expected 12-month losses. For accounts held in stage 3, additional account-specific impairment is typically held based on management judgement. Due consideration is given to the impact of forward-looking information, including a range of possible future economic scenarios; where appropriate, the level of impairment held is adjusted accordingly.

For debt factoring advances, stage 1 ECLs are based on an average 12-month loss rate as adjusted for forward-looking assessments and other pertinent factors. For accounts held in stage 2 / stage 3, account-specific allowances are held based on management judgement.

# 1. Accounting policies (continued)

For trade receivables, the Group typically applies a simplified approach whereby, as permitted by IFRS 9, the level of impairment held is always based on lifetime ECLs. This approach includes the use of provision matrices based on historical credit loss experience, as adjusted for forward-looking factors.

For loan commitments where a firm offer has been made, ECLs are measured by the Group at 12-month losses 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 Internal Ratings Based (IRB) approach for regulatory capital purposes.

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

• 'Stage 1' - Assets for which a 12-month ECL is recognised;

• 'Stage 2' - Assets for which a lifetime ECL is recognised where there has been a 'significant increase in credit risk' but which are not credit-impaired;

• 'Stage 3' - Assets for which a lifetime ECL is recognised and which are 'credit-impaired'.

The Group's definitions of 'significant increase in credit risk' and 'credit-impaired' are detailed below. IFRS 9 includes specific requirements for financial assets that are credit-impaired when initially purchased or originated (POCI assets). For POCI assets, an entity recognises only the cumulative change in lifetime ECLs since initial recognition, discounted by the credit-adjusted effective interest rate. For POCI assets, interest revenue is accounted for using the credit-adjusted effective interest rate. The Group had no POCI assets during the current or prior period.

### 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 SIL'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 a central scenario and a downside scenario. Further details are included in Note 1v).

### 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.

For relevant models, 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). Exposures are monitored and the credit risk assessment is updated to reflect current information on an ongoing basis.

# 1. Accounting policies (continued)

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 1v);

• the account is in a current state of forbearance (page 169);

• the account is in arrears (no minimum);

• the account term has expired; or

• the account has a temporary arrangement in place, arranged via the Mortgage Charter Scheme, to repay interest only.

For commercial mortgages, the Group considers that credit risk has significantly increased when an account is in arrears (no minimum) or is in a current state of forbearance.

For residential and commercial mortgages, the above criteria for assessing significant increase in credit risk ensures compliance with IFRS 9's backstop of more than 30 days past due.

For debt factoring advances, the Group considers that credit risk has significantly increased when an account is placed on a watchlist.

For treasury assets, the Group applies criteria that consider the relative increase in the asset's lifetime PD, by reference to external credit ratings where available. Notwithstanding these criteria, the Group considers that credit risk has not increased significantly for any treasury asset that is determined to have 'low' credit risk at the reporting date. The Group considers a treasury asset to have low credit risk when its credit rating is equivalent to the globally understood definition of 'investment grade'.

The Society's Statement of Financial Position includes loans to subsidiary undertakings that are repayable on demand. For these loans, the Society considers that credit risk has significantly increased when the subsidiary undertaking no longer has sufficient liquid assets to repay the loan if demanded at the reporting date or where other factors indicate that, in the judgement of management, a significant increase in credit risk has occurred; this assessment takes into account the specific characteristics of each subsidiary loan and the subsidiary's own business.

### Definition of default

For residential mortgages, the Group's definition of default is aligned with its existing IRB definition of default for regulatory capital purposes. For IFRS 9 accounting purposes, stage 3 loans which no longer meet any of the default criteria are subject to a six month minimum probation period before they become eligible for transfer out of stage 3. Default occurs when one or more of the following criteria is met:

- The borrower is 90 days or more past due on their contractual payments.
- The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. The instances are:
    - the loan is in repossession;
    - the borrower has filed for bankruptcy;
    - at least two payments are in arrears and forbearance activity has been applied; or
    - other evidence is available that the customer is not going to be able to meet their loan commitments.

# 1. Accounting policies (continued)

For commercial mortgages, stage 3 loans which no longer meet any of the default criteria are subject to a three month minimum probation period before they become eligible for transfer out of stage 3. Default occurs when one or more of the following criteria is 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.

For debt factoring advances, the Group considers that an account is in default when there is no reasonable expectation of recovery, typically due to financial difficulties of the customer.

### 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, typically due to financial difficulties of the customer.

To assess whether sovereign and corporate debt instruments are credit-impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

To assess whether trade receivables are credit-impaired, the Group considers factors such as the ageing profile, historical default rates and specific case knowledge.

### Forbearance

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

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

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.

# 1. Accounting policies (continued)

### 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.

## i) 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 (an example of a loan modification event for which the Group typically does not apply derecognition is the application of forbearance strategies). 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. For residential mortgages, 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).

### 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 1d).

Financial liabilities are derecognised only when the obligation is discharged, cancelled or has expired.

# 1. Accounting policies (continued)

### 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 2024 the Group has offset £18.0m (31 December 2023: £22.6m) 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.

### j) 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.

### 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.

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.

# 1. Accounting policies (continued)

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.

### Pillar Two Model Rules

In December 2021 the Organisation for Economic Co-operation and Development (OECD) published detailed rules to assist in the development of a landmark reform to the international tax system, including 'Pillar Two' tax rules which will apply to multinational enterprises with consolidated annual revenues of more than €750m and which seek to impose a minimum effective tax rate of 15% on each tax jurisdiction in which those enterprises operate.

IAS 12 *Income Taxes* does not offer specific guidance on accounting for Pillar Two income taxes; it is unclear whether the Pillar Two model rules create additional temporary differences, whether to remeasure deferred taxes for the Pillar Two model rules and which tax rate to use to measure deferred taxes. Further, the tax rate that will apply to an entity's excess profit in future periods depends on a number of factors that are difficult to forecast reliably.

In May 2023 the IASB published *International Tax Reform — Pillar Two Model Rules (Amendments to IAS 12)*. The Amendments introduce a temporary mandatory exception, applicable immediately and retrospectively, from accounting for deferred taxes that arise from the Pillar Two model rules and a requirement to disclose that the exception has been applied. The Group has, for the years ended 31 December 2024 and 31 December 2023, applied the aforementioned exception from accounting for deferred taxes that arise from the Pillar Two model rules.

## 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.

# 1. Accounting policies (continued)

### 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.

## 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 was previously a hybrid scheme prior to closure of the direct contribution element during 2023). Each scheme is administered by a corporate Trustee and the funds of these schemes are separate from those of the Group.

Included within the Statement of Financial Position are the Group's net obligations in respect of the defined benefit pension schemes. The obligation of each scheme is calculated separately by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods.

That benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is based on the average yield available from AA-rated corporate bonds of appropriate duration. The calculation is performed by a qualified actuary using the projected unit credit method.

Net interest income for the defined benefit schemes comprises interest income on plan assets, less the interest cost on the scheme liabilities, and interest on the effect of the asset ceiling. Net interest income relating to the defined benefit pension schemes is recognised in 'Other operating income' in the Income Statement.

# 1. Accounting policies (continued)

Remeasurements of retirement benefit obligations, which comprise actuarial gains or losses (arising from the differences between previous actuarial assumptions and actual experience), the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised in the Statement of Comprehensive Income.

Service costs are recognised immediately in the Income Statement. When a plan is curtailed, the resulting gain or loss on settlement is also recognised immediately in the Income Statement. The Group recognises gains or losses on the settlement of a retirement benefit obligation when the settlement occurs.

Contributions are transferred to the schemes on a regular basis to secure the benefits provided under the rules of the schemes. Pension contributions are assessed in accordance with the advice of a professionally-qualified actuary.

## n) Fees and commissions

The Group recognises fees and commissions receivable in accordance with IFRS 15 *Revenue from Contracts with Customers*. Revenue is measured based on the consideration specified in a contract with a customer.

### Financial advice fees and commissions

Fees and commissions receivable from financial advice are recognised when both the customer has formally accepted and all of the advice within their case has been contracted in the financial markets. A provision for future clawbacks is made for repayment in the event of early termination by the customer.

### Estate agency services

Estate agency commissions earned on the sales of properties and land and auction income are recognised on the date contracts are exchanged unconditionally. Property management income is 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.

# 1. Accounting policies (continued)

### 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 year |
| Refurbishment of freehold and long leasehold buildings | 5 to 10 year |
| Short leasehold buildings | Period of lease |
| Equipment, fixtures and fittings | 2 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 operating 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.

### 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; it 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 operating income' in the Income Statement.

Any gain or loss on disposal of investment property is also recognised in 'Other operating income'.

# 1. Accounting policies (continued)

### 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 32.

### u) 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.

### v) 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 1d).

#### 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.

# 1. Accounting policies (continued)

### 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, term expired or has a temporary arrangement in place (via the Mortgage Charter Scheme) to repay interest only. 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 1h).

### Commercial loans

The Group's commercial loans portfolio has been closed to new business since 2008; as the remaining loan accounts reduce and mature over time, it has become less meaningful to operate an impairment model that is determined by inputs such as probability of default (PD), loss given default (LGD), forced sale discount (FSD) and cure rate. In response, management has revised the judgements and estimates that are applied by the Group for the purposes of assessing commercial loan impairment. These changes have been applied in the year ended 31 December 2024 and are summarised as follows:

- Previous approach

    Management judged that credit risk had significantly increased when an account was in arrears of at least 50% of the contractual monthly payment, had a live forbearance arrangement in place or was placed on a watchlist.

    The Group's commercial loan impairment model measured expected credit losses (ECLs) by reference to model inputs that included PD, LGD, FSD and cure rate.

- Revised approach

    Management judges that credit risk has significantly increased when an account is in arrears (no minimum) or has a live forbearance arrangement in place. When there is other evidence available that the borrower will be unable to meet their loan commitments, the account is deemed to be in default and thus transfers to Stage 3; in such cases, account specific impairment is held based on management judgement.

    The Group has adopted a Loss Rate method to measure commercial loan ECLs (as permitted by IFRS 9 *Financial Instruments*). Under this method, a loss rate is calculated based on the Group's average commercial losses since closure of the portfolio in 2008. A 12-month loss rate is applied to Stage 1 accounts and a lifetime loss rate is applied to Stage 2 / Stage 3 accounts. As noted above, for Stage 3 accounts the resulting ECL is adjusted for any account-specific impairment based on management judgement.

The impact of the above changes on the Income Statements for the year ended 31 December 2024 is to increase Group profit before tax by £0.2m and to increase Society profit before tax by £0.2m.

### 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.

# 1. Accounting policies (continued)

Estimates and assumptions are evaluated on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key estimates and assumptions are set out below.

### Impairment of residential mortgages

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.

For residential mortgages, ECLs are measured by multiplying together the PD, EAD and LGD, and are discounted using the loan's original effective interest rate. EAD is derived by adjusting the current outstanding loan amount for expected cashflows to the date of default. LGD is estimated on a discounted cash flow basis using the effective interest rate. The Group's LGD models consider factors including historical recovery rates and possible future property price changes.

Credit risk information is collected by the Group, based on a range of qualitative and quantitative data considered to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. The Group's PD models use the relevant information to generate estimates of the remaining lifetime PD of exposures and how these are expected to change over time. The PDs are adjusted to take account of expected customer redemptions and also for the impact of forward-looking information.

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

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

For residential mortgages, the assessment of whether credit risk has significantly increased includes assessing the degree by which the remaining lifetime PD at the reporting date has increased compared to initial estimates. The Group determines thresholds for this purpose, expressed as a multiple of the initial PD estimate. The thresholds vary according to the credit quality of the loan at initial recognition and they are set with the aim of identifying accounts with significant increase in credit risk (SICR) before the borrower misses a payment. The Group periodically reviews the effectiveness of the SICR criteria in achieving this objective. The multiples applied by the Group, which remain unchanged since the prior year end, are set out below.

**Multiple by which remaining lifetime PD has increased compared with initial estimate**

| Lifetime OD band and initial recognition | Applied at 31 December 2024 | Applied at 31 December 2023 |
|---|---|---|
| Slight risk | Initial estimate x 9 | Initial estimate x 9 |
| Low risk | Initial estimate x 5 | Initial estimate x 5 |
| Medium risk | Initial estimate x 4 | Initial estimate x 4 |
| High risk | Initial estimate x 1 | Initial estimate x 1 |

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

# 1. Accounting policies (continued)

### Impairment of commercial loans

As described on page 177, the Group has during the year revised its approach to assessing commercial loan impairment. Prior to these changes, management considered that the most critical estimates and assumptions in assessing commercial loan impairment were the criteria for significant increase in credit risk, the downside scenario weighting and the rate of future commercial property price growth. Following the changes, management considers the most critical estimates and assumptions to be the lifetime loss rate and any account-specific impairment based on management judgement.

### 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 1h), 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 2024 were determined with due consideration to continued economic uncertainty, including the impacts of changes in the political landscape (domestic and global) and the ongoing events in Ukraine and the Middle East.

The Group's central scenario as at 31 December 2024 assumes the UK economy sees minimal growth in 2024 and 2025. Whilst a period of real wages growth has given some respite to households, pressures remain with borrowing rates higher than pre-COVID rates. Unemployment remains fairly stable into the medium-term. Businesses continue to feel the impacts of inflation and rising wage bills. Inflation ends 2024 slightly above the 2% target; pressures remain and it continues to run generally above target until the start of 2027. The Bank of England continues steady Base Rate reductions, levelling at 3.75% from mid 2026 into the medium-term. House prices grow in 2024, with higher increases in 2025 and 2026.

The Group's upside scenario as at 31 December 2024 assumes the economy grows strongly in 2025. Inflation is maintained at the 2% target throughout the forecast period, allowing the Bank to hold interest rates at 3.50% from mid 2025 and into the medium-term. Consumer confidence rises and unemployment remains low. House price growth recovers quickly, with strong growth into the medium-term.

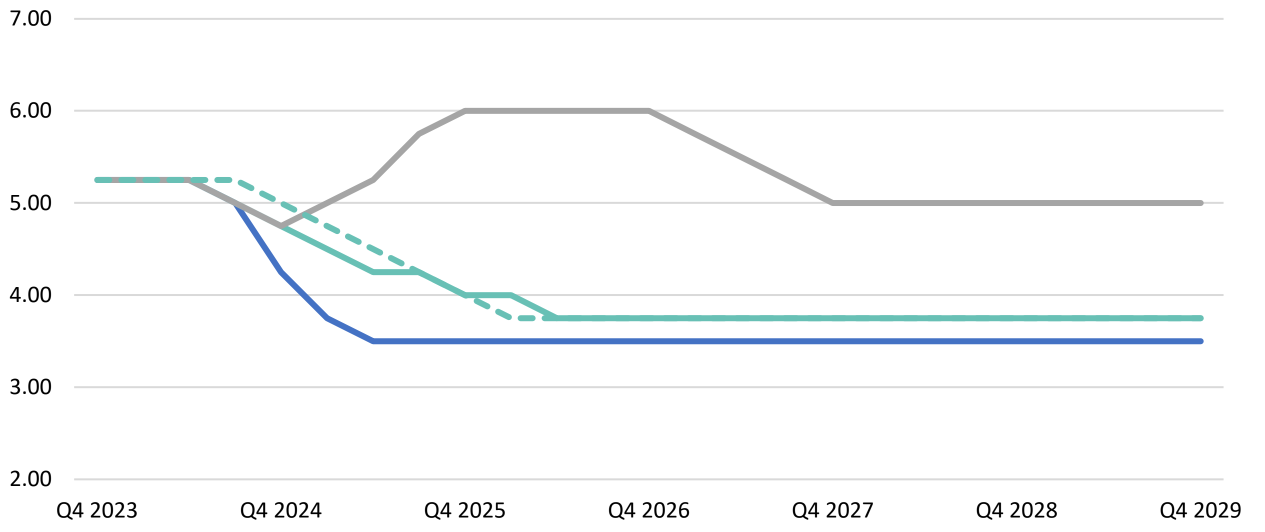
The Group's downside scenario as at 31 December 2024 assumes the US government introduces significant tariffs on imports from large economies (including the UK), and also tightens immigration controls that lead to worker shortages; the impacts are felt globally, with the UK seeing increases in both inflation and Base Rate. An adverse weather event in 2025 causes food supply issues, resulting in further food inflation. Unemployment increases and remains elevated throughout the forecast period. With Base Rate remaining higher for a sustained period, the impact on affordability is significant and house prices fall in 2025, 2026 and 2027; recovery is slow such that the overall impact on the housing market is severe.

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.

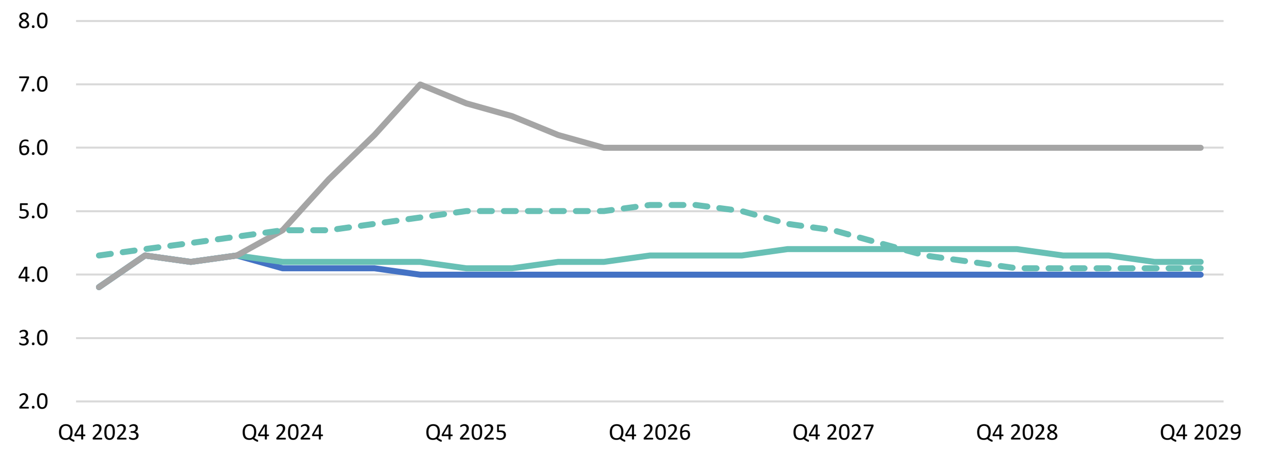
The graphs below show the historical and forecasted UK Bank Base Rate, unemployment rate and indexed residential house prices for the Group's three economic scenarios as at 31 December 2024, along with the prior year central scenario for context. The indexed residential house price graph uses a starting value of 100 in the fourth quarter of 2023 for illustrative purposes to show how a property value moves over time when the annual house price inflation (UK) assumptions are applied.

# 1. Accounting policies (continued)

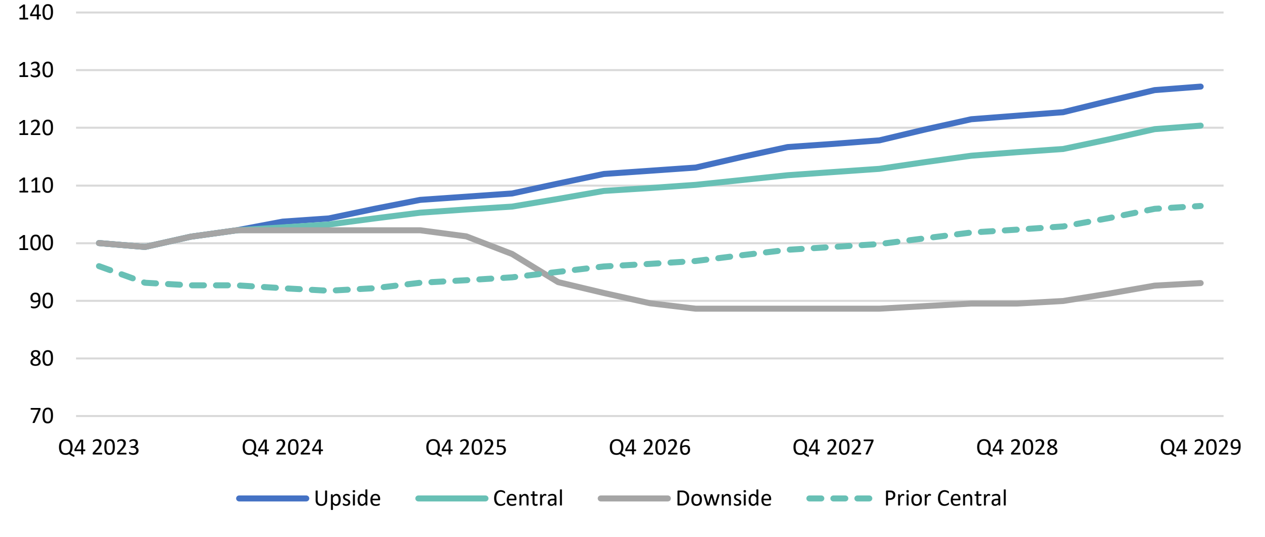
### UK Bank Base Rate (%)




### Unemployment rate (%)




### Indexed residential house price



# 1. Accounting policies (continued)

### Economic Variables

| As at 31 December 2024 | Note | Scenario | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|
| Bank of England Base Rate (%) | A | Upside | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| | | Central | 4.00 | 3.75 | 3.75 | 3.75 | 3.75 |
| | | Downside | 6.00 | 6.00 | 5.00 | 5.00 | 5.00 |
| Unemployment (%) | A | Upside | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| | | Central | 4.1 | 4.3 | 4.4 | 4.4 | 4.2 |
| | | Downside | 6.7 | 6.0 | 6.0 | 6.0 | 6.0 |
| UK House price inflation (%) | B | Upside | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 |
| | | Central | 3.0 | 3.5 | 2.5 | 3.0 | 4.0 |
| | | Downside | (1.0) | (11.5) | (1.0) | 1.0 | 4.0 |

| As at 31 December 2023 | Note | Scenario | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|
| Bank of England Base Rate (%) | A | Upside | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| | | Central | 5.00 | 4.00 | 3.75 | 3.75 | 3.75 |
| | | Downside | 5.00 | 2.50 | 2.00 | 2.00 | 2.00 |
| Unemployment (%) | A | Upside | 4.1 | 4.0 | 4.0 | 4.0 | 4.0 |
| | | Central | 4.7 | 5.0 | 5.1 | 4.7 | 4.1 |
| | | Downside | 9.0 | 7.2 | 6.6 | 6.0 | 6.0 |
| UK House price inflation (%) | B | Upside | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 |
| | | Central | (4.0) | 1.5 | 3.0 | 3.0 | 3.0 |
| | | Downside | (15.6) | 1.9 | 4.0 | 4.0 | 4.0 |
| Commercial property price growth (%) | C | Upside | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| | | Central | (8.7) | (4.5) | 1.0 | 1.0 | 1.0 |
| | | Downside | (18.6) | (3.2) | 0.0 | 0.0 | 0.0 |

**Notes**

A. The Bank of England Base Rates and unemployment rates are the position at 31 December each year.

B. House price inflation is the annual growth rate in each year. In addition to house price inflation, the Group's residential 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.

C. Commercial property price growth is 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. Following revisions in 2024 to the Group's commercial loan impairment model (as set out on page 177), the Group no longer requires a view of future commercial property price growth (as this metric is not a relevant input for the revised model).

# 1. Accounting policies (continued)

**Economic variables (peak or trough over 5 year forecast period)**

| | Note | Scenario | 2024 | 2023 |
|---|---|---|---|---|
| **Bank of England Base Rate (%)** | **A** | Upside | **3.50 / 4.25** | 3.50 / 5.25 |
| | | Central | **3.75 / 4.75** | 3.75 / 5.25 |
| | | Downside | **4.75 / 6.00** | 2.00 / 6.50 |
| **Unemployment (%)** | **B** | Upside | **4.1** | 4.1 |
| | | Central | **4.4** | 5.1 |
| | | Downside | **7.0** | 9.0 |
| **UK House price inflation (%)** | **C** | Upside | **22.6 / 0.0** | 22.6 / 0.0 |
| | | Central | **17.2 / 0.0** | 6.6 / (4.4) |
| | | Downside | **0.0 / (13.3)** | 0.0 / (16.0) |
| **Commercial property price growth (%)** | **C** | Upside | **N/A** | 10.4 / 0.0 |
| | | Central | **N/A** | 0.0 / (12.8) |
| | | Downside | **N/A** | 0.0 / (21.2) |

**Notes**

A. For Bank of England Base Rate is shown the lowest/highest rate that occurs at any time during the 5 year forecast period.

B. For unemployment is shown the highest rate that occurs at any time during the 5 year forecast period.

C. For house price inflation is shown the largest cumulative growth/fall from 1 January 2025 (2023: from 1 January 2024 for house price inflation and for commercial property price growth) over the 5 year forecast period.

The relative weightings assigned to each scenario have also been revised during the period taking into account the severity of the Group's scenarios; the scenarios have been updated with due consideration to continued economic uncertainty, including the impacts of changes in the political landscape (domestic and global) and the ongoing events in Ukraine and the Middle East. The Group's scenario weightings as at 31 December 2024 were 60% for the central scenario, 10% for the upside scenario and 30% for the downside scenario (31 December 2023: central scenario 55%, upside scenario 10%, 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, judgmental adjustments are included within ECLs to reflect identified risks not captured in model outputs; these adjustments are made through either:

- Post-model adjustments (PMAs) – adjustments to the ECL model output which are typically calculated, and allocated, at a granular level through modelled analysis; or
- Overlays – adjustments to the ECL model output that have been made outside the detailed ECL calculation and reporting process; overlays are likely not to meet the definition of PMAs (for example, they may not be calculated at a granular level through modelled analysis).

Each material judgmental adjustment is subject to review and challenge by the Society's Loan Impairment Working Group, subject to approval by the Retail Credit Committee and subject to oversight by the Board Audit Committee.

# 1. Accounting policies (continued)

With respect to residential mortgages, the Group and the Society held judgmental adjustments as at 31 December 2024 as follows:

| Residential ECLs – Judgmental adjustments | | Group (£m) | | Society (£m) | |
|---|---|---|---|---|---|
| | Notes | **2024** | 2023 | **2024** | 2023 |
| Model Risk – downturn | A | **1.3** | 4.5 | **1.3** | 4.5 |
| Model Risk – base rate | B | **-** | 5.3 | **-** | 5.3 |
| Affordability | C | **-** | 2.8 | **-** | 2.4 |
| Flats subject to fire safety risks | D | **1.4** | 1.3 | **1.4** | 1.3 |
| Other | | **-** | 0.3 | | 0.3 |
| | | **2.7** | 14.2 | **2.7** | 13.8 |

Notes

A. This PMA is held to address model risk in the downturn scenario where key assumptions are expected to behave differently in a recession; there is currently insufficient data available to establish, and thus to model, robust relationships for these assumptions. The PMA was derived by considering the reduction in redemption rates and reduction in cure rates (following default) as observed during the global financial crisis 2007-2008; these were applied to the model, on a judgement basis, to understand the impact to model outputs.

B. This PMA was previously held to address the risk of delayed default emergence where there is a time lag before mortgage customers feel the impact of Base Rate rises. The PMA was derived by assessing the impact on model outputs of applying a time lag to the inputted Base Rate assumptions. Based on updated economic assumptions, the impact at 31 December 2024 is not material and model monitoring demonstrates that the PMA is no longer enhancing model performance. Whilst the potential risk of increased default emergence remains, management considers this risk to be adequately captured by the Group's ECL models; no PMA is therefore held at 31 December 2024.

C. This PMA was previously held to address the risk of delayed default emergence due to the impact of the higher inflationary environment on mortgage affordability. Model monitoring demonstrates that this PMA is no longer enhancing model performance. Whilst the potential risk of increased default emergence remains, management considers this risk to be adequately captured by the Group's ECL models; no PMA is therefore held at 31 December 2024.

D. This PMA is held to reflect the risks associated with flats subject to fire safety risks such as unsuitable cladding. Due to limited available data to identify affected properties individually, an assumption is made, in line with UK market exposure estimates, regarding the affected proportion of flats in the Group / Society's residential portfolio; assumptions relating to property values have also been applied.

# 1. Accounting policies (continued)

To give an indication of the sensitivity of ECLs to different economic scenarios, the tables below show what the ECL would be if a 100% weighting is applied to each scenario. The tables also show for each scenario what percentage share of gross loan exposures would be held in each of Stage 1 and Stage 2.

| 2024 | Notes | Scenario weighting (%) | | | ECL (£m) (Note A) | | | | Share of Gross Exposures (%) (Note B) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Upside | Central | Downside | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 |
| **Residential** | | | | | | | | | | |
| **Actual probability weighted ECL** | | 10 | 60 | 30 | 4.5 | 2.5 | 6.5 | 13.5 | 98.5 | 1.1 |
| **100% upside** | | 100 | - | - | 2.2 | 1.1 | 4.7 | 8.0 | 98.6 | 1.0 |
| **100% central** | | - | 100 | - | 2.7 | 1.3 | 5.0 | 9.0 | 98.6 | 1.0 |
| **100% downside** | | - | - | 100 | 8.1 | 5.4 | 8.6 | 22.1 | 98.2 | 1.4 |
| **Commercial** | | | | | | | | | | |
| **Actual probability weighted ECL** | | 10 | 60 | 30 | 0.2 | 0.2 | 4.3 | 4.7 | 82.2 | 5.2 |
| **100% upside** | C, D | 100 | - | - | 0.2 | 0.2 | 4.3 | 4.7 | 82.2 | 5.2 |
| **100% central** | C, D | - | 100 | - | 0.2 | 0.2 | 4.3 | 4.7 | 82.2 | 5.2 |
| **100% downside** | C, D | - | - | 100 | 0.2 | 0.2 | 4.3 | 4.7 | 82.2 | 5.2 |

| 2023 | Notes | Scenario weighting (%) | | | ECL (£m) (Note A) | | | | Share of Gross Exposures (%) (Note B) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Upside | Central | Downside | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 |
| Residential | | | | | | | | | | |
| Actual probability weighted ECL | | 10 | 55 | 35 | 16.2 | 6.0 | 6.8 | 29.0 | 97.7 | 2.1 |
| 100% upside | | 100 | - | - | 4.2 | 2.3 | 3.6 | 10.1 | 98.2 | 1.5 |
| 100% central | | - | 100 | - | 8.3 | 4.4 | 5.6 | 18.3 | 98.0 | 1.8 |
| 100% downside | | - | - | 100 | 17.6 | 10.4 | 23.7 | 51.7 | 95.7 | 4.0 |
| Commercial | | | | | | | | | | |
| Actual probability weighted ECL | | 10 | 55 | 35 | 0.6 | 6.6 | 1.8 | 9.0 | 67.4 | 28.0 |
| 100% upside | C | 100 | - | - | 0.6 | 4.4 | 1.6 | 6.6 | 67.4 | 28.0 |
| 100% central | C | - | 100 | - | 0.6 | 5.7 | 1.7 | 8.0 | 67.4 | 28.0 |
| 100% downside | C | - | - | 100 | 0.7 | 8.6 | 1.8 | 11.1 | 67.4 | 28.0 |

**Notes**

A. For the purposes of calculating each scenario's 100% weighted ECL, each loan is allocated to a stage by considering only that scenario. For the purposes of the actual probability-weighted ECL, each loan's stage allocation is based on a weighted average PD (that takes account of all scenarios) and this stage allocation is held constant across the scenarios; a probability-weighted 12 month or lifetime ECL (which also takes account of all scenarios) is then calculated for each loan based on that stage allocation.

B. For the purposes of this analysis, gross exposures include the off-balance sheet loan commitments for which the Group holds ECLs (see Note 1h)).

C. For the Commercial portfolio, the staging of gross exposures is driven by arrears, watchlist cases and sector factors; the share of gross exposures held in each stage does not therefore vary according to scenario weightings.

D. For the Commercial portfolio, the Group has applied a revised approach to assessing impairment with effect from the year ended 31 December 2024 (see page 177 for details). Under this revised approach, commercial ECLs do not vary according to scenario weightings.

# 1. Accounting policies (continued)

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.

**Impact on impairment loss allowance of changes to assumptions**

| Residential | | | Group (£m) | | Society (£m) | |
|---|---|---|---|---|---|---|
| | Notes | Changes to assumption | Increase / (decrease) in impairment loss allowance | | | |
| | | | **2024** | 2023 | **2024** | 2023 |
| Downside scenario weighting | A | Absolute increase of 10% | **0.7** | 3.5 | **0.7** | 3.3 |
| Significant increase in credit risk criteria | B | Relative reduction by 25% | **0.1** | 0.4 | **0.1** | 0.4 |
| Future house price inflation | C | + / - 0.5% pa | **(0.5) / 0.6** | (1.2) / 1.3 | **(0.4) / 0.5** | (1.1) / 1.3 |
| Unemployment | D | + / - 0.5% pa | **0.5 / (0.4)** | 2.8 / (2.3) | **0.5 / (0.4)** | 2.8 / (2.3) |

**Notes**

A. This sensitivity shows the impact of an increase of 10% to the probability weighting assigned to the downside scenario, from 30% to 40% (2023: from 35% to 45%), with a relative decrease to the probability weighting assigned to each of the central case and upside scenarios.

B. As outlined above, the assessment of whether credit risk has significantly increased since initial recognition includes the degree by which the remaining lifetime PD at the reporting date has increased compared to initial estimates. This sensitivity shows the impact of simultaneously reducing each multiplier threshold by 25%.

C. This sensitivity shows the impact if annual house price inflation in each future year was 0.5% higher / lower than the assumptions applied by the Group or Society.

D. This sensitivity shows the impact if unemployment rates in each future year were 0.5% higher / lower than the assumptions applied by the Group or Society.

Management has revised during the year the judgements and estimates that are applied by the Group for the purposes of assessing commercial loan impairment (see page 177 for details). Following the changes, management considers the most critical estimates and assumptions to be the lifetime loss rate and any account-specific impairment based on management judgement.

| Commercial | | | Group (£m) | | Society (£m) | |
|---|---|---|---|---|---|---|
| | Notes | Changes to assumption | Increase / (decrease) in impairment loss allowance | | | |
| | | | **2024** | 2023 | **2024** | 2023 |
| Lifetime Loss Rate | A | + / - 1% | **0.2 / (0.2)** | N/A | **0.2 / (0.2)** | N/A |

**Notes**

A. The Group has during the year adopted a Loss Rate method to measure commercial loan impairment (see page 177) for details). This sensitivity shows the impact of an increase / decrease of 1% to the Lifetime Loss Rate. This sensitivity is not applicable to the comparative year shown as the Loss Rate method was not applied in that earlier period.

B. The table above does not include a sensitivity for account-specific impairment based on management judgement. This element of impairment is, by nature, a discrete assessment for which there is no meaningful or representative variable. At 31 December 2024 the total commercial impairment allowance held included £4.2m (Group and Society) in respect of account-specific impairment based on management judgement (2023: Group and Society £5.3m).

### 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 2024, the relative weightings assigned to each scenario were 95% for the central scenario and 5% for the downside scenario (2023: central scenario 95%; downside scenario 5%).

## 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.

| Impact on impairment allowance of changes to assumptions | | Group (£m) | | Society (£m) | |
|---|---|---|---|---|---|
| Assumption | Change to current assumption | Increase in impairment allowance | | | |
| | | **2024** | 2023 | **2024** | 2023 |
| Downside scenario weighting | Absolute increase of 10% | **0.1** | 0.1 | **0.1** | 0.1 |
| Downside scenario weighting | Increase to 100% | **1.1** | 1.2 | **1.1** | 1.1 |

### Valuation of equity release portfolio

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

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

The expectations of the economic inputs that require management judgement are in line with the economic environment that forms the central scenario as outlined on page 179; further detail on the movements in the portfolio in the year can be found in Note 18.

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% (2023: 13%) is used; the property volatility assumption considers index volatility, adjustments for autocorrelation, basis risk and concentration risk, and is not used in conjunction with a dilapidation assumption.

At 31 December 2024 the equity release portfolio is held in the Statement of Financial Position (Group and Society) at fair value of £277.2m (2023: £293.3m). The table below outlines the impact of reasonably possible alternative assumptions of key inputs which rely on management judgement and are not market observable.

| Impact on fair value of portfolio of changes to assumptions | | Group and Society (£m) | |
|---|---|---|---|
| Assumption | Change to current assumption | (Decrease) / Increase in portfolio fair value | |
| | | 2024 | 2023 |
| Redemption rates | + / - 1% pa | **(0.4) / 0.5** | (1.3) / 1.5 |
| Illiquidity premia | + / - 0.2% pa | **(4.3) / 4.4** | (4.9) / 5.1 |
| HPI forecast | + / - 0.5% pa | **4.0 / (4.3)** | 5.2 / (5.5) |
| Property volatility | + / - 1% pa | **(2.6) / 2.6** | (3.0) / 3.0 |
| RPI volatility | + / - 0.5% pa | **(1.0) / 0.6** | (0.9) / 0.5 |

For each of the above sensitivities there would be a corresponding charge / credit to the Income Statement within the line 'Fair value gains on financial instruments mandatorily held at FVTPL', arising from the decrease / increase in the fair value of the portfolio.

# 1. Accounting policies (continued)

The sensitivities are calculated by comparing the fair value of the portfolio, as reported within the Statement of Financial Position, to the value of the portfolio at the reporting date when each input is adjusted as listed above, as per the valuation model. Each sensitivity shown considers one change in isolation and the combined impact on the valuation of the portfolio of all sensitivities occurring would not necessarily be the sum of the impact of the individual sensitivities.

Analysis has been undertaken to identify the impact of climate-related risks on the Group's equity release portfolio. This includes scenario analysis assessing the potential impact of alternative paths for the key inputs of the HPI forecast and yield curves. It also includes analysis looking at the specific characteristics of the equity release loan book, including modelled data on property specific risks. The results of these assessments did not lead to a change in carrying amounts as at 31 December 2024 or 31 December 2023. 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.

| Impact on liability of changes to assumptions | | | Group & Society (£m) | |
|---|---|---|---|---|
| | | | (Decrease) / increase in liability | |
| Assumption | Notes | Change to current assumption | 2024 | 2023 |
| Redemption rates | A | + / - 1% pa | **(0.6) / 0.6** | (2.1) / 2.3 |
| RPI volatility | A | + / - 0.5% pa | **(2.0) / 1.5** | (2.3) / 1.8 |

**Note**

A. There would be a corresponding charge / credit to the Income Statement within the line 'Fair value gains on financial instruments mandatorily held at FVTPL', arising from the decrease / increase in the fair value of the derivative liabilities.

Any change in fair value of the derivative liabilities is offset to some extent by a corresponding but opposite change in the value of the equity release portfolio. The characteristics and the valuation requirements differ slightly between the derivatives and the equity release portfolio resulting in the changes in fair value not offsetting completely.

# 1. Accounting policies (continued)

### Goodwill

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

The forecasted cash flows of the cash generating units (CGUs) are based on the latest detailed five year corporate plans available and are sensitive to, inter alia, assumptions regarding the long-term growth pattern thereafter. The cash flows reflect management's view of future business prospects at the time of the assessment, which take into account management's most recent view of key economic indicators as well as wider prevailing circumstances. Further details regarding the key drivers of these cash flows, for each reportable segment to which goodwill has been allocated, are included in Note 24.

The discount rate used to discount the future expected cash flows is based on the cost of capital assigned to each reportable segment (see Note 24) and can have a significant effect on the underlying valuation. The cost of capital is derived from a weighted average cost of capital calculation which incorporates a number of inputs including the risk-free interest rate and a premium to reflect the inherent risk of the business being evaluated. These variables are subject to fluctuations in external markets and economic conditions which are not within management control; these inputs are therefore determined on the basis of management judgement.

Profit and cash flow forecasts are subject to inherent uncertainties, such as the impacts of physical and transition risks of climate change on the creditworthiness of borrowers, asset values, and other indirect effects including the erosion of the Group's competitiveness, profitability, or reputation.

Sensitivity disclosures are provided in Note 24.

### Other intangible assets

Other intangible assets (see Note 24) 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 24) and are judged by management to have an indefinite life. Management considers that the brands held have long and successful histories and have shown their ability to adapt to changing market trends. Further, continued investment in the brands by Connells Group helps to protect their value.

Where brands exist, the impairment test compares the carrying amount of the cash generating unit (CGU) (which comprises the CGU's net assets, plus any brands relating to that CGU and any goodwill allocated to that CGU) against its recoverable amount. Recoverable amount is determined as the higher of its fair value less costs to sell and its value in use.

As described above, the key assumptions for the value in use calculations are those regarding cash flows, discount rates and growth rates. These assumptions are reviewed on a regular basis, at least at every reporting date, by senior management and further detail on the key drivers of the underlying cash flows is shown in Note 24.

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.

Impairment of £0.7m (Group) and £nil (Society) was recognised against other intangible assets for the year ended 31 December 2024 (year ended 31 December 2023: Group £nil; Society £nil).

# 1. Accounting policies (continued)

## 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 34 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 34. Each sensitivity shown considers one change in isolation.

| Impact on liabilities of changes to assumptions | | Group (£m) | | Society (£m) | |
|---|---|---|---|---|---|
| Assumption | Changes to assumption | (Decrease) / increase in liabilities | | | |
| | | **2024** | 2023 | **2024** | 2023 |
| Discount rate | + / -0.25% pa | **(5.5) / 5.7** | (6.5) / 6.9 | **(2.5) / 2.7** | (3.0) / 3.2 |
| Rate of inflation | + / -0.5% pa | **3.9 / (3.7)** | 4.6 / (4.4) | **1.9 / (1.8)** | 2.2 / (2.1) |
| Rate of salary growth | + / -0.5% pa | **-** | - | **-** | - |
| Commutation allowance | + / -10% pa | **(0.1) / 0.1** | (0.5) / 0.6 | **-** | (0.2) / 0.2 |
| Life expectancy | + / -1 year | **6.0 / (6.2)** | 7.1 / (7.1) | **2.4 / (2.4)** | 2.8 / (2.8) |

The rate of salary growth has no impact on the pension liabilities as the schemes are closed to future accrual of benefit.

## 2. Interest receivable and similar income

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| **On financial assets held at amortised cost:** | | | | |
| On loans fully secured on residential property | **1,207.2** | 855.1 | **1,102.0** | 763.8 |
| On other loans and advances: | | | | |
| To subsidiary undertakings | **-** | - | **122.6** | 107.2 |
| Other | **26.9** | 25.1 | **8.3** | 9.0 |
| On other liquid assets | **140.9** | 170.9 | **138.9** | 167.8 |
| | **1,375.0** | 1,051.1 | **1,371.8** | 1,047.8 |
| **On financial assets held at FVOCI:** | | | | |
| On debt securities | **178.6** | 109.6 | **168.9** | 107.0 |
| **On financial instruments held at FVTPL:** | | | | |
| Net income on derivative financial instruments held to hedge assets in qualifying hedge accounting relationships | **516.2** | 585.7 | **516.2** | 585.7 |
| **Interest receivable and similar income accounted for using the effective interest rate method** | **2,069.8** | 1,746.4 | **2,056.9** | 1,740.5 |
| | | | | |
| **On financial instruments held at FVTPL:** | | | | |
| On loans and advances to customers | **0.1** | 0.1 | **0.1** | 0.1 |
| On equity release portfolio | **19.4** | 22.0 | **19.4** | 22.0 |
| On debt securities | **-** | - | **4.1** | 3.0 |
| Net income on derivative financial instruments held to hedge assets in non-qualifying hedge accounting relationships | **13.0** | 11.5 | **3.0** | - |
| **Other interest and similar income** | **32.5** | 33.6 | **26.6** | 25.1 |
| | | | | |
| **Total interest receivable and similar income** | **2,102.3** | 1,780.0 | **2,083.5** | 1,765.6 |

# 3. Interest payable and similar charges

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| **On financial liabilities held at amortised cost:** | | | | |
| On shares held by individuals | **1,081.7** | 697.8 | **1,081.7** | 697.8 |
| On shares held by others | **8.7** | 4.4 | **8.7** | 4.4 |
| On subscribed capital | **4.5** | 4.5 | **4.5** | 4.5 |
| On deposits and other borrowings: | | | | |
| Subordinated liabilities | **29.6** | 22.6 | **29.6** | 22.6 |
| Subsidiary undertakings | **-** | - | **71.1** | 70.4 |
| Wholesale and other funding | **322.9** | 306.8 | **196.2** | 210.2 |
| Lease liabilities | **3.1** | 2.3 | **0.3** | 0.3 |
| | **1,450.5** | 1,038.4 | **1,392.1** | 1,010.2 |
| **On financial instruments held at FVTPL:** | | | | |
| Net expense on derivative financial instruments held for hedging liabilities | **163.4** | 198.9 | **138.3** | 158.9 |
| Finance credit on put option liability | **-** | (0.1) | **-** | - |
| Deemed loans from Group undertakings | **-** | - | **145.9** | 137.8 |
| Total interest payable and similar charges | **1,613.9** | 1,237.2 | **1,676.3** | 1,306.9 |

# 4. Fees and commissions receivable

The tables below provide further information regarding the nature, amount and timing of fees and commissions receivable. IFRS 15 requires that revenue is recognised by the Group in a way that depicts the transfer of goods or services to customers; some revenue is therefore recognised at a point in time and some revenue is recognised over a period of time. Further details as to the revenue recognition policies applied to fees and commissions receivable by the Group are set out in Note 1n).

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| Group (£m) | Products and services transferred at a point in time | Products and services transferred over time | Total | Products and services transferred at a point in time | Products and services transferred over time | Total |
| Mortgage origination fees | 97.8 | 0.4 | **98.2** | 46.4 | 27.6 | 74.0 |
| Other mortgage related fees | 2.1 | - | **2.1** | 2.3 | - | 2.3 |
| General insurance income | 77.5 | 1.0 | **78.5** | 84.5 | 1.0 | 85.5 |
| Commissions earned on property sales | 320.4 | - | **320.4** | 275.6 | - | 275.6 |
| Commissions earned on property lettings | 146.3 | 101.3 | **247.6** | 108.9 | 121.3 | 230.2 |
| Commercial property services fees | 44.3 | 47.5 | **91.8** | 44.7 | 37.4 | 82.1 |
| Survey and valuation fees | 112.0 | - | **112.0** | 93.2 | - | 93.2 |
| Asset management commission | 20.8 | 0.2 | **21.0** | 15.3 | 0.1 | 15.4 |
| Conveyancing fees | 64.6 | - | **64.6** | 56.8 | - | 56.8 |
| Financial advice fees | 33.9 | - | **33.9** | 32.4 | - | 32.4 |
| Software and consultancy fees | - | 16.8 | **16.8** | - | 19.2 | 19.2 |
| Factoring and invoice discounting services | 15.5 | - | **15.5** | 14.3 | - | 14.3 |
| Other fees and commissions | 12.6 | 0.5 | **13.1** | 10.3 | 2.4 | 12.7 |
| **Total fees and commissions receivable** | **947.8** | **167.7** | **1,115.5** | 784.7 | 209.0 | 993.7 |

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| Society (£m) | Products and services transferred at a point in time | Products and services transferred over time | Total | Products and services transferred at a point in time | Products and services transferred over time | Total |
| Mortgage related fees | 1.9 | - | **1.9** | 2.1 | - | 2.1 |
| General insurance income | - | 1.0 | **1.0** | - | 1.0 | 1.0 |
| Financial advice fees | 33.0 | - | **33.0** | 31.5 | - | 31.5 |
| Other fees and commissions | 0.1 | - | **0.1** | - | - | - |
| **Total fees and commissions receivable** | **35.0** | **1.0** | **36.0** | 33.6 | 1.0 | 34.6 |

## 4. Fees and commissions receivable (continued)

The table below provides a reconciliation of fees and commissions receivable by the Group to the amounts presented by reportable segment in Note 45.

| | 2024 | | | | |
|---|---|---|---|---|---|
| Group (£m) | Society | SIL | Connells | Other^ | Total |
| Mortgage origination fees | - | - | 100.6 | (2.4) | **98.2** |
| Other mortgage related fees | 1.9 | 0.3 | - | (0.1) | **2.1** |
| General insurance income | 1.0 | - | 77.5 | - | **78.5** |
| Commissions earned on property sales | - | - | 320.4 | - | **320.4** |
| Commissions earned on property lettings | - | - | 247.6 | - | **247.6** |
| Commercial property services fees | - | - | 91.1 | 0.7 | **91.8** |
| Survey and valuation fees | - | - | 119.4 | (7.4) | **112.0** |
| Asset management commission | - | - | 21.0 | - | **21.0** |
| Conveyancing fees | - | - | 65.6 | (1.0) | **64.6** |
| Financial advice fees | 33.0 | - | - | 0.9 | **33.9** |
| Software and consultancy fees | - | - | - | 16.8 | **16.8** |
| Factoring and invoice discounting services | - | - | - | 15.5 | **15.5** |
| Other fees and commissions | 0.1 | - | 13.0 | - | **13.1** |
| **Fees and commissions receivable** | **36.0** | **0.3** | **1,056.2** | **23.0** | **1,115.5** |
| Fees and commissions payable and other operating income | 7.9 | - | (0.8) | (9.4) | **(2.3)** |
| **Net non-interest income** | **43.9** | **0.3** | **1,055.4** | **13.6** | **1,113.2** |

| | 2023 | | | | |
|---|---|---|---|---|---|
| Group (£m) | Society | SIL | Connells | Other^ | Total |
| Mortgage origination fees | - | - | 76.2 | (2.2) | 74.0 |
| Other mortgage related fees | 2.1 | 0.2 | - | - | 2.3 |
| General insurance income | 1.0 | - | 84.5 | - | 85.5 |
| Commissions earned on property sales | - | - | 275.6 | - | 275.6 |
| Commissions earned on property lettings | - | - | 230.2 | - | 230.2 |
| Commercial property services fees | - | - | 82.1 | - | 82.1 |
| Survey and valuation fees | - | - | 102.6 | (9.4) | 93.2 |
| Asset management commission | - | - | 15.4 | - | 15.4 |
| Conveyancing fees | - | - | 57.4 | (0.6) | 56.8 |
| Financial advice fees | 31.5 | - | - | 0.9 | 32.4 |
| Software and consultancy fees | - | - | - | 19.2 | 19.2 |
| Factoring and invoice discounting services | - | - | - | 14.3 | 14.3 |
| Other fees and commissions | - | 0.1 | 12.6 | - | 12.7 |
| Fees and commissions receivable | 34.6 | 0.3 | 936.6 | 22.2 | 993.7 |
| Fees and commissions payable and other operating income | 5.3 | - | (2.9) | (9.0) | (6.6) |
| Net non-interest income | 39.9 | 0.3 | 933.7 | 13.2 | 987.1 |

^ As described in Note 45, the 'Other' category comprises segments that are not separately reportable, together with the impact of Group consolidation adjustments. The Other category therefore includes amounts relating to all Group entities except for the Society, SIL and Connells. Amounts relating to Group consolidation adjustments includes intra-group adjustments in relation to intercompany trading.

# 5. Fair value gains on financial instruments mandatorily held at FVTPL

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Equity release portfolio (Note 18) | **(12.6)** | 9.2 | **(12.6)** | 9.2 |
| Derivatives associated with equity release portfolio (Note 18) | **21.9** | 1.8 | **21.9** | 1.8 |
| Equity share investments (Note 20d)) | **1.1** | 0.5 | **-** | - |
| Share warrants | **5.9** | 13.3 | **-** | - |
| Put options held by minority shareholders | **(0.3)** | 0.3 | **-** | - |
| Hedging instruments and hedged items | **2.0** | (1.6) | **6.9** | 4.7 |
| Other financial instruments | **-** | - | **(4.0)** | 5.0 |
| | **18.0** | 23.5 | **12.2** | 20.7 |

# 6. Other operating income

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Realised (losses) / profits on treasury assets held at FVOCI | **(1.8)** | 0.1 | **(1.8)** | 0.1 |
| Share of profits from joint ventures | **1.4** | 1.1 | **-** | - |
| Other | **3.6** | 1.7 | **11.2** | 8.7 |
| | **3.2** | 2.9 | **9.4** | 8.8 |

# 7. Administrative expenses

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| **Employee costs:** | | | | |
| Wages and salaries | **746.8** | 701.8 | **112.7** | 115.7 |
| Social security costs | **79.5** | 72.2 | **11.9** | 11.4 |
| **Pension costs:** | | | | |
| Defined contribution arrangements (Note 34) | **28.6** | 26.6 | **8.2** | 7.7 |
| Past service costs (Note 34) | **-** | (0.8) | **-** | (0.4) |
| | **854.9** | 799.8 | **132.8** | 134.4 |
| Other administrative expenses | **457.4** | 425.0 | **134.2** | 109.7 |
| Central administrative costs recharged to Group undertakings | **-** | - | **(5.0)** | (5.0) |
| Total administrative expenses | **1,312.3** | 1,224.8 | **262.0** | 239.1 |
| **Other administrative expenses comprise:** | | | | |
| Depreciation and amortisation (Notes 21, 22, 23 and 24) | **70.0** | 74.2 | **8.5** | 8.1 |
| Impairment losses on property, plant and equipment, right-of-use assets, investment property and intangible assets (Notes 21, 22, 23 and 24) | **3.1** | 2.3 | **-** | 0.2 |
| Impairment losses on trade receivables (Note 43c)) | **0.8** | 0.9 | **-** | - |
| Lease expense – items exempt from IFRS 16: | | | | |
| Short-term leases | **0.7** | 0.8 | **0.6** | 0.8 |
| Other property and establishment costs | **48.0** | 46.1 | **7.5** | 6.4 |
| Postage and communications | **6.9** | 6.8 | **6.6** | 6.5 |
| IT costs | **77.5** | 66.5 | **30.0** | 23.3 |
| Marketing and advertising | **69.6** | 64.3 | **15.6** | 12.2 |
| Insurance | **10.1** | 11.8 | **3.6** | 3.7 |
| Legal, professional and consultancy | **77.0** | 59.7 | **55.7** | 43.6 |
| Training, recruitment and other employee related costs | **59.7** | 59.8 | **5.4** | 4.4 |
| Costs of Connells' management incentive scheme (Note 31) | **(4.2)** | (0.3) | **-** | - |
| Other | **38.2** | 32.1 | **0.7** | 0.5 |
| **Total other administrative expenses** | **457.4** | 425.0 | **134.2** | 109.7 |

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).

| External auditor remuneration | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Audit of the Society and Group Annual Accounts | **1.2** | 1.1 | **1.2** | 1.1 |
| Audit of the Group's subsidiary undertakings' accounts pursuant to legislation | **2.5** | 2.4 | **-** | - |
| Audit-related assurance services | **0.2** | 0.3 | **0.2** | 0.3 |
| Total remuneration | **3.9** | 3.8 | **1.4** | 1.4 |

# 8. Impairment and provisions

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Impairment credits on loans and advances to customers (Note 17) | **17.1** | 3.1 | **17.0** | 4.4 |
| Impairment credits on liquid assets | **0.1** | 0.1 | **0.1** | 0.1 |
| Realised losses on equity release portfolio (Note 18) | **(1.8)** | (0.8) | **(1.8)** | (0.8) |
| Provisions for liabilities (Note 32) | **(3.7)** | 1.2 | **(4.9)** | (0.3) |
| | **11.7** | 3.6 | **10.4** | 3.4 |

# 9. Employee numbers

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

| | Group | | Society | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Society principal office | **2,001** | 1,939 | **2,001** | 1,939 |
| Society branches | **423** | 481 | **423** | 481 |
| Subsidiary undertakings | **15,592** | 15,757 | **-** | - |
| Total employee numbers | **18,016** | 18,177 | **2,424** | 2,420 |

# 10. Directors' emoluments

Directors' emoluments are set out within the Directors' Remuneration Report.

Total Directors' emoluments for 2024 amounted to £3.9m (2023: £3.3m).

## 11. Related party transactions

A number of transactions are entered into with related parties in the normal course of business; these are detailed below.

### Key management personnel

For the purposes of these disclosures, key management personnel comprises the Executive Directors and Non-Executive Directors of the Society, plus all other members of the Society's Executive Committee. Executive Committee members are, in addition to the Executive and Non-Executive Directors, responsible for ensuring the Society meets its strategic and operational objectives.

The table below summarises the benefits awarded to key management personnel in the year:

| | Group & Society (£m) | |
|---|---|---|
| | 2024 | 2023 |
| Salary, benefits and annual performance pay | **7.1** | 5.3 |
| Employer pension contributions | **0.3** | 0.2 |
| | **7.4** | 5.5 |

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:

| | Group & Society (£000) | |
|---|---|---|
| | 2024 | 2023 |
| Mortgage loans outstanding at 31 December 2024 | **643** | 1,019 |
| Savings balances at 31 December 2024 | **1,327** | 1,476 |

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

| | Group & Society (£000) | |
|---|---|---|
| | 2024 | 2023 |
| Interest receivable | **29** | 28 |
| Interest payable | **37** | 17 |

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 2024 there were three (2023: five) outstanding mortgage loans granted in the ordinary course of business amounting in aggregate to £643,129 (2023: £1,019,284) to three (2023: four) 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 £54.6m (2023: £35.0m) and £31.2m (2023: £9.4m) respectively to pension schemes.

# 11. Related party transactions (continued)

### Related party transactions

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

| | | Society (£m) | |
|---|---|---|---|
| | Notes | 2024 | 2023 |
| Rendering and receiving of services | | **0.1** | 0.1 |
| Recharges of central costs | | **5.0** | 5.0 |
| Interest receivable | | **122.6** | 107.2 |
| Interest payable | | **(217.0)** | (208.2) |
| Mortgage referral, valuation and legal fees | A | **(10.2)** | (11.2) |
| Other operating income | | **8.2** | 8.1 |
| Collateral transferred to funding vehicles | | **1,147.2** | 932.3 |
| Collateral transferred from funding vehicles | | **(67.0)** | (62.2) |
| Repayment of debt securities | | **(119.4)** | (15.4) |

**Note**

A. These are fees payable by the Society to Connells Group 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 20a).

In 2021, Connells Limited acquired the entire share capital of Countrywide plc. In order to fund the transaction, enable Connells to repay existing borrowings in Countrywide and provide working capital, the Society agreed to provide a loan of £253.0m to Connells Limited on completion of the acquisition. As at 31 December 2024, the outstanding amount due from Connells to the Society in respect of this loan was £118.9m (2023: £122.5m). For 2024 the interest receivable by the Society in respect of this loan was £9.6m (2023: £9.2m); included within interest receivable presented in the table above.

At 31 December 2024 the Society owed £1,413.7m (2023: £922.7m) to subsidiary undertakings and was owed £403.9m (2023: £372.7m) by subsidiary undertakings. The total amount owed by subsidiary undertakings as at 31 December 2024 includes the £118.9m (2023: £122.5m) outstanding in respect of the loan to Connells Limited, as described above. Interest on intra-Group borrowings is charged at an appropriate market rate. As at 31 December 2024 the Society recognised no impairment loss allowance in respect of loans to subsidiary undertakings, on the grounds of immateriality (2023: £nil).

As disclosed in Note 20a), the Society has for the year ended 31 December 2024 provided guarantees over the liabilities of Jade Software Corporation UK Limited, North Yorkshire Mortgages Limited, Skipton Group Holdings Limited, Skipton Investments Limited and Skipton Trustees Limited. As at 31 December 2024 the financial statements of these subsidiary undertakings include aggregate liabilities of £41.6m, of which £37.0m is intra-group liabilities.

At 31 December 2024 the Group was owed £nil (2023: £nil) by joint ventures and owed £nil (2023: £nil) to joint ventures. At 31 December 2024 the Group was owed £0.1m (2023: £0.2m) 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 2024 or 31 December 2023.

# 12. Tax expense

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| **Current tax:** | | | | |
| Corporation tax on profits in the period | **66.5** | 81.3 | **51.9** | 75.2 |
| Adjustments in respect of previous periods | **2.2** | (1.0) | **1.3** | (0.4) |
| Pillar 2 top-up taxes | **1.5** | - | **1.5** | - |
| | **70.2** | 80.3 | **54.7** | 74.8 |
| **Deferred tax** (Note 33): | | | | |
| Current year charge / (credit) | **9.6** | (2.0) | **3.9** | 0.9 |
| Adjustments in respect of previous periods | **(1.7)** | 1.1 | **(1.9)** | 0.9 |
| Effects of changes in tax rates | **-** | (0.6) | **-** | 0.2 |
| | **7.9** | (1.5) | **2.0** | 2.0 |
| **Total tax expense** | **78.1** | 78.8 | **56.7** | 76.8 |

A reconciliation of the tax expense on profit before tax at the standard rate of corporation tax in the UK to the actual tax expense is as follows.

| Reconciliation of tax expense | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Profit before tax | **318.6** | 333.4 | **245.9** | 310.7 |
| Share of profits from joint ventures, net of tax | **(1.4)** | (1.1) | **-** | - |
| | **317.2** | 332.3 | **245.9** | 310.7 |
| Tax calculated at the standard rate of corporation tax in the UK of 25.0% (2023: 23.5%) | **79.3** | 78.2 | **61.5** | 73.0 |
| Effects of: | | | | |
| Expenses not deductible for tax purposes | **0.7** | 0.9 | **0.5** | 0.1 |
| Adjustment to tax expense in respect of prior periods | **0.5** | 0.1 | **(0.6)** | 0.5 |
| Non-taxable dividend income | **-** | - | **(9.0)** | (6.4) |
| Other non-taxable income | **(1.8)** | (1.7) | **(0.2)** | - |
| Corporation tax rate change | **-** | (0.6) | **-** | 0.2 |
| Lower tax rates in other jurisdictions (see below) | **(4.4)** | (6.4) | **-** | - |
| Banking surcharge | **3.3** | 9.1 | **3.3** | 9.1 |
| Recognition of previously unrecognised tax losses | **(0.9)** | (0.7) | **-** | - |
| Pillar 2 top-up taxes | **1.5** | - | **1.5** | - |
| Other | **(0.1)** | (0.1) | **(0.3)** | 0.3 |
| **Total tax expense** | **78.1** | 78.8 | **56.7** | 76.8 |

The effective tax rate for the Group for the year ended 31 December 2024 is 24.6% (2023: 23.7%) compared with the standard rate of UK corporation tax of 25.0% (2023: 23.5%). The Group's effective rate is lower than the standard rate due mainly to the impacts of non-taxable income, which for 2024 includes the impact of the £4.2m credit to the Income Statement in respect of the Connells management incentive scheme, and the lower tax rates in Guernsey and Jersey which apply to the taxable profits of SIL. This is offset by the impact of the banking surcharge (see below), additional tax due in respect of Pillar 2 top-up taxes and expenditure disallowable for tax purposes.

The effective tax rate for the Society for the year ended 31 December 2024 is 23.1% (2023: 24.7%). The Society's taxable profits above £100m are subject to a 3% banking surcharge (up to and including 31 March 2023, taxable profits above £25m were subject to an 8% surcharge). The effective rate of tax is also impacted by non-taxable dividend income of £36.0m (2023: £27.0m) and additional tax due in respect of Pillar 2 top-up taxes.

# 12. Tax expense (continued)

## OECD Pillar Two Model Rules

The Skipton Group is within the scope of the OECD Pillar Two model rules which came into effect in the UK from 1 January 2024. The rules came into effect in Guernsey, Jersey, Australia and New Zealand from 1 January 2025. The rules are aimed at ensuring that large multinational groups are subject to a minimum effective tax rate of 15% in each jurisdiction within which they operate. The Group has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 *Income Taxes* issued in May 2023.

The charge estimated by the Group in respect of Pillar Two for the year ended 31 December 2024 is £1.5m and this is included in the current tax expense. The charge is wholly incurred by the Society in 2024 as the UK is the only tax jurisdiction in which the Group operates that has adopted the Pillar Two rules in 2024. This charge does not include any element of deferred tax as the Group has applied the temporary exception issued by the IASB in May 2023; it also remains an estimate as the Group is currently engaged with external tax specialists to develop a detailed application of the rules and guidance. The date by which the Group is required to report and pay Pillar Two top-up taxes in the UK is 30 June 2026; a final detailed calculation will be in place by this date.

# 13. Loans and advances to credit institutions

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Gross carrying amount | **414.7** | 488.8 | **397.9** | 497.7 |
| Loss allowance | **(0.1)** | - | **(0.1)** | - |
| Net carrying amount | **414.6** | 488.8 | **397.8** | 497.7 |

As outlined in Note 1f), 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 1h).

The table below provides maturity information for the net carrying amounts.

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| **Repayable on demand:** | | | | |
| Cash and cash equivalents | **121.5** | 134.7 | **54.0** | 79.5 |
| | **121.5** | 134.7 | **54.0** | 79.5 |
| **In not more than three months:** | | | | |
| Cash and cash equivalents | **1.6** | - | **-** | - |
| | **1.6** | - | **-** | - |
| **In more than three months but not more than one year:** | | | | |
| Other loans and advances to credit institutions | **1.0** | 0.5 | **1.0** | 0.5 |
| | **1.0** | 0.5 | **1.0** | 0.5 |
| **No specified maturity:** | | | | |
| Cash pledged as collateral | **290.5** | 353.6 | **342.8** | 417.7 |
| | **290.5** | 353.6 | **342.8** | 417.7 |
| Total loans and advances to credit institutions | **414.6** | 488.8 | **397.8** | 497.7 |
| | | | | |
| Total included within cash and cash equivalents | **123.1** | 134.7 | **54.0** | 79.5 |

### 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 2024 the Group and Society pledged £272.4m (2023: £309.6m) of this additional collateral.

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 33 years (2023: 34 years).

## 13. Loans and advances to credit institutions (continued)

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 2024 the Group has no cash (2023: £nil) pledged as collateral in repurchase arrangements.

# 14. 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 (£m) | 2024 | 2023 |
|---|---|---|
| | FVOCI and Total | FVOCI and Total |
| Gilts | **1,086.5** | 409.2 |
| Certificates of deposit | **-** | 97.9 |
| Fixed rate bonds | **1,274.9** | 584.0 |
| Floating rate notes | **-** | 219.8 |
| Treasury bills | **598.2** | 860.0 |
| Covered bonds | **770.1** | 758.6 |
| Residential mortgage backed securities | **619.9** | 408.2 |
| | **4,349.6** | 3,337.7 |
| **Debt securities have remaining maturities as follows:** | | |
| In not more than three months | **492.9** | 487.7 |
| In more than three months but not more than one year | **826.3** | 942.7 |
| In more than one year but not more than five years | **2,222.1** | 1,477.2 |
| In more than five years | **808.3** | 430.1 |
| | **4,349.6** | 3,337.7 |
| **Transferable debt securities comprise:** | | |
| Listed on a recognised investment exchange | **4,349.6** | 3,239.8 |
| Unlisted | **-** | 97.9 |
| | **4,349.6** | 3,337.7 |

| Society (£m) | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | FVOCI | FVTPL | Total | FVOCI | FVTPL | Total |
| Gilts | 1,086.5 | - | **1,086.5** | 369.3 | - | 369.3 |
| Certificates of deposit | - | - | **-** | 97.9 | - | 97.9 |
| Fixed rate bonds | 1,274.9 | - | **1,274.9** | 584.0 | - | 584.0 |
| Floating rate notes | - | - | **-** | 169.6 | - | 169.6 |
| Treasury bills | 321.2 | - | **321.2** | 702.9 | - | 702.9 |
| Covered bonds | 770.1 | - | **770.1** | 758.6 | - | 758.6 |
| Residential mortgage backed securities | 817.1 | 70.3 | **887.4** | 461.1 | 63.1 | 524.2 |
| | **4,269.8** | **70.3** | **4,340.1** | 3,143.4 | 63.1 | 3,206.5 |
| **Debt securities have remaining maturities as follows:** | | | | | | |
| In not more than three months | 273.9 | - | **273.9** | 392.0 | - | 392.0 |
| In more than three months but not more than one year | 768.5 | - | **768.5** | 844.1 | 63.1 | 907.2 |
| In more than one year but not more than five years | 2,419.1 | 70.3 | **2,489.4** | 1,477.2 | - | 1,477.2 |
| In more than five years | 808.3 | - | **808.3** | 430.1 | - | 430.1 |
| | **4,269.8** | **70.3** | **4,340.1** | 3,143.4 | 63.1 | 3,206.5 |
| **Transferable debt securities comprise:** | | | | | | |
| Listed on a recognised investment exchange | 4,269.8 | 70.3 | **4,340.1** | 3,045.5 | 63.1 | 3,108.6 |
| Unlisted | - | - | **-** | 97.9 | - | 97.9 |
| | **4,269.8** | **70.3** | **4,340.1** | 3,143.4 | 63.1 | 3,206.5 |

## 14. Debt securities (continued)

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

| Group (£m) | 2024 | 2023 |
|---|---|---|
| | FVOCI and Total | FVOCI and Total |
| **At 1 January** | **3,337.7** | 2,640.3 |
| Additions | **4,402.0** | 2,476.7 |
| Maturities and disposals | **(3,376.3)** | (1,828.4) |
| Changes in fair value | **(28.5)** | 49.2 |
| Other | **14.7** | (0.1) |
| **At 31 December** | **4,349.6** | 3,337.7 |

| Society (£m) | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | FVOCI | FVTPL | Total | FVOCI | FVTPL | Total |
| **At 1 January** | 3,143.4 | 63.1 | **3,206.5** | 2,514.6 | 58.1 | 2,572.7 |
| Additions | 3,908.8 | 77.8 | **3,986.6** | 2,294.0 | - | 2,294.0 |
| Maturities and disposals | (2,765.3) | (66.6) | **(2,831.9)** | (1,713.1) | - | (1,713.1) |
| Changes in fair value | (28.7) | (4.0) | **(32.7)** | 47.9 | 5.0 | 52.9 |
| Other | 11.6 | - | **11.6** | - | - | - |
| **At 31 December** | **4,269.8** | **70.3** | **4,340.1** | 3,143.4 | 63.1 | 3,206.5 |

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.

| Movement in impairment loss allowance | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| **Loss allowance at 1 January** | **0.2** | 0.3 | **0.3** | 0.4 |
| Increases due to origination, acquisition and additions | **0.2** | 0.1 | **0.2** | 0.1 |
| Decrease due to derecognition, repayments and disposals | **(0.2)** | (0.2) | **(0.2)** | (0.2) |
| **Loss allowance at 31 December** | **0.2** | 0.2 | **0.3** | 0.3 |

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 2024 £2.1m (2023: £4.0m) of debt securities have been pledged by the Group, and £203.2m (2023: £213.3m) 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.

| Securities pledged as collateral | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Gilts | **-** | - | **201.1** | - |
| Fixed rate bonds | **2.1** | 4.0 | **2.1** | 4.0 |
| Treasury bills | **-** | - | **-** | 209.3 |
| **Total on-balance sheet debt securities pledged as collateral** | **2.1** | 4.0 | **203.2** | 213.3 |

## 14. Debt securities (continued)

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 2024, the Group's repurchase agreements have a contractual period of up to three months (2023: three months).

There were no debt securities held by the Group or the Society at the end of 2024 or 2023 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 1d).

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 & Society (£m) | |
|---|---|---|
| | 2024 | 2023 |
| Carrying value of assets | **619.9** | 408.2 |
| Cumulative unrealised gains recognised in fair value reserve | **(0.3)** | (1.4) |
| **Maximum exposure to loss at 31 December** | **619.6** | 406.8 |

During the year, the Group and Society received interest income of £30.3m (2023: £18.8m) from its investments in unconsolidated structured entities and incurred impairment charges of £nil (2023: £nil). In addition, unrealised losses recognised through the fair value reserve were £1.1m (2023: £1.9m gain).

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 2024 the Society also held £197.2m (2023: £52.9m) of residential mortgage backed securities held at FVOCI and £70.3m (2023: £63.1m) of residential mortgage backed securities held at FVTPL that were issued by the Group's securitisation vehicle Darrowby No. 6 plc (and in 2023 by Darrowby No. 5 plc – which ceased in December 2024).

# 15. Loans and advances to customers held at amortised cost

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Loans fully secured on residential property | **30,529.3** | 28,163.3 | **28,497.0** | 26,086.1 |
| Loans fully secured on land | **109.6** | 126.2 | **109.6** | 126.2 |
| Other lending: | | | | |
| Debt factoring advances | **188.6** | 169.6 | **-** | - |
| Other loans | **48.2** | 53.2 | **-** | - |
| Fair value adjustment for hedged risk | **(274.6)** | (350.9) | **(271.7)** | (347.4) |
| | **30,601.1** | 28,161.4 | **28,334.9** | 25,864.9 |
| The remaining maturity of loans and advances to customers from the reporting date is as follows: | | | | |
| On call and at short notice | **188.5** | 169.7 | **3.2** | 2.6 |
| In not more than three months | **28.9** | 22.5 | **28.9** | 22.4 |
| In more than three months but not more than one year | **55.5** | 49.1 | **53.8** | 46.8 |
| In more than one year but not more than five years | **943.4** | 893.2 | **906.2** | 850.9 |
| In more than five years | **29,404.4** | 27,066.5 | **27,360.3** | 24,979.1 |
| | **30,620.7** | 28,201.0 | **28,352.4** | 24,901.8 |
| Less: Impairment (Note 17) | **(19.6)** | (39.6) | **(17.5)** | (36.9) |
| | **30,601.1** | 28,161.4 | **28,334.9** | 25,864.9 |

Included in loans fully secured on residential property is a £16.5m adjustment for Group (2023: £12.2m) and a £33.2m adjustment for Society (2023: £28.7m) due to applying the effective interest method of accounting for these mortgages (see Note 1v) for further details).

# 16. Transfers of financial assets

As outlined in Note 1d) 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. 6 plc (and previously Darrowby No. 5 plc – which ceased in December 2024) and Skipton Covered Bonds LLP, to enable the subsequent raising of debt to investors who gain the security of the underlying mortgage loans as collateral.

The transfers of the beneficial interest in the mortgage loans to the SPVs are not treated as sales by the Society and are not derecognised. The Society continues to recognise these assets within its own Statement of Financial Position because it substantially retains the risks and rewards of these mortgage portfolios. The Society continues to operationally manage these mortgage loans in the same manner as the remainder of its mortgage portfolio and is exposed to the rewards of these assets, primarily through the receipt of interest income, and is exposed to the risks of these assets, which is primarily exposure to the credit risk associated with these mortgage loans.

The underlying mortgage loans are ring-fenced and cannot be used for any purpose by the Society or the SPV other than as security for the debt raised.

At 31 December 2024, loans and advances to customers held at amortised cost include £3,980.3m (2023: £3,882.3m) 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. 6 plc (or Darrowby No. 5 plc in 2023) (£760.7m; 2023: £301.4m) and Skipton Covered Bonds LLP (£3,219.6m; 2023: £3,580.9m). These loans secure £2,426.5m (2023: £2,437.5m) of funding for the Group.

The proceeds received from the transfer of mortgage loans are accounted for in the Society's books as a deemed loan repayable to the SPVs. At 31 December 2024 the balance on the deemed loan repayable to Darrowby No. 6 plc (2023: Darrowby No, 5 plc) which represents the proceeds received for the transferred financial assets, included by the Society within 'Amounts owed to other customers', was £760.7m (2023: £301.4m).

At 31 December 2024 the deemed loan repayable to Skipton Covered Bonds LLP, which represents the proceeds received for the transferred financial assets, was included by the Society 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 2024 was £1,816.1m (2023: £2,148.0m).

The Group's accounting policies for the derecognition of financial assets held at amortised cost are set out in Note 1i). 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.

# 17. Impairment losses on loans and advances to customers

| 2024 | Group (£m) | | | |
|---|---|---|---|---|
| | Loans fully secured on residential property | Loans fully secured on land | Other loans and advances | Total |
| **Loss allowance at 1 January 2024** | 29.0 | 9.0 | 1.6 | **39.6** |
| Amounts written off during the year, net of recoveries | (1.0) | (1.4) | (0.5) | **(2.9)** |
| Income statement (credit) / charge for the year | (14.5) | (2.9) | 0.3 | **(17.1)** |
| **Loss allowance at 31 December 2024** | **13.5** | **4.7** | **1.4** | **19.6** |

| 2023 | Group (£m) | | | |
|---|---|---|---|---|
| | Loans fully secured on residential property | Loans fully secured on land | Other loans and advances | Total |
| Loss allowance at 1 January 2023 | 32.5 | 9.9 | 1.2 | 43.6 |
| Amounts written off during the year, net of recoveries | (0.5) | - | (0.4) | (0.9) |
| Income statement (credit) / charge for the year | (3.0) | (0.9) | 0.8 | (3.1) |
| Loss allowance at 31 December 2023 | 29.0 | 9.0 | 1.6 | 39.6 |

| 2024 | Society (£m) | | |
|---|---|---|---|
| | Loans fully secured on residential property | Loans fully secured on land | Total |
| **Loss allowance at 1 January 2024** | 27.9 | 9.0 | **36.9** |
| Amounts written off during the year, net of recoveries | (1.0) | (1.4) | **(2.4)** |
| Income statement credit for the year | (14.1) | (2.9) | **(17.0)** |
| **Loss allowance at 31 December 2024** | **12.8** | **4.7** | **17.5** |

| 2023 | Society (£m) | | |
|---|---|---|---|
| | Loans fully secured on residential property | Loans fully secured on Land | Total |
| Loss allowance at 1 January 2023 | 31.9 | 9.9 | 41.8 |
| Amounts written off during the year, net of recoveries | (0.5) | - | (0.5) |
| Income statement credit for the year | (3.5) | (0.9) | (4.4) |
| Loss allowance at 31 December 2023 | 27.9 | 9.0 | 36.9 |

## 18. Equity release portfolio held at FVTPL

Movements during the year in the equity release portfolio are outlined below.

| | Group & Society (£m) | |
|---|---|---|
| | 2024 | 2023 |
| **At January** | **293.3** | 278.7 |
| Redemptions | **(4.3)** | (3.7) |
| Movements in fair value | **(12.6)** | 9.2 |
| Realised losses on redemption | **(1.8)** | (0.8) |
| Accrued interest | **2.6** | 9.9 |
| **At 31 December** | **277.2** | 293.3 |

Further details on how the valuation of the equity release portfolio is derived, including the key inputs into the calculation, are found in Note 1f) and Note 1v).

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 £21.9m gain (2023: £1.8m gain) and is included in the Income Statement line 'Fair value gains on financial instruments mandatorily held at FVTPL'.

The equity release portfolio comprises loans against which collateral is held in the form of property in the UK. As at 31 December 2024 this collateral was valued at £506.4m (2023: £553.5m).

## 19. Loans and advances to customers held at FVTPL

Movements during the year are outlined below:

| | Group & Society (£m) | |
|---|---|---|
| | 2024 | 2023 |
| **At 1 January** | **0.9** | 1.0 |
| Repayments | **(0.1)** | (0.2) |
| Accrued interest | **0.1** | 0.1 |
| **At 31 December** | **0.9** | 0.9 |

As outlined in Note 1f), 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 2024 at £6.0m (2023: £5.8m).

# 20. Investments

## a) Subsidiary undertakings

The net movement in investments in subsidiary undertakings during the year was as follows:

| 2024 | Society (£m) | | |
|---|---|---|---|
| | Shares in subsidiary undertakings | Loans to subsidiary undertakings | Total |
| **Cost** | | | |
| At 1 January | 183.5 | 372.7 | **556.2** |
| Additions | - | 37.1 | **37.1** |
| Repayments | - | (5.9) | **(5.9)** |
| **At 31 December** | **183.5** | **403.9** | **587.4** |
| **Provisions** | | | |
| At 1 January | 78.1 | - | **78.1** |
| **At 31 December** | **78.1** | **-** | **78.1** |
| **Net book value at 31 December** | **105.4** | **403.9** | **509.3** |

| 2023 | Society (£m) | | |
|---|---|---|---|
| | Shares in subsidiary undertakings | Loans to subsidiary undertakings | Total |
| Cost | | | |
| At 1 January | 183.5 | 363.8 | 547.3 |
| Additions | - | 12.9 | 12.9 |
| Repayments | - | (4.0) | (4.0) |
| At 31 December | 183.5 | 372.7 | 556.2 |
| Provisions | | | |
| At 1 January | 78.1 | - | 78.1 |
| At 31 December | 78.1 | - | 78.1 |
| Net book value at 31 December | 105.4 | 372.7 | 478.1 |

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.

## 20. Investments (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 | Ownership Interest (%) 2024 | Ownership Interest (%) 2023 |
|---|---|---|---|---|
| Connells Limited and subsidiary undertakings | Estate agency and related businesses | Cumbria House, 16-20 Hockliffe Street, Leighton Buzzard, Bedfordshire, LU71GN | **100** | 99.96 |
| Darrowby No. 6 plc | Funding vehicle | 10th Floor, 5 Churchill Place, London, E14 5HU | **(See below)** | - |
| Darrowby No. 5 plc | Funding vehicle | 10th Floor, 5 Churchill Place, London, E14 5HU | **-** | (See below) |
| Jade Software Corporation Limited and subsidiary undertakings | Provider of software development services | 5 Sir Gil Simpson Drive, Christchurch 8053, New Zealand | **100** | 100 |
| Northwest Investments NZ Limited | Provider of software development services | C/- Bell Gully, Level 22 Vero Centre, 48 Shortland Street, Auckland 1010, New Zealand | **100** | 100 |
| Skipton Business Finance Limited | Provider of debt factoring services | The Bailey, Skipton, North Yorkshire, BD23 1DN | **100** | 100 |
| Skipton Covered Bonds Limited Liability Partnership | Mortgage acquisition and guarantor of covered bonds | The Bailey, Skipton, North Yorkshire, BD23 1DN | **(See below)** | (See below) |
| Skipton Financial Services Limited | Financial adviser | The Bailey, Skipton, North Yorkshire, BD23 1DN | **100** | 100 |
| Skipton Group Holdings Limited (SGHL) | Intermediate holding company | The Bailey, Skipton, North Yorkshire, BD23 1DN | **100** | 100 |
| Skipton International Limited (SIL) | Offshore deposit taker and lender | Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 6DS | **100** | 100 |
| Skipton Trustees Limited | Provider of will writing services | The Bailey, Skipton, North Yorkshire, BD23 1DN | **100** | 100 |

The Group also continues to hold 100% (2023: 100%) in the former lending entities Amber Homeloans Limited and North Yorkshire Mortgages Limited, both of which ceased active trading in 2021.

All the above entities are incorporated, registered and operate in the United Kingdom except for SIL, which is incorporated and registered in Guernsey and operates in Guernsey, Jersey and the UK; Northwest Investments NZ Limited, which is incorporated, registered and operates in New Zealand; and Jade Software Corporation Limited, which is incorporated and registered in New Zealand and operates worldwide.

For the year ended 31 December 2024, the Society has provided guarantees over the liabilities of the following subsidiary undertakings; these are thereby exempt from audit for the year ended 31 December 2024, as permitted by Section 479A of the Companies Act 2006:

- Jade Software Corporation UK Limited *
- North Yorkshire Mortgages Limited
- Skipton Group Holdings Limited
- Skipton Investments Limited
- Skipton Trustees Limited

* In Note 17a) to the Group's 2023 Annual Report and Accounts the name of this subsidiary undertaking was incorrectly shown as Jade Software Corporation Limited due to typographical error; for avoidance of doubt, the correct name of the relevant subsidiary undertaking was Jade Software Corporation UK Limited (as was correctly shown in Note 8 to the Group's 2023 Annual Report and Accounts).

# 20. Investments (continued)

### Consolidation of special purpose vehicles (SPVs)

Darrowby No. 6 plc (and formerly Darrowby No. 5 plc) is a securitisation vehicle formed with only nominal share capital. Skipton Covered Bonds LLP, of which the Society is a member, was formed to guarantee payments on covered bonds that the Society issues to the wholesale market. These SPVs are funded through loans from the Society and their activities are carried out under the direction of the Society, in line with the transaction documentation.

The Society is exposed to variable returns from these entities and has the ability to affect those returns in line with the transaction documentation; these SPVs therefore pass the test of control under IFRS 10 and are fully consolidated into the Group Accounts. The Society has no contractual arrangements or intention to provide additional financial or other support to these SPVs.

### b) Acquisitions

During 2024 Connells Limited purchased a number of small businesses for total consideration of £1.5m (of which £0.2m is deferred), generating goodwill of £0.5m. In the prior year, Connells Limited purchased a number of small businesses for total consideration of £1.8m (of which £0.5m was deferred), generating goodwill of £1.0m. In the prior year Connells also purchased non-controlling interests in an existing subsidiary undertaking, Vibrant Energy Matters Limited, for cash consideration of £0.2m.

### c) Joint ventures

At 31 December 2024, the Group held interests in the following companies that are classed as joint ventures:

| | | | Ownership Interest (%) | | Carrying Value (£m) | |
|---|---|---|---|---|---|---|
| Name of investment | Principle Business Activity | Class of shares held | 2024 | 2023 | 2024 | 2023 |
| Cybele Solutions Holdings Limited* | Conveyancing services | Ordinary | **50.0** | 50.0 | **11.2** | 10.3 |

* Registered office is Bickerton House, Lloyd Drive, Ellesmere Port, Cheshire CH65 9HQ

The Group's combined share of net assets and the Group's combined share of profit after tax for the above joint venture are presented within the Statement of Financial Position and the Income Statement respectively. The Directors reviewed the carrying value of the joint venture during the year and considered that no impairment adjustment was required (2023: £nil).

# 20. Investments (continued)

### d) Equity share investments mandatorily held at FVTPL

At 31 December 2024, the Group held interests in the following companies:

| | | Ownership Interest (%) | | Carrying Value (£m) | |
|---|---|---|---|---|---|
| Name of investment | Principle Business Activity | 2024 | 2023 | 2024 | 2023 |
| Hearthstone Investments Limited | Property fund management | **17.1** | 17.1 | **-** | - |
| OnTheMarket plc | Property search provider | **-** | 0.03 | **-** | - |
| Viewber Limited | Property viewings services | **3.2** | 3.2 | **0.4** | 0.4 |
| Global Property Ventures Limited | Property management services | **14.2** | 14.2 | **0.2** | 0.2 |
| Twenty7Tec Group Ltd | Software application provider | **4.5** | 3.9 | **0.9** | 1.2 |
| Hammer PW Topco Limited | Property technology services | **10.0** | 6.9 | **13.4** | 8.7 |
| Juno Property Lawyers Limited | Conveyancing services | **4.9** | - | **2.0** | - |
| | | | | **16.9** | 10.5 |

The movement during the year in the Group's equity share investments mandatorily held at FVTPL is analysed below:

| | Group (£m) | |
|---|---|---|
| | 2024 | 2023 |
| At 1 January | **10.5** | 1.2 |
| Additions | **5.6** | 8.9 |
| Disposals | **(0.3)** | (0.1) |
| Fair value gains recognised in Income Statement | **1.1** | 0.5 |
| At 31 December | **16.9** | 10.5 |

### Listed investments

The carrying value of the Group's investment in OnTheMarket plc is determined by reference to that company's share price.

### Unlisted investments

The carrying values of the Group's investments in Viewber Limited, Global Property Ventures Limited, Twenty7Tec Group Ltd and Juno Property Lawyers Limited are based on the amounts invested by the Group; management considers that this represents the best indication of fair value as at 31 December 2024 for each of these investments. The carrying value of the Group's investment in Hammer PW Topco Limited  is based on a third party valuation of that business. The investment in Hearthstone Investments Limited has been written down in full in previous years.

# 21. Property, plant and equipment

| Group (£m) | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Land and buildings | Equipment, fixtures and fittings | Total | Land and buildings | Equipment, fixtures and fittings | Total |
| **Cost** | | | | | | |
| **At 1 January** | 110.8 | 87.9 | **198.7** | 106.2 | 82.2 | 188.4 |
| Additions | 8.9 | 13.1 | **22.0** | 6.6 | 11.0 | 17.6 |
| Disposals | (3.7) | (6.9) | **(10.6)** | (2.0) | (5.2) | (7.2) |
| Foreign exchange movements on translation | - | (0.2) | **(0.2)** | - | (0.1) | (0.1) |
| Reclassification to investment property | (0.4) | - | **(0.4)** | - | - | - |
| **At 31 December** | **115.6** | **93.9** | **209.5** | 110.8 | 87.9 | 198.7 |
| **Depreciation** | | | | | | |
| **At 1 January** | 58.4 | 65.8 | **124.2** | 55.0 | 61.6 | 116.6 |
| Charge for the year | 5.9 | 8.4 | **14.3** | 5.3 | 8.6 | 13.9 |
| Impairment charge | - | - | **-** | - | 0.2 | 0.2 |
| Disposals | (3.2) | (6.4) | **(9.6)** | (1.9) | (4.5) | (6.4) |
| Foreign exchange movements on translation | - | (0.2) | **(0.2)** | - | (0.1) | (0.1) |
| Reclassification to investment property | (0.1) | - | **(0.1)** | - | - | - |
| **At 31 December** | **61.0** | **67.6** | **128.6** | 58.4 | 65.8 | 124.2 |
| **Net book value at 1 January** | **52.4** | **22.1** | **74.5** | 51.2 | 20.6 | 71.8 |
| **Net book value at 31 December** | **54.6** | **26.3** | **80.9** | 52.4 | 22.1 | 74.5 |

| Society (£m) | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Land and buildings | Equipment, fixtures and fittings | Total | Land and buildings | Equipment, fixtures and fittings | Total |
| **Cost** | | | | | | |
| **At 1 January** | 55.1 | 17.5 | **72.6** | 52.6 | 15.5 | 68.1 |
| Additions | 4.5 | 6.0 | **10.5** | 3.0 | 3.0 | 6.0 |
| Disposals | (2.1) | (2.0) | **(4.1)** | (0.5) | (1.0) | (1.5) |
| Reclassification to investment property | (0.4) | - | **(0.4)** | - | - | - |
| **At 31 December** | **57.1** | **21.5** | **78.6** | 55.1 | 17.5 | 72.6 |
| **Depreciation** | | | | | | |
| **At 1 January** | 22.6 | 11.0 | **33.6** | 20.4 | 9.6 | 30.0 |
| Charge for the year | 2.8 | 2.9 | **5.7** | 2.6 | 2.4 | 5.0 |
| Disposals | (1.7) | (2.0) | **(3.7)** | (0.4) | (1.0) | (1.4) |
| Reclassification to investment property | (0.1) | - | **(0.1)** | - | - | - |
| **At 31 December** | **23.6** | **11.9** | **35.5** | 22.6 | 11.0 | 33.6 |
| **Net book value at 1 January** | **32.5** | **6.5** | **39.0** | 32.2 | 5.9 | 38.1 |
| **Net book value at 31 December** | **33.5** | **9.6** | **43.1** | 32.5 | 6.5 | 39.0 |

## 21. Property, plant and equipment (continued)

Property, plant and equipment additions (Group and Society) include £0.5m (2023: £0.2m) in land and buildings and £nil (2023: £0.1m) in equipment, fixtures and fittings in relation to Capital Work in Progress (CWIP), relating mainly to branch refurbishment projects.

The net book value of land and buildings comprises:

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Freehold | **38.3** | 38.2 | **25.6** | 25.3 |
| Long leasehold | **2.7** | 6.6 | **2.7** | 1.7 |
| Short leasehold | **13.6** | 7.6 | **5.2** | 5.5 |
| | **54.6** | 52.4 | **33.5** | 32.5 |

# 22. Right-of-use assets

| Group (£m) | 2024 Land and buildings | 2024 Equipment, fixtures and fittings | 2024 Total | 2023 Land and buildings | 2023 Equipment, fixtures and fittings | 2023 Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 1 January | 160.4 | 21.3 | **181.7** | 150.6 | 18.2 | 168.8 |
| Additions | 17.1 | 2.2 | **19.3** | 20.9 | 3.8 | 24.7 |
| Lease modifications and remeasurements | 11.2 | - | **11.2** | 10.5 | - | 10.5 |
| Disposals | (24.7) | (0.9) | **(25.6)** | (21.5) | (0.7) | (22.2) |
| Foreign exchange movements on translation | (0.2) | - | **(0.2)** | (0.1) | - | (0.1) |
| At 31 December | **163.8** | **22.6** | **186.4** | 160.4 | 21.3 | 181.7 |
| **Depreciation** | | | | | | |
| Balance at 1 January | 70.9 | 9.9 | **80.8** | 56.7 | 5.4 | 62.1 |
| Charge for the year | 32.1 | 5.6 | **37.7** | 32.6 | 5.0 | 37.6 |
| Impairment charge | 2.3 | 0.1 | **2.4** | 1.9 | - | 1.9 |
| Disposals | (23.8) | (0.9) | **(24.7)** | (20.2) | (0.5) | (20.7) |
| Foreign exchange movements on translation | (0.2) | - | **(0.2)** | (0.1) | - | (0.1) |
| At 31 December | **81.3** | **14.7** | **96.0** | 70.9 | 9.9 | 80.8 |
| Net book value at 1 January | **89.5** | **11.4** | **100.9** | 93.9 | 12.8 | 106.7 |
| Net book value at 31 December | **82.5** | **7.9** | **90.4** | 89.5 | 11.4 | 100.9 |

| Society (£m) | 2024 Land and buildings | 2024 Equipment, fixtures and fittings | 2024 Total | 2023 Land and buildings | 2023 Equipment, fixtures and fittings | 2023 Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January | 18.9 | 0.2 | **19.1** | 18.5 | 0.2 | 18.7 |
| Additions | 0.8 | - | **0.8** | 1.6 | - | 1.6 |
| Disposals | (0.8) | (0.2) | **(1.0)** | (1.2) | - | (1.2) |
| At 31 December | **18.9** | **-** | **18.9** | 18.9 | 0.2 | 19.1 |
| **Depreciation** | | | | | | |
| At 1 January | 9.0 | 0.1 | **9.1** | 7.7 | 0.1 | 7.8 |
| Charge for the year | 2.2 | - | **2.2** | 2.3 | - | 2.3 |
| Disposals | (0.6) | (0.1) | **(0.7)** | (1.0) | - | (1.0) |
| At 31 December | **10.6** | **-** | **10.6** | 9.0 | 0.1 | 9.1 |
| Net book value at 1 January | **9.9** | **0.1** | **10.0** | 10.8 | 0.1 | 10.9 |
| Net book value at 31 December | **8.3** | **-** | **8.3** | 9.9 | 0.1 | 10.0 |

The Group's leases relate mainly to branch premises operated by the Society and by Connells Group. 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 2024, the lease liability (see Note 30) 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 2024, other operating income includes £0.1m (2023: £0.3m) (Group) and £nil (2023: £nil) (Society) relating to the subleasing of properties accounted for as right-of-use assets. For details of the Group's lease liabilities, see Note 30. For further details of the Group's lease expenses in the year, see Note 7.

# 23. Investment property

| | Group & Society (£m) | |
|---|---|---|
| | **2024** | 2023 |
| **Cost** | | |
| **At 1 January** | **25.1** | 25.1 |
| Disposals | **(0.4)** | - |
| Reclassification from property, plant and equipment | **0.4** | - |
| **At 31December** | **25.1** | 25.1 |
| **Depreciation** | | |
| **At 1 January** | **20.0** | 19.1 |
| Charge for the year | **0.6** | 0.7 |
| Impairment charge | **-** | 0.2 |
| Disposals | **(0.1)** | - |
| Reclassification from property, plant and equipment | **0.1** | - |
| **At 31 December** | **20.6** | 20.0 |
| **Net book value at 1 January** | **5.1** | 6.0 |
| **Net book value at 31 December** | **4.5** | 5.1 |

All investment property relates to property purchased by the Society and is either unoccupied by the Society or relates to branches where part of the property is subleased.

The amount of rental income from investment property recognised in the Income Statement during the year was £1.9m (2023: £1.8m) for the Group and Society.

The aggregate estimated market value of investment properties is set out in the table below:

| | Group & Society (£m) | |
|---|---|---|
| | **2024** | 2023 |
| Market value of investment property | **5.4** | 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 44b).

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 no impairment charge should be recognised for the year (2023: £0.2m charge).

# 24. Intangible assets

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Goodwill | **218.5** | 217.7 | **-** | - |
| Other intangible assets | **92.9** | 95.5 | **4.2** | 0.2 |
| **Total intangible assets** | **311.4** | 313.2 | **4.2** | 0.2 |

| Goodwill | Group (£m) | |
|---|---|---|
| | 2024 | 2023 |
| **Cost, less amortisation to 1 January 2004** | | |
| At 1 January | **230.2** | 228.8 |
| Acquisitions of subsidiary undertakings and business units (Note 20b)) | **0.5** | 1.0 |
| Revaluation of put options | **0.3** | 0.4 |
| At 31 December | **231.0** | 230.2 |
| **Impairment losses** | | |
| At 1 January | **12.5** | 12.5 |
| At 31 December | **12.5** | 12.5 |
| Net book value at 1 January | **217.7** | 216.3 |
| **Net book value at 31 December** | **218.5** | 217.7 |

Goodwill acquired in a business combination is allocated at acquisition to the cash generating unit (CGU), or group of CGUs, that is expected to benefit from that business combination (as further described in Note 1e)); at Skipton Group level, the allocation of goodwill typically reflects the Group's operating segments. The Group's reportable segments are currently assessed and presented at the operating entity level and goodwill held by the Group is allocated accordingly; when testing goodwill held by the Group for impairment at the consolidated level, amounts relating to CGUs within the Connells business are therefore aggregated.

The carrying value of goodwill held by the Group has been allocated as follows:

| Carrying value of goodwill | 2024 (£m) | | | 2023 (£m) | | |
|---|---|---|---|---|---|---|
| Operating Segment | Cost of goodwill | Accumulated impairment | Carrying value | Cost of goodwill | Accumulated impairment | Carrying value |
| Connells Group | 219.7 | 7.5 | **212.2** | 218.9 | 7.5 | 211.4 |
| Other | 11.3 | 5.0 | **6.3** | 11.3 | 5.0 | 6.3 |
| **Total goodwill** | **231.0** | **12.5** | **218.5** | 230.2 | 12.5 | 217.7 |

## 24. Intangible assets (continue)

Based upon the Directors' assessment of recoverable amounts, the Directors have concluded that no impairment of goodwill or brands is required to be recognised in 2024 (2023: £nil). Sensitivity disclosures are provided below.

The recoverable amounts of the operating segments are determined by consideration of value in use calculations. The key assumptions for the value in use calculations are those regarding cash flows, discount rates and growth rates.

The cash flows are derived from the most recent corporate plans for the next five years, which take into account the risks inherent in each of the segments. The cash flows are extrapolated for subsequent years indefinitely (or a specific number of years where circumstances dictate), to reflect that the underlying businesses are held for long-term investment, based on a long-term growth rate of 3.0% (2023: 3.0%) or specific growth rates where circumstances dictate.

The cash flows from the corporate plans are based upon the following key drivers:

| Operating Segment | Key drivers |
|---|---|
| Connells Group | Volume of UK property transactions, house price inflation, level of unemployment and interest rates |
| Other | Volume of new business, arrears levels, level of unemployment and interest rates |

In addition to the key drivers outlined above, the preparation of the corporate plans of Connells Group, the segment to which the majority of goodwill held by the Group is allocated, requires the Directors to take into account various other factors underpinning the UK housing market. These include, but are not limited to, expectations of the Connells Group's future market share and projected average fees achievable in relation to second hand house sales. Connells Group's corporate plans are subject to robust scrutiny and challenge by the Connells Group and Society Boards.

The Group estimates discount rates based upon the weighted average cost of capital which is adjusted to take account of the market risks associated with each segment.

The pre-tax discount rates are as follows:

| Operating Segment | 2024 | 2023 |
|---|---|---|
| Connells | **17** | 16 |
| Other | **12** | 13 |

### Sensitivity disclosures

For goodwill and brands held by the Group, the impairment assessment is typically carried out at the operating segment level (as described in Note 1e)). For each segment to which goodwill and brands are allocated, the impairment test compares the carrying value against the segment's recoverable amount. The segment's recoverable amount is determined as the higher of a) its fair value less costs to sell and b) its value in use; value in use is determined by discounting the forecast future cash flows of the segment to present value.

There is significant headroom in relation to all the CGUs and no reasonably possible alternative assumptions in relation to any of the key inputs used would result in impairment.

## 24. Intangible assets (continue)

| Other intangible assets | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| **Cost** | | | | |
| At 1 January | **260.1** | 254.5 | **1.3** | 1.3 |
| Acquisition of other business assets | **1.1** | 1.2 | **-** | - |
| Additions | **14.9** | 10.1 | **4.0** | 0.2 |
| Foreign exchange movements on translation | **(3.1)** | (1.7) | **-** | - |
| Disposals | **(0.2)** | (4.0) | **-** | (0.2) |
| At 31 December | **272.8** | 260.1 | **5.3** | 1.3 |
| **Amortisation and impairment** | | | | |
| At 1 January | **164.6** | 147.4 | **1.1** | 1.2 |
| Amortisation charge for the year | **17.4** | 22.0 | **-** | 0.1 |
| Impairment charge | **0.7** | - | **-** | - |
| Foreign exchange movements on translation | **(2.6)** | (1.4) | **-** | - |
| Disposals | **(0.2)** | (3.4) | **-** | (0.2) |
| At 31 December | **179.9** | 164.6 | **1.1** | 1.1 |
| Net book value at 1 January | **95.5** | 107.1 | **0.2** | 0.1 |
| Net book value at 31 December | **92.9** | 95.5 | **4.2** | 0.2 |

Other intangible asset additions include £7.8m (2023: £0.1m) for the Group and £4.1m (2023: £0.1m) for the Society in relation to Capital Work in Progress (CWIP), relating to the Savings Transformation project (as detailed in the Strategic Report) for the Society, and in relation to various projects to upgrade IT capability within Connells Group.

The net book value of other intangible assets comprises:

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Brands | **61.2** | 61.2 | **-** | - |
| Customer contracts and relationships | **10.5** | 16.7 | **-** | - |
| Computer software and databases | **21.2** | 17.6 | **4.2** | 0.2 |
| Total | **92.9** | 95.5 | **4.2** | 0.2 |

The following table provides a breakdown of the carrying value of brands (which are deemed to have an indefinite useful life) within the Connells operating segment:

| | 2024 | 2023 |
|---|---|---|
| Peter Alan Limited | **2.3** | 2.3 |
| Gascoigne Halman Group Limited | **3.0** | 3.0 |
| RMS Estate Agents Limited | **1.2** | 1.2 |
| Countrywide Estate Agents | **42.6** | 42.6 |
| Lambert Smith Hampton Group Limited | **12.1** | 12.1 |
| Total brands | **61.2** | 61.2 |
| Goodwill | **212.2** | 211.4 |
| Total goodwill and brands | **273.4** | 272.6 |

## 25. Other assets

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Trade receivables (Note 43c)) | **68.8** | 58.0 | **1.9** | 1.8 |
| Prepayments | **33.6** | 33.1 | **16.2** | 16.6 |
| Accrued income | **24.7** | 21.8 | **0.1** | 0.4 |
| Equity share investments mandatorily held at FVTPL (Note 20d)) | **16.9** | 10.5 | **-** | - |
| Share warrants | **21.9** | 15.1 | **-** | - |
| Investment property (Note 23) | **4.5** | 5.1 | **4.5** | 5.1 |
| Other | **10.8** | 8.5 | **0.2** | 0.5 |
| | **181.2** | 152.1 | **22.9** | 24.4 |

## 26. Shares

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Held by individuals | **27,943.5** | 25,678.6 | **27,943.5** | 25,678.6 |
| Other shares | **326.8** | 274.5 | **326.8** | 274.5 |
| Fair value adjustment for hedged risk | **(1.8)** | (3.3) | **(16.2)** | (30.8) |
| | **28,268.5** | 25,949.8 | **28,254.1** | 25,922.3 |

A maturity analysis of shares is included in Note 41.

## 27. Amounts owed to credit institutions

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Amounts owed to subsidiary undertakings | **-** | - | **201.0** | 209.3 |
| Other | **1,599.6** | 2,093.4 | **1,599.6** | 2,093.4 |
| | **1,599.6** | 2,093.4 | **1,800.6** | 2,302.7 |

A maturity analysis of amounts owed to credit institutions is included in Note 41.

## 28. Amounts owed to other customers

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Amounts owed to subsidiary undertakings | **-** | - | **1,212.7** | 713.4 |
| Other | **2,751.1** | 2,808.9 | **56.2** | 94.4 |
| Fair value adjustment for hedged risk | **-** | (0.1) | **-** | (0.1) |
| | **2,751.1** | 2,808.8 | **1,268.9** | 807.7 |

A maturity analysis of amounts owed to other customers is included in Note 41.

Amounts owed to other customers by the Group relate primarily to retail deposits accepted through the Group's Channel Islands based subsidiary, SIL. At 31 December 2024 the amount of such deposits included above is £2,417.7m (2023: £2,446.0m).

Amounts owed to subsidiary undertakings by the Society include £760.7m in respect of a deemed loan from the special purpose vehicle Darrowby No. 6 plc which is held at amortised cost, in line with the accounting policy outlined in Note 1g) (2023: £301.4m in respect of Darrowby No. 5 plc). 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. 6 plc is considered very low.

## 29. Debt securities in issue

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Certificates of deposit | **5.1** | - | **5.1** | - |
| Covered bonds | **1,934.9** | 2,251.5 | **1,925.0** | 2,242.5 |
| Securitisation | **491.6** | 186.0 | **-** | - |
| Fair value adjustment for hedged risk | **3.7** | (22.8) | **-** | - |
| | **2,435.3** | 2,414.7 | **1,930.1** | 2,242.5 |

A maturity analysis of debt securities in issue is included in Note 41.

During 2024 the Society issued covered bonds totalling €500m, and in October £700m of Class A notes were issued under Darrowby No. 6 plc, placing £500m and the Society retaining £200m. The Darrowby No. 5 securitisation reached its five year call and step-up date in December 2024 and Class A notes totalling £195.0m, plus the unrated B notes, were called and cancelled. There were also two covered bond maturities during the year; £300m matured in February 2024 and €500m matured in October 2024.

Group debt securities in issue include £2,426.5m (2023: £2,437.5m) of funding secured on certain loans and advances to customers through the Group's securitisation vehicle Darrowby No. 6 plc (or Darrowby No. 5 plc in 2023) and the special purpose vehicle Skipton Covered Bonds LLP.

## 30. Lease liabilities

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| **At 1 January** | **103.0** | 113.0 | **10.3** | 11.1 |
| Additions | **18.1** | 23.5 | **0.7** | 1.6 |
| Modifications / remeasurements of existing lease Liabilities | **11.2** | 9.4 | **-** | - |
| Interest charged | **3.1** | 2.3 | **0.3** | 0.3 |
| Lease payments (including interest) | **(42.4)** | (43.5) | **(2.6)** | (2.6) |
| Disposals | **(0.9)** | (1.7) | **(0.1)** | (0.1) |
| At 31 December | **92.1** | 103.0 | **8.6** | 10.3 |

A maturity analysis of lease liabilities is included in Note 41.

For details of the Group's right-of-use assets, see Note 22. For further details of the Group's lease expenses in the year, see Note 7.

# 31. Other liabilities

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Trade payables | **11.0** | 10.2 | **2.8** | 2.3 |
| Fair value of put option obligation | **4.1** | 3.5 | **-** | - |
| Fair value of liability of subsidiary management incentive scheme | **-** | 4.2 | **-** | - |
| VAT and employment taxes | **39.5** | 34.5 | **3.0** | 3.1 |
| Other | **32.0** | 33.5 | **5.2** | 13.8 |
| | **86.6** | 85.9 | **11.0** | 19.2 |

### Put option obligation

The movement in the fair value of the put option obligation is summarised below:

| | Group (£m) | |
|---|---|---|
| | 2024 | 2023 |
| At 1 January | **3.5** | 3.8 |
| Unwind of the discount factor | **-** | 0.1 |
| Exercise of put options by non-controlling shareholders | **-** | (0.4) |
| Revaluation of market values and changes to future exercise dates | **0.6** | - |
| At 31 December | **4.1** | 3.5 |

### Subsidiary management incentive scheme

In 2019 two members of Connells Limited senior management purchased equity shares in that company. At the same time, the Group issued options to these shareholders which required SGHL to purchase their shareholdings in Connells Limited at some future dates.

During 2024, one member of management left the scheme and as at 31 December 2024 no options remain outstanding, with the scheme now closed.

The movement in the fair value of the liability of the subsidiary management incentive scheme is summarised below:

| | Group (£m) | |
|---|---|---|
| | 2024 | 2023 |
| At 1 January | **4.2** | 7.0 |
| Exercise of share options during the year | **-** | (2.5) |
| Movement in fair value of the liability recognised in the Income Statement | **(4.2)** | (0.3) |
| At 31 December | **-** | 4.2 |

## 32. Provisions for liabilities

The movements in provisions for liabilities during the year were as follows:

| | 2024 | | | | | |
|---|---|---|---|---|---|---|
| **Group (£m)** | **Provision for the costs of surplus properties** | **Commission clawbacks** | **Survey and valuation claims** | **Customer compensation** | **Other provisions** | **Total** |
| **At 1 January** | 5.6 | 17.0 | 5.2 | 0.3 | 1.3 | **29.4** |
| (Credit) / charge for the year | (0.5) [A] | 8.9 [B] | (0.8) [A] | 0.4 [A] | 4.5 [A] | **12.5** |
| Utilised during the year | (1.1) | (8.0) | (0.7) | (0.1) | (0.2) | **(10.1)** |
| **At 31 December** | **4.0** | **17.9** | **3.7** | **0.6** | **5.6** | **31.8** |

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| Group (£m) | Provision for the costs of surplus properties | Commission clawbacks | Survey and valuation claims | Customer compensation | Other provisions | Total |
| At 1 January | 7.2 | 16.9 | 8.4 | 0.7 | 1.5 | 34.7 |
| (Credit) / charge for the year | (0.8) [A] | 8.7 [B] | (1.2) [A] | 0.1 [A] | 0.7 [A] | 7.5 |
| Utilised during the year | (0.8) | (8.6) | (2.0) | (0.5) | (0.9) | (12.8) |
| At 31 December | 5.6 | 17.0 | 5.2 | 0.3 | 1.3 | 29.4 |

| | 2024 | | | | |
|---|---|---|---|---|---|
| **Society (£m)** | **Provision for the costs of surplus properties** | **Commission clawbacks** | **Customer compensation** | **Other provisions** | **Total** |
| **At 1 January** | 0.1 | - | 0.3 | 0.2 | **0.6** |
| (Credit) / charge for the year | (0.1) [A] | 0.1 [A] | 0.3 [A] | 4.6 [A] | **4.9** |
| Utilised during the year | - | (0.1) | (0.1) | - | **(0.2)** |
| **At 31 December** | **-** | **-** | **0.5** | **4.8** | **5.3** |

| | 2023 | | | |
|---|---|---|---|---|
| Society (£m) | Provision for the costs of surplus properties | Customer compensation | Other provisions | Total |
| At 1 January | - | 0.6 | 0.2 | 0.8 |
| Charge for the year | 0.2 [A] | 0.1 [A] | - | 0.3 |
| Utilised during the year | (0.1) | (0.4) | - | (0.5) |
| At 31 December | 0.1 | 0.3 | 0.2 | 0.6 |

**Notes**

A. The (credit) / charge for the year is recognised within the Income Statement line ‘Impairment and provisions’.

B. The provision for commission clawbacks include an expected future clawback on insurance commissions in the event of early termination by the customer. Insurance commission income is recognised net of these provisions, and therefore the charge for the year of £8.8m (2023: £8.7m charge) has been recognised against ‘Fees and commissions receivable’ in the Income Statement.

# 32. Provisions for liabilities (continued)

### Provision for the costs of surplus properties

This provision was booked prior to the introduction of IFRS 16 for properties with non-cancellable leases where the Group no longer occupies the property. The provision represents the rent to the end of the lease, less any rental income from subletting the properties. The provision for the costs of surplus properties is expected to reverse over the remaining life of the leases or period to anticipated date of disposal, if sooner.

### Commission clawbacks

The commission clawback provision represents an estimate of the repayment of commission to suppliers as a result of cancelled policies sold by Connells Group and the financial advice activities of the Group. These are estimated based upon anticipated cancellation rates and arise in the normal course of business.

### Survey and valuation claims

Provision is made for professional indemnity claims and potential claims that arise during the normal course of business in relation to surveys and valuations carried out by the Connells Group. The provision is based upon the expected level of future professional indemnity claims relating to services already provided and the value provided on each claim is the lower of the professional indemnity insurance excess per claim or the estimated exposure. To assess the level of future claims, analysis is performed on the number of preliminary notifications expected to turn into future claims and on historical claim trends to forecast the number of future claims where a notification is yet to be received. Historical data on claims success frequency and value is also used to estimate the size of the liability.

The professional indemnity claim provision is stated at the Directors' best estimate of the eventual liability, based on the information available at the time. Whilst the level of future claims is uncertain, the Group has robust processes in place that aim to restrict the number and magnitude of these.

Due to the nature of the professional indemnity claims it is difficult to indicate approximate payment timescales or claims received in future years. The provision will be utilised as individual claims are settled.

# 33. Deferred tax

Deferred tax is calculated on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using the enacted tax rate expected to apply in the relevant tax jurisdiction for the period when these differences are expected to reverse, which is 28% (2023: 28%) for the Society and 25% (2023: 25%) for most other Group companies. The rate for the Society is higher than for most other Group companies as the Society's taxable profits over £100m are subject to a 3% banking surcharge.

The movement during the year in the net deferred tax asset was as follows:

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| **At 1 January** | **20.9** | 13.1 | **16.7** | 16.5 |
| Income Statement (charge) / credit (Note 12) | **(7.9)** | 1.5 | **(2.0)** | (2.0) |
| Items taken directly to other comprehensive income | **(6.5)** | 6.6 | **(3.5)** | 2.2 |
| Acquisition of other business assets | **(0.2)** | (0.3) | **-** | - |
| At 31 December | **6.3** | 20.9 | **11.2** | 16.7 |

Deferred tax assets and liabilities are attributable to the following items:

| Deferred tax assets | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Fixed asset temporary differences (note A) | **3.8** | 6.9 | **(3.0)** | (1.7) |
| Intangible asset temporary differences (note A) | **(15.7)** | (17.3) | **-** | - |
| Derivatives and loans (note B) | **6.0** | 7.6 | **4.6** | 6.1 |
| Pension obligations | **5.6** | 8.3 | **3.5** | 4.4 |
| Provisions | **6.8** | 6.4 | **2.5** | 1.8 |
| Corporation tax losses (note C) | **2.1** | 6.0 | **-** | - |
| Tax losses on IFRS 16 transitional adjustments (note D) | **-** | 1.7 | **-** | - |
| Financial assets held at FVOCI | **4.2** | 3.7 | **4.1** | 3.6 |
| Cash flow hedges (note A) | **(6.4)** | (1.9) | **(0.5)** | 2.5 |
| Cost of hedging reserve | **0.6** | 0.2 | **-** | - |
| Gain deferred by rollover relief (note A) | **(0.7)** | (0.7) | **-** | - |
| Total | **6.3** | 20.9 | **11.2** | 16.7 |

Notes

A. Deferred tax assets and liabilities relating to the same taxation authority are offset within the Statement of Financial Position where there is a legally enforceable right of offset and the intention is to settle tax liabilities and assets on a net basis.

B. The Society amount above is in relation to the adoption of IFRS 9 in 2018; this resulted in an adjustment to the deferred tax asset in the Society of £13.3m which, as permitted by relevant accounting standards, is being released to the Income Statement over a 10 year period.

C. The amounts shown above relating to corporation tax losses include £0.2m in respect of certain Connells Group entities (2023: £5.0m), together with £1.9m in respect of certain Jade entities (2023: £1.0m). These deferred tax amounts were assessed by reference to the Group's five year corporate planning period. For Jade, management also considered the recent trading history of relevant Jade entities.

D. Tax losses on IFRS 16 transitional adjustments arose from the impairment of right-of-use assets following the adoption of IFRS 16 in 2019. These losses were spread over the average lease term of 5.6 years.

# 33. Deferred tax (continued)

The deferred tax charge / (credit) in the Income Statement comprises the following:

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Fixed asset temporary differences | **3.0** | 4.5 | **1.2** | 1.4 |
| Intangible asset temporary differences | **(1.8)** | (2.1) | **-** | - |
| Provisions | **(0.4)** | (2.0) | **(0.7)** | (0.9) |
| Derivatives and loans | **1.6** | (2.2) | **1.5** | 1.5 |
| Corporation tax losses | **3.9** | (1.4) | **-** | - |
| Tax losses on IFRS 16 transitional adjustments | **1.7** | 2.7 | **-** | - |
| Other | **(0.1)** | (1.0) | **-** | - |
| Total | **7.9** | (1.5) | **2.0** | 2.0 |

Deferred tax has not been recognised in relation to certain losses carried forward at 31 December 2024, which comprise the following:

• Trading losses of £1.5m for the Group (2023: £6.4m) and £nil for the Society (2023: £nil);

• Capital losses of £56.7m for the Group (2023: £56.6m) and £nil for the Society (2023: £nil); and

• Other tax losses of £0.2m for the Group (2023: £0.2m) and £nil for the Society (2023: £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.

# 34. 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 £28.6m for the Group (2023: £26.6m) and £8.2m for the Society (2023: £7.7m).

## b) Defined benefit schemes

During 2024 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; and
- The Countrywide plc Pension Scheme (the 'Countrywide Scheme') – a funded defined benefit arrangement. The Countrywide scheme was previously a hybrid scheme (with a funded defined benefit element) prior to closure of the direct contribution element during 2023.

The schemes are separate trustee administered funds holding the pension scheme assets to meet long-term liabilities for current and past employees as follows:

- Skipton (2015) Scheme – 723 members
- Connells (2014) Scheme – 918 members
- Countrywide Scheme – 183 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.

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; and
- 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; and
- 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.

## 34. Pensions (continued)

The defined benefit schemes are all closed to new members and to the future accrual of benefits, with the exception of the Scarborough section of the Skipton (2015) Scheme where active members retain a link to salary (capped at 5% per annum). The Scarborough Scheme closed to the future accrual of benefits, subject to the exception noted above, on 1 May 2007, the Connells (2014) Scheme on 1 January 2009, the Skipton (2015) Scheme on 31 December 2009 and the Countrywide Scheme on 31 December 2003. Following the closure of all the schemes, all active members left pensionable service and became entitled to deferred benefits.

The schemes are subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and guidance notes adopted by the Financial Reporting Council, sets out the framework for funding defined benefit occupational pension schemes in the UK.

The Trustee of each scheme is required to act in the best interests of the scheme's beneficiaries. The appointment of the Trustee is determined by the scheme's trust documentation.

BlackRock act as fiduciary manager to set and deliver the investment strategy on behalf of the Trustee of the Skipton (2015) Scheme and the Connells (2014) Scheme. The assets of the Skipton (2015) Scheme and the Connells (2014) Scheme transitioned to BlackRock in February 2021.

Full actuarial valuations were carried out as at the dates set out below in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of each scheme is agreed between the Group and the Trustee in line with those requirements. This legislation requires the deficit to be calculated using prudent, as opposed to best estimate, actuarial assumptions. The most recent complete actuarial valuations for each of the schemes showed the following:

| Scheme | Valuation date | Deficit £m | Recovery period | Annual contribution 2025 (estimate) £m |
|---|---|---|---|---|
| Skipton (2015) | 31 December 2022 | (24.5) | - | - |
| Connells (2014) | 30 April 2023 | (18.4) | 6 years and 9 months | 3.0 |
| Countrywide | 4 April 2021 | (4.5) | - | - |

The actuarial valuations of the above schemes each showed a deficit. At the time, the Group agreed with the Trustees of each scheme that it will aim to eliminate the deficit over a specified period by the payment of annual contributions as agreed by the Group and the Trustees. As part of the 31 December 2022 Skipton (2015) Scheme actuarial valuation, the Group agreed a one-off payment of £22,999,000 to reduce the expected ongoing contributions into this scheme to nil; therefore, the current best estimate of contributions to be paid by the Group to the schemes for the year commencing 1 January 2025 is £3.0m (see page 235 for further details).

In light of the recent court appeal decision in July 2024, which upheld the High Court ruling in the Virgin Media v NTL case, management acknowledges its obligations under Section 37 of the Pension Schemes Act 1993.

Management has conducted a preliminary assessment of the amending deeds enacted during the period in question, though these are limited in number and do not all relate to the composition of member benefits. For the Countrywide Scheme, documentation for the period 1997-2002 is unavailable, however, management believes this remains a low-risk issue based on reasonable assumptions. Based on this initial assessment, management does not anticipate a material impact on the group's financial position, and therefore, no adjustments have been made to the schemes' valuations at this time. Management is not aware of any immediate implications from this ruling that would affect the group's schemes and has a reasonable expectation that Section 37 requirements have been met accordingly. Due to the complexity of implementing the relevant legislation, it is currently not possible to determine the exact impact on the financial statements and pension obligations. Management supports the pension industry's ongoing dialogue with the Department for Work and Pensions (DWP) regarding the potential for retrospective certification. Following a trustee meeting on 4 December, at which the trustee lawyers were in attendance, it was requested that the lawyers perform an audit of the scheme's legal documentation to identify amending deeds affected. Following this investigation, the scheme trustee will assess the extent of any additional evaluation required to ensure continued compliance with all regulatory requirements.

## 34. Pensions (continued)

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 2024. 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 & Society | |
|---|---|---|
| | 2024 | 2023 |
| Retail Price Inflation (RPI) | **3.20** | 3.15 |
| Consumer Price Inflation (CPI) | **2.75** | 2.70 |
| Discount rate | **5.55** | 4.80 |
| Increases to pension payment: | | |
| in line with RPI, subject to a max of 5% pa | **3.03** | 2.96 |
| in line with RPI, subject to a min of 3% and max of 5% pa | **3.69** | 3.64 |
| in line with RPI, subject to a min of 4% and max of 5% pa | **4.30** | 4.25 |
| in line with RPI, subject to a max of 2.5% pa | **2.00** | 1.99 |
| in line with CPI, subject to a max of 5% pa | **2.69** | 2.62 |
| in line with CPI, subject to a min of 3% and max of 5% pa | **3.52** | 3.48 |
| in line with CPI, subject to a max of 3% pa | **2.13** | 2.10 |
| in line with CPI, subject to a max of 2.5% pa | **1.87** | 1.85 |
| 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** | 2.70 |
| 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 2024, these have been based on mortality rates that are 96% - 98% (male) and 96%-97% (female) of the standard S3PMA and S3PFA_M tables respectively, with an allowance for projected improvements in mortality in line with CMI_2022 improvements, with a 1.25% per annum long-term rate of convergence. The tables adopted imply the following life expectancy:

| | Group & Society | |
|---|---|---|
| | 2024 | 2023 |
| Male retiring in the current year | **21.6 - 21.7** | 21.6 - 21.7 |
| Female retiring in the current year | **23.6** | 23.6 |
| Male retiring in 15 years' time | **22.4 - 22.6** | 22.4 - 22.6 |
| Female retiring in 15 years' time | **24.6 - 24.7** | 24.6 - 24.7 |

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.

## 34. Pensions (continued)

As at 31 December 2024 the Statement of Financial Position includes amounts relating to defined benefit schemes as set out below:

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| **Within assets** | | | | |
| Retirement benefit surplus | **4.8** | - | **4.8** | - |
| **Within liabilities** | | | | |
| Retirement benefit obligations | **(8.6)** | (26.2) | **-** | (15.9) |

### Retirement benefit surplus/obligations

For the Group and Society, amounts presented within 'Retirement benefit surplus' relate to the Skipton (2015) Scheme. For the Group, the amounts presented within 'Retirement benefit obligations' include the Connells (2014) Scheme and the Countrywide scheme.

The table below shows the net pension asset / (liability) recognised within the Statement of Financial Position:

| | 2024 | | | 2023 | |
|---|---|---|---|---|---|
| Group (£m) | **Retirement Benefit Surplus** | **Retirement Benefit Obligation** | **Total** | Retirement Benefit Obligation | Total |
| Fair value of plan assets | 91.9 | 103.5 | **195.4** | 191.1 | 191.1 |
| Fair value of defined benefit obligation | (87.1) | (112.1) | **(199.2)** | (217.3) | (217.3) |
| **Net pensions asset / (liability)** | **4.8** | **(8.6)** | **(3.8)** | (26.2) | (26.2) |

| | 2024 | | 2023 | |
|---|---|---|---|---|
| Society (£m) | **Retirement Benefit Surplus** | **Total** | Retirement Benefit Obligation | Total |
| Fair value of plan assets | 91.9 | **91.9** | 79.2 | 79.2 |
| Fair value of defined benefit obligation | (87.1) | **(87.1)** | (95.1) | (95.1) |
| **Net pensions asset / (liability)** | **4.8** | **4.8** | (15.9) | (15.9) |

The present value of scheme assets/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 asset/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.

# 34. Pensions (continued)

The table below sets out a reconciliation of the present value of the defined benefit obligation for the year:

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| **At 1 January** | **217.3** | 217.5 | **95.1** | 95.5 |
| Interest expense | **9.9** | 10.6 | **4.4** | 4.7 |
| Remeasurement losses / (gains) arising from changes in: | | | | |
| Scheme experience | **0.3** | 1.3 | **-** | (0.2) |
| Demographic assumptions | **(0.5)** | (4.9) | **(0.2)** | (2.1) |
| Financial assumptions | **(17.6)** | 5.7 | **(8.1)** | 2.3 |
| Actual benefit payments | **(10.2)** | (12.1) | **(4.1)** | (4.7) |
| Past service costs | **-** | (0.8) | **-** | (0.4) |
| **At 31 December** | **199.2** | 217.3 | **87.1** | 95.1 |

There have been no settlements, plan amendments or curtailments during the year.

The estimated average duration of the defined benefit obligation as at 31 December 2024 is 13 years (2023: 14 years).

The table below sets out the reconciliation of the fair value of scheme assets for the year:

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| **At 1 January** | **191.1** | 187.9 | **79.2** | 78.6 |
| Interest income | **10.0** | 9.3 | **4.8** | 3.8 |
| Return on plan assets (excluding amounts included in interest income) | **(21.5)** | (2.4) | **(11.0)** | (0.2) |
| Contributions by employer | **26.0** | 8.4 | **23.0** | 1.7 |
| Benefits paid | **(10.2)** | (12.1) | **(4.1)** | (4.7) |
| **At 31 December** | **195.4** | 191.1 | **91.9** | 79.2 |

The actual return on the scheme assets, including interest income on plan assets, over the year ended 31 December 2024 was as follows:

- Group £(11.5)m (2023: £6.9m)
- Society £(6.2)m (2023: £3.6m)

The table below sets out the fair value of the scheme assets by each major category:

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Diversified growth fund (note A) | **28.2** | 32.9 | **14.4** | 17.7 |
| Insured pensioners (annuities) (note B) | **31.3** | 34.8 | **-** | - |
| Liability driven investments (note C) | **125.0** | 72.3 | **76.2** | 36.7 |
| Equities | **5.4** | 31.3 | **-** | 15.2 |
| Cash | **2.9** | 2.2 | **1.3** | 1.1 |
| Corporate bonds | **1.3** | 13.1 | **-** | 6.4 |
| Government bonds | **1.3** | 4.5 | **-** | 2.1 |
| **Total** | **195.4** | 191.1 | **91.9** | 79.2 |

# 34. Pensions (continued)

**Notes**

A. Diversified growth funds (DGF) target equity-like returns with lower volatility which is achieved through dynamic diversification. Funds are invested in a diversified range of assets, including equities, bonds, property and cash and the allocation between these asset classes is actively managed by a fund manager reflecting the changing correlations and risk characteristics.

B. An insured pensioner annuity is a type of annuity that is purchased by the scheme to provide a guaranteed income to its members. The insurer takes on the risk of paying the income, rather than the pension scheme.

C. Liability driven investments (LDI) are investments in assets which are expected to behave in a similar manner to liabilities and therefore aim to provide a better match against liability movements than conventional bonds or gilts.

Each of the schemes invests in an LDI fund which aims to provide protection against interest rate and inflation movements. The Trustee has an approach to asset-liability matching where the level of coverage of interest rate sensitivity and inflation sensitivity are set based on a series of funding ratio triggers. This applies to both the Skipton (2015) Scheme and the Connells (2014) Scheme.

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group. The schemes' assets that are invested in exchange traded funds have a quoted market price. The remainder use either the price of a recent transaction for an identical asset (where quoted prices for the asset are unavailable) or valuation techniques using non-observable data.

It is the policy of the Trustee and the Group to review the investment strategy at the time of each funding valuation. The Trustee's investment objectives and the processes undertaken to measure and manage the risks inherent in the scheme investment strategy are documented in the scheme's Statement of Investment Principles.

The schemes are exposed to the following investment risks:

- **Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- **Market risk:** this comprises currency risk, interest rate risk and other price risk.
- **Currency risk**: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk**: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Longevity risk**: The liabilities are very sensitive to unexpected changes in future mortality. If longevity increases by more than assumed, then the liabilities will increase at future calculations.
- **Inflation risk:** Elements of the pensions in payment under the Scheme increase at an inflation-linked rate, albeit 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.

# 34. Pensions (continued)

### 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 operating income'.

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Past service costs | **-** | (0.8) | **-** | (0.4) |
| Net interest expense | **(0.1)** | 1.3 | **(0.4)** | 0.9 |
| **Total recognised in Income Statement** | **(0.1)** | 0.5 | **(0.4)** | 0.5 |

## 34. Pensions (continued)

Past service costs above relate to the estimated impact of the application of Guaranteed Minimum Pension (GMP) equalisation requirements to historical transfers out of pension schemes. Estimated costs of £0.7m for the Skipton (2015) scheme and £0.8m for the Connells (2014) scheme were included in the 2020 Annual Report & Accounts. These estimates were revised at 31 December 2023 to £0.1m for each scheme. The difference between the previous estimates (after being rolled forward from 31 December 2020, the date of the original estimate, and updated for changes in market conditions at 31 December 2023), and the revised estimates, were treated as a negative past service cost within 'Administrative expenses' in the Income Statement.

The table below sets out the remeasurements of retirement benefit obligations which have been recognised within the Statement of Comprehensive Income:

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| **Remeasurements of retirement benefit obligations:** | | | | |
| Actuarial (losses) / gains arising from: | | | | |
| Experience adjustments | **(0.3)** | (1.3) | **-** | 0.2 |
| Demographic assumptions | **0.5** | 4.9 | **0.2** | 2.1 |
| Financial assumptions | **17.6** | (5.7) | **8.1** | (2.3) |
| Return on plan assets (excluding amounts included in net interest expense) | **(21.5)** | (2.4) | **(11.0)** | (0.2) |
| Total amount recognised in Other Comprehensive Income | **(3.7)** | (4.5) | **(2.7)** | (0.2) |

The table below sets out the Group's estimate of the aggregate contributions expected to be paid into the schemes during the year ending 31 December 2025, based on the most recent actuarial valuations:

| | Group (£m) | Society (£m) |
|---|---|---|
| | 2025 | 2025 |
| **Estimated employer contributions** | | |
| Ongoing | **3.0** | **-** |
| Estimated total contributions | **3.0** | **-** |

In line with UK pensions legislation, a formal actuarial valuation ('triennial valuation') of the assets and liabilities of each scheme is carried out at least every three years by an independent actuary. The results of the most recent triennial valuations are set out on page 229. 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.

## 35. Subordinated liabilities

| | Group & Society (£m) | |
|---|---|---|
| | **2024** | **2023** |
| **Fixed rate reset notes:** | | |
| Senior non-preferred (SNP) notes due 2026 | **351.7** | 351.7 |
| Senior non-preferred (SNP) notes due 2029 | **354.1** | 354.1 |
| | **705.8** | 705.8 |
| **Unamortised discount on issue:** | | |
| Senior non-preferred (SNP) notes due 2026 | **(0.2)** | (0.4) |
| Senior non-preferred (SNP) notes due 2029 | **(1.4)** | (1.8) |
| | **(1.6)** | (2.2) |
| Fair value adjustment for hedged risk | **(14.0)** | (18.3) |
| | **690.2** | 685.3 |

The fixed rate reset notes are denominated in Sterling. Coupons are paid on a fixed basis semi-annually.

The subordinated liabilities listed above were issued under the Society's £2.0bn Euro Medium Term Note Programme. The £350m Senior non-preferred (SNP) notes due 2026 have a maturity date of 2 October 2026 and an optional redemption date of 2 October 2025. The £350m Senior non-preferred (SNP) notes due 2029 have a maturity date of 25 April 2029 and an optional redemption date of 25 April 2028.

The optional redemptions, at 100% of the principal amount plus accrued and unpaid interest up to (but excluding) the date of redemption, are subject to certain conditions.

The notes are junior in right of payment to all Senior Claims, pari passu with all other Senior Non-Preferred Claims, and in priority to all Subordinated Claims.

Amounts shown in the above table represent the nominal value plus accrued interest, except for 'Unamortised discount on issue' which is the difference between face values and current book values.

Senior non-preferred notes contribute to meeting the Society's MREL requirements.

## 36. Subscribed capital

| | Group & Society (£m) | |
|---|---|---|
| | **2024** | **2023** |
| 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.

# 37. Cash flows

## a) Cash flows from operating activities

### i) Impairment credits on financial instruments

For the purposes of the Statements of Cash Flows, amounts presented within the line 'Impairment credits on financial instruments' include the following:

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Impairment credit on loans and advances to customers (net of recoveries) (Note 17) | **(17.1)** | (3.1) | **(17.0)** | (4.4) |
| Loans and advances recovered | **0.5** | 0.4 | **0.4** | 0.4 |
| Impairment credit on liquid assets | **(0.1)** | (0.1) | **(0.1)** | (0.1) |
| Impairment charge on trade receivables (Note 43c)) | **0.8** | 0.8 | **-** | - |
| | **(15.9)** | (2.0) | **(16.7)** | (4.1) |

### ii) Fair value gains on financial instruments held at FVTPL

For the purposes of the Statements of Cash Flows, amounts presented within the line 'Fair value gains on financial instruments held at FVTPL' include the following:

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 Restated* | 2024 | 2023 Restated* |
| Fair value (gains) / losses on hedging instruments and hedged items | **(2.0)** | 1.6 | **(6.9)** | (4.7) |
| Fair value gains on derivatives associated with the equity release portfolio | **(21.9)** | (1.8) | **(21.9)** | (1.8) |
| Fair value losses / (gains) on equity release portfolio (Note 18) | **12.6** | (9.2) | **12.6** | (9.2) |
| Fair value gains on share warrants | **(5.9)** | (13.3) | **-** | - |
| Fair value gains / (losses) on put options held by minority shareholders | **0.3** | (0.3) | **-** | - |
| Fair value gains on equity share investments at FVTPL (Note 20d)) | **(1.1)** | (0.5) | **-** | - |
| Fair value losses / (gains) on debt securities at FVTPL | **-** | - | **4.0** | (5.0) |
| | **(18.0)** | (23.5) | **(12.2)** | (20.7) |

* The information shown above for the year ended 31 December 2023 is restated to reflect the appropriate presentation of certain non-cash movements (see Note 1c) for details). The restatement relates solely to the line 'Fair value gains on hedging instruments and hedged items', which was not previously presented within this breakdown.

### 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 (£m) | | Society (£m) | |
|---|---|---|---|---|
| | 2024 | 2023 Restated* | 2024 | 2023 Restated* |
| Profit on disposal of treasury assets | **1.8** | (0.1) | **1.8** | (0.1) |
| Realised losses on equity release portfolio (Note 18) | **1.8** | 0.8 | **1.8** | 0.8 |
| Income Statement credit for fair value of subsidiary management incentive scheme liability (Note 7) | **(4.2)** | (0.3) | **-** | - |
| Share of profits from joint ventures | **(1.4)** | (1.1) | **-** | - |
| Other | **(3.0)** | (33.4) | **(6.3)** | 6.9 |
| | **(5.0)** | (34.1) | **(2.7)** | 7.6 |

* The information shown above for the year ended 31 December 2023 is restated to reflect the appropriate presentation of certain non-cash movements (see Note 1c) for details). The restatement relates solely to the line 'Other', which was previously presented as £(39.7)m (Group) and £(16.0)m (Society).

# 37. Cash flows (continued)

## b) Cash flows from investing activities

### i) Other investing activities

For the purposes of the Statements of Cash Flows, amounts presented within the line 'Other investing activities' include the following:

| | Group (£m) | | Society (£m) | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Purchase of property, plant and equipment and investment property (Notes 21, 23) | **(22.0)** | (17.6) | **(10.5)** | (6.1) |
| Purchase of intangible assets | **(14.9)** | (10.1) | **(4.1)** | (0.2) |
| Proceeds from disposal of property, plant and equipment, investment property and intangible assets | **1.9** | 1.6 | **-** | 0.1 |
| Dividends received from joint ventures | **0.5** | 0.9 | **-** | - |
| Investment in equity share investments (Note 20d)) | **(5.6)** | (0.2) | **-** | - |
| Purchase of other business units | **(1.2)** | (1.4) | **-** | - |
| Proceeds from liquidation of equity share investment | **-** | 0.2 | **-** | - |
| Proceeds from disposal of equity share investments | **0.3** | 0.1 | **-** | - |
| | **(41.0)** | (26.5) | **(14.6)** | (6.2) |

## 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 tables below provide a reconciliation of movements in liabilities arising from financing activities:

| | 2024 | | | | | |
|---|---|---|---|---|---|---|
| Group (£m) | Put option obligation | Liability of subsidiary management incentive scheme | Lease liabilities | Subordinated liabilities | Subscribed capital | Total |
| **At 1 January 2024** | 3.5 | 4.2 | 103.0 | 685.3 | 41.6 | **837.6** |
| **Cash flow items:** | | | | | | |
| Lease payments (excluding interest) | - | - | (39.3) | - | - | **(39.3)** |
| Interest paid | - | - | (3.1) | (29.0) | (4.5) | **(36.6)** |
| **Non-cash flow items:** | | | | | | |
| Changes in fair values | 0.6 | 0.3 | - | 4.3 | - | **5.2** |
| Interest expense | - | - | 3.1 | 29.6 | 4.5 | **37.2** |
| Lease additions | - | - | 18.1 | - | - | **18.1** |
| Lease disposals | - | - | (0.9) | - | - | **(0.9)** |
| Lease modifications / remeasurements | - | - | 11.2 | - | - | **11.2** |
| Release of liability | - | (4.5) | - | - | - | **(4.5)** |
| **At 31 December 2024** | **4.1** | **-** | **92.1** | **690.2** | **41.6** | **828.0** |

# 37. Cash flows (continued)

| Group (£m) | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Put option obligation | Liability of subsidiary management incentive scheme | Lease liabilities | Subordinated liabilities | Subscribed capital | Total |
| At 1 January 2023 | 3.8 | 7.0 | 113.0 | 311.8 | 41.6 | 477.2 |
| Cash flow items: | | | | | | |
| Lease payments (excluding interest) | - | - | (41.2) | - | - | (41.2) |
| Interest paid | - | - | (2.3) | (18.5) | (4.5) | (25.3) |
| Proceeds from issue | - | - | - | 350.0 | - | 350.0 |
| Non-cash flow items: | | | | | | |
| Changes in fair values | - | (0.3) | - | 21.0 | - | 20.7 |
| Interest expense | - | - | 2.3 | 22.6 | 4.5 | 29.4 |
| Lease additions | - | - | 23.5 | - | - | 23.5 |
| Lease disposals | - | - | (1.7) | - | - | (1.7) |
| Lease modifications / remeasurements | - | - | 9.4 | - | - | 9.4 |
| Unwind of discount | 0.1 | - | - | - | - | 0.1 |
| Exercise of options | (0.4) | (2.5) | - | - | - | (2.9) |
| Other | - | - | - | (1.6) | - | (1.6) |
| At 31 December 2023 | 3.5 | 4.2 | 103.0 | 685.3 | 41.6 | 837.6 |

| Society (£m) | 2024 | | | |
|---|---|---|---|---|
| | Lease liabilities | Subordinated liabilities | Subscribed capital | Total |
| **At 1 January 2024** | 10.3 | 685.3 | 41.6 | **737.2** |
| **Cash flow items:** | | | | |
| Lease payments (excluding interest) | (2.4) | - | - | **(2.4)** |
| Interest paid | (0.3) | (29.0) | (4.5) | **(33.8)** |
| **Non-cash flow items:** | | | | |
| Changes in fair values | - | 4.3 | - | **4.3** |
| Interest expense | 0.3 | 29.6 | 4.5 | **34.4** |
| Lease additions | 0.7 | - | - | **0.7** |
| Lease disposals | (0.1) | - | - | **(0.1)** |
| Other | 0.1 | - | - | **0.1** |
| **At 31 December 2024** | **8.6** | **690.2** | **41.6** | **740.4** |

## 37. Cash flows (continued)

| | 2023 | | | |
|---|---|---|---|---|
| Society (£m) | Lease liabilities | Subordinated liabilities | Subscribed capital | Total |
| At 1 January 2023 | 11.1 | 311.8 | 41.6 | 364.5 |
| Cash flow items: | | | | |
| Lease payments (excluding interest) | (2.4) | - | - | (2.4) |
| Interest paid | (0.2) | (18.5) | (4.5) | (23.2) |
| Proceeds from issue | - | 350.0 | - | 350.0 |
| Non-cash flow items: | | | | |
| Changes in fair values | - | 21.0 | - | 21.0 |
| Interest expense | 0.3 | 22.6 | 4.5 | 27.4 |
| Lease additions | 1.6 | - | - | 1.6 |
| Lease disposals | (0.1) | - | - | (0.1) |
| Other | - | (1.6) | - | (1.6) |
| At 31 December 2023 | 10.3 | 685.3 | 41.6 | 737.2 |

## 38. Tax effects relating to each component of other comprehensive income

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| Group (£m) | Before- tax amount | Tax benefit / (expense) | Net-of-tax amount | Before- tax amount | Tax (expense) / benefit | Net-of-tax amount |
| Financial assets held at FVOCI | **(1.7)** | **0.6** | **(1.1)** | 1.8 | (0.2) | 1.6 |
| Cash flow hedges | **16.3** | **(4.6)** | **11.7** | (34.3) | 9.6 | (24.7) |
| Cost of hedging reserve | **(1.2)** | **0.3** | **(0.9)** | 0.8 | (0.2) | 0.6 |
| Remeasurements of defined benefit obligations | **(3.7)** | **1.0** | **(2.7)** | (4.5) | 1.1 | (3.4) |
| Translation of foreign operations | **(1.4)** | **-** | **(1.4)** | (0.3) | - | (0.3) |
| Other comprehensive income | **8.3** | **(2.7)** | **5.6** | (36.5) | 10.3 | (26.2) |

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| Society (£m) | Before- tax amount | Tax benefit / (expense) | Net-of-tax amount | Before- tax amount | Tax (expense) / benefit | Net-of-tax Amount |
| Financial assets held at FVOCI | **(1.8)** | **0.5** | **(1.3)** | 0.4 | (0.1) | 0.3 |
| Cash flow hedges | **10.7** | **(3.0)** | **7.7** | (11.4) | 3.2 | (8.2) |
| Remeasurements of defined benefit obligations | **(2.7)** | **0.8** | **(1.9)** | (0.2) | 0.1 | (0.1) |
| Other comprehensive income | **6.2** | **(1.7)** | **4.5** | (11.2) | 3.2 | (8.0) |

## 39. Other financial commitments and contingent liabilities

The Society has confirmed it will provide continuing support to its subsidiary undertakings that have net liabilities or which rely on it for ongoing funding.

Skipton International (SIL) is undertaking a review exercise following a review from the Guernsey Financial Services Commission (GFSC) in 2023 as part of the latter’s PRISM approach to supervision. As at 31 December 2024, SIL has assessed that it is probable that further costs may be incurred in relation to this matter. However, at this stage, it is not possible to make a reliable estimate of the amount or timing of any cost. Accordingly, no provision has been recognised in the financial statements.

# 40. 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 1f) 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 42.

The Group uses the following derivatives to hedge its exposure to interest rate risk:

**Fair value hedges of interest rate risk**

***Portfolio hedging***

The Group manages the interest rate risk arising from fixed rate mortgages and savings by entering into swaps on a frequent basis. The level of exposure from the mortgage portfolio frequently changes due to new loans being originated, contractual customer repayments and early customer repayments. As a result, the Group adopts a dynamic hedging strategy to hedge the interest rate risk component within the exposure profile by entering into new swap agreements each month. The Group uses a portfolio of fair value hedges of interest rate risk to recognise fair value changes related to changes in interest rate risk on fixed rate mortgages and savings products, to therefore reduce the profit or loss volatility that would otherwise occur from changes in the fair value of the interest rate swaps alone.

The hedge relationship is reassessed prospectively each month in order that the hedging ratio is recalibrated to be close to 100%, thereby reducing hedge ineffectiveness. The hedging ratio is the level of hedged items designated in the portfolio against hedging instruments, taking into consideration the maturities of the hedge.

Occasionally hedge ineffectiveness can arise, i.e. the derivative fails to hedge the interest rate risk to the extent that is expected. The Group assesses hedge ineffectiveness on an ongoing basis. Where the Group assesses that the hedge relationship has changed to such an extent that the existing hedge ratio is no longer suitable, the hedging relationship would be rebalanced to ensure hedge effectiveness.

The main sources of ineffectiveness in fair value hedges of interest rate risk are:

- Differences between the expected and actual volume of customer prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- Differences in the timing of cash flows from the mortgage loans and the interest rate swaps; and
- Differences in the maturities of the interest rate swap and the mortgage loans.

# 40. Derivative financial instruments (continued)

*Micro hedging*

Fair value hedge relationships are also designated for hedging the interest rate risk component arising from the Group's liquidity portfolio, Medium Term Note (MTN) liabilities and wholesale deposits. For these items, a hedge is taken out specifically for the individual asset or liability, and therefore critical terms of the hedged item and hedging instrument match. Where critical terms match, the fair value adjustment on the hedged item offsets exactly the change in fair value of the hedging instrument.

The Group assesses all of its micro fair value hedges of interest rate risk to have a hedge effectiveness ratio of 100%, as all derivatives hedge an amount of underlying instrument equal to the notional amount.

Hedge ineffectiveness could potentially arise if critical terms do not exactly match, amendments were made to either the hedged item or the hedging instrument, or if there were significant changes in the credit rating of the hedged item or hedging instrument's counterparties; the Group has assessed the likelihood of this to be low.

*Cash flow hedges of interest rate risk*

The Group also has exposure to interest rate risk arising from its free reserves portfolio, which is composed of reserves held in excess of required reserves. The Group uses derivatives to hedge this risk component and accounts for these derivatives as cash flow hedges against variable rate instruments. The aim of cash flow hedging is to reduce the exposure to variability in cash flows arising from a financial asset or liability. The variable rate on the hedging instrument, i.e. the swap, offsets the hedged items, which are SONIA-linked financial assets or liabilities.

Hedge ineffectiveness for cash flow hedges is assessed using the 'hypothetical derivative' method and ineffectiveness has been assessed as £nil (2023: £nil) for the Group's cash flow hedges.

Hedge ineffectiveness could potentially arise if amendments were made to either the hedged item or the hedging instrument, or if there were significant changes in the credit rating of the hedged item or hedging instrument's counterparties; the Group has assessed the likelihood of this to be low.

## Currency risk

The Group's exposure to foreign currency risk arises predominantly as a result of issuing Euro-denominated regulated covered bonds to the wholesale funding market.

**Fair value hedges of currency risk**

The Group has entered into one (2023: one) cross-currency swap agreement to hedge the foreign currency risk and interest rate risk components arising from the Society's Euro covered bond issuances. Fixed rate Euro-denominated receipts are swapped to floating rate Sterling payments through these derivatives. The derivative is entered into by the LLP, with the hedged item being the term advance from the Society to the LLP, which mirrors the bond issued by the Society, effectively hedging the debt issued by the Society. Foreign currency basis spread is priced into the derivative but is excluded from the hedging relationship and any gain or loss arising from this is recognised directly in reserves in the cost of hedging reserve, as permitted by IFRS 9.

## Equity release portfolio

In addition to the above, the Group holds derivative financial instruments to economically hedge the equity release portfolio which do not qualify as being in a designated hedging relationship for accounting purposes. As the derivatives held to hedge the equity release portfolio are not in a hedge accounting relationship, they are not included in the tables on pages 243 to 247. Further information on the derivatives held to hedge this portfolio can be found in Note 18.

## Other derivatives not held in an accounting hedge

Certain other derivatives cannot be accounted for in a fair value or cash flow hedge as the economic hedging relationship does not meet the criteria set out by IFRS 9. These derivatives are held at FVTPL and their change in fair value is included within the Income Statement line 'Fair value gains on financial instruments mandatorily held at FVTPL'.

## Hedging instruments

The following table sets out the maturity profile and average price and rate of the hedging instruments used in the Group's hedge accounting strategies.

# 40. Derivative financial instruments (continued)

| Group (£m) | 2024 Up to 3 months | 2024 3 - 12 months | 2024 1 – 5 years | 2024 Over 5 years | 2023 Up to 3 months | 2023 3 - 12 months | 2023 1 – 5 years | 2023 Over 5 years |
|---|---|---|---|---|---|---|---|---|
| **Cash flow hedges** | | | | | | | | |
| **Interest rate swaps** | | | | | | | | |
| Notional (£m) | **-** | **-** | **2,291.5** | **571.5** | - | - | 1,817.5 | 256.0 |
| Weighted average fixed interest rate (%) | **-** | **-** | **3.8%** | **3.8%** | - | - | 4.5% | 3.6% |
| **Fair value hedges** | | | | | | | | |
| **Interest rate swaps** | | | | | | | | |
| Notional (£m) | **3,988.3** | **13,669.0** | **16,872.2** | **1,538.5** | 3,144.0 | 8,606.8 | 21,167.8 | 955.5 |
| Weighted average fixed interest rate (%) | **4.3%** | **3.7%** | **3.2%** | **3.2%** | 2.4% | 3.2% | 2.9% | 2.8% |
| **Cross currency swaps** | | | | | | | | |
| Notional (£m) | **-** | **-** | **421.3** | **-** | - | 443.5 | - | - |
| Weighted average fixed interest rate (%) | **-** | **-** | **3.3%** | **-** | - | 0.01% | - | - |

| Society (£m) | 2024 Up to 3 months | 2024 3 - 12 months | 2024 1 – 5 years | 2024 Over 5 years | 2023 Up to 3 months | 2023 3 - 12 months | 2023 1 – 5 years | 2023 Over 5 years |
|---|---|---|---|---|---|---|---|---|
| **Cash flow hedges** | | | | | | | | |
| **Interest rate swaps** | | | | | | | | |
| Notional (£m) | **23.0** | **145.0** | **3,214.3** | **571.5** | 12.0 | 232.8 | 2,727.6 | 272.7 |
| Weighted average fixed interest rate (%) | **3.6%** | **2.6%** | **3.6%** | **3.8%** | 3.9% | 5.5% | 3.9% | 3.6% |
| **Fair value hedges** | | | | | | | | |
| **Interest rate swaps** | | | | | | | | |
| Notional (£m) | **4,110.7** | **13,813.2** | **17,205.5** | **1,538.5** | 3,242.8 | 8,877.5 | 21,612.5 | 955.5 |
| Weighted average fixed interest rate (%) | **4.2%** | **3.6%** | **3.1%** | **3.2%** | 2.3% | 3.2% | 2.9% | 2.8% |

The table below provides further detail on the Group's fair value hedges used in hedge accounting relationships:

| £m | Carrying amount (note A) Notional | Carrying amount (note A) Assets | Carrying amount (note A) Liabilities | Change in fair value (charge) / credit (note B) | Hedge ineffectiveness charge / (credit) (note C) |
|---|---|---|---|---|---|
| **2024 Group** | | | | | |
| Interest rate swaps | **36,068.0** | **697.4** | **(171.3)** | **(124.0)** | **5.7** |
| Cross currency swaps | **421.3** | **8.3** | **-** | **33.1[D]** | **(0.8)** |
| **2024 Society** | | | | | |
| Interest rate swaps | **36,667.9** | **699.0** | **(195.5)** | **(105.1)** | **6.3** |
| 2023 Group | | | | | |
| Interest rate swaps | 33,874.1 | 960.8 | (310.7) | (392.6) | (3.7) |
| Cross currency swaps | 443.5 | - | (23.6) | 21.1[D] | (0.1) |
| 2023 Society | | | | | |
| Interest rate swaps | 34,688.3 | 963.9 | (355.3) | (372.0) | (3.7) |

## 40. Derivative financial instruments (continued)

Notes

A. The Statement of Financial Position lines that includes these items are 'Derivative financial instruments'.

B. The change in fair value during the period that was used as the basis for calculating hedge ineffectiveness and which was recognised in the Income Statement line 'Fair value gains on financial instruments mandatorily held at FVTPL'.

C. The amount of hedge ineffectiveness recognised in the Income Statement during the year. The Income Statement line that includes the hedge ineffectiveness recognised during the period is 'Fair value gains on financial instruments mandatorily held at FVTPL'.

D. In addition, £1.2m of fair value losses (2023: £0.8m gain) were recognised directly in the Group's cost of hedging reserve due to ineffectiveness arising as a result of foreign currency basis spread as described in Note 1f).

The table below provides further detail on the Group's cash flow hedges used in hedge accounting relationships.

| | Carrying amount (note A) | | | Change in fair value credit / (charge) (note B) | Losses reclassified from OCI to Income Statement |
|---|---|---|---|---|---|
| £m | Notional | Assets | Liabilities | | |
| **2024 Group** | | | | | |
| Interest rate swaps | **2,863.0** | **17.5** | **(22.1)** | **52.8** | **45.9** |
| **2024 Society** | | | | | |
| Interest rate swaps | **3,953.8** | **20.1** | **(55.4)** | **47.0** | **45.9** |
| 2023 Group | | | | | |
| Interest rate swaps | 2,073.5 | 3.8 | (61.2) | (27.1) | 14.1 |
| 2023 Society | | | | | |
| Interest rate swaps | 3,245.1 | 13.5 | (95.8) | (11.8) | 14.1 |

Notes

A. The Statement of Financial Position lines that includes these items are 'Derivative financial instruments'.

B. The change in fair value during the period that was used as the basis for calculating hedge ineffectiveness and is recognised within the 'Cash flow hedging reserve: Losses taken to equity' line of the Statement of Comprehensive Income.

There was no hedge ineffectiveness recognised during either 2024 or 2023 in respect of the Group or Society's cashflow hedges.

### Hedged items

The tables below provide further detail on the Group's hedged items:

| 2024 | Carrying amount | | Fair value adjustment on hedged item (note A) | SOFP line | Change in fair value credit / (charge) (note B) | Amount remaining on items de-designated from hedge relationship (note C) |
|---|---|---|---|---|---|---|
| Group (£m) | Assets | Liabilities | | | | |
| **Cash flow hedges** | | | | | | |
| Floating rate assets | **1,667.3** | **-** | **n/a** | note D | **n/a** | **37.6** |
| Floating rate liabilities | **-** | **1,195.7** | **n/a** | note E | **n/a** | **(10.0)** |
| **Fair value hedges** | | | | | | |
| Fixed rate mortgages | **21,210.0** | **-** | **(274.6)** | note F | **76.3** | **-** |
| Debt securities | **2,206.9** | **-** | **(79.2)** | note D | **(26.9)** | **-** |
| Fixed rate savings | **-** | **12,445.7** | **(1.8)** | note G | **1.5** | **-** |
| Covered bonds | **-** | **418.6** | **3.7** | note E | **26.5** | **-** |
| Subordinated liabilities | **-** | **705.8** | **(14.0)** | note H | **4.2** | **-** |

# 40. Derivative financial instruments (continued)

| 2023 | Carrying amount | | | | | |
|---|---|---|---|---|---|---|
| Group (£m) | Assets | Liabilities | Fair value adjustment on hedged item (note A) | SOFP line | Change in fair value credit / (charge) (note B) | Amount remaining on items de-designated from hedge relationship (note C) |
| Cash flow hedges | | | | | | |
| Floating rate assets | 1,271.0 | - | n/a | note D | n/a | 78.3 |
| Floating rate liabilities | - | 802.5 | n/a | note E | n/a | (14.9) |
| Fair value hedges | | | | | | |
| Fixed rate mortgages | 21,758.7 | - | (350.9) | note F | 615.9 | - |
| Debt securities | 854.4 | - | (52.3) | note D | 47.5 | - |
| Fixed rate savings | - | 11,194.4 | (3.3) | note G | 129.4 | - |
| Amounts owed to other customers | - | 41.3 | (0.1) | note I | (0.1) | - |
| Covered bonds | - | 434.4 | (22.8) | note E | 18.0 | - |
| Subordinated liabilities | - | 705.8 | (18.2) | note H | 21.1 | - |

| 2024 | Carrying amount | | | | | |
|---|---|---|---|---|---|---|
| Society (£m) | Assets | Liabilities | Fair value adjustment on hedged item (note A) | SOFP line | Change in fair value credit / (charge) (note B) | Amount remaining on items de-designated from hedge relationship (note C) |
| **Cash flow hedges** | | | | | | |
| Floating rate assets | **1,775.3** | **-** | **n/a** | note D | **n/a** | **37.6** |
| Floating rate liabilities | **-** | **2,178.5** | **n/a** | note E | **n/a** | **(10.1)** |
| **Fair value hedges** | | | | | | |
| Fixed rate mortgages | **21,325.2** | **-** | **(271.7)** | note F | **75.7** | **-** |
| Debt securities | **2,206.9** | **-** | **(79.3)** | note D | **(26.9)** | **-** |
| Fixed rate savings | **-** | **12,930.5** | **(16.2)** | note G | **14.6** | **-** |
| Subordinated liabilities | **-** | **705.8** | **(14.0)** | note H | **4.2** | **-** |

# 40. Derivative financial instruments (continued)

| 2023 | Carrying amount | | Fair value adjustment on hedged item (note A) | SOFP line | Change in fair value credit / (charge) (note B) | Amount remaining on items de-designated from hedge relationship (note C) |
|---|---|---|---|---|---|---|
| Society (£m) | Assets | Liabilities | | | | |
| **Cash flow hedges** | | | | | | |
| Floating rate assets | 1,544.8 | - | n/a | note D | n/a | 78.3 |
| Floating rate liabilities | - | 1,700.3 | n/a | note E | n/a | (14.7) |
| **Fair value hedges** | | | | | | |
| Fixed rate mortgages | 21,828.7 | - | (347.4) | note F | 617.4 | - |
| Debt securities | 854.4 | - | (52.4) | note D | 47.4 | - |
| Fixed rate savings | - | 11,938.7 | (30.8) | note G | 160.9 | - |
| Amounts owed to other customers | - | 41.3 | (0.1) | note I | (0.1) | - |
| Subordinated liabilities | - | 705.8 | (18.2) | note H | 21.1 | - |

**Notes**

A. Fair value adjustments on hedged items are included within the Statement of Financial Position (SOFP) as adjustments to the relevant SOFP line; see below notes for details.

B. The change in fair value during the period that is used as the basis for calculating hedge ineffectiveness and is recognised within the Income Statement line 'Fair value gains on financial instruments mandatorily held at FVTPL'; as presented within Note 5 line 'Hedging instruments and hedged items'.

C. The accumulated amount of fair value hedge adjustments remaining (in the Statement of Financial Position for fair value hedges; in the cash flow hedging reserve for cash flow hedges) for any hedged items that have ceased to be adjusted for hedging gains and losses.

D. The Statement of Financial Position lines that include these items are 'Debt securities' and 'Investments in subsidiary undertakings and joint ventures'.

E. The Statement of Financial Position line that includes these items is 'Debt securities in issue'.

F. The Statement of Financial Position line that includes these items is 'Loans and advances to customers held at amortised cost'.

G. The Statement of Financial Position lines that include these items are 'Shares' (Group and Society) and 'Amounts owed to other customers' (Group only).

H. The Statement of Financial Position line that includes these items is 'Subordinated liabilities'.

I. The Statement of Financial Position line that includes these items is 'Amounts owed to other customers'.

| | Carrying amount | | | Change in fair value recognised in OCI: (charge) / credit (note A) | Amount reclassified from OCI to Income Statement |
|---|---|---|---|---|---|
| £m | Notional | Assets | Liabilities | | |
| **2024 Group** | | | | | |
| Cross currency swaps | **421.3** | **8.4** | **-** | **(1.2)** | **-** |
| 2023 Group | | | | | |
| Cross currency swaps | 443.5 | - | (23.6) | 0.8 | - |

**Note**

A. The change in fair value during the period is recognised within the 'Cash flow hedging reserve: Losses taken to equity' line of the Statement of Comprehensive Income.

## 40. Derivative financial instruments (continued)

| Group (£m) | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Cash flow hedging reserve | Cost of hedging reserve | Total | Cash flow hedging reserve | Cost of hedging reserve | Total |
| **Balance at 1 January** | 4.9 | (0.5) | **4.4** | 29.6 | (1.1) | 28.5 |
| Change in fair value of derivatives in effective hedging relationships: | | | | | | |
| Held to hedge interest rate risk | **6.3** | (1.2) | **5.1** | (40.7) | 0.8 | (39.9) |
| Net amounts reclassified to profit or loss from derivatives: | | | | | | |
| Held to hedge interest rate risk | 10.0 | - | **10.0** | 6.4 | - | 6.4 |
| Tax on movements in reserves during the year | (4.6) | 0.3 | **(4.3)** | 9.6 | (0.2) | 9.4 |
| **Balance at 31 December** | **16.6** | **(1.4)** | **15.2** | 4.9 | (0.5) | 4.4 |

| Society (£m) | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Cash flow hedging reserve | Cost of hedging reserve | Total | Cash flow hedging reserve | Cost of hedging reserve | Total |
| **Balance at 1 January** | (6.4) | - | **(6.4)** | 1.8 | - | 1.8 |
| Change in fair value of derivatives in effective hedging relationships: | | | | | | |
| Held to hedge interest rate risk | 0.9 | - | **0.9** | (17.3) | - | (17.3) |
| Net amounts reclassified to profit or loss from derivatives: | | | | | | |
| Held to hedge interest rate risk | 9.8 | - | **9.8** | 5.9 | - | 5.9 |
| Tax on movements in reserves during the year | (3.0) | - | **(3.0)** | 3.2 | - | 3.2 |
| **Balance at 31 December** | **1.3** | **-** | **1.3** | (6.4) | - | (6.4) |

# 41. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost. It is an inherent part of the Group's business as long-term mortgages are funded mainly by shorter term retail customer balances. Mortgages can have a contractual maturity date of, for example, 25 years but in practice are frequently repaid early; conversely retail deposits, nominally repayable on demand or with short notice periods, frequently remain with the Group beyond their contractual notice. It is this mismatch in the maturity profiles of retail assets and liabilities that creates liquidity risk.

The Group's liquidity policy is designed to ensure the maintenance of sufficient liquid assets to cover statutory, regulatory and operational requirements. This is achieved through maintaining a sufficient level of liquid assets in realisable form to ensure the Group is able to meet its liabilities as they arise and to absorb potential cash flow requirements created by the maturity mismatches referred to above or by a liquidity stress scenario. ALCO manages liquidity under delegated authority, within risk appetite limits established by the Board, and also monitors the composition of liquidity in line with risk management objectives.

The Group's liquidity is managed as follows:

- the Board establishes limits over the quantity and quality of the Group's portfolio of liquid assets. The portfolio is monitored and managed by the Treasury function and overseen by ALCO under a series of delegated authorities;
- the Treasury function conducts a series of weekly and monthly stress tests that are designed to ensure that the Group's liquidity is sufficient to meet its cash flow needs under any one of a number of adverse scenarios should they arise. The scenarios include both Group specific and general market events, and incorporate both severe retail savings outflows and the unavailability of wholesale funding; and
- under the Regulatory liquidity regime, the Group is required to hold highly liquid assets (such as government and supranational debt securities and cash) to satisfy the Liquidity Coverage Ratio (LCR).

There are two measures that the Group considers key to monitoring its liquidity position:

- LCR – which analyses the amount of high quality liquidity that it is necessary to hold to survive a 30 day regulatory stress scenario; and
- liquidity stress tests – whereby, as noted above, the Group models how far its liquid asset holdings would fall under a number of different stress scenarios.

The tables below analyse the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining maturity period at the reporting date to the contractual maturity. In practice, customer deposits, i.e. shares, amounts owed to credit institutions and amounts owed to other customers, are likely to be repaid later than on the earliest date on which repayment can be required.

# 41. Liquidity risk (continued)

| | 2024 | | | | | | |
|---|---|---|---|---|---|---|---|
| Group (£m) | Repayable on demand | Up to 3 months | 3 – 12 months | 1 to 5 years | Over 5 years | No specified maturity | Total |
| **Assets** | | | | | | | |
| Cash in hand and balances with the Bank of England | 1,930.6 | - | - | - | - | - | **1,930.6** |
| Loans and advances to credit institutions | 121.5 | 1.6 | 1.0 | - | - | 290.5 | **414.6** |
| Debt securities | - | 492.9 | 826.3 | 2,222.1 | 808.3 | - | **4,349.6** |
| Derivative financial instruments | - | 25.2 | 99.2 | 513.0 | 114.7 | - | **752.1** |
| Loans and advances to customers held at amortised cost | 188.4 | 28.9 | 55.5 | 942.8 | 29,385.5 | - | **30,601.1** |
| Loans and advances to customers held at FVTPL | 0.9 | - | - | - | - | - | **0.9** |
| Equity release portfolio at FVTPL | - | 6.6 | 19.2 | 70.1 | 181.3 | - | **277.2** |
| Equity share investments at FVTPL | - | - | - | - | - | 16.9 | **16.9** |
| Trade receivables | 30.5 | 38.3 | - | - | - | - | **68.9** |
| Share warrants | 21.9 | - | - | - | - | - | **21.9** |
| Other assets | - | - | - | - | - | 0.1 | **0.1** |
| **Total financial assets** | **2,293.8** | **593.5** | **1,001.2** | **3,748.0** | **30,489.8** | **307.5** | **38,433.8** |
| **Liabilities** | | | | | | | |
| Shares | 11,415.2 | 3,715.1 | 9,162.4 | 3,889.0 | 86.8 | - | **28,268.5** |
| Amounts owed to credit institutions | 19.0 | 6.1 | 1,017.2 | - | - | 557.3 | **1,599.6** |
| Amounts owed to other customers | 895.9 | 715.4 | 1,018.2 | 121.6 | - | - | **2,751.1** |
| Debt securities in issue | 5.1 | 0.8 | 1,938.7 | 490.7 | - | - | **2,435.3** |
| Derivative financial instruments | - | 14.3 | 60.7 | 115.3 | 34.8 | - | **225.1** |
| Lease liabilities | - | 7.1 | 19.5 | 52.2 | 13.3 | - | **92.1** |
| Trade payables | - | 11.0 | - | - | - | - | **11.0** |
| Fair value of put option obligation | - | - | 3.8 | 0.3 | - | - | **4.1** |
| Subordinated liabilities | - | - | - | 340.0 | 350.2 | - | **690.2** |
| Subscribed capital | - | - | - | - | - | 41.6 | **41.6** |
| **Total financial liabilities** | **12,335.2** | **4,469.8** | **13,220.5** | **5,009.1** | **485.1** | **598.9** | **36,118.6** |
| | | | | | | | |
| **Net liquidity gap** | **(10,041.4)** | **(3,876.3)** | **(12,219.3)** | **(1,261.1)** | **30,004.7** | **(291.4)** | **2,315.2** |

# 41. Liquidity risk (continued)

| | 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| Group (£m) | Repayable on demand | Up to 3 months | 3 – 12 months | 1 to 5 years | Over 5 years | No specified maturity | Total |
| Assets | | | | | | | |
| Cash in hand and balances with the Bank of England | 3,159.7 | - | - | - | - | 106.5 | 3,266.2 |
| Loans and advances to credit institutions | 134.7 | - | 0.5 | - | - | 353.6 | 488.8 |
| Debt securities | - | 487.7 | 942.7 | 1,477.2 | 430.1 | - | 3,337.7 |
| Derivative financial instruments | - | 57.1 | 145.5 | 694.2 | 104.0 | - | 1,000.8 |
| Loans and advances to customers held at amortised cost | 169.5 | 22.5 | 49.0 | 891.9 | 27,028.5 | - | 28,161.4 |
| Loans and advances to customers held at FVTPL | 0.9 | - | - | - | - | - | 0.9 |
| Equity release portfolio at FVTPL | - | 5.4 | 17.7 | 69.3 | 200.9 | - | 293.3 |
| Equity share investments at FVTPL | - | - | - | - | - | 10.5 | 10.5 |
| Trade receivables | 26.1 | 31.9 | - | - | - | - | 58.0 |
| Share warrants | 15.1 | - | - | - | - | - | 15.1 |
| Other assets | - | - | - | - | - | 0.2 | 0.2 |
| Total financial assets | 3,506.0 | 604.6 | 1,155.4 | 3,132.6 | 27,763.5 | 470.8 | 36,632.9 |
| Liabilities | | | | | | | |
| Shares | 7,716.2 | 13,931.6 | 2,289.7 | 1,982.7 | 29.6 | - | 25,949.8 |
| Amounts owed to credit institutions | 13.0 | 7.3 | 304.2 | 1,165.2 | - | 603.7 | 2,093.4 |
| Amounts owed to other customers | 960.1 | 603.2 | 1,008.6 | 236.9 | - | - | 2,808.8 |
| Debt securities in issue | - | 302.3 | 606.3 | 1,506.1 | - | - | 2,414.7 |
| Derivative financial instruments | - | 24.3 | 61.8 | 282.8 | 83.3 | - | 452.2 |
| Lease liabilities | 0.1 | 7.5 | 22.2 | 58.8 | 14.4 | - | 103.0 |
| Trade payables | - | 10.2 | - | - | - | - | 10.2 |
| Fair value of put option obligation | - | - | 3.3 | 0.2 | - | - | 3.5 |
| Subordinated liabilities | - | - | - | 326.9 | 358.4 | - | 685.3 |
| Subscribed capital | - | - | - | - | - | 41.6 | 41.6 |
| Total financial liabilities | 8,689.4 | 14,886.4 | 4,296.1 | 5,559.6 | 485.7 | 645.3 | 34,562.5 |
| | | | | | | | |
| Net liquidity gap | (5,183.4) | (14,281.8) | (3,140.7) | (2,427.0) | 27,277.8 | (174.5) | 2,070.4 |

# 41. Liquidity risk (continued)

| | 2024 | | | | | | |
|---|---|---|---|---|---|---|---|
| Society (£m) | Repayable on demand | Up to 3 months | 3 – 12 months | 1 to 5 years | Over 5 years | No specified maturity | Total |
| **Assets** | | | | | | | |
| Cash in hand and balances with the Bank of England | 1,930.6 | - | - | - | - | - | **1,930.6** |
| Loans and advances to credit Institutions | 54.0 | - | 1.0 | - | - | 342.8 | **397.8** |
| Debt securities | - | 273.9 | 768.5 | 2,489.4 | 808.3 | - | **4,340.1** |
| Derivative financial Instruments | - | 25.5 | 99.5 | 507.7 | 110.3 | - | **743.0** |
| Loans and advances to customers held at amortised cost | 3.2 | 28.9 | 53.8 | 905.6 | 27,343.4 | - | **28,334.9** |
| Loans and advances to customers held at FVTPL | 0.9 | - | - | - | - | - | **0.9** |
| Equity release portfolio at FVTPL | - | 6.6 | 19.2 | 70.1 | 181.3 | - | **277.2** |
| Loans to subsidiary undertakings | 403.9 | - | - | - | - | - | **403.9** |
| Trade receivables | 1.9 | - | - | - | - | - | **1.9** |
| **Total financial assets** | **2,394.5** | **334.9** | **942.0** | **3,972.8** | **28,443.3** | **342.8** | **36,430.3** |
| **Liabilities** | | | | | | | |
| Shares | 11,415.2 | 3,715.1 | 9,162.4 | 3,889.0 | 72.4 | - | **28,254.1** |
| Amounts owed to credit institutions | 19.0 | 207.1 | 1,017.2 | - | - | 557.3 | **1,800.6** |
| Amounts owed to other customers | 470.4 | 49.9 | - | 748.6 | - | - | **1,268.9** |
| Debt securities in issue | 5.1 | - | 1,925.0 | - | - | - | **1,930.1** |
| Derivative financial instruments | - | 17.7 | 67.1 | 162.6 | 34.8 | - | **282.2** |
| Lease liabilities | - | 0.5 | 1.5 | 5.2 | 1.4 | - | **8.6** |
| Trade payables | - | 2.8 | - | - | - | - | **2.8** |
| Subordinated liabilities | - | - | - | 340.0 | 350.2 | - | **690.2** |
| Subscribed capital | - | - | - | - | - | 41.6 | **41.6** |
| **Total financial liabilities** | **11,909.7** | **3,993.1** | **12,173.2** | **5,145.4** | **458.8** | **598.9** | **34,279.1** |
| | | | | | | | |
| **Net liquidity gap** | **(9,515.2)** | **(3,658.2)** | **(11,231.2)** | **(1,172.6)** | **27,984.5** | **(256.1)** | **2,151.2** |

## 41. Liquidity risk (continued)

| | 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| Society (£m) | Repayable on demand | Up to 3 months | 3 – 12 months | 1 to 5 years | Over 5 years | No specified maturity | Total |
| Assets | | | | | | | |
| Cash in hand and balances with the Bank of England | 3,159.7 | - | - | - | - | 106.5 | 3,266.2 |
| Loans and advances to credit Institutions | 79.5 | - | 0.5 | - | - | 417.7 | 497.7 |
| Debt securities | - | 392.0 | 907.2 | 1,477.2 | 430.1 | - | 3,206.5 |
| Derivative financial Instruments | - | 57.1 | 145.8 | 707.2 | 92.9 | - | 1,003.0 |
| Loans and advances to customers held at amortised cost | 2.6 | 22.4 | 46.7 | 849.7 | 24,943.5 | - | 25,864.9 |
| Loans and advances to customers held at FVTPL | 0.9 | - | - | - | - | - | 0.9 |
| Equity release portfolio at FVTPL | - | 5.4 | 17.7 | 69.2 | 201.0 | - | 293.3 |
| Loans to subsidiary undertakings | 372.7 | - | - | - | - | - | 372.7 |
| Trade receivables | 1.8 | - | - | - | - | - | 1.8 |
| Total financial assets | 3,617.2 | 476.9 | 1,117.9 | 3,103.3 | 25,667.5 | 524.2 | 34,507.0 |
| Liabilities | | | | | | | |
| Shares | 7,716.2 | 13,931.6 | 2,289.7 | 1,982.7 | 2.1 | - | 25,922.3 |
| Amounts owed to credit institutions | 13.0 | 216.6 | 304.2 | 1,165.2 | - | 603.7 | 2,302.7 |
| Amounts owed to other customers | 424.8 | 59.4 | 323.5 | - | - | - | 807.7 |
| Debt securities in issue | - | 301.9 | 434.4 | 1,506.2 | - | - | 2,242.5 |
| Derivative financial instruments | - | 28.4 | 48.9 | 348.1 | 83.3 | - | 508.7 |
| Lease liabilities | - | 0.6 | 1.7 | 5.9 | 2.1 | - | 10.3 |
| Trade payables | - | 2.3 | - | - | - | - | 2.3 |
| Subordinated liabilities | - | - | - | 326.9 | 358.4 | - | 685.3 |
| Subscribed capital | - | - | - | - | - | 41.6 | 41.6 |
| Total financial liabilities | 8,154.0 | 14,540.8 | 3,402.4 | 5,335.0 | 445.9 | 645.3 | 32,523.4 |
| | | | | | | | |
| Net liquidity gap | (4,536.8) | (14,063.9) | (2,284.5) | (2,231.7) | 25,221.6 | (121.1) | 1,983.6 |

With respect to loans and advances to customers presented within the tables above, each outstanding loan balance is allocated in full to a single maturity grouping according to that loan's contractual maturity date (regardless of any scheduled repayments that may be receivable prior to the contractual maturity date). Loans and advances to customers presented as repayable on demand represent those loans and advances that are on call and at short notice.

With respect to the equity release portfolio, contractual maturity arises in the event of the borrower's voluntary redemption, death or move to long-term care. For the purposes of the tables above, amounts have been allocated to maturity groupings based on the anticipated redemption profiles applied in the Group's equity release portfolio valuation model (see Note 1f) and Note 1v) for further details).

Group debt securities in issue include £491.6m (2023: £186.0m from Darrowby No. 5 plc) of funding obtained through the Group's securitisation issuances carried out through Darrowby No. 6 plc. The final maturity dates of the securitisation notes are significantly out into the future however the Group can exercise a call option to repurchase the outstanding Darrowby No. 6 notes at a date within the next five years. As a result, all such amounts have been shown within 1 to 5 years in the current year tables above.

## 41. Liquidity risk (continued)

The following table is an analysis of undiscounted gross contractual cash flows payable on financial liabilities:

| | 2024 | | | | |
|---|---|---|---|---|---|
| Group (£m) | Up to 3 months | 3 – 12 months | 1 to 5 years | Over 5 years | Total |
| Shares | 15,148.0 | 9,408.1 | 4,148.1 | 86.8 | **28,791.0** |
| Amounts owed to credit institutions, other customers and debt securities in issue | 1,552.1 | 3,057.5 | 2,569.6 | - | **7,179.2** |
| Derivative financial instruments | 20.9 | 98.8 | 104.1 | 11.9 | **235.7** |
| Lease liabilities | 7.5 | 25.2 | 58.7 | 20.8 | **112.2** |
| Trade payables | 11.0 | - | - | - | **11.0** |
| Fair value of put option obligation | - | 3.9 | 0.4 | - | **4.3** |
| Subordinated liabilities | - | 28.9 | 769.1 | - | **798.0** |
| Subscribed capital | 1.6 | 2.9 | 18.0 | *note A* | **22.5** |
| **Total** | **16,741.1** | **12,625.3** | **7,668.0** | **119.5** | **37,153.9** |

| | 2023 (restated*) | | | | |
|---|---|---|---|---|---|
| Group (£m) | Up to 3 months | 3 – 12 months | 1 to 5 years | Over 5 years | Total |
| Shares | 21,648.9 | 2,360.0 | 2,117.9 | 29.6 | 26,156.4 |
| Amounts owed to credit institutions, other customers and debt securities in issue | 2,590.8 | 1,942.7 | 3,165.2 | - | 7,698.7 |
| Derivative financial instruments | 43.5 | 119.4 | 288.5 | 45.8 | 497.2 |
| Lease liabilities | 7.6 | 22.6 | 59.6 | 14.6 | 104.4 |
| Trade payables | 10.2 | - | - | - | 10.2 |
| Fair value of put option obligation | - | 3.4 | 0.2 | - | 3.6 |
| Subordinated liabilities | - | 28.9 | 440.6 | 371.9 | 841.4 |
| Subscribed capital | 1.6 | 2.9 | 18.0 | *note A* | 22.5 |
| Total | 24,302.6 | 4,479.9 | 6,090.0 | 461.9 | 35,334.4 |

* The information shown above for the year ended 31 December 2023 is restated to reflect the appropriate presentation of undiscounted gross contractual cash flows payable on financial liabilities (see Note 1c) for details).

**Note**

A. With respect to subscribed capital, gross contractual cash flows represent interest payable on the Group's Permanent Interest Bearing Shares (PIBS) (see Note 36). 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 249 and 250), 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 252 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 2024 is £1,885.1m (2023: £2,118.5m) which are due within 3 months.

# 41. Liquidity risk (continued)

| | 2024 | | | | |
|---|---|---|---|---|---|
| **Society £m** | **Up to 3 months** | **3 – 12 months** | **1 to 5 years** | **Over 5 years** | **Total** |
| Shares | 15,148.0 | 9,408.1 | 4,148.1 | 72.4 | **28,776.6** |
| Amounts owed to credit institutions, other customers and debt securities in issue | 653.0 | 1,944.9 | 2,925.1 | - | **5,523.0** |
| Derivative financial instruments | 35.5 | 122.7 | 130.5 | 11.9 | **300.6** |
| Lease liabilities | 0.6 | 1.6 | 5.6 | 1.5 | **9.3** |
| Trade payables | 2.8 | - | - | - | **2.8** |
| Subordinated liabilities | - | 28.9 | 769.1 | - | **798.0** |
| Subscribed capital | 1.6 | 2.9 | 18.0 | *note A* | **22.5** |
| **Total** | **15,841.5** | **11,509.1** | **7,996.4** | **85.8** | **35,432.8** |

| | 2023 (restated*) | | | | |
|---|---|---|---|---|---|
| **Society £m** | **Up to 3 months** | **3 – 12 months** | **1 to 5 years** | **Over 5 years** | **Total** |
| Shares | 21,648.9 | 2,360.0 | 2,117.9 | 2.1 | 26,128.9 |
| Amounts owed to credit institutions, other customers and debt securities in issue | 1,697.0 | 1,167.5 | 2,873.3 | - | 5,737.8 |
| Derivative financial instruments | 49.4 | 133.1 | 312.8 | 45.7 | 541.0 |
| Lease liabilities | 0.6 | 1.9 | 6.4 | 2.2 | 11.1 |
| Trade payables | 2.3 | - | - | - | 2.3 |
| Subordinated liabilities | - | 28.9 | 440.6 | 371.9 | 841.4 |
| Subscribed capital | 1.6 | 2.9 | 18.0 | *note A* | 22.5 |
| Total | 23,399.8 | 3,694.3 | 5,769.0 | 421.9 | 33,285.0 |

* The information shown above for the year ended 31 December 2023 is restated to reflect the appropriate presentation of undiscounted gross contractual cash flows payable on financial liabilities (see Note 1c) for details).

**Note**

A. With respect to subscribed capital, gross contractual cash flows represent interest payable on the Society's Permanent Interest Bearing Shares (PIBS) (see Note 36). 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 251 and 252, 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. 6 plc, and formerly Darrowby No. 5 plc, which arise from the funding transactions carried out through those entities. The undiscounted gross contractual cash flows arising on these loans have been calculated on the assumption that the call options referred to on page 252 are exercised.

The Society has off-balance sheet exposure from commitments to lend where a mortgage has been offered but not yet completed. The total amount of such loan commitments at 31 December 2023 is £1,867.3m (2023: £2,050.8m) which are due within 3 months.

# 42. Market risk

Market risk is the risk that the value of, or income arising from, the Group's assets and liabilities changes as a result of changes in market prices; the principal elements being interest rate risk (including the use of derivatives) and foreign currency risk.

The Group's Treasury function is responsible for managing the Group's exposure to all aspects of market risk within the operational limits set out in the Group's Treasury policy, which is reviewed and recommended by ALCO and approved by the Board. The Group's Treasury function measures and monitors adherence to the Treasury policy and reports regularly on all aspects of market risk exposure, including interest rate risk and foreign currency risk.

## 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:

| £m | As at 31 December 2024 | Average 2024 | High 2024 | Low 2024 | As at 31 December 2023 |
|---|---|---|---|---|---|
| Static earnings-at-risk | **27.9** | 24.8 | 32.1 | 16.5 | 16.5 |
| Historical value-at-risk | **3.5** | 3.4 | 5.2 | 1.8 | 1.8 |
| 2% parallel interest rate shift | **20.8** | 21.0 | 37.6 | 8.1 | 17.8 |

Although these measures provide valuable insights into the market risk to which the Group is exposed, they need to be viewed in the context of the following limitations:

- Historical data is not necessarily the best guide to future events, but is a reasonable proxy;
- The use of 95% confidence levels, by definition, does not take account of changes that may occur beyond this level of confidence and therefore may not fully take into account the most extreme events; and
- Exposures are calculated on static Statement of Financial Position positions and therefore future changes in the structure of the Statement of Financial Position are ignored.

Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics, for example SONIA and Bank of England Base Rate), are also monitored closely and regularly reported to ALCO.

## 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 one regulated covered bond in Euros totalling €500m (2023: one bond, €500m). The exposure to foreign currency fluctuations on this bond is fully hedged as a derivative contract was taken out to swap the Euros into Sterling on issuance of the bond.

## 42. Market risk (continued)

The Group has investments in its subsidiary undertakings Jade Software Corporation Limited and Northwest Investments NZ Limited, which are denominated in New Zealand Dollars. The foreign currency fluctuations in relation to these investments are not hedged and are recognised in the Group's translation reserve.

Skipton International Limited (SIL) holds deposits from customers denominated in US dollars (USD). SIL manages its foreign currency risk by holding cash and debt securities denominated in USD; the objective is to minimise mismatches between the balance and maturity profile of USD assets and USD liabilities, and also mismatches between the related interest income and interest expense on USD assets and liabilities.

In addition, a number of the Group's businesses undertake transactions denominated in foreign currency as part of their normal business. Any amounts outstanding at 31 December 2024 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 in Note 1v).

# 43. 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
- other Group entities, for the Society only.

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 quarterly updates on the credit risk profile of the Group.

Scenario analysis has been undertaken to identify the impact of climate-related risks on the Group's credit risk management. This includes assessing the residential lending portfolio at property level to determine the potential impact of key climate-related physical and transitional risks. The scenario analysis indicates that the most significant effects from climate change occur in the medium to long-term, with material financial impacts from transition risks expected to transpire before physical risks. Based on current UK Government policies, a delayed transition appears the most probable. Therefore, the most significant transition risks which may impact the Group are increasingly likely to occur beyond the Group's five-year corporate planning period. The results of this assessment did not lead to a change in carrying amounts as at 31 December 2024 or 31 December 2023. 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 £274.6m (2023: £350.9m credit) for the Group and £271.7m (2023: £347.4m 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 1h), an impairment loss allowance is held against these commitments in accordance with IFRS 9. The total amount of such loan commitments at 31 December 2024 is £1,885.1m (2023: £2,118.5m) for the Group and £1,867.3m (2023: £2,050.8m) for the Society and the impairment loss allowance held against these commitments is £0.2m (2023: £0.6m) for both the Group and the Society.

# 43. Credit risk (continued)

### 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, 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 undertaken by the Group'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.

# 43. Credit risk (continued)

## 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 | 2024 | | | | |
|---|---|---|---|---|---|
| | Gross carrying amount £m | ECL allowance (Note 17) £m | Fair value adjustment for hedged risk £m | Carrying amount £m | Carrying amount % |
| Residential mortgages | 30,542.8 | (13.5) | (274.6) | **30,254.7** | 98.8 |
| Loans fully secured on land^ | 114.3 | (4.7) | - | **109.6** | 0.4 |
| Other lending: | | | | | |
| Debt factoring advances | 190.0 | (1.4) | - | **188.6** | 0.6 |
| Other loans | 48.2 | - | - | **48.2** | 0.2 |
| **Total** | **30,895.3** | **(19.6)** | **(274.6)** | **30,601.1** | **100.0** |

| Group | 2023 | | | | |
|---|---|---|---|---|---|
| | Gross carrying amount £m | ECL allowance (Note 17) £m | Fair value adjustment for hedged risk £m | Carrying amount £m | Carrying amount % |
| Residential mortgages | 28,192.3 | (29.0) | (350.9) | 27,812.4 | 98.8 |
| Loans fully secured on land^ | 135.2 | (9.0) | - | 126.2 | 0.4 |
| Other lending: | | | | | |
| Debt factoring advances | 171.2 | (1.6) | - | 169.6 | 0.6 |
| Other loans | 53.2 | - | - | 53.2 | 0.2 |
| Total | 28,551.9 | (39.6) | (350.9) | 28,161.4 | 100.0 |

| Society | 2024 | | | | |
|---|---|---|---|---|---|
| | Gross carrying amount £m | ECL allowance (Note 17) £m | Fair value adjustment for hedged risk £m | Carrying amount £m | Carrying amount % |
| Residential mortgages | 28,509.8 | (12.8) | (271.7) | **28,225.3** | 99.6 |
| Loans fully secured on land^ | 114.3 | (4.7) | - | **109.6** | 0.4 |
| **Total** | **28,624.1** | **(17.5)** | **(271.7)** | **28,334.9** | **100.0** |

| Society | 2023 | | | | |
|---|---|---|---|---|---|
| | Gross carrying amount £m | ECL allowance (Note 17) £m | Fair value adjustment for hedged risk £m | Carrying amount £m | Carrying amount % |
| Residential mortgages | 26,114.0 | (27.9) | (347.4) | 25,738.7 | 99.5 |
| Loans fully secured on land^ | 135.2 | (9.0) | - | 126.2 | 0.5 |
| Total | 26,249.2 | (36.9) | (347.4) | 25,864.9 | 100.0 |

^ Also known as commercial mortgages.

For details on how the Group assesses ECLs see Note 1h).

# 43. Credit risk (continued)

### i) Residential mortgages

The majority of loans and advances to customers are secured on UK residential properties and are geographically diverse.

The tables below provide information on residential loans and advances by payment due status:

| 2024 (£m) | Group | | | | Society | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Not past due | 30,067.3 | 224.2 | 13.8 | **30,305.3** | 28,046.0 | 220.4 | 13.8 | **28,280.2** |
| Up to 30 days past due | - | 72.5 | 3.6 | **76.1** | - | 70.6 | 3.6 | **74.2** |
| 31 to 60 days past due | - | 46.4 | 4.6 | **51.0** | - | 43.6 | 4.6 | **48.2** |
| 61 to 90 days past due | - | 15.7 | 9.8 | **25.5** | - | 15.7 | 9.8 | **25.5** |
| Over 90 days past due | - | - | 84.9 | **84.9** | - | - | 81.7 | **81.7** |
| **Total** | **30,067.3** | **358.8** | **116.7** | **30,542.8** | **28,046.0** | **350.3** | **113.5** | **28,509.8** |

| 2023 (£m) | Group | | | | Society | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Not past due | 27,485.7 | 506.4 | 8.5 | 28,000.6 | 25,412.6 | 505.6 | 8.5 | 25,926.7 |
| Up to 30 days past due | - | 67.0 | 1.8 | 68.8 | - | 64.2 | 1.8 | 66.0 |
| 31 to 60 days past due | - | 42.5 | 3.5 | 46.0 | - | 41.8 | 3.5 | 45.3 |
| 61 to 90 days past due | - | 12.7 | 7.3 | 20.0 | - | 12.7 | 7.1 | 19.8 |
| Over 90 days past due | - | - | 56.9 | 56.9 | - | - | 56.2 | 56.2 |
| Total | 27,485.7 | 628.6 | 78.0 | 28,192.3 | 25,412.6 | 624.3 | 77.1 | 26,114.0 |

The tables below provide information on movements in the gross carrying amount of residential loans and advances to customers during the year:

| 2024 (£m) | Group | | | | Society | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Gross carrying amount at 1 January** | 27,485.7 | 628.6 | 78.0 | **28,192.3** | 25,412.6 | 624.3 | 77.1 | **26,114.0** |
| Transfers due to changes in credit risk (note A): | | | | | | | | |
| From stage 1 to stage 2 | (180.2) | 180.2 | - | **-** | (171.8) | 171.8 | - | **-** |
| From stage 1 to stage 3 | (14.8) | - | 14.8 | **-** | (11.7) | - | 11.7 | **-** |
| From stage 2 to stage 1 | 352.8 | (352.8) | - | **-** | 350.3 | (350.3) | - | **-** |
| From stage 2 to stage 3 | - | (15.5) | 15.5 | **-** | - | (15.5) | 15.5 | **-** |
| From stage 3 to stage 2 | - | 6.0 | (6.0) | **-** | - | 6.0 | (6.0) | **-** |
| From stage 3 to stage 1 | 1.0 | - | (1.0) | **-** | 1.0 | - | (1.0) | **-** |
| Modification of contractual cashflows | (26.8) | (8.5) | 30.6 | **(4.7)** | (26.8) | (8.5) | 30.6 | **(4.7)** |
| Increases due to origination | 5,996.7 | 15.1 | 0.7 | **6,012.5** | 5,833.8 | 15.1 | 0.7 | **5,849.6** |
| Decrease due to derecognition and repayments | (3,555.8) | (93.9) | (12.7) | **(3,662.4)** | (3,350.1) | (92.2) | (11.9) | **(3,454.2)** |
| Written off | (0.1) | (0.4) | (3.9) | **(4.4)** | (0.1) | (0.4) | (3.9) | **(4.4)** |
| Other movements | 8.8 | - | 0.7 | **9.5** | 8.8 | - | 0.7 | **9.5** |
| **Gross carrying amount at 31 December** | **30,067.3** | **358.8** | **116.7** | **30,542.8** | **28,046.0** | **350.3** | **113.5** | **28,509.8** |

# 43. Credit risk (continued)

| 2023 (£m) | Group | | | | Society | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Gross carrying amount at 1 January | 20,685.8 | 4,351.4 | 60.1 | 25,097.3 | 18,799.9 | 4,346.8 | 60.1 | 23,206.8 |
| Transfers due to changes in credit risk (note A): | | | | | | | | |
| From stage 1 to stage 2 | (266.4) | 266.4 | - | - | (262.1) | 262.1 | - | - |
| From stage 1 to stage 3 | (6.0) | - | 6.0 | - | (5.1) | - | 5.1 | - |
| From stage 2 to stage 1 | 3,471.8 | (3,471.8) | - | - | 3,468.9 | (3,468.9) | - | - |
| From stage 2 to stage 3 | - | (17.6) | 17.6 | - | - | (17.6) | 17.6 | - |
| From stage 3 to stage 2 | - | 7.1 | (7.1) | - | - | 7.1 | (7.1) | - |
| From stage 3 to stage 1 | 1.6 | - | (1.6) | - | 1.6 | - | (1.6) | - |
| Modification of contractual cashflows | (5.2) | (13.7) | 14.5 | (4.4) | (5.2) | (13.7) | 14.5 | (4.4) |
| Increases due to origination | 6,575.3 | 26.9 | 1.1 | 6,603.3 | 6,205.9 | 26.9 | 1.0 | 6,233.8 |
| Decrease due to derecognition and repayments | (2,980.5) | (514.9) | (9.8) | (3,505.2) | (2,800.6) | (513.2) | (9.7) | (3,323.5) |
| Written off | (0.2) | (1.5) | (3.4) | (5.1) | (0.2) | (1.5) | (3.4) | (5.1) |
| Other movements | 9.5 | (3.7) | 0.6 | 6.4 | 9.5 | (3.7) | 0.6 | 6.4 |
| Gross carrying amount at 31 December | 27,485.7 | 628.6 | 78.0 | 28,192.3 | 25,412.6 | 624.3 | 77.1 | 26,114.0 |

**Note**

A. For the purposes of the analysis presented above, the amounts shown for 'transfers due to changes in credit risk' are based on account balances at the start of the reporting period (not account balances at the date of transfer).

As shown in the tables above, during 2024 there was a net decrease in stage 2 loans of £269.8m for the Group and of £274.0m for the Society. As outlined in Note 1v), during 2024 the Group has revised its view of forward-looking economic indicators and the associated scenario weightings; this caused PDs to reduce and, as a result, fewer accounts have 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 1h)). Amounts presented within 'other movements' in the tables above include movements in the Group's effective interest rate asset as described in Note 1f).

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 2024, stage 3 loans include £23.3m (2023: £16.6m) for the Group and Society being held in stage 3 under this probation period.

## 43. Credit risk (continued)

The table below provides information on movements in the impairment loss allowance for residential loans and advances to customers during the year:

| 2024 (£m) | Group | | | | Society | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Loss allowance at 1 January** | 16.2 | 6.0 | 6.8 | **29.0** | 15.4 | 5.9 | 6.6 | **27.9** |
| Transfers due to changes in credit risk: | | | | | | | | |
| From stage 1 to stage 2 | (0.1) | 0.8 | - | **0.7** | (0.1) | 0.8 | - | **0.7** |
| From stage 1 to stage 3 | - | - | 0.5 | **0.5** | - | - | 0.5 | **0.5** |
| From stage 2 to stage 1 | 0.1 | (1.6) | - | **(1.5)** | 0.1 | (1.6) | - | **(1.5)** |
| From stage 2 to stage 3 | - | (0.4) | 0.4 | **-** | - | (0.4) | 0.4 | **-** |
| From stage 3 to stage 2 | - | 0.1 | (0.2) | **(0.1)** | - | 0.1 | (0.2) | **(0.1)** |
| Remeasurements within existing stage | (11.0) | (0.8) | (0.4) | **(12.2)** | (10.4) | (0.9) | (0.7) | **(12.0)** |
| Increases due to origination | 1.2 | 0.1 | 0.1 | **1.4** | 1.1 | 0.1 | 0.1 | **1.3** |
| Decrease due to derecognition and repayments | (1.9) | (0.6) | (0.9) | **(3.4)** | (1.7) | (0.5) | (0.9) | **(3.1)** |
| Changes due to modification without derecognition | - | (1.1) | 0.9 | **(0.2)** | - | (1.1) | 0.9 | **(0.2)** |
| Written off | - | - | (0.7) | **(0.7)** | - | - | (0.7) | **(0.7)** |
| **Loss allowance at 31 December** | **4.5** | **2.5** | **6.5** | **13.5** | **4.4** | **2.4** | **6.0** | **12.8** |

| 2023 (£m) | Group | | | | Society | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Loss allowance at 1 January | 11.2 | 17.7 | 3.6 | 32.5 | 10.6 | 17.7 | 3.6 | 31.9 |
| Transfers due to changes in credit risk: | | | | | | | | |
| From stage 1 to stage 2 | (0.1) | 1.5 | - | 1.4 | (0.1) | 1.5 | - | 1.4 |
| From stage 1 to stage 3 | - | - | 0.7 | 0.7 | - | - | 0.7 | 0.7 |
| From stage 2 to stage 1 | 1.8 | (12.0) | - | (10.2) | 1.8 | (12.0) | - | (10.2) |
| From stage 2 to stage 3 | - | (0.5) | 1.5 | 1.0 | - | (0.5) | 1.5 | 1.0 |
| From stage 3 to stage 2 | - | 0.1 | (0.1) | - | - | 0.1 | (0.1) | - |
| Remeasurements within existing stage | (0.8) | 0.1 | 0.3 | (0.4) | (0.9) | - | 0.3 | (0.6) |
| Increases due to origination | 5.5 | 0.3 | 0.1 | 5.9 | 5.4 | 0.3 | 0.1 | 5.8 |
| Decrease due to derecognition and repayments | (1.4) | (1.5) | (0.3) | (3.2) | (1.4) | (1.5) | (0.3) | (3.2) |
| Changes due to modification without derecognition | - | 0.3 | 1.4 | 1.7 | - | 0.3 | 1.2 | 1.5 |
| Written off | - | - | (0.4) | (0.4) | - | - | (0.4) | (0.4) |
| Loss allowance at 31 December | 16.2 | 6.0 | 6.8 | 29.0 | 15.4 | 5.9 | 6.6 | 27.9 |

## 43. Credit risk (continued)

The loss allowance at 31 December 2024 includes judgmental adjustments totalling £2.7m (2023: £14.2m) for the Group and £2.7m (2023: £13.8m) for the Society. Details of these judgmental adjustments are set out in Note 1v).

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 1h) and Note 1v). 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 2024 (£m) | Gross Carrying Amount | | | | Loss Allowance | | | |
|---|---|---|---|---|---|---|---|---|
| Probability of default | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| <0.15% | **4,841.6** | **0.4** | **-** | **4,842.0** | **0.6** | **-** | **-** | **0.6** |
| 0.15% - <0.25% | **11,387.8** | **0.4** | **-** | **11,388.2** | **1.5** | **-** | **-** | **1.5** |
| 0.25% - <0.5% | **10,752.9** | **5.7** | **-** | **10,758.6** | **1.8** | **-** | **-** | **1.8** |
| 0.5% - <0.75% | **2,647.4** | **13.0** | **-** | **2,660.4** | **0.4** | **-** | **-** | **0.4** |
| 0.75% - <2.5% | **430.9** | **65.3** | **-** | **496.2** | **0.2** | **-** | **-** | **0.2** |
| 2.5% - <10% | **6.7** | **59.4** | **-** | **66.1** | **-** | **0.1** | **-** | **0.1** |
| 10% - <100% | **-** | **214.6** | **-** | **214.6** | **-** | **2.4** | **-** | **2.4** |
| Default | **-** | **-** | **116.7** | **116.7** | **-** | **-** | **6.5** | **6.5** |
| **Total** | **30,067.3** | **358.8** | **116.7** | **30,542.8** | **4.5** | **2.5** | **6.5** | **13.5** |
| | | | | | | | | |
| **ECL coverage by stage (%)** | | | | | **0.01%** | **0.70%** | **5.57%** | **0.04%** |

| Group 2023 (£m) | Gross Carrying Amount | | | | Loss Allowance | | | |
|---|---|---|---|---|---|---|---|---|
| Probability of default | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| <0.15% | 56.9 | 0.3 | - | 57.2 | 0.6 | - | - | 0.6 |
| 0.15% - <0.25% | 1,168.8 | - | - | 1,168.8 | 0.4 | - | - | 0.4 |
| 0.25% - <0.5% | 8,527.9 | 0.6 | - | 8,528.5 | 4.0 | - | - | 4.0 |
| 0.5% - <0.75% | 10,540.5 | 1.8 | - | 10,542.3 | 5.7 | - | - | 5.7 |
| 0.75% - <2.5% | 7,093.1 | 94.2 | - | 7,187.3 | 5.3 | 0.1 | - | 5.4 |
| 2.5% - <10% | 98.5 | 200.8 | - | 299.3 | 0.2 | 0.3 | - | 0.5 |
| 10% - <100% | - | 330.9 | - | 330.9 | - | 5.6 | - | 5.6 |
| Default | - | - | 78.0 | 78.0 | - | - | 6.8 | 6.8 |
| Total | 27,485.7 | 628.6 | 78.0 | 28,192.3 | 16.2 | 6.0 | 6.8 | 29.0 |
| | | | | | | | | |
| ECL coverage by stage (%) | | | | | 0.06% | 0.95% | 8.72% | 0.10% |

# 43. Credit risk (continued)

| Society 2024 (£m) | Gross Carrying Amount | | | | Loss Allowance | | | |
|---|---|---|---|---|---|---|---|---|
| **Probability of default** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | Stage 1 | Stage 2 | Stage 3 | Total |
| <0.15% | 4,841.6 | 0.4 | - | **4,842.0** | 0.6 | - | - | **0.6** |
| 0.15% - <0.25% | 11,387.7 | 0.4 | - | **11,388.1** | 1.5 | - | - | **1.5** |
| 0.25% - <0.5% | 10,063.3 | 5.7 | - | **10,069.0** | 1.8 | - | - | **1.8** |
| 0.5% - <0.75% | 1,315.8 | 13.0 | - | **1,328.8** | 0.3 | - | - | **0.3** |
| 0.75% - <2.5% | 430.9 | 65.3 | - | **496.2** | 0.2 | - | - | **0.2** |
| 2.5% - <10% | 6.7 | 59.4 | - | **66.1** | - | 0.1 | - | **0.1** |
| 10% - <100% | - | 206.1 | - | **206.1** | - | 2.3 | - | **2.3** |
| Default | - | - | 113.5 | **113.5** | - | - | 6.0 | **6.0** |
| **Total** | **28,046.0** | **350.3** | **113.5** | **28,509.8** | **4.4** | **2.4** | **6.0** | **12.8** |
| | | | | | | | | |
| **ECL coverage by stage (%)** | | | | | **0.02%** | **0.69%** | **5.29%** | **0.04%** |

| Society 2023 (£m) | Gross Carrying Amount | | | | Loss Allowance | | | |
|---|---|---|---|---|---|---|---|---|
| Probability of default | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| <0.15% | 56.9 | 0.3 | - | 57.2 | 0.6 | - | - | 0.6 |
| 0.15% - <0.25% | 1,168.8 | - | - | 1,168.8 | 0.4 | - | - | 0.4 |
| 0.25% - <0.5% | 8,547.2 | 0.6 | - | 8,547.8 | 3.9 | - | - | 3.9 |
| 0.5% - <0.75% | 8,448.1 | 1.8 | - | 8,449.9 | 5.0 | - | - | 5.0 |
| 0.75% - <2.5% | 7,093.1 | 94.2 | - | 7,187.3 | 5.3 | 0.1 | - | 5.4 |
| 2.5% - <10% | 98.5 | 200.8 | - | 299.3 | 0.2 | 0.3 | - | 0.5 |
| 10% - <100% | - | 326.6 | - | 326.6 | - | 5.5 | - | 5.5 |
| Default | - | - | 77.1 | 77.1 | - | - | 6.6 | 6.6 |
| Total | 25,412.6 | 624.3 | 77.1 | 26,114.0 | 15.4 | 5.9 | 6.6 | 27.9 |
| | | | | | | | | |
| ECL coverage by stage (%) | | | | | 0.06% | 0.95% | 8.56% | 0.11% |

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

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| **Group** | **Gross carrying amount £m** | **ECL allowance £m** | **ECL coverage %** | Gross carrying amount £m | ECL allowance £m | ECL coverage % |
| Over 30 days past due | **62.1** | **1.2** | **1.9%** | 55.2 | 2.3 | 4.2% |
| In forbearance | **16.5** | **0.1** | **0.6%** | 7.3 | 0.1 | 1.4% |
| In arrears | **66.8** | **0.6** | **0.9%** | 62.5 | 1.4 | 2.2% |
| Term expired | **18.6** | **-** | **-** | 13.5 | - | - |
| Temporary transfer to interest only* | **103.5** | **0.1** | **0.1%** | 210.7 | 0.4 | 0.2% |
| Increase in PD since origination | **91.3** | **0.5** | **0.5%** | 279.4 | 1.8 | 0.6% |
| **Total** | **358.8** | **2.5** | **0.7%** | 628.6 | 6.0 | 1.0% |

# 43. Credit risk (continued)

### Stage 2 Analysis

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| **Society** | **Gross carrying amount £m** | **ECL allowance £m** | **ECL coverage %** | **Gross carrying amount £m** | **ECL allowance £m** | **ECL coverage %** |
| Over 30 days past due | **59.3** | **1.1** | **1.9%** | 54.5 | 2.2 | 4.0% |
| In forbearance | **12.6** | **0.1** | **0.8%** | 6.5 | 0.1 | 1.5% |
| In arrears | **65.0** | **0.6** | **0.9%** | 59.7 | 1.4 | 2.3% |
| Term expired | **18.6** | **-** | **-** | 13.5 | - | - |
| Temporary transfer to interest only * | **103.5** | **0.1** | **0.1%** | 210.7 | 0.4 | 0.2% |
| Increase in PD since origination | **91.3** | **0.5** | **0.5%** | 279.4 | 1.8 | 0.6% |
| **Total** | **350.3** | **2.4** | **0.7%** | 624.3 | 5.9 | 0.9% |

*Temporary arrangement in place, via the Mortgage Charter Scheme, to repay interest only

The tables below provide further information on the types of lending and geographical split:

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| **Group (£m)** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Prime: | | | | | | | | |
| Residential | 24,273.8 | 288.6 | 80.1 | **24,642.5** | 21,437.2 | 492.2 | 48.7 | 21,978.1 |
| Buy-to-let | 5,608.3 | 42.1 | 18.3 | **5,668.7** | 5,864.2 | 73.3 | 11.5 | 5,949.0 |
| Self build | 8.6 | 0.8 | 1.0 | **10.4** | 9.7 | 1.3 | 1.0 | 12.0 |
| Fast track* | 9.2 | 0.6 | 0.1 | **9.9** | 10.9 | 1.4 | - | 12.3 |
| Self certified | 145.2 | 21.4 | 15.4 | **182.0** | 138.8 | 49.8 | 14.2 | 202.8 |
| Sub-prime^: | | | | | | | | |
| Residential | 3.7 | 0.8 | 0.2 | **4.7** | 4.4 | 1.5 | 0.3 | 6.2 |
| Buy-to-let | 5.0 | 0.4 | 0.3 | **5.7** | 6.3 | 1.3 | 0.2 | 7.8 |
| Self certified | 13.5 | 4.1 | 1.3 | **18.9** | 14.2 | 7.8 | 2.1 | 24.1 |
| **Total** | **30,067.3** | **358.8** | **116.7** | **30,542.8** | 27,485.7 | 628.6 | 78.0 | 28,192.3 |

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| **Society (£m)** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Prime: | | | | | | | | |
| Residential | **23,584.1** | **285.0** | **79.8** | **23,948.9** | 20,673.1 | 491.2 | 48.5 | 21,212.8 |
| Buy-to-let | **4,276.7** | **37.2** | **15.4** | **4,329.3** | 4,555.6 | 70.0 | 10.8 | 4,636.4 |
| Self build | **8.6** | **0.8** | **1.0** | **10.4** | 9.7 | 1.3 | 1.0 | 12.0 |
| Fast track* | **9.2** | **0.6** | **0.1** | **9.9** | 10.9 | 1.4 | - | 12.3 |
| Self certified | **145.2** | **21.4** | **15.4** | **182.0** | 138.4 | 49.8 | 14.2 | 202.4 |
| Sub-prime^: | | | | | | | | |
| Residential | **3.7** | **0.8** | **0.2** | **4.7** | 4.4 | 1.5 | 0.3 | 6.2 |
| Buy-to-let | **5.0** | **0.4** | **0.3** | **5.7** | 6.3 | 1.3 | 0.2 | 7.8 |
| Self certified | **13.5** | **4.1** | **1.3** | **18.9** | 14.2 | 7.8 | 2.1 | 24.1 |
| **Total** | **28,046.0** | **350.3** | **113.5** | **28,509.8** | 25,412.6 | 624.3 | 77.1 | 26,114.0 |

* Fast track relates to certain mortgages granted between 2007-2009 for which, subject to certain application criteria, the Society accepted reduced documentation from borrowers.

^ Sub-prime mortgages are defined as loans to borrowers that typically had weakened credit histories at the time the loan was advanced. Prior to 1 June 2021, these loans were held by the Group's specialist lending businesses Amber and NYM; these loans were hived-up into the Society with effect from 1 June 2021.

# 43. Credit risk (continued)

| Group (£m) | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| Region | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| North | 854.6 | 14.3 | 3.9 | **872.8** | 806.6 | 20.6 | 3.1 | 830.3 |
| Yorkshire | 2,332.1 | 30.2 | 9.8 | **2,372.1** | 2,181.6 | 53.8 | 6.9 | 2,242.3 |
| East Midlands | 2,035.7 | 26.7 | 7.2 | **2,069.6** | 1,830.9 | 43.1 | 4.8 | 1,878.8 |
| East Anglia | 2,836.3 | 43.8 | 11.3 | **2,891.4** | 2,527.4 | 57.1 | 7.6 | 2,592.1 |
| London | 5,732.7 | 54.4 | 22.6 | **5,809.7** | 5,147.8 | 102.2 | 10.8 | 5,260.8 |
| South East | 4,847.5 | 57.2 | 21.5 | **4,926.2** | 4,316.7 | 101.4 | 13.7 | 4,431.8 |
| South West | 2,695.6 | 29.2 | 6.9 | **2,731.7** | 2,518.8 | 63.1 | 4.7 | 2,586.6 |
| West Midlands | 2,381.5 | 31.1 | 7.4 | **2,420.0** | 2,110.4 | 50.9 | 5.9 | 2,167.2 |
| North West | 2,821.4 | 37.5 | 13.6 | **2,872.5** | 2,605.4 | 73.3 | 10.0 | 2,688.7 |
| Wales | 825.6 | 10.3 | 3.9 | **839.8** | 773.1 | 21.6 | 2.2 | 796.9 |
| Scotland | 1,959.1 | 19.8 | 6.7 | **1,985.6** | 1,843.7 | 38.7 | 6.1 | 1,888.5 |
| Northern Ireland | 11.2 | 0.8 | 1.3 | **13.3** | 11.7 | 1.8 | 2.0 | 15.5 |
| Channel Islands | 734.0 | 3.5 | 0.6 | **738.1** | 811.6 | 1.0 | 0.2 | 812.8 |
| **Total** | **30,067.3** | **358.8** | **116.7** | **30,542.8** | 27,485.7 | 628.6 | 78.0 | 28,192.3 |

| Society (£m) | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| Region | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| North | 850.3 | 14.3 | 3.9 | **868.5** | 802.0 | 20.6 | 3.1 | 825.7 |
| Yorkshire | 2,315.5 | 30.0 | 9.8 | **2,355.3** | 2,164.0 | 53.7 | 6.9 | 2,224.6 |
| East Midlands | 2,024.7 | 26.6 | 7.2 | **2,058.5** | 1,820.6 | 43.1 | 4.6 | 1,868.3 |
| East Anglia | 2,814.4 | 43.4 | 11.3 | **2,869.1** | 2,504.4 | 57.1 | 7.6 | 2,569.1 |
| London | 4,899.8 | 50.4 | 20.3 | **4,970.5** | 4,328.4 | 100.1 | 10.3 | 4,438.8 |
| South East | 4,705.0 | 57.0 | 21.5 | **4,783.5** | 4,168.9 | 100.7 | 13.7 | 4,283.3 |
| South West | 2,661.5 | 29.2 | 6.9 | **2,697.6** | 2,486.2 | 63.1 | 4.7 | 2,554.0 |
| West Midlands | 2,315.4 | 31.0 | 7.1 | **2,353.5** | 2,048.2 | 50.7 | 5.9 | 2,104.8 |
| North West | 2,698.9 | 37.5 | 13.6 | **2,750.0** | 2,496.3 | 73.1 | 10.0 | 2,579.4 |
| Wales | 819.6 | 10.3 | 3.9 | **833.8** | 767.8 | 21.6 | 2.2 | 791.6 |
| Scotland | 1,929.7 | 19.8 | 6.7 | **1,956.2** | 1,814.1 | 38.7 | 6.1 | 1,858.9 |
| Northern Ireland | 11.2 | 0.8 | 1.3 | **13.3** | 11.7 | 1.8 | 2.0 | 15.5 |
| **Total** | **28,046.0** | **350.3** | **113.5** | **28,509.8** | 25,412.6 | 624.3 | 77.1 | 26,114.0 |

Indexed loan-to-value information on the Group's residential loan portfolio is set out below:

| Group (£m) | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| Loan-to-value | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| <40% | 5,891.7 | 72.6 | 21.0 | **5,985.3** | 5,892.2 | 156.8 | 14.5 | 6,063.5 |
| 40% - 50% | 4,052.9 | 58.7 | 19.8 | **4,131.4** | 4,151.6 | 113.4 | 15.3 | 4,280.3 |
| 50% - 60% | 4,442.5 | 63.8 | 32.9 | **4,539.2** | 4,410.2 | 131.7 | 18.5 | 4,560.4 |
| 60% - 70% | 4,622.4 | 60.2 | 16.6 | **4,699.2** | 4,538.0 | 109.2 | 13.3 | 4,660.5 |
| 70% - 80% | 4,021.4 | 41.5 | 8.7 | **4,071.6** | 3,433.1 | 60.9 | 5.6 | 3,499.6 |
| 80% - 90% | 5,324.7 | 46.2 | 10.8 | **5,381.7** | 3,271.7 | 43.1 | 4.6 | 3,319.4 |
| 90% - 100% | 1,687.3 | 14.5 | 3.0 | **1,704.8** | 1,772.9 | 11.2 | 2.7 | 1,786.8 |
| >100% | 24.4 | 1.3 | 3.9 | **29.6** | 16.0 | 2.3 | 3.5 | 21.8 |
| **Total** | **30,067.3** | **358.8** | **116.7** | **30,542.8** | 27,485.7 | 628.6 | 78.0 | 28,192.3 |

## 43. Credit risk (continued)

| Society (£m) | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| Loan-to-value | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| <40% | **5,611.6** | **71.9** | **21.0** | **5,704.5** | 5,534.2 | 156.4 | 14.5 | 5,705.1 |
| 40% - 50% | **3,761.8** | **58.7** | **19.4** | **3,839.9** | 3,807.0 | 113.2 | 15.2 | 3,935.4 |
| 50% - 60% | **4,036.9** | **61.1** | **32.2** | **4,130.2** | 3,973.8 | 131.3 | 18.4 | 4,123.5 |
| 60% - 70% | **4,091.1** | **57.3** | **16.5** | **4,164.9** | 4,031.0 | 108.3 | 12.8 | 4,152.1 |
| 70% - 80% | **3,628.3** | **40.7** | **7.3** | **3,676.3** | 3,047.6 | 59.7 | 5.4 | 3,112.7 |
| 80% - 90% | **5,235.9** | **45.6** | **10.2** | **5,291.7** | 3,233.8 | 41.9 | 4.6 | 3,280.3 |
| 90% - 100% | **1,663.2** | **14.5** | **3.0** | **1,680.7** | 1,769.2 | 11.2 | 2.7 | 1,783.1 |
| >100% | **17.2** | **0.5** | **3.9** | **21.6** | 16.0 | 2.3 | 3.5 | 21.8 |
| **Total** | **28,046.0** | **350.3** | **113.5** | **28,509.8** | 25,412.6 | 624.3 | 77.1 | 26,114.0 |

The Group's policy for new mortgage lending is currently a maximum loan-to-value ratio of 100% for residential mortgages and 75% for buy-to-let lending. In addition, SIL lends up to 100% on its 'Next Generation' mortgages, for which a family member is required to provide a guarantee of up to 20% of the borrower's property value (to be supported by a bond over the guarantor's own suitable property in Guernsey or Jersey).

There has been an increase in the volume of 80-100% LTV lending within the year as we continue to deliver on our purpose of helping more people have a home. This has resulted in an increase in the overall percentage of the book with an LTV greater than 80%; 24.5% at 31 December 2024 (2023: 19.5%) and an increase in the average indexed loan-to-value of the Society's new lending in 2024 to 65.3% (2023: 63.0%). 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 0.28% (2023: 0.23%).

At 31 December 2024, 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 46.1% (2023: 44.5%) and for Society residential mortgages was 45.9% (2023: 44.3%).

### Forbearance

Where appropriate for customers, the Group applies a policy of forbearance. This may be applied where the actual or apparent financial stress of the customer is considered to be short-term with a potential to be recovered. Forbearance may involve arrears capitalisation, a reduction in the monthly payment (known as a concession), a conversion to interest only or a mortgage term extension. Forbearance is undertaken in order to achieve the best outcome for both the customer and the business through dealing with repayment difficulties at an early stage.

Possession is generally considered only as a last resort, once all other options for the customer have been exhausted. Possession balances represent loans against which the Group has taken ownership of properties pending their sale. The Group does not occupy repossessed properties for business use or use assets acquired in its operations. All customer accounts are monitored to ensure that these strategies remain appropriate.

### Possessions

For the Group, at 31 December 2024 the balance of residential loans where the property has been taken into possession was £3.8m and represents less than 0.1% of total outstanding loans (2023: £2.6m; less than 0.1%). For the Society, at 31 December 2024 the balance of residential loans where the property has been taken into possession was £3.2m and represents less than 0.1% of total outstanding loans (2023: £2.6m; 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 2024, 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).

# 43. Credit risk (continued)

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 2024:

- 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 2024); and
- any loan to which forbearance measures were applied and which remains on renegotiated terms at 31 December 2024 (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 1h)).

| Group 2024 | Total £m | Capitalisation £m | Reduced Payment £m | Transfer to interest only £m | Term Extension £m | Total renegotiations | |
|---|---|---|---|---|---|---|---|
| | | | | | | £m | % |
| **Stage 1** | | | | | | | |
| Not past due | **30,067.3** | 0.3 | 27.8 | 6.0 | - | **34.1** | 0.1 |
| | **30,067.3** | **0.3** | **27.8** | **6.0** | **-** | **34.1** | **0.1** |
| **Stage 2** | | | | | | | |
| Not past due | **224.2** | 0.2 | 24.0 | 7.9 | - | **32.1** | 14.3 |
| Past due up to 30 days | **72.5** | - | 29.4 | 0.6 | - | **30.0** | 41.4 |
| Over 30 days past due | **62.1** | 0.3 | 24.4 | 1.4 | - | **26.1** | 42.0 |
| | **358.8** | **0.5** | **77.8** | **9.9** | **-** | **88.2** | **24.6** |
| **Stage 3** | | | | | | | |
| Not past due | **13.8** | 1.1 | 3.2 | 0.2 | - | **4.5** | 32.6 |
| Past due up to 90 days | **18.0** | 0.2 | 8.9 | 2.0 | - | **11.1** | 61.7 |
| Over 90 days past due | **84.9** | 0.2 | 46.8 | 5.9 | - | **52.9** | 62.3 |
| | **116.7** | **1.5** | **58.9** | **8.1** | **-** | **68.5** | **58.7** |
| Gross carrying amount | **30,542.8** | 2.3 | 164.5 | 24.0 | - | **190.8** | 0.6 |
| Loss allowance | **(13.5)** | (0.3) | (3.8) | (0.2) | - | **(4.3)** | 31.9 |
| | **30,529.3** | **2.0** | **160.7** | **23.8** | **-** | **186.5** | **0.6** |

## 43. Credit risk (continued)

| Group 2023 | Total £m | Capitalisation £m | Reduced Payment £m | Transfer to interest only £m | Term Extension £m | Total renegotiations £m | Total renegotiations % |
|---|---|---|---|---|---|---|---|
| Stage 1 | | | | | | | |
| Not past due | 27,485.7 | 0.2 | 15.2 | 3.5 | - | 18.9 | 0.1 |
| | 27,485.7 | 0.2 | 15.2 | 3.5 | - | 18.9 | 0.1 |
| Stage 2 | | | | | | | |
| Not past due | 506.4 | 0.3 | 25.7 | 6.5 | - | 32.5 | 6.4 |
| Past due up to 30 days | 67.0 | 0.1 | 21.9 | 0.3 | - | 22.3 | 33.3 |
| Over 30 days past due | 55.2 | - | 20.8 | 1.5 | - | 22.3 | 40.4 |
| | 628.6 | 0.4 | 68.4 | 8.3 | - | 77.1 | 12.3 |
| Stage 3 | | | | | | | |
| Not past due | 8.5 | 0.8 | 2.2 | - | - | 3.0 | 35.3 |
| Past due up to 90 days | 12.6 | 0.1 | 5.5 | 0.4 | - | 6.0 | 47.6 |
| Over 90 days past due | 56.9 | 0.6 | 30.7 | 2.9 | 0.1 | 34.3 | 60.3 |
| | 78.0 | 1.5 | 38.4 | 3.3 | 0.1 | 43.3 | 55.5 |
| Gross carrying amount | 28,192.3 | 2.1 | 122.0 | 15.1 | 0.1 | 139.3 | 0.5 |
| Loss allowance | (29.0) | (0.3) | (4.4) | (0.2) | - | (4.9) | 16.9 |
| | 28,163.3 | 1.8 | 117.6 | 14.9 | 0.1 | 134.4 | 0.5 |

| Society 2024 | Total £m | Capitalisation £m | Reduced Payment £m | Transfer to interest only £m | Term Extension £m | Total renegotiations £m | Total renegotiations % |
|---|---|---|---|---|---|---|---|
| Stage 1 | | | | | | | |
| Not past due | **28,046.0** | 0.3 | 27.8 | 6.0 | - | **34.1** | 0.1 |
| | **28,046.0** | **0.3** | **27.8** | **6.0** | **-** | **34.1** | **0.1** |
| Stage 2 | | | | | | | |
| Not past due | **220.4** | 0.2 | 22.3 | 5.7 | - | **28.2** | 12.8 |
| Past due up to 30 days | **70.6** | - | 29.4 | 0.6 | - | **30.0** | 42.5 |
| Over 30 days past due | **59.3** | 0.3 | 24.4 | 1.4 | - | **26.1** | 44.0 |
| | **350.3** | **0.5** | **76.1** | **7.7** | **-** | **84.3** | **24.1** |
| Stage 3 | | | | | | | |
| Not past due | **13.8** | 1.1 | 3.2 | 0.2 | - | **4.5** | 32.6 |
| Past due up to 90 days | **18.0** | 0.2 | 8.9 | 2.0 | - | **11.1** | 61.7 |
| Over 90 days past due | **81.7** | 0.2 | 46.8 | 5.9 | - | **52.9** | 64.7 |
| | **113.5** | **1.5** | **58.9** | **8.1** | **-** | **68.5** | **60.4** |
| Gross carrying amount | **28,509.8** | 2.3 | 162.8 | 21.8 | - | **186.9** | 0.7 |
| Loss allowance | **(12.8)** | (0.3) | (3.8) | (0.2) | - | **(4.3)** | 33.6 |
| | **28,497.0** | **2.0** | **159.0** | **21.6** | **-** | **182.6** | **0.6** |

# 43. Credit risk (continued)

| Society 2023 | Total £m | Capitalisation £m | Reduced Payment £m | Transfer to interest only £m | Term Extension £m | Total renegotiations £m | Total renegotiations % |
|---|---|---|---|---|---|---|---|
| Stage 1 | | | | | | | |
| Not past due | 25,412.6 | 0.2 | 15.2 | 3.5 | - | 18.9 | 0.1 |
| | 25,412.6 | 0.2 | 15.2 | 3.5 | - | 18.9 | 0.1 |
| Stage 2 | | | | | | | |
| Not past due | 505.6 | 0.3 | 25.6 | 6.4 | - | 32.3 | 6.4 |
| Past due up to 30 days | 64.2 | 0.1 | 21.9 | 0.3 | - | 22.3 | 34.7 |
| Over 30 days past due | 54.5 | - | 20.8 | 1.5 | - | 22.3 | 40.9 |
| | 624.3 | 0.4 | 68.3 | 8.2 | - | 76.9 | 12.3 |
| Stage 3 | | | | | | | |
| Not past due | 8.5 | 0.8 | 2.2 | - | - | 3.0 | 35.3 |
| Past due up to 90 days | 12.4 | 0.1 | 5.5 | 0.4 | - | 6.0 | 48.4 |
| Over 90 days past due | 56.2 | 0.6 | 30.7 | 2.9 | 0.1 | 34.3 | 61.0 |
| | 77.1 | 1.5 | 38.4 | 3.3 | 0.1 | 43.3 | 56.2 |
| Gross carrying amount | 26,114.0 | 2.1 | 121.9 | 15.0 | 0.1 | 139.1 | 0.5 |
| Loss allowance | (27.9) | (0.3) | (4.4) | (0.2) | - | (4.9) | 17.6 |
| | 26,086.1 | 1.8 | 117.5 | 14.8 | 0.1 | 134.2 | 0.5 |

### Collateral

Collateral held consists of residential properties. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market prices or indices of similar assets.

### Fair value of capped collateral held

Some properties in the Group's mortgage book are in negative equity, which increases the possibility of the Group incurring a loss if the property is taken into possession.

| (£m) | Group | | Society | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Stage 1 | **30,059.9** | 27,480.3 | **28,041.6** | 25,409.8 |
| Stage 2 | **358.4** | 628.0 | **350.0** | 623.7 |
| Stage 3 | **115.8** | 77.0 | **112.6** | 76.1 |
| | **30,534.1** | 28,185.3 | **28,504.2** | 26,109.6 |
| **Gross loan balances** | **30,542.8** | 28,192.3 | **28,509.8** | 26,114.0 |
| **Negative equity** | **8.7** | 7.0 | **5.6** | 4.4 |
| | | | | |
| **Capped collateral held in respect of possessions (included in stage 3 above)** | **2.9** | 2.2 | **2.9** | 2.2 |

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 2024 is £66,203.5m (2023: £63,377.2m) and for the Society is £62,133.0m (2023: £58,979.4m).

# 43. Credit risk (continued)

At 31 December 2024 the contractual amount outstanding on loans written off during the year due to there being no reasonable expectation of recovery, but which remain subject to enforcement activity, is £0.7m (2023: £0.7m) for the Group and 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.

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| **Group & Society (£m)** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | Stage 1 | Stage 2 | Stage 3 | Total |
| Not past due | **93.9** | **0.4** | **11.3** | **105.6** | 89.6 | 31.7 | 2.1 | 123.4 |
| Up to 30 days | **-** | **2.3** | **-** | **2.3** | 1.4 | 2.7 | - | 4.1 |
| 31 to 60 days | **-** | **2.1** | **-** | **2.1** | - | 0.4 | - | 0.4 |
| 61 to 90 days | **-** | **1.1** | **0.7** | **1.8** | - | 3.0 | 0.2 | 3.2 |
| Over 90 days | **-** | **-** | **2.5** | **2.5** | - | - | 4.1 | 4.1 |
| **Total** | **93.9** | **5.9** | **14.5** | **114.3** | 91.0 | 37.8 | 6.4 | 135.2 |

The table below provides information on movements in the gross carrying amount of commercial loans during the year.

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| **Group & Society (£m)** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | Stage 1 | Stage 2 | Stage 3 | Total |
| **Gross carrying amount at 1 January** | **91.0** | **37.8** | **6.4** | **135.2** | 105.3 | 46.9 | 7.1 | 159.3 |
| Transfers due to changes in credit risk (note A): | | | | | | | | |
| From stage 1 to stage 2 | **(1.1)** | **1.1** | **-** | **-** | (1.6) | 1.6 | - | - |
| From stage 1 to stage 3 | **(1.4)** | **-** | **1.4** | **-** | (0.1) | - | 0.1 | - |
| From stage 2 to stage 1 | **19.2** | **(19.2)** | **-** | **-** | 4.8 | (4.8) | - | - |
| From stage 2 to stage 3 | **-** | **(3.4)** | **3.4** | **-** | - | - | - | - |
| Modification of contractual cashflows | **0.8** | **(8.0)** | **6.8** | **(0.4)** | 0.1 | (0.8) | 0.1 | (0.6) |
| Decrease due to derecognition and repayments | **(14.6)** | **(2.4)** | **(3.1)** | **(20.1)** | (17.2) | (5.1) | (0.9) | (23.2) |
| Written off | **-** | **-** | **(0.4)** | **(0.4)** | (0.3) | - | - | (0.3) |
| **Gross carrying amount at 31 December** | **93.9** | **5.9** | **14.5** | **114.3** | 91.0 | 37.8 | 6.4 | 135.2 |

**Note**

A. For the purposes of the analysis presented above, the amounts shown for 'transfers due to changes in credit risk' are based on account balances at the start of the reporting period (not account balances at the date of transfer).

## 43. Credit risk (continued)

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 1h)).

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 2024, stage 3 loans include £nil being held in stage 3 under this probation period (2023: £nil).

The table below provides information on movements in the impairment loss allowance for commercial loans during the year.

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| **Group & Society (£m)** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | Stage 1 | Stage 2 | Stage 3 | Total |
| **Loss allowance at 1 January** | **0.6** | **6.6** | **1.8** | **9.0** | 1.3 | 7.8 | 0.8 | 9.9 |
| Transfers due to changes in credit risk: | | | | | | | | |
| From stage 1 to stage 2 | - | - | - | **-** | - | 0.1 | - | 0.1 |
| From stage 2 to stage 1 | - | (1.9) | - | **(1.9)** | - | (0.2) | - | (0.2) |
| From stage 2 to stage 3 | - | (0.4) | 0.4 | **-** | - | - | - | - |
| Remeasurements within existing stage | (0.3) | (0.1) | - | **(0.4)** | (0.5) | (0.1) | - | (0.6) |
| Decrease due to derecognition and repayments | (0.1) | (0.9) | (1.1) | **(2.1)** | (0.2) | (0.6) | - | (0.8) |
| Changes due to modification without derecognition | - | (3.1) | 3.3 | **0.2** | - | (0.4) | 1.0 | 0.6 |
| Written off | - | - | (0.1) | **(0.1)** | - | - | - | - |
| **Loss allowance at 31 December** | **0.2** | **0.2** | **4.3** | **4.7** | 0.6 | 6.6 | 1.8 | 9.0 |
| | | | | | | | | |
| **ECL coverage (%)** | **0.21%** | **3.39%** | **29.66%** | **4.11%** | 0.66% | 17.46% | 28.13% | 6.66% |

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. 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.

| Group & Society (£m) | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| Industry analysis | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | Stage 1 | Stage 2 | Stage 3 | Total |
| Leisure and hotels | 6.4 | 0.6 | 5.1 | **12.1** | 5.7 | 8.2 | 0.4 | 14.3 |
| Retail | 2.1 | 0.3 | 0.2 | **2.6** | 2.6 | 0.2 | 0.4 | 3.2 |
| Nursing/residential homes | 1.7 | - | 2.2 | **3.9** | 2.7 | 2.7 | 0.7 | 6.1 |
| Offices | 1.2 | - | - | **1.2** | 1.6 | - | - | 1.6 |
| Commercial and industrial units | 81.9 | 5.0 | 7.0 | **93.9** | 77.8 | 25.2 | 4.9 | 107.9 |
| Miscellaneous | 0.6 | - | - | **0.6** | 0.6 | 1.5 | - | 2.1 |
| **Total** | **93.9** | **5.9** | **14.5** | **114.3** | 91.0 | 37.8 | 6.4 | 135.2 |

# 43. Credit risk (continued)

| Group & Society (£m) | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| Geographical analysis (Region) | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| North | 2.9 | 0.3 | - | **3.2** | 2.6 | 1.4 | 0.7 | 4.7 |
| Yorkshire | 6.2 | 0.3 | 5.7 | **12.2** | 6.5 | 6.8 | 0.1 | 13.4 |
| East Midlands | 3.2 | - | 2.3 | **5.5** | 3.1 | 5.1 | - | 8.2 |
| East Anglia | 9.6 | 0.1 | - | **9.7** | 10.8 | - | - | 10.8 |
| London | 22.8 | 2.1 | 0.7 | **25.6** | 24.1 | 5.0 | 1.0 | 30.1 |
| South East | 15.5 | 1.2 | - | **16.7** | 12.6 | 5.0 | 0.7 | 18.3 |
| South West | 12.0 | 0.4 | 0.4 | **12.8** | 8.2 | 5.6 | 0.4 | 14.2 |
| West Midlands | 7.0 | 0.6 | 2.3 | **9.9** | 7.5 | 3.3 | - | 10.8 |
| North West | 10.5 | 0.9 | 2.1 | **13.5** | 11.3 | 3.9 | 3.0 | 18.2 |
| Wales | 2.4 | - | 0.7 | **3.1** | 2.4 | 1.5 | - | 3.9 |
| Scotland | 1.8 | - | 0.3 | **2.1** | 1.9 | 0.2 | 0.5 | 2.6 |
| **Total** | **93.9** | **5.9** | **14.5** | **114.3** | 91.0 | 37.8 | 6.4 | 135.2 |

| Group & Society (£m) | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| Loan-to-value | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| <40% | 27.4 | 1.0 | 2.0 | **30.4** | 32.7 | 3.4 | 1.1 | 37.2 |
| 40% - 50% | 18.5 | 1.1 | 0.6 | **20.2** | 17.9 | 1.7 | 0.9 | 20.5 |
| 50% - 60% | 16.6 | 1.2 | 1.2 | **19.0** | 14.3 | 5.0 | 0.1 | 19.4 |
| 60% - 70% | 6.3 | 1.4 | 0.1 | **7.8** | 7.8 | 2.8 | 0.1 | 10.7 |
| 70% - 80% | 7.4 | 0.5 | 1.3 | **9.2** | 8.1 | 1.3 | - | 9.4 |
| 80% - 90% | 9.3 | 0.3 | - | **9.6** | 3.4 | 5.4 | - | 8.8 |
| 90% - 100% | 5.4 | 0.4 | - | **5.8** | 4.6 | 1.7 | 0.8 | 7.1 |
| >100% | 3.0 | - | 9.3 | **12.3** | 2.2 | 16.5 | 3.4 | 22.1 |
| **Total** | **93.9** | **5.9** | **14.5** | **114.3** | 91.0 | 37.8 | 6.4 | 135.2 |

### Forbearance

The Group's policy on forbearance for commercial mortgages is the same as the policy for residential mortgages, which is set out in Note 43a)(i).

At 31 December 2024 the balance of commercial mortgages where the property has been taken into possession was £nil for the Group and Society (2023: £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 2024, showing the type of account renegotiations applied. The tables below are presented on the same basis as the corresponding tables for residential mortgages, the basis for which is described on pages 267 and 268.

# 43. Credit risk (continued)

| Group & Society | 2024 Total £m | Capitalisation £m | Reduced Payment £m | Transfer to interest only £m | Total renegotiations £m | Total renegotiations % |
|---|---|---|---|---|---|---|
| **Stage 1** | | | | | | |
| Not past due | **93.9** | 0.9 | 0.4 | 0.5 | **1.8** | 1.9 |
| | **93.9** | **0.9** | **0.4** | **0.5** | **1.8** | **1.9** |
| **Stage 2** | | | | | | |
| Not past due | **0.4** | - | - | 0.4 | **0.4** | 100.0 |
| Past due up to 30 days | **2.3** | - | - | 0.1 | **0.1** | 4.3 |
| Over 30 days past due | **3.2** | 0.9 | 0.5 | - | **1.4** | 43.8 |
| | **5.9** | **0.9** | **0.5** | **0.5** | **1.9** | **32.2** |
| **Stage 3** | | | | | | |
| Not past due | **11.3** | - | - | 8.4 | **8.4** | 74.3 |
| Past due up to 90 days | **0.7** | - | - | - | **-** | - |
| Over 90 days past due | **2.5** | - | 0.6 | 0.7 | **1.3** | 52.0 |
| | **14.5** | **-** | **0.6** | **9.1** | **9.7** | **66.9** |
| Gross carrying amount | **114.3** | 1.8 | 1.5 | 10.1 | **13.4** | 11.7 |
| Loss allowance | **(4.7)** | - | - | (3.8) | **(3.8)** | 80.9 |
| | **109.6** | **1.8** | **1.5** | **6.3** | **9.6** | **8.8** |

| Group & Society | 2023 Total £m | Reduced Payment £m | Transfer to interest only £m | Total renegotiations £m | Total renegotiations % |
|---|---|---|---|---|---|
| Stage 1 | | | | | |
| Not past due | 89.6 | 0.1 | 0.6 | 0.7 | 0.8 |
| Past due up to 30 days | 1.4 | 0.1 | - | 0.1 | 7.1 |
| | 91.0 | 0.2 | 0.6 | 0.8 | 0.9 |
| Stage 2 | | | | | |
| Not past due | 31.7 | - | 7.6 | 7.6 | 24.0 |
| Past due up to 30 days | 2.7 | 0.6 | - | 0.6 | 22.2 |
| Over 30 days past due | 3.4 | 1.8 | - | 1.8 | 52.9 |
| | 37.8 | 2.4 | 7.6 | 10.0 | 26.5 |
| Stage 3 | | | | | |
| Not past due | 2.1 | 0.1 | 1.3 | 1.4 | 66.7 |
| Past due up to 90 days | 0.2 | 0.2 | - | 0.2 | 100.0 |
| Over 90 days past due | 4.1 | 2.5 | 1.0 | 3.5 | 85.4 |
| | 6.4 | 2.8 | 2.3 | 5.1 | 79.7 |
| Gross carrying amount | 135.2 | 5.4 | 10.5 | 15.9 | 11.8 |
| Loss allowance | (9.0) | (1.2) | (3.7) | (4.9) | 54.4 |
| | 126.2 | 4.2 | 6.8 | 11.0 | 8.7 |

### 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.

## 43. Credit risk (continued)

| Group & Society (£m) | 2024 | 2023 |
|---|---|---|
| Stage 1 | 93.2 | 90.8 |
| Stage 2 | 5.9 | 34.5 |
| Stage 3 | 12.3 | 5.1 |
| **Total** | **111.4** | 130.4 |
| **Gross loan balances** | **114.3** | 135.2 |
| **Negative equity** | **2.9** | 4.8 |
| | | |
| **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 2024 is £270.5m (2022: £318.0m).

At 31 December 2024 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 (2023: £nil) for the Group and the Society.

### iii) Other lending

Other lending comprises the following:

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| Group (£m) | Gross carrying amount | ECL allowance | Net carrying amount | Gross carrying amount | ECL allowance | Net carrying amount |
| Debt factoring advances | 190.0 | (1.4) | **188.6** | 171.2 | (1.6) | 169.6 |
| Other loans | 48.2 | - | **48.2** | 53.2 | - | 53.2 |
| **Total** | **238.2** | **(1.4)** | **236.8** | 224.4 | (1.6) | 222.8 |

The table below provides information on movements in the gross carrying amount of other loans and advances during the year.

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| Group (£m) | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Gross carrying amount at 1 January** | 219.6 | 4.3 | 0.5 | **224.4** | 200.4 | 5.6 | 0.1 | 206.1 |
| Transfers due to changes in credit risk (note A): | | | | | | | | |
| From stage 1 to stage 2 | (3.4) | 3.4 | - | **-** | (4.1) | 4.1 | - | - |
| From stage 1 to stage 3 | (0.4) | - | 0.4 | **-** | (0.2) | - | 0.2 | - |
| From stage 2 to stage 1 | 2.3 | (2.3) | - | **-** | 3.6 | (3.6) | - | - |
| From stage 2 to stage 3 | - | (1.6) | 1.6 | **-** | - | (0.7) | 0.7 | - |
| From stage 3 to stage 2 | - | 0.3 | (0.3) | **-** | - | - | - | - |
| From stage 3 to stage 1 | 0.3 | - | (0.3) | **-** | - | - | - | - |
| Modification of contractual cashflows | - | - | - | **-** | 0.1 | - | - | 0.1 |
| Increases due to origination | 74.2 | - | - | **74.2** | 68.0 | - | - | 68.0 |
| Decrease due to derecognition and repayments | (58.1) | (1.8) | - | **(59.9)** | (48.2) | (1.1) | (0.1) | (49.4) |
| Write-offs | - | - | (0.6) | **(0.6)** | - | - | (0.4) | (0.4) |
| Other movements | - | - | 0.1 | **0.1** | - | - | - | - |
| **Gross carrying amount at 31 December** | **234.5** | **2.3** | **1.4** | **238.2** | 219.6 | 4.3 | 0.5 | 224.4 |

**Note:**

A. For the purposes of the analysis presented above, the amounts shown for ‘transfers due to changes in credit risk’ are based on account balances at the end of the reporting period (not account balances at the date of transfer).

# 43. Credit risk (continued)

The table below provides information on movements in the impairment loss allowance for other loans and advances during the year.

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| **Group (£m)** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Loss allowance at 1 January** | 0.2 | 1.1 | 0.3 | **1.6** | 0.1 | 1.1 | - | 1.2 |
| Transfers due to changes in credit risk: | | | | | | | | |
| From stage 1 to stage 2 | (0.1) | 1.0 | - | **0.9** | - | 1.3 | - | 1.3 |
| From stage 1 to stage 3 | - | - | - | **-** | - | - | 0.1 | 0.1 |
| From stage 2 to stage 1 | - | (0.3) | - | **(0.3)** | - | (0.5) | - | (0.5) |
| From stage 2 to stage 3 | - | (1.0) | 1.0 | **-** | - | (0.6) | 0.6 | - |
| From stage 3 to stage 1 | 0.1 | - | (0.1) | **-** | - | - | - | - |
| Remeasurements within existing stage | | (0.2) | - | **(0.2)** | 0.1 | (0.2) | - | (0.1) |
| Write-offs | - | - | (0.6) | **(0.6)** | - | - | (0.4) | (0.4) |
| **Loss allowance at 31 December** | **0.2** | **0.6** | **0.6** | **1.4** | 0.2 | 1.1 | 0.3 | 1.6 |

### 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 2024 and 31 December 2023, the fair value of the total collateral held by the Group against debt factoring and invoice discounting advances was in excess of the value of the total advances outstanding.

### Other loans

The table below provides information on the gross carrying amount of other loans by payment due status.

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| **Group (£m)** | **Stage 1** | **Stage 2** | **Total** | **Stage 1** | **Stage 2** | **Total** |
| Not past due | 48.2 | - | **48.2** | 53.2 | - | 53.2 |
| **Total** | **48.2** | **-** | **48.2** | 53.2 | - | 53.2 |

The other loans of £48.2m (2023: £53.2m) 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 £99.7m (2023: £116.9m).

### 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 14. For details of collateral held against loans and advances to credit institutions see Note 13. No collateral is held against balances with the Bank of England.

## 43. Credit risk (continued)

At 31 December 2024 none of the Group or the Society's treasury assets were past due (2023: none past due). At 31 December 2024 the ECLs on the Group and the Society's treasury assets were all held as stage 1 (2023: all stage 1).

At 31 December 2024 and 31 December 2023, all the Group and the Society's treasury investments, except for building society deposits of £0.1m (2023: £0.5m) and certain collateral held of £0.1m (2023: £0.1m), were assessed to have a probability of default (PD) of less than 0.11% (2023: 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 1h).

At 31 December 2024 over 99.9% (2023: 99.9%) of the Group's treasury investment assets (including cash in hand and with the Bank of England and excluding exposures to a central clearing house used to clear derivatives to manage interest rate risk in line with regulation) were rated A3 or better, and for the Society 99.9% (2023: 99.9%) 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 | | | | Society | | | |
|---|---|---|---|---|---|---|---|---|
| | 2024 £m | 2024 % | 2023 £m | 2023 % | 2024 £m | 2024 % | 2023 £m | 2023 % |
| Aaa | **2,429.6** | **36.3** | 1,903.9 | 26.8 | **2,666.1** | **40.0** | 1,950.1 | 28.0 |
| Aa1 | **268.2** | **4.0** | 90.5 | 1.3 | **268.2** | **4.0** | 90.5 | 1.3 |
| Aa2 | **0.1** | **-** | 6.7 | 0.1 | **-** | **-** | 6.7 | 0.1 |
| Aa3 | **3,605.1** | **53.8** | 4,543.7 | 64.1 | **3,336.4** | **50.0** | 4,356.3 | 62.4 |
| A1 | **117.3** | **1.8** | 236.8 | 3.3 | **72.1** | **1.1** | 192.5 | 2.8 |
| A2 | **1.0** | **-** | 0.9 | - | **-** | **-** | - | - |
| Unrated | **273.5** | **4.1** | 310.2 | 4.4 | **325.7** | **4.9** | 374.3 | 5.4 |
| **Total** | **6,694.8** | **100.0** | 7,092.7 | 100.0 | **6,668.5** | **100.0** | 6,970.4 | 100.0 |

'Unrated' in the above analysis includes an exposure to a central clearing house totalling £273.3m for the Group and Society (2023: £309.6m) used to clear derivatives to manage interest rate risk, as required by regulation, together with an exposure to subsidiary undertakings in the form of Credit Support Annex (CSA) collateral for the Society only, totalling £52.2m (2023: £64.1m).

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 | | | | Society | | | |
|---|---|---|---|---|---|---|---|---|
| | 2024 £m | 2024 % | 2023 £m | 2023 % | 2024 £m | 2024 % | 2023 £m | 2023 % |
| Cash in hand and balances with the Bank of England | **1,930.6** | **28.9** | 3,266.2 | 46.0 | **1,930.6** | **29.0** | 3,266.2 | 46.9 |
| Loans and advances to banks and building societies | **414.6** | **6.2** | 488.8 | 6.9 | **397.8** | **6.0** | 497.7 | 7.1 |
| Gilts | **1,086.5** | **16.2** | 409.2 | 5.8 | **1,086.5** | **16.3** | 369.3 | 5.3 |
| Certificates of deposit | **-** | **-** | 97.9 | 1.4 | **-** | **-** | 97.9 | 1.4 |
| Fixed rate bonds | **1,274.9** | **19.0** | 584.0 | 8.2 | **1,274.9** | **19.1** | 584.0 | 8.4 |
| Floating rate notes | **-** | **-** | 219.8 | 3.1 | **-** | **-** | 169.6 | 2.4 |
| Treasury bills | **598.2** | **8.9** | 860.0 | 12.1 | **321.2** | **4.8** | 702.9 | 10.1 |
| Covered bonds | **770.1** | **11.5** | 758.6 | 10.7 | **770.1** | **11.5** | 758.6 | 10.9 |
| Residential mortgage backed securities | **619.9** | **9.3** | 408.2 | 5.8 | **887.4** | **13.3** | 524.2 | 7.5 |
| **Total** | **6,694.8** | **100.0** | 7,092.7 | 100.0 | **6,668.5** | **100.0** | 6,970.4 | 100.0 |

# 43. Credit risk (continued)

| Geographical exposure (Region) | Group | | | | Society | | | |
|---|---|---|---|---|---|---|---|---|
| | **2024 £m** | **2024 %** | 2023 £m | 2023 % | **2024 £m** | **2024 %** | 2023 £m | 2023 % |
| UK | **5,331.5** | **79.7** | 6,174.1 | 87.1 | **5,393.6** | **81.0** | 6,158.3 | 88.3 |
| Rest of Europe | **327.9** | **4.9** | 144.4 | 2.0 | **293.3** | **4.4** | 109.7 | 1.0 |
| Supranationals: | | | | | | | | |
| Europe | **122.4** | **1.8** | 192.8 | 2.7 | **122.4** | **1.8** | 152.6 | 2.8 |
| Global | **528.4** | **7.9** | 335.9 | 4.8 | **528.4** | **7.9** | 335.9 | 4.8 |
| Africa | **28.4** | **0.4** | 27.5 | 0.4 | **28.4** | **0.4** | 27.5 | 0.4 |
| Asia | **135.2** | **2.0** | 106.5 | 1.5 | **135.2** | **2.0** | 106.5 | 1.5 |
| South America | **117.7** | **1.8** | 27.1 | 0.4 | **117.7** | **1.8** | 27.1 | 0.4 |
| North America | **100.2** | **1.5** | 81.3 | 1.1 | **49.5** | **0.7** | 52.8 | 0.8 |
| Rest of World | **3.1** | **-** | 3.1 | - | **-** | **-** | - | - |
| Total | **6,694.8** | **100.0** | 7,092.7 | 100.0 | **6,668.5** | **100.0** | 6,970.4 | 100.0 |

### c) Credit risk – trade receivables

The tables below provide information on movements in trade receivables during the year.

As outlined in Note 1h), 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.

| (£m) | Group | | Society | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Gross carrying amount | **71.0** | 60.4 | **1.9** | 1.8 |
| Loss allowance | **(2.2)** | (2.4) | **-** | - |
| **Net carrying amount** | **68.8** | 58.0 | **1.9** | 1.8 |

| (£m) | Group | | Society | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Loss allowance at 1 January | **2.4** | 3.7 | **-** | - |
| Net allowances made during the year | **0.8** | 0.9 | **-** | - |
| Write-offs | **(1.0)** | (2.2) | **-** | - |
| **Loss allowance at 31 December** | **2.2** | 2.4 | **-** | - |

The table below provides information on the gross carrying amount of trade receivables by payment due status.

| (£m) | Group | | Society | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Not past due | **38.3** | 31.9 | **-** | - |
| Up to 30 days past due | **19.5** | 14.1 | **0.5** | 0.2 |
| 31 to 120 days past due | **9.5** | 11.4 | **1.0** | 0.9 |
| Over 120 days past due | **3.7** | 3.0 | **0.4** | 0.7 |
| **Total** | 71.0 | 60.4 | 1.9 | 1.8 |

No collateral is held against trade receivables. At 31 December 2024 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 (2023: £nil) for the Group and £nil (2023: £nil) for the Society.

# 43. Credit risk (continued)

### d) Credit risk – derivative financial instruments

A credit exposure could arise in respect of derivative contracts entered into by the Group if the counterparty was unable to fulfil its contractual obligations. The Group addresses the risks associated with these activities by monitoring counterparty credit exposure and requiring additional collateral to be posted or returned as necessary. For all but one derivative, the only form of collateral accepted by the Group in respect of derivatives is cash. Derivatives are either transacted under International Swaps and Derivatives Association (ISDA) Master Agreements or Cleared Derivatives Execution Agreements. For swaps that are cash collateralised, no Credit (CVA) or Debit (DVA) Value Adjustments have been made in respect of credit risk in determining the fair value of these derivatives as the risk is significantly mitigated. Credit Support Annexes executed with certain counterparties in conjunction with the ISDA Master Agreement require collateral to be posted regularly, as required by specific terms and conditions of the arrangements. Due to the frequency of the posting of collateral, there is no material exposure from these minimal timing differences that would require CVA or DVA adjustments. At 31 December 2024 the Group held one derivative(s) (2023: 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 following tables provide further detail on the net exposure to derivative transaction counterparties.

| Group (£m) | 2024 | | | |
|---|---|---|---|---|
| | As reported within SOFP | Netting agreements | Cash collateral | Net amounts after offsetting |
| **Financial assets** | | | | |
| Derivative financial instruments | 752.1 | (204.2) | (557.3) | - |
| **Financial liabilities** | | | | |
| Derivative financial instruments | 225.1 | (204.2) | (18.1) | 2.8 |

| Group (£m) | 2023 | | | |
|---|---|---|---|---|
| | As reported within SOFP | Netting agreements | Cash collateral | Net amounts after offsetting |
| Financial assets | | | | |
| Derivative financial instruments | 1,000.8 | (381.3) | (603.7) | 15.8 |
| Financial liabilities | | | | |
| Derivative financial instruments | 452.2 | (381.3) | (43.9) | 27.0 |

| Society (£m) | 2024 | | | |
|---|---|---|---|---|
| | As reported within SOFP | Netting agreements | Cash collateral | Net amounts after offsetting |
| **Financial assets** | | | | |
| Derivative financial instruments | 743.0 | (208.3) | (557.3) | - |
| **Financial liabilities** | | | | |
| Derivative financial instruments | 282.2 | (208.3) | (70.4) | 3.5 |

## 43. Credit risk (continued)

| Society (£m) | 2023 | | | |
|---|---|---|---|---|
| | As reported within SOFP | Netting agreements | Cash collateral | Net amounts after offsetting |
| Financial assets | | | | |
| Derivative financial instruments | 1,003.0 | (394.2) | (603.7) | 5.1 |
| Financial liabilities | | | | |
| Derivative financial instruments | 508.7 | (394.2) | (108.1) | 6.4 |

In respect of the Group's derivative assets, there is no amount (2023: £15.8m) after offsetting between the value of the derivatives and the cash collateral held.

In respect of the Group's derivative liabilities, there is a net amount after offsetting of £2.8m (2023: £27.0m) between the value of the derivatives and the cash collateral pledged. This predominantly relates to the collateral arrangements for the one (2023: one) cross currency derivative held by the Group where collateral is not required to be posted up to a threshold.

# 44. 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:

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| Group (£m) | Amortised cost | FVOCI | FVTPL | Total | Amortised cost | FVOCI | FVTPL | Total |
| Cash in hand and balances with the Bank of England | **1,930.6** | - | - | **1,930.6** | 3,266.2 | - | - | 3,266.2 |
| Loans and advances to credit institutions | **414.6** | - | - | **414.6** | 488.8 | - | - | 488.8 |
| Debt securities | - | **4,349.6** | - | **4,349.6** | - | 3,337.7 | - | 3,337.7 |
| Derivative financial Instruments | - | - | **752.1** | **752.1** | - | - | 1,000.8 | 1,000.8 |
| Loans and advances to customers | **30,601.1** | - | **0.9** | **30,602.0** | 28,161.4 | - | 0.9 | 28,162.3 |
| Equity release portfolio | - | - | **277.2** | **277.2** | - | - | 293.3 | 293.3 |
| Equity share investments | - | - | **16.9** | **16.9** | - | - | 10.5 | 10.5 |
| Trade receivables | **68.8** | - | - | **68.8** | 58.0 | - | - | 58.0 |
| Share warrants | - | - | **21.9** | **21.9** | - | - | 15.1 | 15.1 |
| Other assets | **0.1** | - | - | **0.1** | 0.2 | - | - | 0.2 |
| **Total financial assets** | **33,015.2** | **4,349.6** | **1,069.0** | **38,433.8** | 31,974.6 | 3,337.7 | 1,320.6 | 36,632.9 |
| Other non-financial assets | | | | **581.5** | | | | 589.0 |
| **Total assets** | | | | **39,015.3** | | | | 37,221.9 |
| Shares | **28,268.5** | - | - | **28,268.5** | 25,949.8 | - | - | 25,949.8 |
| Amounts owed to credit institutions and other customers | **4,350.7** | - | - | **4,350.7** | 4,902.2 | - | - | 4,902.2 |
| Debt securities in issue | **2,435.3** | - | - | **2,435.3** | 2,414.7 | - | - | 2,414.7 |
| Derivative financial Instruments | - | - | **225.1** | **225.1** | - | - | 452.2 | 452.2 |
| Lease liabilities | **92.1** | - | - | **92.1** | 103.0 | - | - | 103.0 |
| Trade payables | **11.0** | - | - | **11.0** | 10.2 | - | - | 10.2 |
| Fair value of put option obligation | - | - | **4.1** | **4.1** | - | - | 3.5 | 3.5 |
| Subordinated liabilities | **690.2** | - | - | **690.2** | 685.3 | - | - | 685.3 |
| Subscribed capital | **41.6** | - | - | **41.6** | 41.6 | - | - | 41.6 |
| **Total financial liabilities** | **35,889.4** | **-** | **229.2** | **36,118.6** | 34,106.8 | - | 455.7 | 34,562.5 |
| Other non-financial liabilities | | | | **229.3** | | | | 238.1 |
| **Total liabilities** | | | | **36,347.9** | | | | 34,800.6 |

All financial assets and liabilities in the table above that are held as at FVTPL are mandatorily held as such.

# 44. Fair values (continued)

| Society (£m) | 2024 Amortised cost | 2024 FVOCI | 2024 FVTPL | 2024 Total | 2023 Amortised cost | 2023 FVOCI | 2023 FVTPL | 2023 Total |
|---|---|---|---|---|---|---|---|---|
| Cash in hand and balances with the Bank of England | 1,930.6 | - | - | **1,930.6** | 3,266.2 | - | - | 3,266.2 |
| Loans and advances to credit institutions | 397.8 | - | - | **397.8** | 497.7 | - | - | 497.7 |
| Debt securities | - | 4,269.8 | 70.3 | **4,340.1** | - | 3,143.4 | 63.1 | 3,206.5 |
| Derivative financial instruments | - | - | 743.0 | **743.0** | - | - | 1,003.0 | 1,003.0 |
| Loans and advances to customers | 28,334.9 | - | 0.9 | **28,335.8** | 25,864.9 | - | 0.9 | 25,865.8 |
| Equity release portfolio | - | - | 277.2 | **277.2** | - | - | 293.3 | 293.3 |
| Loans to subsidiary undertakings | 403.9 | - | - | **403.9** | 372.7 | - | - | 372.7 |
| Trade receivables | 1.9 | - | - | **1.9** | 1.8 | - | - | 1.8 |
| **Total financial assets** | **31,069.1** | **4,269.8** | **1,091.4** | **36,430.3** | 30,003.3 | 3,143.4 | 1,360.3 | 34,507.0 |
| Other non-financial assets | | | | **198.0** | | | | 193.9 |
| **Total assets** | | | | **36,628.3** | | | | 34,700.9 |
| Shares | 28,254.1 | - | - | **28,254.1** | 25,922.3 | - | - | 25,922.3 |
| Amounts owed to credit institutions and other customers | 3,069.5 | - | - | **3,069.5** | 3,110.4 | - | - | 3,110.4 |
| Debt securities in issue | 1,930.1 | - | - | **1,930.1** | 2,242.5 | - | - | 2,242.5 |
| Derivative financial Instruments | - | - | 282.2 | **282.2** | - | - | 508.7 | 508.7 |
| Lease liabilities | 8.6 | - | - | **8.6** | 10.3 | - | - | 10.3 |
| Trade payables | 2.8 | - | - | **2.8** | 2.3 | - | - | 2.3 |
| Subordinated liabilities | 690.2 | - | - | **690.2** | 685.3 | - | - | 685.3 |
| Subscribed capital | 41.6 | - | - | **41.6** | 41.6 | - | - | 41.6 |
| **Total financial liabilities** | **33,996.9** | **-** | **282.2** | **34,279.1** | 32,014.7 | - | 508.7 | 32,523.4 |
| Other non-financial liabilities | | | | **43.8** | | | | 65.8 |
| **Total liabilities** | | | | **34,322.9** | | | | 32,589.2 |

All financial assets and liabilities in the table above that are held as at FVTPL are mandatorily held as such.

# 44. Fair values (continued)

## b) Valuation of financial instruments carried at fair value

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy as explained below.

### Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs used in measuring fair value.

**Level 1**

The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Group's Level 1 portfolio mainly comprises the Group's debt securities, with the exception of certificates of deposits; for which traded prices are readily available.

**Level 2**

These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. Examples of Level 2 instruments are certificates of deposit and interest rate swaps.

**Level 3**

These are valuation techniques for which one or more significant inputs are not based on observable market data.

Valuation techniques include net present value by way of discounted cash flow models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, similar market products, foreign currency exchange rates and equity index prices. Critical judgement is applied by management in utilising unobservable inputs including expected price volatilities, expected mortality rates and prepayment rates, based on industry practice or historical observation. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants on an arm's-length basis.

### Transfers between levels

The Group makes transfers between the different levels of the fair value hierarchy where the inputs used to measure the fair value of the financial instruments in question no longer satisfy the conditions required to be classified in a certain level within the hierarchy. Any such transfer between different levels of the fair value hierarchy is made at the date the event in question that results in a change in circumstances occurs.

There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2024 or the year ended 31 December 2023.

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.

## 44. Fair values (continued)

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| **Group (£m)** | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | | | | | |
| Financial assets held at FVOCI: | | | | | | | | |
| Debt securities | 4,349.6 | - | - | **4,349.6** | 3,239.8 | 97.9 | - | 3,337.7 |
| Financial assets at FVTPL: | | | | | | | | |
| Equity share investments | - | - | 16.9 | **16.9** | - | - | 10.5 | 10.5 |
| Derivative financial Instruments | - | 736.8 | 15.3 | **752.1** | - | 975.4 | 25.4 | 1,000.8 |
| Equity release portfolio | - | - | 277.2 | **277.2** | - | - | 293.3 | 293.3 |
| Loans and advances to customers | - | - | 0.9 | **0.9** | - | - | 0.9 | 0.9 |
| Share warrants | - | - | 21.9 | **21.9** | - | - | 15.1 | 15.1 |
| | **4,349.6** | **736.8** | **332.2** | **5,418.6** | 3,239.8 | 1,073.3 | 345.2 | 4,658.3 |
| **Financial liabilities** | | | | | | | | |
| Financial liabilities at FVTPL: | | | | | | | | |
| Derivative financial Instruments | - | 209.0 | 16.1 | **225.1** | - | 404.1 | 48.1 | 452.2 |
| Fair value of put option Obligation | - | - | 4.1 | **4.1** | - | - | 3.5 | 3.5 |
| | **-** | **209.0** | **20.2** | **229.2** | - | 404.1 | 51.6 | 455.7 |
| | **4,349.6** | **527.8** | **312.0** | **5,189.4** | 3,239.8 | 669.2 | 293.6 | 4,202.6 |

# 44. Fair values (continued)

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| Society (£m) | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | | | | | |
| Financial assets held at FVOCI: | | | | | | | | |
| Debt securities | 4,269.8 | - | - | **4,269.8** | 3,045.5 | 97.9 | - | 3,143.4 |
| Financial assets at FVTPL: | | | | | | | | |
| Derivative financial Instruments | - | 727.7 | 15.3 | **743.0** | - | 989.0 | 14.0 | 1,003.0 |
| Debt securities | 70.3 | - | - | **70.3** | 63.1 | - | - | 63.1 |
| Equity release portfolio | - | - | 277.2 | **277.2** | - | - | 293.3 | 293.3 |
| Loans and advances to customers | - | - | 0.9 | **0.9** | - | - | 0.9 | 0.9 |
| | **4,340.1** | **727.7** | **293.4** | **5,361.2** | 3,108.6 | 1,086.9 | 308.2 | 4,503.7 |
| **Financial liabilities** | | | | | | | | |
| Financial liabilities at FVTPL: | | | | | | | | |
| Derivative financial Instruments | - | 261.7 | 20.5 | **282.2** | - | 460.5 | 48.2 | 508.7 |
| | **-** | **261.7** | **20.5** | **282.2** | - | 460.5 | 48.2 | 508.7 |
| | **4,340.1** | **466.0** | **272.9** | **5,079.0** | 3,108.6 | 626.4 | 260.0 | 3,995.0 |

## 44. Fair values (continued)

The tables below analyse the movements in the Level 3 portfolio during the year:

| Group 2024 (£m) | Equity share investments | Equity release Portfolio | Loans and advances to customers | Derivative financial instruments | Fair value of put option obligation | Share warrants | Total |
|---|---|---|---|---|---|---|---|
| At 1 January | 10.5 | 293.3 | 0.9 | (22.7) | (3.5) | 15.1 | **293.6** |
| Gain / (loss) recognised in Income Statement | 1.1[A] | (12.6)[B] | - | 21.9[C] | (0.3)[D] | 5.9[E] | **16.0** |
| Revaluations to goodwill | - | - | - | - | (0.3) | - | **(0.3)** |
| Accrued interest | - | 2.6[F] | 0.1[F] | - | - | - | **2.7** |
| Repayments | - | (4.3) | (0.1) | - | - | - | **(4.4)** |
| Realised losses | - | (1.8)[G] | - | - | - | - | **(1.8)** |
| Additions / other | 5.3 | - | - | - | - | 0.9 | **6.2** |
| **At 31 December** | **16.9** | **277.2** | **0.9** | **(0.8)** | **(4.1)** | **21.9** | **312.0** |

| Group 2023 (£m) | Equity share investments | Equity release portfolio | Loans and advances to customers | Derivative financial instruments | Fair value of put option obligation | Share warrants | Other assets | Total |
|---|---|---|---|---|---|---|---|---|
| At 1 January | 1.1 | 278.7 | 1.0 | (26.5) | (3.8) | 26.6 | 1.4 | 278.5 |
| Gain recognised in Income Statement | 0.5[A] | 9.2[B] | - | 1.8[C] | 0.3[D] | 13.3[E] | - | 25.1 |
| Revaluations to goodwill | - | - | - | - | (0.4) | - | - | (0.4) |
| Accrued interest | - | 9.9[F] | 0.1[F] | 2.0[F] | - | - | - | 12.0 |
| Repayments | - | (3.7) | (0.2) | - | - | - | - | (3.9) |
| Realised losses | - | (0.8)[G] | - | - | - | - | - | (0.8) |
| Exercise of put options by non-controlling | - | - | - | - | 0.4 | - | - | 0.4 |
| Additions / other | 8.9 | - | - | - | - | (24.8) | (1.4) | (17.3) |
| At 31 December | 10.5 | 293.3 | 0.9 | (22.7) | (3.5) | 15.1 | - | 293.6 |

**Notes**

A. These are unrealised gains and are included in the Income Statement line ‘Fair value gains on financial instruments mandatorily held at FVTPL’; as presented within Note 5 line ‘Equity share investments’.

B. These are unrealised gains and are included in the Income Statement line ‘Fair value gains on financial instruments mandatorily held at FVTPL’; as presented within Note 5 line ‘Equity release portfolio’.

C. These are unrealised gains and are included in the Income Statement line ‘Fair value gains on financial instruments mandatorily held at FVTPL’; as presented within Note 5 line ‘Derivatives associated with equity release portfolio’.

D. Included in the Income Statement line ‘Fair value gains on financial instruments mandatorily held at FVTPL’; as presented within Note 5 line ‘Put options held by minority shareholders’.

E. Included in the Income Statement line ‘Fair value gains on financial instruments mandatorily held at FVTPL’; as presented within Note 5 line ‘Share warrants’.

F. Included in the Income Statement line ‘Interest receivable and similar income’.

G. Included in the Income Statement line ‘Impairment and provisions’; as presented within Note 8 line ‘Realised losses on equity release portfolio’.

# 44. Fair values (continued)

| Society 2024 (£m) | Equity release portfolio | Loans and advances to customers | Derivative financial instruments | Total |
|---|---|---|---|---|
| At 1 January | 293.3 | 0.9 | (34.2) | **260.0** |
| (Loss) / gain recognised in Income Statement | (12.6)[A] | - | 29.0[B] | **16.4** |
| Accrued interest | 2.6[C] | 0.1[C] | - | **2.7** |
| Repayments | (4.3) | (0.1) | - | **(4.4)** |
| Realised losses | (1.8)[D] | - | - | **(1.8)** |
| **At 31 December** | **277.2** | **0.9** | **(5.2)** | **272.9** |

| Society 2023 (£m) | Equity release portfolio | Loans and advances to customers | Derivative financial instruments | Total |
|---|---|---|---|---|
| At 1 January | 278.7 | 1.0 | (42.8) | 236.9 |
| Gain recognised in Income Statement | 9.2[A] | - | 6.6[B] | 15.8 |
| Accrued interest | 9.9[C] | 0.1[C] | 2.0[C] | 12.0 |
| Repayments | (3.7) | (0.2) | - | (3.9) |
| Realised losses | (0.8)[D] | - | - | (0.8) |
| At 31 December | 293.3 | 0.9 | (34.2) | 260.0 |

**Notes**

A. Included in the Income Statement line 'Fair value gains on financial instruments mandatorily held at FVTPL'; as presented within Note 5 line 'Equity release portfolio'.

B. £21.9m (2023: £1.8m) is included in the Income Statement line 'Fair value gains on financial instruments mandatorily held at FVTPL'; as presented within Note 5 line 'Derivatives associated with equity release portfolio'. The remaining £7.1m (2023: £4.8m) is included in the Income Statement line 'Fair value gains on financial instruments mandatorily held at FVTPL'; as presented within Note 5 line 'Hedging instruments and hedged items'.

C. Included in the Income Statement line 'Interest receivable and similar income'.

D. Included in the Income Statement line 'Impairment and provisions'; as presented within Note 8 line 'Realised losses on equity release portfolio'.

# 44. 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. Further details of the Group's equity share investments are found in Note 20d).

### 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 1f). 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 1v).

### 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 1f).

### Derivative financial instruments

The Level 3 derivative financial instruments included in the tables on pages 284 to 287 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 1v).

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 £9.3m credit (2023: £11.0m credit).

### 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 noncontrolling shareholding. As this input is based on the judgement of senior management, the valuation of the put option obligation is considered to be a Level 3 valuation technique.

### Share warrants and other assets

These assets relate to share warrants held in unlisted entities and amounts recognised, where appropriate, for additional share warrants yet to be received. The valuation of these assets is regarded as a Level 3 valuation technique as certain inputs into the valuation are not market observable. Further details are found in Note 1f).

# 44. Fair values (continued)

## c) Fair values of financial instruments not carried at fair value

The tables below summarise the carrying values and fair values of those financial assets and liabilities not presented within the Statement of Financial Position at fair value.

| (£m) | Group 2024 | | Society 2024 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Financial assets** | | | | |
| Cash in hand and balances with the Bank of England | 1,930.6 | 1,930.6 | 1,930.6 | 1,930.6 |
| Loans and advances to credit institutions | 414.6 | 414.6 | 397.8 | 397.8 |
| Loans and advances to customers | 30,601.1 | 30804.7 | 28334.9 | 28,531.4 |
| Trade receivables | 68.8 | 68.8 | 1.9 | 1.9 |
| Loans to subsidiary undertakings | - | - | 403.9 | 403.9 |
| Other assets | 0.1 | 0.1 | - | - |
| | **33,015.2** | **33,218.8** | **31,069.1** | **31,265.6** |
| **Financial liabilities** | | | | |
| Shares | 28,268.5 | 28,239.2 | 28,254.1 | 28,239.2 |
| Amounts owed to credit institutions | 1,599.6 | 1,599.6 | 1,800.6 | 1,800.6 |
| Amounts owed to other customers | 2,751.1 | 2,753.8 | 1,268.9 | 1,268.7 |
| Debt securities in issue | 2,435.3 | 2,423.1 | 1,930.1 | 1,930.9 |
| Lease liabilities | 92.1 | 92.1 | 8.6 | 8.6 |
| Trade payables | 11.0 | 11.0 | 2.8 | 2.8 |
| Subordinated liabilities | 690.2 | 700.4 | 690.2 | 700.4 |
| Subscribed capital | 41.6 | 61.8 | 41.6 | 61.8 |
| | **35,889.4** | **35,881.0** | **33,996.9** | **34,013.0** |

| (£m) | Group 2023 | | Society 2023 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets | | | | |
| Cash in hand and balances with the Bank of England | 3,266.2 | 3,266.2 | 3,266.2 | 3,266.2 |
| Loans and advances to credit institutions | 488.8 | 488.8 | 497.7 | 497.7 |
| Loans and advances to customers | 28,161.4 | 27,965.8 | 25,864.9 | 25,713.6 |
| Trade receivables | 58.0 | 58.0 | 1.8 | 1.8 |
| Loans to subsidiary undertakings | - | - | 372.7 | 372.7 |
| Other assets | 0.2 | 0.2 | - | - |
| | 31,974.6 | 31,779.0 | 30,003.3 | 29,852.0 |
| Financial liabilities | | | | |
| Shares | 25,949.8 | 25,913.1 | 25,922.3 | 25,913.1 |
| Amounts owed to credit institutions | 2,093.4 | 2,093.4 | 2,302.7 | 2,302.7 |
| Amounts owed to other customers | 2,808.8 | 2,820.6 | 807.7 | 807.8 |
| Debt securities in issue | 2,414.7 | 2,408.4 | 2,242.5 | 2,222.2 |
| Lease liabilities | 103.0 | 103.0 | 10.3 | 10.3 |
| Trade payables | 10.2 | 10.2 | 2.3 | 2.3 |
| Subordinated liabilities | 685.3 | 682.9 | 685.3 | 682.9 |
| Subscribed capital | 41.6 | 57.8 | 41.6 | 57.8 |
| | 34,106.8 | 34,089.4 | 32,014.7 | 31,999.1 |

# 44. Fair values (continued)

Key considerations in the calculation of fair values of those financial assets and liabilities not presented within the Statement of Financial Position at fair value are set out below unless there is no significant difference between carrying value and fair value.

### Loans and advances to customers

For fixed rate and tracker mortgage products, the Group has estimated the fair value of these products using discounted cash flows and has applied relevant current market product rates as discount rates in order to also incorporate an element of future expected credit losses. Fixed rate and tracker mortgages have been discounted using current market product rates that are specific to the particular market to which they relate.

Market prices will generally have moved since the fixed or tracker rate was taken out, therefore the valuation of these products will change reflecting upwards or downwards movements in market rates. The valuation includes information and expectations regarding estimated redemption profiles which are regularly reviewed and updated in light of experience.

As these redemption profiles are not considered to be observable by the market, the fair value of loans and advances to customers is considered to be derived by using Level 3 valuation techniques.

For standard variable rate mortgage products, the interest rate on such products is equivalent to a current market product rate and as such the Group considers the fair value of these mortgages to be equal to their carrying value.

### Shares

Savings products at variable rates are at current market rates and therefore the Group regards the fair value to be equal to the carrying value.

The fair value of fixed rate savings products has been determined using discounted cash flows, discounted using a combined yield curve of cash and swap term rates.

Changes in market prices since the product was taken out will result in increases or decreases in the fair value of the fixed rate savings products. The valuation includes information and expectations regarding estimated withdrawal profiles which are regularly reviewed and updated in light of experience. As these profiles are not considered to be observable by the market, the fair value of shares is considered to be derived by using Level 3 valuation techniques.

### Amounts owed to credit institutions and other customers

Balances in these categories are valued using discounted cash flows which use only observable market inputs consisting of the combined yield curve of cash and swap term rates. All inputs to this valuation technique are market observable and as such they are categorised within Level 2 of the fair value hierarchy, with the exception of amounts owed to other customers in relation to retail deposits with SIL which uses information and expectations regarding estimated withdrawal profiles which are regularly reviewed and updated in light of experience. As these profiles are not considered to be observable by the market, this fair value is considered to be derived by using Level 3 valuation techniques.

### Debt securities in issue

Where securities are actively traded in a recognised market, with readily available and quoted prices, these have been used to value the securities. These securities are therefore regarded as having Level 1 fair values. Where such prices are not available, discounted cash flows are used, again using only market observable inputs consisting of a combined yield curve of cash and swap term rates. As such, these securities are categorised as having Level 2 fair values.

### Subordinated liabilities and subscribed capital

Prices are quoted for these instruments in actively traded markets and, as a result, these instruments are categorised as having Level 1 fair values.

## d) Fair values of non-financial assets and liabilities not carried at fair value

The fair value of investment property, which is a non-financial asset, is disclosed in these financial statements. Note 23 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.

# 45. Group segmental reporting

The Group's structure and reportable segments are outlined in the Strategic Report.

Transactions between the segments are on normal commercial terms and conditions. The accounting policies of the reportable segments are consistent with the Group's accounting policies. The Group has not aggregated any of its operating segments for the purposes of financial reporting. Intra-group dividends are excluded from the segmental analysis presented as these are not included in the measure of segment profit or loss that is used by the Group's Board.

No geographical analysis is presented because substantially all of the Group's activities are conducted within the UK. Of the total external income, £63.1m (2023: £59.6m) was generated outside the UK.

A breakdown of the allocation of goodwill to each segmental area is included within Note 24.

| | 2024 | | | | |
|---|---|---|---|---|---|
| Group £m | Society | SIL | Connells | Other^ | Total |
| Net interest income | 407.2 | 51.8 | 5.5 | 23.9 | **488.4** |
| Net non-interest income | 43.9 | 0.3 | 1,055.4 | 13.6 | **1,113.2** |
| Fair value gains / (losses) on hedged items and derivatives | 28.8 | (0.1) | - | (4.8) | **23.9** |
| Fair value losses on equity release portfolio | (12.6) | - | - | - | **(12.6)** |
| Fair value gains on share warrants | - | - | 5.9 | - | **5.9** |
| Fair value losses on put options held by minority shareholders | - | - | (0.3) | - | **(0.3)** |
| Fair value gains on equity share investments mandatorily held at FVTPL | - | - | 1.1 | - | **1.1** |
| Fair value (losses) / gains on other instruments mandatorily held at FVTPL | (4.0) | - | - | 4.0 | **-** |
| Realised losses on treasury assets held at FVOCI | (1.8) | - | - | - | **(1.8)** |
| Share of profits from joint ventures | - | - | 1.4 | - | **1.4** |
| **Total income** | 461.5 | 52.0 | 1,069.0 | 36.7 | **1,619.2** |
| Administrative expenses | (262.0) | (21.4) | (1,008.9) | (20.0) | **(1,312.3)** |
| Realised losses on equity release portfolio | (1.8) | - | - | - | **(1.8)** |
| Impairment and provisions for liabilities | 12.2 | 0.4 | 1.2 | (0.3) | **13.5** |
| **Profit before tax** | 209.9 | 31.0 | 61.3 | 16.4 | **318.6** |
| Taxation | (56.7) | (3.1) | (15.8) | (2.5) | **(78.1)** |
| **Profit after tax** | **153.2** | **27.9** | **45.5** | **13.9** | **240.5** |
| | | | | | |
| **Total assets** | **36,628.3** | **2,618.6** | **649.1** | **(880.7)** | **39,015.3** |
| **Total liabilities** | **34,322.9** | **2,466.6** | **396.8** | **(838.4)** | **36,347.9** |

Total income can be analysed as follows:

| Group £m | 2024 | | | | |
|---|---|---|---|---|---|
| | Society | SIL | Connells | Other^ | Total |
| External Income | 550.2 | 1.4 | 1,051.4 | 16.2 | **1,619.2** |
| Income from other segments | (88.7) | 50.6 | 17.6 | 20.5 | **-** |
| Total Income | **461.5** | **52.0** | **1,069.0** | **36.7** | **1,619.2** |

# 45. Group segmental reporting (continued)

| | 2023 | | | | |
|---|---|---|---|---|---|
| Group (£m) | Society | SIL | Connells | Other^ | Total |
| Net interest income | 458.7 | 59.9 | 2.0 | 22.2 | 542.8 |
| Net non-interest income | 39.9 | 0.3 | 933.7 | 13.2 | 987.1 |
| Fair value gains / (losses) on hedged items and derivatives | 6.5 | (0.5) | - | (5.8) | 0.2 |
| Fair value gains on equity release portfolio | 9.2 | - | - | - | 9.2 |
| Fair value gains on share warrants | - | - | 13.3 | - | 13.3 |
| Fair value gains on put options held by minority shareholders | - | - | 0.3 | - | 0.3 |
| Fair value gains on equity share investments mandatorily held at FVTPL | - | - | 0.5 | - | 0.5 |
| Fair value gains / (losses) on other instruments mandatorily held at FVTPL | 5.0 | - | - | (5.0) | - |
| Realised profits on treasury assets held at FVOCI | 0.1 | - | - | - | 0.1 |
| Share of profits from joint ventures | - | - | 1.1 | - | 1.1 |
| Total income | 519.4 | 59.7 | 950.9 | 24.6 | 1,554.6 |
| Administrative expenses | (239.1) | (11.9) | (938.6) | (35.2) | (1,224.8) |
| Realised losses on equity release portfolio | (0.8) | - | - | - | (0.8) |
| Impairment and provisions for liabilities | 4.2 | (0.5) | 1.5 | (0.8) | 4.4 |
| Profit / (loss) before tax | 283.7 | 47.3 | 13.8 | (11.4) | 333.4 |
| Taxation | (76.9) | (4.7) | (1.8) | 4.6 | (78.8) |
| Profit / (loss) after tax | 206.8 | 42.6 | 12.0 | (6.8) | 254.6 |
| | | | | | |
| Total assets | 34,700.9 | 2,647.3 | 610.2 | (736.5) | 37,221.9 |
| Total liabilities | 32,589.2 | 2,507.3 | 385.1 | (681.0) | 34,800.6 |

Total income can be analysed as follows:

| Group (£m) | 2023 | | | | |
|---|---|---|---|---|---|
| | Society | SIL | Connells | Other^ | Total |
| External Income | 614.5 | 5.7 | 937.2 | (2.8) | 1,554.6 |
| Income from other segments | (95.1) | 54.0 | 13.7 | 27.4 | - |
| Total Income | 519.4 | 59.7 | 950.9 | 24.6 | 1,554.6 |

^ The 'Other' category comprises segments that are not separately reportable, together with the impact of Group consolidation adjustments. The Other category therefore includes amounts relating to all Group entities except for the Society, SIL and Connells. Amounts relating to Group consolidation adjustments include the elimination of intra-group transactions such as intercompany fees.

# 46. Capital management

The components of the Prudential Group's capital and the associated regulatory framework are set out in the Strategic Report, and this is followed by quantitative disclosure of the components of capital resources and capital requirements. The Group's capital management processes are also set out in the Strategic Report. Throughout both the current year and the prior year, the Group complied with and maintained surplus capital above all externally imposed capital requirements.

# 47. Adoption of new and revised International Financial Reporting Standards

The Group adopted during the year the following new accounting standards and amendments to existing accounting standards, none of which had a material impact on these consolidated financial statements:

- *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1);
- *Non-current Liabilities with Covenants* (Amendments to IAS 1);
- *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16); and
- *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7).

### Standards issued but not yet effective

The new and amended accounting standards and interpretations set out below will be effective for future reporting periods (subject to UK endorsement for some) and have not been early adopted by the Group in preparing these consolidated financial statements. These new and amended standards and interpretations are not expected to have a material impact on the Group's consolidated financial statements:

- *Lack of exchangeability* (Amendments to IAS 21);
- *Amendments to Classification and Measurement of Financial Instruments* (Amendments to IFRS 9 and IFRS 7);
- IFRS 18 *Presentation and Disclosure in Financial Statements;*
- IFRS 19 *Subsidiaries without Public Accountability: Disclosures*; and
- *Annual Improvements to IFRS Accounting Standards – Volume 11*.

# 48. Subsequent events

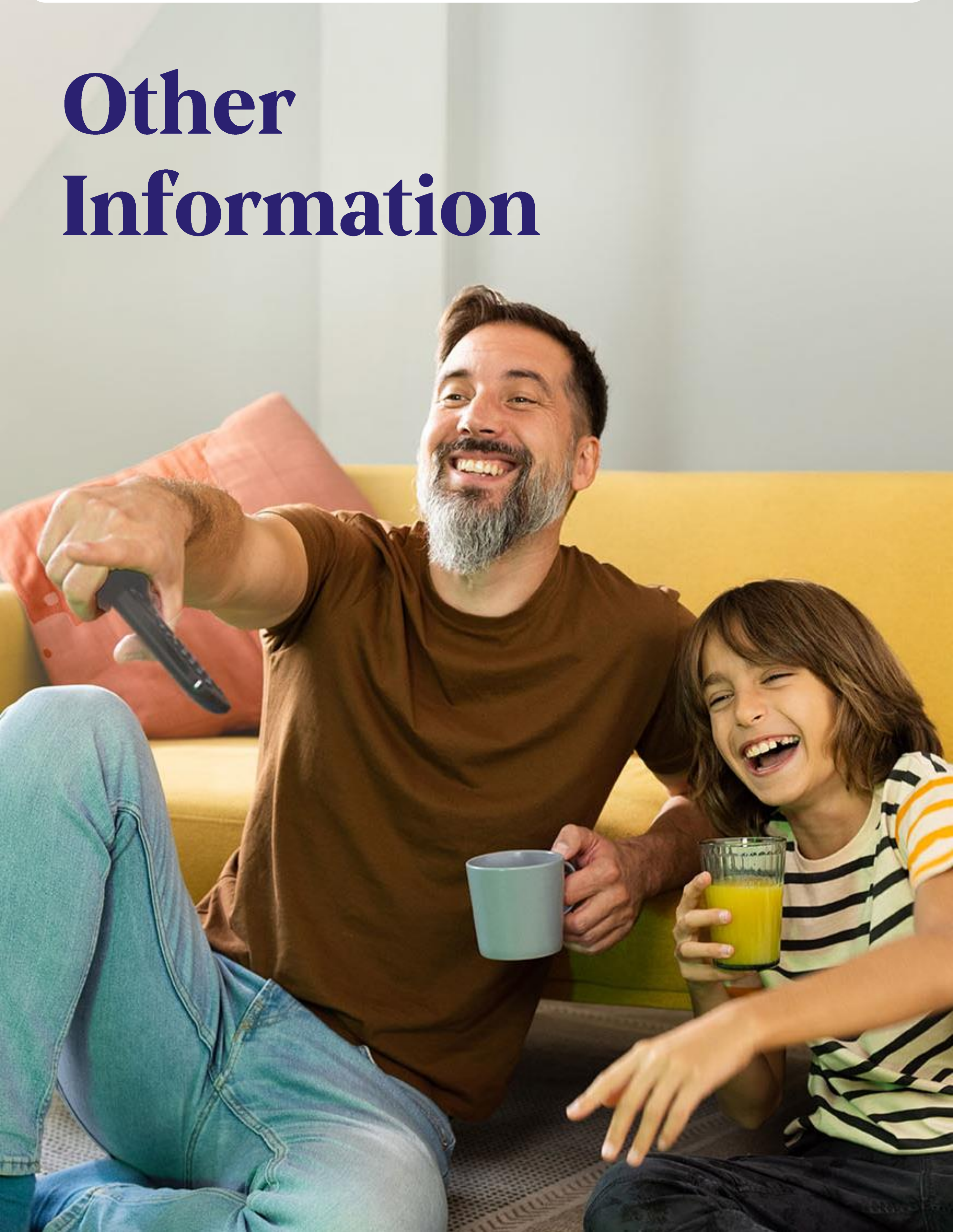
On 31 January 2025, as part of a strategy to de-risk the Society's exposure to its defined benefit obligation, the Skipton Building Society (2015) Group Pension Scheme was subject to a scheme buy-in, whereby the majority of the assets in the Scheme were sold to an insurer in exchange for an insurance policy which secures all of the benefits in the Scheme.

Immediately prior to the transaction, the Society made a lump sum contribution into the Scheme of £10.7m and as part of the transaction, the Society also granted a loan of £14.6m to the Scheme which will be repaid once certain illiquid assets currently held by the Scheme, which were not acquired by the insurer, reach their maturity.

An actuarial loss will be recognised within other comprehensive income in the 2025 Accounts; the pre-tax actuarial loss will comprise the sum of the £10.7m additional contributions made by the Society and the accounting surplus on the Scheme as at the date of the transaction.

There have been no other material subsequent events between 31 December 2024 and the date of approval of this Annual Report and Accounts by the Board.

# Other Information



# Country by Country Reporting

## Nature of the Group's activities

The Skipton Building Society Group holds an investment in a number of subsidiary undertakings. The Society and the majority of its subsidiary undertakings are incorporated in the UK, with the exception of the entities listed below. For a full list of the principal trading subsidiaries in the Group and the nature of their activities, see Note 20a) of the financial statements.

| Name of subsidiary undertaking | Principal business activity | Country of incorporation | % ownership Interest 31.12.24 |
|---|---|---|---|
| Jade Software Corporation Limited | Provider of software development services | New Zealand | 100% |
| Northwest Investments NZ Limited | Provider of software development services | New Zealand | 100% |
| Skipton International Limited | Offshore deposit taker and lender | Guernsey | 100% |

At 31 December 2024, Jade Software Corporation Limited also held a 100% ownership in the following trading subsidiary undertakings, all of which carry out the principal business activity of the Jade group of businesses.

| Name of subsidiary undertaking | Country of incorporation |
|---|---|
| Jade Software Corporation (NZ) Limited | New Zealand |
| Jade Software Corporation Pty Limited | Australia |
| Jade Software Corporation UK Limited | UK |

In addition, the Group holds a non-controlling interest of 17.7% in Wynyard Group Limited, which entered liquidation in February 2017 and which is incorporated in New Zealand.

## 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.

| 2024 (£m) | UK | Australia | Guernsey | New Zealand | Jersey | Total |
|---|---|---|---|---|---|---|
| Total income by country | 1,551.7 | 3.0 | 42.8 | 17.8 | 9.2 | **1,624.5** |
| Inter-country adjustments | 54.1 | - | (54.1) | (5.3) | - | **(5.3)** |
| **Consolidated income** | **1,605.8** | **3.0** | **(11.3)** | **12.5** | **9.2** | **1,619.2** |
| | | | | | | |
| Profit before tax by country | 285.9 | 0.1 | 27.1 | 1.3 | 4.2 | **318.6** |
| Inter-country adjustments | 59.8 | 1.3 | (53.4) | (7.7) | - | **-** |
| **Consolidated profit before tax** | **345.7** | **1.4** | **(26.3)** | **(6.4)** | **4.2** | **318.6** |

| 2024 (£m) | UK | Australia | Guernsey | New Zealand | Jersey | Total |
|---|---|---|---|---|---|---|
| Current tax expense* | 67.1 | - | 2.7 | - | 0.4 | **70.2** |
| Corporation taxes paid | 64.0 | - | 3.6 | - | 0.7 | **68.3** |
| Public subsidies received^ | - | - | - | 0.2 | - | **0.2** |
| | | | | | | |
| Average number of employees | 16,572 | 14 | 105 | 225 | 35 | **16,950** |

# Country by Country Reporting (continued)

| 2023 (£m) | UK | Australia | Guernsey | New Zealand | Jersey | Total |
|---|---|---|---|---|---|---|
| Total income by country | 1,476.7 | 3.9 | 49.6 | 18.1 | 10.1 | 1,558.4 |
| Inter-country adjustments | 53.9 | - | (53.9) | (3.8) | - | (3.8) |
| Consolidated income | 1,530.6 | 3.9 | (4.3) | 14.3 | 10.1 | 1,554.6 |
| | | | | | | |
| Profit before tax by country | 284.0 | 0.3 | 41.1 | 1.0 | 7.0 | 333.4 |
| Inter-country adjustments | 57.6 | 1.9 | (53.2) | (6.3) | - | - |
| Consolidated profit before tax | 341.6 | 2.2 | (12.1) | (5.3) | 7.0 | 333.4 |

| 2023 (£m) | UK | Australia | Guernsey | New Zealand | Jersey | Total |
|---|---|---|---|---|---|---|
| Current tax expense | 75.6 | 0.1 | 4.0 | (0.1) | 0.7 | 80.3 |
| Corporation taxes paid | 54.3 | 0.1 | 3.0 | - | 0.9 | 58.3 |
| Public subsidies received^ | - | - | - | 0.3 | - | 0.3 |
| | | | | | | |
| Average number of employees | 17,235 | 13 | 77 | 236 | 6 | 17,567 |

* The current tax expense in the UK includes a Pillar 2 top-up charge in the Society.

^ Public subsidies received relate to cash payments received from governments in the form of grants.

# Annual Business Statement

## 1. Statutory percentages

| £m | As at December 2024 (%) | Statutory Limit (%) |
|---|---|---|
| Lending limit | **3.29** | 25.00 |
| Funding limit | **14.38** | 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

| £m | 2024 (%) | 2023 (%) |
|---|---|---|
| As a percentage of shares and borrowings: | | |
| (i) Gross capital | **9.70** | 9.46 |
| (ii) Free capital | **8.31** | 7.98 |
| (iii) Liquid assets | **19.10** | 21.32 |
| As a percentage of mean total assets: | | |
| (i) Group profit after taxation | **0.63** | 0.72 |
| (ii) Group management expenses | **3.44** | 3.46 |
| (iii) Society management expenses | **0.73** | 0.72 |
| As a percentage of closing total assets: | | |
| (i) Group profit after tax | **0.62** | 0.68 |

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 2024 and 2023 total assets. Management expenses represent administrative expenses.

# Annual Business Statement (continued)

## 3. Information relating to Directors at 31 December 2024

The Board of Directors at 31 December 2024, their dates of birth and dates of appointment as a Director are as follows:

| Director | Date of Birth | Date of Appointment |
|---|---|---|
| A P Bottomley* | 12 July 1965 | 1 January 2016 |
| G V Burr | 12 January 1963 | 27 April 2022 |
| P S Chambers* | 26 April 1967 | 26 March 2024 |
| I A Cummings | 22 October 1961 | 1 July 2022 |
| S J Davis | 28 June 1963 | 3 April 2023 |
| H I Gunawickrema | 10 April 1978 | 1 November 2024 |
| 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 |

*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 2024 were as follows:

| Director | Skipton Group Role | Other directorships held |
|---|---|---|
| A P Bottomley | Building Society Chief Executive Officer – Money<br><br>(Member of the Group Executive Committee, Member of the Non-Executive Remuneration Committee) | Amber Homeloans Limited<br>Bailey Computer Services Limited<br>Skipton Financial Services Limited<br>Skipton Group Holdings Limited<br>Skipton Trustees Limited<br>The New Homes Group Limited |
| G V Burr | Non-executive Director<br><br>(Chair of the Board, Chair of the Board Nominations Committee, Chair of the Non-Executive Remuneration Committee) | Ingleby Farms & Forests Limited<br>Metro AG<br>Skipton Group Holdings Limited |
| P S Chambers | Building Society Group Chief Financial Officer<br><br>(Member of the Group Executive Committee, Member of the Non-Executive Remuneration Committee) | Skipton Financial Services Limited<br>Skipton Group Holdings Limited<br>Skipton Investments Limited<br>Skipton Mortgage Corporations Limited<br>Skipton Mortgages Limited |
| I A Cummings | Non-executive Director<br><br>(Chair of the Board Audit Committee, Member of the Board Change Committee, Member of the Board Nominations Committee, Member of the Board Risk Committee) | Investec Wealth & Investment Limited<br>Rathbones Group PLC<br>Rathbone Investment Management Limited<br>Skipton Group Holdings Limited<br>TFS Derivatives Limited<br>Tradition Financial Services<br>Tradition London Clearing Limited<br>Tradition Management Services Limited<br>Tradition (UK) Limited |

# Annual Business Statement (continued)

## 3. Information relating to Directors at 31 December 2024 (continued)

| Director | Skipton Group Role | Other directorships held |
|---|---|---|
| S J Davis | Non-executive Director<br>(Chair of the Board Remuneration Committee, member of the Board Nominations Committee) | Skipton Group Holdings Limited<br>Peter Vardy Group<br>Philip Kingsley Group<br>Scottish Ballet |
| H I Gunawickrema | Non-executive Director<br>(Member of the Board Nominations Committee) | HIG Advisory Limited<br>Skipton Group Holdings Limited |
| S A Haire | Building Society Group Chief Executive<br>(Chair of the Group Executive Committee, Member of the Non-Executive Remuneration Committee) | Skipton Group Holdings Limited |
| D A Hall | Non-executive Director<br>(Chair of the Board Risk Committee, Member of the Board Audit Committee, Member of the Board Nominations Committee) | Aareal Bank AG<br>Auxmoney Europe Holding Limited<br>Moneta Money Bank<br>Skipton Group Holdings Limited |
| H L Jackson | Non-executive Director<br>(Chair of the Board Change Committee, Member of the Board Nominations Committee, Member of the Board Remuneration Committee, Member of the Board Risk Committee) | Admiral Long Foundation<br>Ikano Bank AB<br>Rothesay Life PLC<br>Rothesay Limited<br>Skipton Group Holdings Limited<br>The Veterinary Defence Society<br>Yorkshire Cancer Research |
| M J Lund | Non-executive Director<br>(Deputy Chair of the Board, Senior Independent Director, Member of the Board Audit Committee, Member of the Board Nominations Committee, Member of the Board Remuneration Committee, Chair and independent non-executive director of Connells) | Connells Limited<br>Coutts & Company<br>Skipton Group Holdings Limited |
| P W Moore | Non-executive Director<br>(Member of the Board Audit Committee, Member of the Board Nominations Committee, Member of the Board Risk Committee, Non-executive director of Connells, Chair of Connells' Audit and Risk Committee) | Bank of Ireland (UK) PLC<br>Connells Limited<br>Hart Learning Group (including North Hertfordshire College)<br>Skipton Group Holdings Limited<br>St Mungos<br>St Mungo Community Housing Association<br>Wesleyan Assurance Society |

Messrs Bottomley, Chambers and Haire have service contracts entered into on 1 January 2016, 6 February 2024 and 14 July 2022 respectively which may be terminated by either party giving one year's notice.

## 4. Principal office

Skipton Building Society is a building society incorporated and domiciled in the United Kingdom. The address of the principal office is The Bailey, Skipton, North Yorkshire, BD23 1DN.

# Glossary

Set out below are the definitions of terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

| | |
|---|---|
| **Arrears** | A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is overdue. |
| **Asset backed securities (ABS)** | An asset backed security is a security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. Typically, these assets are pools of residential or commercial mortgages. |
| **Buy-to-let mortgages** | Mortgages offered to customers purchasing residential property to be rented to others to generate a rental income. |
| **Common Equity Tier 1 capital** | Common Equity Tier 1 (CET1) capital primarily comprises internally generated capital from retained profits, less regulatory adjustments. CET1 capital is fully loss absorbing. |
| **Contractual maturity** | The final payment date of a loan or other financial instrument, at which point the entire remaining outstanding principal and interest is due to be repaid. |
| **Covered bonds** | Debt securities backed by a portfolio of mortgages that are segregated from the issuer's other assets to be solely for the benefit of the holders of the covered bonds. The Group has established covered bonds as part of its funding activities. Covered bonds use retail / residential mortgages as the asset pool. |
| **Credit Valuation Adjustment (CVA)** | The adjustment applied to the fair value of derivatives for potential mark-to-market losses due to credit quality deterioration of a counterparty (that does not necessarily default). |
| **CRD V** | Capital Requirements Directive V (CRD V) became effective on 28 December 2020 and is made up of the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (UK CRR). |
| **Debt securities** | Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings |
| **Debt securities in issue** | Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and can include certificates of deposit. |
| **Derivative financial instruments** | A derivative financial instrument is a type of financial instrument (or an agreement between two parties) that has a value based on the underlying asset, index or reference rate it is linked to. The Group uses derivative financial instruments to hedge its exposures to market risks such as interest rate risk and currency risk. |
| **Effective interest rate (EIR) method** | The method used to measure the carrying value of a financial asset or liability measured at amortised cost and to allocate associated interest income or expense over the relevant period. |
| **EPC** | Stands for Energy Performance Certificate. It is related to an energy rating scheme which identifies a household's energy efficiency level. EPC scores range from least efficient (G) to most efficient (A) on a scale. |
| **Expected Credit Loss (ECL)** | The present value of all cash shortfalls over the expected life of the financial instrument to determine impairment loss allowances under IFRS 9. |
| **Exposure at default (EAD)** | The expected outstanding balance of an asset at the time of default. |
| **Fair value** | Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. |
| **Fair value through other comprehensive income (FVOCI)** | Financial instruments held at fair value in the Statement of Financial Position, with changes in fair value recognised through other comprehensive income. |
| **Fair value through profit or loss (FVTPL)** | Financial instruments held at fair value in the Statement of Financial Position, with changes in fair value recognised through the Income Statement. |

# Glossary (continued)

| | |
|---|---|
| **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. |
| **Greenhouse Gases (GHG)** | Gases which absorb and re-emit infrared radiation, thereby trapping it in the Earth's atmosphere. It includes carbon dioxide ($CO_2$), methane ($CH_4$), nitrous oxide ($N_2O$), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride ($SF_6$) and nitrogen trifluoride ($NF_3$). These emissions add to the greenhouse effect – a contributor to climate change. |
| **Gross capital** | The aggregate of the general reserve, translation reserve, fair value reserve, cash flow hedging reserve, cost of hedging reserve, subordinated liabilities, subscribed capital and non-controlling interests. |
| **Internal Capital Adequacy Assessment Process (ICAAP)** | The Group's own assessment, as part of regulatory requirements, of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios. |
| **Internal Liquidity Adequacy Assessment Process (ILAAP)** | The Group's own assessment that current and projected levels of liquidity are sufficient and appropriate for the Group's plans, under a variety of stress scenarios. It also details the Group's compliance with the PRA's regulatory requirements. |
| **Internal Ratings Based approach (IRB)** | An advanced approach to measuring capital requirements in respect of credit risk. The IRB approach may only be used with permission from the PRA. |
| **International Swaps and Derivatives Association (ISDA) Master Agreement** | A standardised contract developed by ISDA and used to enter into bilateral derivatives transactions. |
| **Investment grade** | The range of credit ratings, from Aaa to Baa3, as measured by external credit rating agencies. |
| **Lending limit** | Measures the proportion of business assets not in the form of loans fully secured on residential property. The calculation of the lending limit is explained in the Annual Business Statement. |
| **Leverage ratio** | The ratio of Tier 1 capital divided by total leverage exposure measure of 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 (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. |
| **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. |

## Glossary (continued)

| | |
|---|---|
| **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 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, across a range of maturity periods. |
| **Member** | A person who has a share investment or a mortgage loan with the Society, or is the holder of a Permanent Interest-Bearing Share in the Society. |
| **Minimum requirement for own funds and eligible liabilities (MREL)** | A regulatory requirement for the minimum amount of equity and subordinated debt a firm must maintain to support an effective resolution. |
| **Mortgage backed securities (MBS)** | Assets which are backed by underlying mortgage collateral. |
| **Net interest income** | The difference between interest received on assets and interest paid on liabilities. |
| **Net interest margin** | Net interest income as a percentage of mean total assets. |
| **Permanent Interest Bearing Shares (PIBS) or subscribed capital** | Unsecured, deferred shares that are a form of Tier 2 capital. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing members of Skipton Building Society. |
| **Prime** | Prime mortgages are those granted to the most credit worthy category of borrower. |
| **Probability of Default (PD)** | An estimate of the probability that a borrower will default on their credit obligations. |
| **Put option** | Where the Group acquires a majority shareholding in a subsidiary undertaking, but grants the non-controlling shareholders an option to sell their shares to the Group at some future date(s), a put option obligation exists. |
| **Renegotiated loans** | Loans are classed as renegotiated, with the customer's consent, when their terms have changed during the year. Loans and advances may be renegotiated whether or not the customer is experiencing financial difficulty in repaying their loan with the Group. |
| **Repo / reverse repo** | Short to medium-term funding agreements which allow a borrower to sell a financial asset, such as an ABS or government bond, as security for cash. As part of the agreement the borrower agrees to repurchase the security at some later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo, for which the underlying collateral can typically be resold or repledged if desired. |
| **Residential loans** | Mortgage lending secured against residential property. |
| **Residential mortgage backed securities (RMBS)** | A category of ABS that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and / or principal). |
| **Risk appetite** | The articulation of the level of risk that the Group is willing to take in order to safeguard the interests of the Society's members whilst achieving business objectives. |
| **Risk weighted assets (RWA)** | The value of assets, after adjustment, under CRD V rules to reflect the degree of risk they represent. |

## Glossary (continued)

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| **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 (SICR)** | 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. |
| **Scope 1 emissions** | Under the Greenhouse Gas Protocol methodology, scope 1 emissions include emissions generated from sources under the direct control of an organisation. For example, emissions from combustion of fuel or oil for heating offices. |
| **Scope 2 emissions** | Under the Greenhouse Gas Protocol methodology, scope 2 emissions include those generated from the purchase of electricity. |
| **Scope 3 emissions** | Under the Greenhouse Gas Protocol methodology, scope 3 includes all indirect emissions. These result from the activities of the organisation, but not in their direct control. This includes areas like leased assets, suppliers and colleague commuting. |
| **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 that typically have weakened credit histories that include payment delinquencies and in some cases potentially more severe problems such as court judgments and discharged bankruptcies. |
| **$tCO_2e$** | This stands for metric tonnes of carbon dioxide equivalent. It is a standard unit for measuring greenhouse gas emissions, accounting for the different greenhouse gases using a single factor. |
| **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, as defined by CRD V. 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. |

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