Skipton Group

# Half-Yearly Financial Report 2024

# Contents



## Forward-looking statements

This half-yearly financial report may contain forward-looking statements based on current expectations of, and assumptions and forecasts made by, Group management. Various known and unknown risks, uncertainties and other factors including, but not limited to: changes in general economic and business conditions in the UK, including uncertainty around Government policy following the recent change of UK Government; and internationally, with political and economic uncertainties created by the events in Ukraine and the Middle East; and natural disasters or other widespread emergencies and similar contingencies outside the Group's control, could lead to substantial differences between the actual future results, financial situation, development or performance of the Group and the estimates and historical results given herein. Undue reliance should not be placed on forward-looking statements which apply only as of the date of this document.

The Group accepts no obligation to publicly revise or update these forward-looking statements or adjust them for future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

# Group Performance Highlights

**£157.0m (up 5%)**
Total Group profit before tax (PBT)
(June 2023: £148.9m)

**£523.6m (up £250.5m)**
Total interest paid out to retail savers
(June 2023: £273.1m)

**1.27%**
Group net interest margin
(June 2023: 1.62%)

**0.70%**
Society costs to mean assets
(June 2023: 0.72%)

## 2024 Awards

### Moneyfacts Consumer Awards
Money - **Highly Commended:** Savings Provider of the Year
Home Finance - **Highly Commended:** First-Time Mortgage Buyers' Choice
SIL - **Winner:** Offshore Account Provider of the Year

### Business Development Research Consultants (BDRC) Competitor Watch Survey
Money - Best for 'Ease of opening an ISA'

### Personal Finance Awards
Home Finance - **Winner**: Best Overall Mortgage Lender

### Mortgage Strategy Awards
Home Finance - **Finalist**: Best Mortgage Lender

### Feefo Trusted Service Provider Award
SIL - Awarded Platinum Status

## Members

**1.26m (up 7.5% year-on-year)**
Members (June 2023: 1.17 million)

**Over £80m**[1]
Member benefit from our above market average savings rates
(June 2023: over £57m)

**18,300**
Members on our member panel, helping shape the Society
(June 2023: N/A, new metric for 2024)

## Homes

**9,756**
Specific financing for first-time buyers
(June 2023: 8,951)

**91%**
Member satisfaction score

**2.91%**[1]
Market share of gross lending
(June 2023: 2.91%)

## Money

**15,654 (up 9%)**
Advice conversations held
(June 2023: 14,427)

**24%**
of journeys are digital-channel enabled

**1.35%**[1]
Market share of savings stock
(June 2023: 1.19%)

**7.7%**
Year-on-year growth in Society savings and investor customers
(June 2023: 7.3%)

## Connells Group

**£508m (up 12%)**
Total revenue generated
(June 2023: £453m)

**£20.0m**
Profit before tax (PBT)
(June 2023: £(5.8)m loss)

**127,090**
Lettings properties under management
(June 2023: 125,025)

**10%**
Market share of available stock of properties for sale
(June 2023: 10%)

1. For the five months to 31 May (including for comparative), being the latest period for which comparable data is available

# Group Chief Executive's Review

"Skipton's first half performance has seen very encouraging progress on our ambition to create a stronger, more sustainable and more purposeful Skipton Group. The recent launch of our Home Affordability Index makes clear the significant challenge the UK faces in helping more people buy their first home. Given our position as the largest owner of estate agencies in the UK, we continue to develop innovative products to play our part in driving collaborative change across the UK housing sector.

Against a backdrop of political and economic uncertainty, we delivered a solid first half financial performance, which has seen us generate a Group PBT of £157.0m, up 5% year-on-year. We've maintained our financial strength and disciplined approach to managing arrears, while also investing in our members, Group capabilities, and strengthening our executive team."

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

## Skipton Group

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

The Skipton Group consists of a diversified portfolio, Skipton Building Society (Home Finance and Money businesses), Connells Group (Estate Agency and Property Services), Skipton Business Finance, Skipton International (our bank in the Channel Islands), and Jade Software (database and AI company).

Given our position as the largest owner of estate agencies in the UK, responsible for about one in ten houses bought and sold every year, alongside our financial capabilities, we have great potential to drive transformative change in the UK housing market and financial services industry. We have already started to leverage the unique power of our collective Group expertise by launching the innovative Skipton Group Home Affordability Index to provide a fresh perspective on how housing costs vary for households across the country, exploring where and for whom the challenges are most significant. The timing of the launch has given us the opportunity to contribute to the national debate, informing critical agenda and supporting policy with important insights.

The launch of the Home Affordability Index is a great example of how we can make the most of the power and potential of our Group data and insights. We will continue to develop our Group data capabilities throughout 2024, exploring where we can make meaningful change for society.

Our three key strategic priorities are:

**Helping More People Have a Home**. Members, and brokers on behalf of members, want us to provide finance to help those trying to get onto the housing ladder, specifically focusing on first-time buyers.

**Making Money Work Harder.** We will invest more to ensure our members receive above-market 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.

Our key strategic priorities, underpinned by our purpose, which is the same as it has been since 1853, have kept us focussed on purpose led delivery, and building a stronger and more sustainable Group. We're member-owned and our members have always been central to our Society, and this year we are putting even more focus on making membership matter, making good progress in both growth and transformation initiatives.

## Helping More People Have a Home

Grounded in our purpose and why building societies exist, we aim to do more to address the housing challenges, and I could not be prouder of the impact we are having - supporting over 9,756 (June 2023: 8,951) first-time buyers in the first half of this year.

The launch of the UK's first Track Record Mortgage in May 2023 has so far helped 375 first-time buyers overcome some challenges of home ownership, and we remain as committed as ever to continuing to support first-time buyers. That's why this year we have also launched an innovative first-time buyer helpdesk, providing dedicated support to aspiring homeowners and brokers. We also teamed up with Channel 4 to produce the "Make Your Move" series, raising awareness of the barriers to home ownership, highlighting ways to access support and further lending options.

**41%** New lending to first-time buyers

(June 2023: 31%)

Through our mortgage offerings for residential homeowners, buy to let landlords, and our offshore lending in the Channel Islands, we have grown our Group mortgage portfolio by 10.8% year-on-year to £30.1bn (June 2023: 13.4% growth), whilst maintaining our UK market share of gross lending at 2.91% (June 2023: 2.91%) (Source: Bank of England Statistics, May 2024).

Our unwavering commitment to our customers and brokers has seen us implement improvements to our journeys, creating best in class speed to offer, improving experiences for customers in financial difficulty, and expanding the ability for our customers to make product switches digitally. The commitment to supporting borrowers in financial difficulty has seen our arrears level remain well below industry average, with only 0.27% of our Group UK residential mortgages in arrears by three months or more (June 2023: 0.18%) in comparison to the industry average of 0.94% (Source: UK Finance industry arrears data (residential mortgages in arrears by more than three months) at 31 March 2024 – being the latest available data).

Digital experience remains a key priority for our borrowers and brokers, and we remain focused on excellent customer satisfaction with a roadmap of activity to support them. In the first half of this year our net satisfaction scores held strong (when measured as a 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), whilst we continue to focus on improving our self-service satisfaction scores through Increased digitisation.

**91%** Net member satisfaction in our Home Finance business

We are focused on leveraging Group assets to drive additional value for members. Last year, through a Group company, Vibrant Energy Matters, we launched a free EPC Plus Home Energy Efficiency Report to members, enabling them to identify where they can make improvements to make their homes more energy efficient. We have now provided 9,441 free reports as at June 2024 (June 2023: 7,198).

In addition, alongside a partnership with Leeds Beckett and Leeds Universities to support our research on retrofit, we are installing multiple energy efficiency improvements at a Skipton property to be able to further support and educate our members on transitioning to greener homes.

As we engage further with our members' needs, we are increasing the borrowing power for those purchasing EPC rated A and B homes to support their lending requirements, both now and in the future. Engagement with our members is key, and that's why this year we are actively seeking member participation to ensure they are aware of our commitment to promoting greener living, with an ambition to raise this over the coming years.

**35%** of members recognise our commitment to promoting greener living

(June 2023: N/A*)

* New metric introduced in 2024; comparative results not available

We continue to support around one in ten individuals to buy and sell homes in the UK through Connells Group, our estate agency network. Despite market volatility, the housing market has seen green shoots in the first half of the year, and we continue to see greater volumes of activity (from enquiry to sale) year-on-year. Here are some highlights from the period:

- The number of properties placed on the market increased by 15% compared to June 2023.
- The average number of properties available for sale across our 1,200+ estate agency branches stood at 60, up from 50 per branch versus June 2023.
- The number of house viewings in the first half of the year was 15% higher than the same period in 2023.
- Rental supply: ended June 2024 with 24% more properties available to rent than at June 2023.
- The rental market saw no significant signs of landlords exiting the market, with Connells Group re-letting over 77% (June 2023: 77%) of properties at the end of their tenancies. The average tenancy length was 30.9 months (June 2023: 27.3 months).
- Rental arrears: at June 2024 the number of rental properties in arrears represents just 4.92% (June 2023: 4.94%) of tenancies managed.

**127,090** Properties under management

(June 2023: 125,025)

## Making Money Work Harder

From innovative new products, to improved capabilities and tools, we have equipped our colleagues to support more members in making their money work harder through value-add interactions.

Our Financial Advice proposition continues to support those who need it. We are growing our advice conversations with members, up 9% year-on-year, where others have withdrawn, demonstrating our passion and commitment to delivering advice for all. We remain committed to supporting our members with long term financial wellbeing and will continue to offer free financial advice to our members to support a better future and provide help in addressing the UK's advice gap.

**15,654** Advice conversations held

(June 2023: 14,427)

We have seen strong demand for our financial reviews, member exclusive products and further self-service options for our members.

Responding to our members' needs, we are one of only a handful of providers to offer multiple Cash ISA account opening functionality and saw an increase in ISA applications in April of over 140%. Our high quality offering also saw us launch a unique and market leading base rate tracker bond, and expansion of our member exclusive product range now includes regular saver, bonus saver, one year fixed bond and a 66+ monthly income bond to help our members utilise their pension income.

These launches contributed to the strong growth in our savings balances, with growth of 16.6% year-on-year to £27.6bn (June 2023: growth of 12.7%), and are contributing to our net customer satisfaction scores, achieving 90% across the Money business (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).

As the Bank of England Base Rate peaks, we see more members looking to maximise the return on their savings to make their money work harder. That's why, founded in our purpose, we continue to offer above market average rates for our savers, paying 0.74% as at May 2024 (June 2023: 0.61%) above the market average to savers (Source: CACI Current Account & Savings Database, Stock).

**£80.1m** Value returned to members

(June 2023: £57.5m)

Significant progress is being made in enabling our members to interact with us through a channel that suits their needs, remaining accessible to our current and future members. A quarter of our savings journeys are now digital-channel enabled, and our technical capabilities allow colleagues and members to interact more seamlessly with us, being here when they need us. Throughout our transformational activities, we will support more of our members to interact digitally, removing more paper from our journeys to support our ambitions to become paperless.

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

(June 2023: N/A*)

* New metric introduced in 2024; comparative results not available

Skipton International (SIL) aims to exceed customer expectations in providing a winning combination of best interest rates and service for offshore savings accounts. This continues to be recognised, retaining the Moneyfacts best Offshore Account provider for the third year running, and the Feefo Platinum Trusted Service Award for the fifth year running; with work ongoing to develop our processes to even higher standards.

## Making Membership Matter

**1,005,249** Savers and investors

(June 2023: 933,265)

We have delivered campaigns, communications, exclusive products and improved opportunities for member participation. We are proud to launch our Member Commitments including reconfirming our branch promise.

Our branch network stands strong at 82 branches (June 2023: 87) for the Society. We continue to invest in our network to help our members interact with us in a way that suits their needs, including branches, telephony, via our app, and Video Link.

We're committed to:

- More Value
- More for You
- More of a Say

- **More Value** - rewarding loyal members with our best available rates, investing profits for member benefits, and providing access to a wide range of member exclusive accounts and services. We want to reward our members for their loyalty, and as such over 55,000 members have taken up our exclusive savings accounts to June 2024. Our products and services continue to attract new members and we have grown our total member base by 7.5% year-on-year to 1,260,562 (June 2023: 1,172,333).
- **More for You** - helping members increase energy efficiency through providing free EPC Plus Home Energy Efficiency reports; and helping make members money work harder via our free My Money Review and Pension Health Check. We aim to give the best possible service, if we do get something wrong, we'll try to put it right within three business days.
- **More of a Say** - every year eligible members can vote for the Board of Directors and over 60,000 members did at the 2024 AGM. Our members' voices matter and there are over 18,000 in our Member Panel, helping to shape the products and services they want to see.

This year, we actively encouraged more members to participate in our AGM, in person or digitally, and asked our members to vote for our purpose aligned charity partner. Our members voted to support the fantastic work that Age UK deliver across the nation; and we commit to continue to support our charity partners, Skipton Building Society Charitable Foundation, and colleague and community schemes as part of our commitment to donate a total of 1% of our Group pre-tax profits each year through purposeful giving.

**18.3k** Customer panel members

(June 2023: N/A*)

* New metric introduced in 2024; comparative results not available

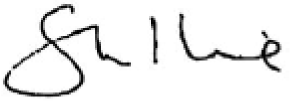
We continue to transform our Skipton Group by ensuring our platforms and people are enabled to use the latest technologies to meet future needs. We continue to invest in cloud technology platforms, our data capabilities and embedding agile ways of working, including utilising skills from our Jade Software colleagues, and allowing our colleagues' voices to be heard.

Our colleagues across the Group are at the heart of everything we do for our members and customers, and our commitment and investment to developing talent, and skills for the future remain a key priority. As part of our commitment, we have also recruited some great colleagues to our Executive Leadership teams across the Skipton Group businesses, bringing exceptional talent and diversity to the team to drive a thriving Group for our members. We continue to invest in our capabilities to equip our colleagues with the tools and skills they need to be their best selves and develop in the workplace.

## Conclusion and outlook

We recognise the role we have as Skipton Group to enable us to become a well-known voice campaigning on socially important matters, such as affordable housing. This year we will be an advocate for change, delivering solutions that make a real difference to peoples' lives for a better future. Our strong performance in the first half of 2024 shows just how valued our diverse Group is, growing member numbers, savings and mortgage balances. We are building a platform that harnesses our individual businesses as part of a strong and respected Group brand, adding real value to people who need us.

The colleagues across the Group have made everything we have achieved possible, and I would like to thank them for their tenacity and passion in delivering on our purpose, and for our members.



Stuart Haire, Group Chief Executive

1 August 2024

# Financial Overview

"The Group has performed well in the first six months of 2024, amidst an uncertain economic environment. We've grown the balance sheet by 4.0% utilising additional volumes and wider new business spreads to help offset other pressures. 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. We have also seen a return to profitability in our estate agency business on the back of increased activity in the housing market. As a result, our increased profitability, underpinned by our continued strong asset quality, capitalisation, liquidity and funding profiles, allows us to continue to invest for the benefit of our members.

I take great pleasure in delivering my first Financial Overview having taken up position earlier in the year; and I'm committed to continue to drive our Group performance forwards, focusing on delivering long-term sustainable value for our members, to really make membership matter."

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

## Group financial performance

The Group leveraged a stronger housing market to grow estate agency and surveying incomes in the period; offsetting downward pressure on net interest income, as last year's elevated Bank of England Base Rate of interest peaked in 2024.

**£157.0m** Group PBT

(Six months ended 30 June 2023: £148.9m)

Despite net interest margin pressures, the Society delivered a strong first half profit before tax (PBT) of £113.0m (six months ended 30 June 2023: £127.8m). SIL performed similarly well, with PBT of £18.2m (six months ended 30 June 2023: £24.5m).

Pleasingly, Connells Group achieved profits of £20.0m, as activity continues to recover in the housing market; compared to a loss in the comparative period (six months ended 30 June 2023: £(5.8)m loss).

Whilst interest income benefitted from the higher interest rate environment, interest payable increased proportionately more (as detailed on pages 13 to 14), resulting in a reduction to overall net interest compared to the same period last year.

**1.27%** Group net interest margin

(Six months ended 30 June 2023: 1.62%)

The Board monitors and reports profits at both a statutory level, governed by accounting standards and practices, and at an 'underlying' level to give greater transparency of the performance of the Group's ongoing trading activities.

**£149.1m** Underlying Group Profit Before Tax

(Six months ended 30 June 2023: £143.8m)

We report two alternative performance measures, the definitions of which remain unchanged, as outlined on pages 35 and 36 of the 2023 Annual Report and Accounts:

- **Underlying Group PBT** which excludes items that are not generated from the Group's core trading activities; and
- **Connells Group EBITDA** which is a common performance measure used in the estate agency industry.

The calculation of underlying PBT for the Group is shown in the following table:

| £m | 6 months to 30.06.24 | 6 months to 30.06.23 | 12 months to 31.12.23 |
|---|---|---|---|
| **Total Group PBT** | **157.0** | 148.9 | 333.4 |
| (Less) / add back fair value (gains) / losses in relation to the equity release portfolio* | **(5.6)** | 3.2 | (11.0) |
| Less fair value gains on share warrants and equity share investments | **(2.3)** | (8.3) | (13.8) |
| **Underlying Group PBT** | **149.1** | 143.8 | 308.6 |

* The £5.6m gain (six months ended 30 June 2023: £(3.2)m loss; year ended 31 December 2023: £11.0m gain) is comprised of fair value losses on the portfolio of £(6.9)m (six months ended 30 June 2023: £(17.3)m losses; year ended 31 December 2023: £9.2m gains) and fair value gains of £12.5m (six months ended 30 June 2023: £14.1m gains; year ended 31 December 2023: £1.8m gains) on the associated derivatives held to economically hedge these fair value movements, as shown in Note 6a).

## Group performance by segment

The Group's operating results are reviewed regularly by the Board for the following key business lines:

- **Society** – split between our Home Finance and Money businesses;
- Skipton International (**SIL**);
- **Connells** Group; and
- **Other** – interests in a small number of other business lines that are not separately reportable, together with the impact of Group consolidation adjustments. These include:
  - Skipton Business Finance (SBF); and
  - Jade Software Corporation.

The Group's statutory results by segment were as follows:

| £m | 6 months to 30.06.24 | 6 months to 30.06.23 | 12 months to 31.12.23 |
|---|---|---|---|
| Society | **113.0** | 127.8 | 283.7 |
| SIL | **18.2** | 24.5 | 47.3 |
| Connells | **20.0** | (5.8) | 13.8 |
| Other* | **5.8** | 2.4 | (11.4) |
| **Group PBT** | **157.0** | 148.9 | 333.4 |

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

## Underlying Group performance by segment

The Group's underlying performance by segment was as follows:

| £m | 6 months to 30.06.24 | 6 months to 30.06.23 | 12 months to 31.12.23 |
|---|---|---|---|
| Society | **107.4** | 131.0 | 272.7 |
| SIL | **18.2** | 24.5 | 47.3 |
| Connells | **17.7** | (14.1) | 2.5 |
| Other* | **5.8** | 2.4 | (13.9) |
| **Underlying Group PBT** | **149.1** | 143.8 | 308.6 |

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

A breakdown of the results of each segment can be found in Note 20 to the Condensed Consolidated Financial Statements.

## Society

The Society reported underlying pre-tax profits of £107.4m for the first six months of the year (six months ended 30 June 2023: £131.0m).

Net interest income amounted to £197.3m in the period (six months ended 30 June 2023: £236.9m). The Society's net interest margin was 1.12% (six months ended 30 June 2023: 1.48%).

The Base Rate remained at 5.25% throughout the period, resulting in higher interest income, however interest payable has risen more quickly reflecting continued investment to ensure our members receive above-market interest rates on their savings.

Administrative expenses, including depreciation and amortisation, for the Society increased by £7.0m compared to the same period last year, rising to £122.5m (six months ended 30 June 2023: £115.5m). We are investing heavily in improved digital pathways in order to create excellent customer and member experiences. 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 improved in the period reflecting our strong balance sheet growth (as outlined on pages 16 to 18).

**0.70%** Costs to mean assets

(Six months ended 30 June 2023: 0.72%)

## ▪ Home Finance

Gross mortgage advances in the first half of the year were £3,106m (six months ended 30 June 2023: £3,176m), whilst net lending was £1,399m (six months ended 30 June 2023: £1,609m). Despite the uncertain economic environment, the Society achieved net mortgage book growth in the period of 5.3% (six months ended 30 June 2023: 6.9%), without compromising the quality of our mortgage assets.

Residential mortgages in arrears by three months or more in our Home Finance business totalled 501 cases representing only 0.27% of mortgage accounts (31 December 2023: 419 cases, representing 0.23%). At 30 June 2024 the Home Finance business's residential impairment loss allowance was £20.4m (31 December 2023: £27.9m), with a related credit to the Income Statement of £7.4m (six months ended 30 June 2023: £9.4m charge). These movements reflect the impact of changes to the Group's forward-looking economic assumptions, which have been updated during the period to reflect changes in the external environment, and the impact of revisions to certain post model adjustments (as detailed in Note 1c) to the Condensed Consolidated Financial Statements).

The commercial lending portfolio (closed to new business since 2008), stands at £124.5m as at 30 June 2024 (31 December 2023: £135.2m) with an average loan size of £233.9k. The proportion of accounts in arrears by three months or more in this portfolio was 1.57% (31 December 2023: 1.62%). At 30 June 2024 the commercial impairment loss allowance stood at £5.2m (31 December 2023: £9.0m), with a related net credit to the Income Statement of £2.6m (six months ended 30 June 2023: £0.4m credit). The reduction in the impairment allowance is principally due to the level of allowance required reducing over time, as this closed book continues to run-off.

Home Finance holds an equity release mortgage book which is also closed to new business. We have seen a net fair value gain on our equity release portfolio and associated derivatives of £5.6m (six months ended 30 June 2023: net loss of £3.2m). This movement is driven by changes in market expectations of long-term interest rates, inflation and house price growth.

*Refer to Note 10 and Note 11 to the Condensed Consolidated Financial Statements for further details on loans and advances to customers and our equity release portfolio.*

- **Money**

Savings balances have increased by £1,608m since the end of 2023, representing growth of 6.2% (six months ended 30 June 2023: 5.2%), compared to the UK savings market where net savings grew by only 1.7%; this has increased our market share of balances to 1.35% (31 December 2023: 1.30%) (Source: Bank of England Statistics, May 2024).

The Society's net non-interest income, which is predominantly made up of financial advice fees and commissions receivable, was £22.0m (six months ended 30 June 2023: £20.9m). Funds under management, as part of our financial advice offering, totalled £4.5bn as at 30 June 2024 (31 December 2023: £4.3bn).

## SIL

SIL has continued to perform well, with underlying pre-tax profits in the first six months of the year of £18.2m (six months ended 30 June 2023: £24.5m). The decrease in profits reflects an increase in cost of funds, due to the higher interest rate environment compared to the first six months of 2023; which has impacted SIL's net interest margin, reducing to 2.08% (six months ended 30 June 2023: 2.46%).

The ratio of costs to mean assets increased to 0.71% (six months ended 30 June 2023: 0.45%) due to higher costs in the period, as a result of increased professional fees and staff costs related to the growth of back-office teams to better support clients in the future.

SIL's savings book reduced by 1.9% in the period to £2,400m (31 December 2023: £2,446m). However, SIL reported growth in its mortgage book, which increased by 1.3% to £2,179m (31 December 2023: £2,151m). The quality of the mortgage book remains excellent, with only six cases in arrears by three months or more (31 December 2023: four cases, on the same basis).

## Connells Group

The cost of living challenge and the underlying weakness of the economy resulted in a significant reduction in transactions in the housing market in 2023. As we entered 2024, a pick-up in market activity was seen, with sales remaining robust throughout the first half of the year, driven by renewed market confidence. The steady fall in mortgage rates, following the Base Rate stabilising, and easing of pressures on household finances following falling inflation, has been the key catalyst for this; giving a boost to sentiment and encouraging action among buyers who were hanging back in 2023.

This has resulted in a significant improvement to Connells Groups' profitability, achieving underlying pre-tax profits of £17.7m (six months ended 30 June 2023: £(14.1)m loss). While earnings before interest, tax, depreciation and amortisation (EBITDA) was £43.8m (six months ended 30 June 2023: £16.4m).

The number of properties that the business exchanged contracts on during the period was 11% higher than for the same period in 2023, reflecting the more favourable market conditions. Connells Group surveying business also benefited from this increased activity, whilst average fees have been strong. Connells Groups' financial services proposition also continues to perform well. The number of mortgages arranged increased by 8.4%, with the value of lending generated for UK mortgage providers during the first six months of 2024 totalling £15.4bn (six months ended 30 June 2023: £14.8bn).

Connells Group's letting business has continued to grow, with 12% more properties available to rent than at the end of 2023. The Group is currently re-letting over 77% (31 December 2023: 78%) of properties at the end of their tenancies, with an average tenancy length of 30.9 months (31 December 2023: 29.6 months). Rental arrears also remained low, representing just 4.92% of tenancies managed (31 December 2023: 4.75%). Properties under management by Connells Group increased to 127,090 at the period end (31 December 2023: 125,666).

Connells Groups' administrative expenses totalled £488.1m (six months ended 30 June 2023: £458.5m); increasing by £29.6m year-on-year. This has been driven in the main by higher wages and salaries, taking into account annual pay increases, together with higher variable pay as a result of improved trading in the period.

Looking forward, the market is expected to remain sensitive to mortgage rates, which has tempered demand somewhat, while supply has ticked up. The increased supply is expected to keep house prices in check, but the steady flow of homes onto the market will likely support overall market health. With inflation returning to normal, and Base Rate cuts predicted in the second half of the year, which would feed through to mortgage rates, this may further boost activity in the housing market. Historically elections slow down market activity, however current projections suggest a minor impact of the recent election. With the ongoing need for housing (particularly amongst first-time buyers and those looking to upsize) expected to continue to drive sales, even if the pace of new sales agreements slows temporarily, we are cautiously optimistic for the remainder of the year.

### Other

SBF generated a pre-tax profit for the period of £5.2m (six months ended 30 June 2023: £4.5m). As the wider economic pressures continued to weigh heavily on the small and medium-sized enterprises (SMEs) sector, SBF was well placed to support UK businesses as the demand for working capital solutions remained high; with a total portfolio comprising 879 clients (31 December 2023: 872) and increased total drawn funds of £191.4m at 30 June 2024 (31 December 2023: £171.2m). The quality of SBF's lending continues to be good, with impairment as a percentage of drawn funds remaining low at 0.88% (31 December 2023: 0.94%).

Jade reported a profit of £0.6m for the period (six months ended 30 June 2023: £0.5m). The total of the other remaining business lines, including the impact of Group consolidation adjustments, had a net £nil overall impact to Group profit (30 June 2023: £(2.6)m).

## Group financial position

Consolidated total assets have increased by 4.0% to £38.7bn at 30 June 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

Liquid assets at 30 June 2024 were £7.1bn (31 December 2023: £7.1bn). When measured as a percentage of shares, deposits and borrowings, the liquidity ratio remained strong at 20.4% (31 December 2023: 21.3%) providing the Group flexibility in an unpredictable market.

The Group's liquidity levels are closely managed by senior management and have remained well above both the regulatory limit of 100% and the internal limit set by the Board throughout the period.

**188%** Liquidity Coverage Ratio (LCR)

(31 December 2023: 173%)

At 30 June 2024, the Society held £6.0bn (31 December 2023: £5.9bn) of High Quality Liquid Assets (HQLA) as analysed below:

| £m | 30.06.24 | 30.06.23 | 31.12.23 |
|---|---|---|---|
| Balances with the Bank of England | **2,505.9** | 3,413.7 | 3,155.5 |
| Gilts | **490.2** | 225.0 | 369.4 |
| Treasury bills | **737.3** | 345.1 | 493.6 |
| Fixed rate bonds | **1,015.2** | 535.1 | 580.0 |
| Floating rate notes | **53.9** | 194.9 | 169.6 |
| Residential mortgage backed securities | **472.0** | 332.6 | 408.2 |
| Covered bonds | **748.6** | 676.3 | 758.6 |
| | **6,023.1** | 5,722.7 | 5,934.9 |

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

| £m | 30.06.24 | 30.06.23 | 31.12.23 |
|---|---|---|---|
| Certificates of deposit | **47.4** | 81.0 | 97.9 |
| Cash with other institutions | **0.5** | - | 0.5 |
| | **47.9** | 81.0 | 98.4 |

The table above, and on page 16, differ to the total amount of liquid assets shown within the Group's Statement of Financial Position (30 June 2024: £7.1bn; 30 June 2023: £7.0bn; and 31 December 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.

The Group's treasury investments are held to provide liquidity and at the end of the reporting period over 99% of the Group's treasury investments are rated A3 or better (31 December 2023: over 99%), excluding exposures to a central clearing house used to clear derivatives to manage interest rate risk, in line with regulation.

## Loans and advances to customers

The Group continues to grow mortgage assets in a controlled manner, lending within clearly defined risk appetites through both the Home Finance business and SIL. Group mortgage balances saw growth of 5.5% in the period (six months ended 30 June 2023: 6.8%), increasing from £28.6bn at the end of 2023 to £30.1bn.

The Home Finance business has continued to lend to a broad spectrum of borrowers, within our credit risk appetite, despite a competitive market and uncertain mortgage rates. Net lending has been buoyed by new initiatives, with a focus on first-time buyers, as well as by retention through highly competitive products.

The average loan-to-value (LTV) of new lending in the period (calculated on a valuation-weighted basis) was 68.0% (year to 31 December 2023: 63.0%). We consider our new lending to remain prudent and the mortgage book to be well diversified by geographical location. This is echoed in the quality of our residential loan book, which remained good, with low arrears across the Group.

As at 30 June 2024, the average valuation-weighted LTV of the total residential mortgage book (excluding equity release) was 48.3% (year to 31 December 2023: 44.5%), an increase due to a higher proportion of first-time buyers.

The Group's commercial mortgage portfolio continued to run off, decreasing in the period by £10.7m (six months to 30 June 2023: £11.1m reduction). The average LTV of this portfolio reduced from 42.5% at December 2023 to 41.6% at June 2024, and the proportion of accounts in arrears by three months or more remained low.

At 30 June 2024, the fair value of the Group's equity release portfolio was £285.9m (31 December 2023: £293.3m). The decrease in fair value of equity release mortgages is primarily due to changes in expected future interest rates since December 2023, offset by improved house price expectations (see Note 11 to the Condensed Consolidated Financial Statements for further details).

## Funding

The Group, through its Money business, continues to optimise the mix of retail and wholesale funding in the best interests of our members, and in order to achieve both its retail savings and lending growth objectives.

The Group remains primarily funded by retail savings:

| £m | 30.06.24 | 30.06.23 | 31.12.23 |
|---|---|---|---|
| Shares held by individuals (Note 1) | **27,250.5** | 23,411.0 | 25,678.6 |
| Wholesale funding (Note 2) | **4,859.5** | 6,041.8 | 4,870.9 |
| **Total funding** | **32,110.0** | 29,452.8 | 30,549.5 |

Notes

1. Excludes shares held by others and fair value adjustments totalling £283.5m (30 June 2023: £(13.0)m; 31 December 2023: £271.2m), which are classified as wholesale funding.
2. Wholesale funding balances exclude £2,400m (30 June 2023: £2,243m; 31 December 2023: £2,446m) of offshore funding in our Channel Islands based subsidiary, SIL.

### *Retail Funding*

As at 30 June 2024, £27.6bn (31 December 2023: £26.0bn) of our funding came from retail savings (member deposits), with growth of £1.6bn seen in the period primarily driven by a record ISA season, with more incentive to save from higher interest rates.

**84.0%** Group retail funding (as a % of total funding)

(31 December 2023: 83.2%)

In addition to our UK retail funding, the Group also accepts deposits through our Channel Islands based subsidiary, SIL, with balances totalling £2.4bn (31 December 2023: £2.4bn). These balances are included in 'Amounts owed to other customers' within the Statement of Financial Position.

### *Wholesale funding*

We access the remainder of our funding requirements through the wholesale markets. We maintain a diverse funding portfolio to prevent over-reliance on any 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. At the period end our wholesale funding balances amounted to £4.9bn (31 December 2023: £4.9bn).

In the first half of the year, we successfully issued a new €500m 5-year covered bond. At 30 June 2024 the Society had £1.15bn (31 December 2023: £1.35bn) outstanding under the Bank of England's 'Term Funding Scheme with additional incentives for SMEs' (TFSME) 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. The Society's current ratings, which have not changed during 2024 to date, are summarised in the following table:

| £m | 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 | Aug 2021 | Jul 2021 |

## Capital

We monitor our capital at a prudential consolidation group level (comprising the entire Group except Connells 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 31 December 2020, and the UK Capital Requirements Regulation (UK CRR), as implemented in 2022.

The capital requirements under the prudential consolidation group are higher than those 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. We apply a temporary model adjustment (TMA) to the Society's regulator-approved IRB model output to account for regulatory changes that went live on 1 January 2022. The Society submitted an initial IRB rating system to meet the new regulation in 2021 and a revised version addressing PRA feedback in 2024. Until the updated IRB models are approved by the PRA, the TMA remains subject to change and may cause variations in the capital metrics. There have not been, and we do not expect there to be, any material changes to the risk profile or strategy of the Society as a result of changes to the TMA.

Total regulatory capital has increased by £85.6m from 31 December 2023 to £2,321m as at 30 June 2024 (31 December 2023: £2,235m). This is mainly due to the retained profits accumulated during the period.

Risk weighted exposure amounts (RWAs) have increased by £290.3m in the period to £8,723m (31 December 2023: £8,433m - restated). This increase is principally driven by strong residential mortgage book growth in the period.

The CET1 ratio has remained stable, showing that the increase in total regulatory capital is offset by the growth in RWAs.

**26.1%** Common Equity Tier 1 (CET1) Ratio

(31 December 2023: 26.0% (restated))

The UK leverage ratio has also remained stable showing that the growth in mortgage lending has been offset by the profits accumulated during the period.

**6.6%** Leverage ratio

(31 December 2023: 6.7%)

The following table shows the composition of the prudential group's regulatory capital as at 30 June 2024. IFRS 9 *Financial Instruments* transitional arrangements are applied throughout.

| £m | 30.06.24 | 30.06.23 | 31.12.23 |
|---|---|---|---|
| **Capital resources:** | | | |
| Common Equity Tier 1 Capital | **2,280.8** | 2,068.7 | 2,195.2 |
| Total Tier 1 capital | **2,280.8** | 2,068.7 | 2,195.2 |
| Total Tier 2 capital | **40.0** | 40.0 | 40.0 |
| Total regulatory capital | **2,320.8** | 2,108.7 | 2,235.2 |
| **Risk weighted exposure amounts** | **8,722.8** | 7,939.8* | 8,432.5* |
| **Capital and leverage ratios** (Note 1) | | | |
| Common Equity Tier 1 (CET1) ratio | **26.1%** | 26.1%* | 26.0%* |
| Tier 1 ratio | **26.1%** | 26.1%* | 26.0%* |
| Total capital ratio | **26.6%** | 26.6%* | 26.5%* |
| Leverage ratio (Note 2) | **6.6%** | 6.9% | 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. At 30 June 2023 the impact of the restatement is a decrease in the CET1 and Tier 1 ratios of 0.2% and a 0.3% decrease in the total capital ratio. There were no changes to the leverage ratio at 31 December 2023 or 30 June 2023.

Notes

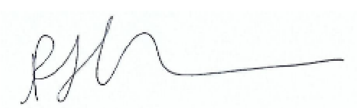
1. The capital ratios are calculated as relevant capital divided by RWAs. The leverage ratio is calculated as Tier 1 capital divided by total exposure, i.e. total assets per the prudential consolidation group, less deposits with central banks and regulatory adjustments.
2. The leverage ratio represents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

## Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

The Minimum Requirement for Own Funds and Eligible Liabilities (MREL) is a regulatory requirement set by the Bank of England to ensure institutions can cover losses that would need to be absorbed in the event of a resolution scenario. The amount of MREL that institutions need to have is linked to the resolution strategy chosen for each firm. The Bank of England's preferred resolution strategy for Skipton Building Society is a single point of entry bail-in under Part 1 of the Banking Act 2009. From 1 January 2023, our MREL requirement is 2x (pillar 1 plus pillar 2A capital requirements) plus the applicable capital requirement buffers issued by the Bank of England, which is 20.1% of RWAs plus capital buffers.

At 30 June 2024, total MREL resources, including MREL eligible senior non-preferred debt, were 34.6% of RWAs (31 December 2023: 34.8% - restated) which exceeds the 2023 MREL requirement of 20.1% of RWAs plus capital buffers.

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



Paul Chambers, Group Chief Financial Officer

1 August 2024

# Principal and Emerging Risks and Uncertainties

"Whilst the UK growth outlook is beginning to improve, the economy remained subdued in the first half of 2024, with economies across the globe still facing significant uncertainties and geopolitical tensions continuing. Despite inflation returning to normal, and strong wage growth helping alleviate the cost of living squeeze, there still remains significant strain on some household finances.

Bank of England policy for interest rates is expected to pivot, with an expected reduction in Base Rate being mooted for the second half of the year, which together with changing customer behaviours, presents both challenges and opportunities across our diversified Group. While the results of the UK General Election, although decisive, still gives uncertainty with new fiscal policies to be set out in the first Budget event in the Autumn."

**Steve O'Regan**
**Group Chief Risk Officer**

## Principal risks and uncertainties

The outlook for the Group remains positive, but the future performance of the Group in the outer years of our current 5-year Corporate Plan may be impacted by the performance of the UK economy as events and conditions evolve. At this stage, other than the challenges remaining in the economic environment, and uncertainty around Government policy following the General Election, outlined above, 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. However, these continue to evolve, and will continue to be managed for the remaining six months of the year.

The Board understands and promotes the need to maintain a forward-looking focus and run appropriately 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 accordingly.

## Emerging risks and uncertainties

The FCA's Disclosure and Transparency Rules require that the interim financial management report must include a description of the principal risks and uncertainties for the remaining six months of the 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 on pages 81 to 85 of the 2023 Annual Report and Accounts, with the most significant emerging risks described below, together with mitigating actions we are taking to manage the risk.

## Key Risks

| Risk Description | Mitigation |
|---|---|
| **Economic environment and geopolitical**<br><br>**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.**<br><br>The UK economic environment has remained broadly unchanged in the first six months of 2024, with the Bank of England Base Rate remaining stable at 5.25%. The risk of continued high interest rates may impact the rates borrowers pay, impacting some members' affordability and ability to repay their mortgages.<br><br>Geopolitical risks remain high, combined with policy uncertainty associated with global elections. This could increase global economic uncertainty leading to financial market volatility. | Macroeconomic and geopolitical risks continue to be closely monitored across all Group businesses, as the near-term outlook remains uncertain.<br><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><br>Continued monitoring of both direct and potential secondary impact risks associated with ongoing or new conflicts remains a key consideration.<br><br>The impact of changes to existing or new policies resulting from the change in UK government will be closely monitored through the remaining six months of the year and beyond. |
| **Market environment**<br><br>**Mortgage credit conditions have the potential to remain challenging in the second half of the year.**<br><br>The Group's broader exposure to housing market activity is significant through our estate agency business Connells Group. | The Group's 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><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. |
| **Technology and innovation**<br><br>**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><br>The Group has an ambitious change agenda and continues to invest in innovation, integrating third-party software with internally built platforms through an agile 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. |

## Key Risks (continued)

| Risk Description | Mitigation |
|---|---|
| **Operational resilience**<br>**A major operational risk event such as a cyber-attack or national infrastructure failure could disrupt our ability to provide key services to our members and customers.** | The Group has a robust approach to scenario planning to ensure effective plans to respond and recover in the event of a material risk event are in place.<br>As the Group increases reliance on the management of outsourcing, our established ‘outsourcing and third-party management’ processes and controls aim to ensure such providers are capable of maintaining their services to us, even in a stressed environment. |
| **Regulatory environment**<br>**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 emerging regulations across the Group.<br>The embedding of Consumer Duty principles will continue to minimise conduct related risks and support good customer outcomes (see Spotlight below for further details).<br>In Skipton International we are strengthening our risk management capability in some areas under the stewardship of its first Chief Risk Officer.<br>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. |
| **Environmental, Social and Governance (ESG) and climate risk**<br>**The risk associated with increased supervisory expectations and regulatory requirements for ESG and disclosure requirements.**<br>The commercial impact that climate and environmental changes present to our business model through both physical and transitional factors. | The Group is committed to embedding the management of ESG and climate risk across its businesses and details of our approach can be found in our Group Sustainability Report, published in May 2024.<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 2024 and beyond. |

## Key Risks (continued)

| Risk Description | Mitigation |
|---|---|
| **Changing customer behaviours**<br><br>**The risk of an adverse impact on profitability if customers are more actively seeking a better rate through ease of switching and increased competition.**<br><br>Increasing demand for digital services requires us to continually enhance our technological offerings and ensure seamless customer experiences. | 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><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.<br><br>Supporting more of our members to interact digitally and removing more paper from our journeys supports our ambitions to become paperless. |
| **Group risk**<br><br>**The risk that a significant event within a Skipton Group business detrimentally impacts the Skipton Group or an individual Group business, leading to operational, financial and reputational impacts.** | The first six months of 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><br>We have strengthened our Group operating model and risk management framework; this will continue through the second half of 2024 to ensure the right resources and capabilities are in place to minimise any associated risks. |

## Spotlight on Consumer Duty

The Financial Conduct Authority's Consumer Duty, which first came into effect on 31 July 2023 for new and existing products, sets higher and clearer standards of consumer protection across Financial Services, introducing a new Consumer Principle requiring firms to act to deliver good outcomes for retail customers. Closed products and services were also captured from 31 July 2024.

To support the interpretation and embedding of Consumer Duty a Project team, including representatives from across the business and senior leaders, was created. Monthly progress updates were provided to an Executive Steering Committee and the Board, evidencing how the Consumer Duty was being implemented and embedded. To further support this the Board has a Non-Executive Director, Steven Davis, who is our Consumer Duty Champion.

Internal and external assurance has been obtained when reviewing our Fair Value assessments, communications, and customer journey reviews along with our approach to embedding the Duty; with other key activities having taken place to demonstrate how we drive good customer outcomes, which include:

### Completed Consumer Duty activities

- Consumer Duty training has been provided to all colleagues including all senior leaders and the Board, with customer facing colleagues having been provided with external and internal training to support customers in vulnerable circumstances.
- Our products and services have been reviewed to demonstrate they provide fair value which is a key element of the Duty.
- We have reviewed key communications for customer understanding, with an external agency used to support the review, gaining customer feedback via satisfaction surveys from different cohorts, including those with vulnerabilities.
- Our Mortgage and Savings terms and conditions were awarded the Clear English Standard from the Plain Language Commission.
- We have reviewed how we monitor and report on customers outcomes, which is shared with senior leaders and our Board.

In June, the Board received and approved an Annual Consumer Duty Board Assessment, demonstrating how we deliver good customer outcomes, setting out the actions taken and what further plans we have to fully embed Consumer Duty.

# Condensed Consolidated Financial Statements

# Condensed Consolidated Income Statement

## For the half year ended 30 June 2024

| £m | Notes | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|---|
| Interest receivable and similar income: | | | | |
| Accounted for using effective interest rate method | 3 | **1,025.7** | 770.3 | 1,746.4 |
| Other | 3 | **16.2** | 15.3 | 33.6 |
| **Total interest receivable and similar income** | | **1,041.9** | 785.6 | 1,780.0 |
| Interest payable and similar charges | 4 | **(803.0)** | (507.9) | (1,237.2) |
| **Net interest receivable** | | **238.9** | 277.7 | 542.8 |
| Fees and commissions receivable | 5 | **533.3** | 474.7 | 993.7 |
| Fees and commissions payable | | **(3.0)** | (2.6) | (8.3) |
| Fair value gains on financial instruments mandatorily held at FVTPL | 6a) | **7.8** | 3.4 | 23.5 |
| Other income | 6b) | **2.4** | 1.7 | 2.9 |
| **Total income** | | **779.4** | 754.9 | 1,554.6 |
| Administrative expenses | 6c) | **(626.4)** | (595.7) | (1,224.8) |
| **Operating profit before impairment and provisions** | | **153.0** | 159.2 | 329.8 |
| Impairment and provisions | 6d) | **4.0** | (10.3) | 3.6 |
| **Profit before tax** | | **157.0** | 148.9 | 333.4 |
| Tax expense | 8 | **(38.2)** | (36.2) | (78.8) |
| **Profit for the period** | | **118.8** | 112.7 | 254.6 |
| | | | | |
| **Profit / (loss) for the period attributable to:** | | | | |
| Members of Skipton Building Society | | **118.8** | 112.8 | 254.8 |
| Non-controlling interests | | **-** | (0.1) | (0.2) |
| | | **118.8** | 112.7 | 254.6 |

Segmental performance of the Group is shown in Note 20.

The Notes on pages 39 to 88 form an integral part of this condensed consolidated half-yearly financial report.

# Condensed Consolidated Statement of Comprehensive Income

## For the half year ended 30 June 2024

| £m | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|
| **Profit for the period** | **118.8** | 112.7 | 254.6 |
| **Other comprehensive income:** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Remeasurement losses on defined benefit obligations | **(1.9)** | (3.8) | (4.5) |
| Gains on equity share investments designated at FVOCI | **-** | - | 0.2 |
| Income tax on items that will not be reclassified to profit or loss | **0.5** | 1.0 | 1.1 |
| | **(1.4)** | (2.8) | (3.2) |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Movement in cash flow hedging reserve: | | | |
| (Losses) / gains taken to equity | **(29.5)** | 3.9 | (48.4) |
| Realised losses transferred to Income Statement | **45.1** | 14.4 | 14.1 |
| Movement in fair value reserve (debt securities): | | | |
| Gains / (losses) taken to equity | **8.0** | (2.2) | 1.7 |
| Impairment loss / (credit) allowance on debt securities held at FVOCI | **0.1** | (0.1) | (0.1) |
| Movement in cost of hedging reserve: | | | |
| (Losses) / gains taken to equity | **-** | (1.9) | 0.8 |
| Exchange differences on translation of foreign operations | **(0.4)** | (0.7) | (0.3) |
| Income tax on items that may be reclassified to profit or loss | **(6.7)** | (4.0) | 9.2 |
| | **16.6** | 9.4 | (23.0) |
| **Other comprehensive income / (expense) for the period, net of tax** | **15.2** | 6.6 | (26.2) |
| **Total comprehensive income for the period** | **134.0** | 119.3 | 228.4 |
| | | | |
| **Total comprehensive income / (expense) attributable to:** | | | |
| Members of Skipton Building Society | **134.0** | 119.6 | 228.6 |
| Non-controlling interests | **-** | (0.3) | (0.2) |
| | **134.0** | 119.3 | 228.4 |

The Notes on pages 39 to 88 form an integral part of this condensed consolidated half-yearly financial report.

# Condensed Consolidated Statement of Financial Position

## Assets as at 30 June 2024

| £m | Notes | Unaudited as at 30.06.24 | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
|---|---|---|---|---|
| Cash in hand and balances with the Bank of England | | **2,509.4** | 3,520.1 | 3,266.2 |
| Loans and advances to credit institutions | | **482.1** | 538.6 | 488.8 |
| Debt securities | 9 | **4,121.5** | 2,939.0 | 3,337.7 |
| Derivative financial instruments | | **953.6** | 1,794.1 | 1,000.8 |
| Loans and advances to customers held at amortised cost | 10 | **29,674.7** | 25,859.3 | 28,161.4 |
| Loans and advances to customers held at FVTPL | | **0.9** | 1.1 | 0.9 |
| Equity release portfolio held at FVTPL | 11 | **285.9** | 265.6 | 293.3 |
| Current tax asset | | **-** | 5.3 | 0.9 |
| Investments in joint ventures | | **10.6** | 9.7 | 10.3 |
| Other assets | | **191.3** | 144.2 | 152.1 |
| Property, plant and equipment | | **78.1** | 72.0 | 74.5 |
| Right-of-use assets | | **94.0** | 104.2 | 100.9 |
| Deferred tax asset | | **8.8** | 6.3 | 20.9 |
| Intangible assets | 12 | **310.4** | 319.0 | 313.2 |
| **Total assets** | | **38,721.3** | 35,578.5 | 37,221.9 |

## Liabilities as at 30 June 2024

| £m | Notes | Unaudited as at 30.06.24 | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
|---|---|---|---|---|
| Shares | | **27,534.0** | 23,398.0 | 25,949.8 |
| Amounts owed to credit institutions | | **2,006.4** | 3,062.2 | 2,093.4 |
| Amounts owed to other customers | | **2,739.5** | 2,592.6 | 2,808.8 |
| Debt securities in issue | 13 | **2,513.1** | 2,647.3 | 2,414.7 |
| Derivative financial instruments | | **325.6** | 550.1 | 452.2 |
| Current tax liability | | **4.1** | 2.7 | 2.4 |
| Lease liabilities | | **95.0** | 107.8 | 103.0 |
| Other liabilities | | **83.5** | 74.7 | 85.9 |
| Accruals | | **88.4** | 72.0 | 97.5 |
| Deferred income | | **10.8** | 10.2 | 10.4 |
| Provisions for liabilities | 14 | **33.4** | 33.3 | 29.4 |
| Retirement benefit obligations | | **9.7** | 30.5 | 26.2 |
| Subordinated liabilities | | **680.9** | 643.3 | 685.3 |
| Subscribed capital | | **41.6** | 41.6 | 41.6 |
| **Total liabilities** | | **36,166.0** | 33,266.3 | 34,800.6 |

Condensed Consolidated Statement of Financial Position continued on page 31

# Condensed Consolidated Statement of Financial Position (continued)

## Members' interests as at 30 June 2024

| £m | Unaudited as at 30.06.24 | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
|---|---|---|---|
| General reserve | **2,539.4** | 2,286.4 | 2,422.0 |
| Fair value reserve | **(3.7)** | (18.7) | (9.5) |
| Cash flow hedging reserve | **16.1** | 42.8 | 4.9 |
| Cost of hedging reserve | **(0.5)** | (2.4) | (0.5) |
| Translation reserve | **4.2** | 4.2 | 4.6 |
| **Attributable to members of Skipton Building Society** | **2,555.5** | 2,312.3 | 2,421.5 |
| Non-controlling interests | **(0.2)** | (0.1) | (0.2) |
| **Total members' interests** | **2,555.3** | 2,312.2 | 2,421.3 |
| **Total liabilities and members' interests** | **38,721.3** | 35,578.5 | 37,221.9 |

The Notes on pages 39 to 88 form an integral part of this condensed consolidated half-yearly financial report.

# Condensed Consolidated Statement of Changes in Members' Interests

## Unaudited for the half year ended 30 June 2024

| £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 period | 118.8 | - | - | - | - | **118.8** | - | 118.8 |
| **Other comprehensive income** | | | | | | | | |
| Remeasurement losses on defined benefit obligations | (1.4) | - | - | - | - | **(1.4)** | - | (1.4) |
| Net gains / (losses) from changes in fair value | - | 5.7 | (25.3) | - | - | **(19.6)** | - | (19.6) |
| Debt securities at FVOCI: impairment credit | - | 0.1 | - | - | - | **0.1** | - | 0.1 |
| Realised losses transferred to Income Statement | - | - | 36.5 | - | - | **36.5** | - | 36.5 |
| Exchange differences on translation of foreign operations | - | - | - | - | (0.4) | **(0.4)** | - | (0.4) |
| **Total other comprehensive (expense) / income** | **(1.4)** | **5.8** | **11.2** | **-** | **(0.4)** | **15.2** | **-** | **15.2** |
| **Total comprehensive income / (expense) for the period** | **117.4** | **5.8** | **11.2** | **-** | **(0.4)** | **134.0** | **-** | **134.0** |
| **Balance at 30 June 2024** | **2,539.4** | **(3.7)** | **16.1** | **(0.5)** | **4.2** | **2,555.5** | **(0.2)** | **2,555.3** |

# Condensed Consolidated Statement of Changes in Members' Interests (cont.)

## Unaudited for the half year ended 30 June 2023

| £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 period | 112.8 | - | - | - | - | 112.8 | (0.1) | 112.7 |
| **Other comprehensive income** | | | | | | | | |
| Remeasurement losses on defined benefit obligations | (2.8) | - | - | - | - | (2.8) | - | (2.8) |
| Net (losses) / gains from changes in fair value | - | (1.7) | 1.5 | (1.3) | - | (1.5) | - | (1.5) |
| Debt securities at FVOCI: impairment loss allowance | - | (0.1) | - | - | - | (0.1) | - | (0.1) |
| Realised losses transferred to Income Statement | - | - | 11.7 | - | - | 11.7 | - | 11.7 |
| Exchange differences on translation of foreign operations | - | - | - | - | (0.7) | (0.7) | - | (0.7) |
| **Total other comprehensive (expense) / income** | (2.8) | (1.8) | 13.2 | (1.3) | (0.7) | 6.6 | - | 6.6 |
| **Total comprehensive income / (expense) for the period** | 110.0 | (1.8) | 13.2 | (1.3) | (0.7) | 119.4 | (0.1) | 119.3 |
| **Acquisition of non-controlling interests without change in control** | - | - | - | - | - | - | (0.2) | (0.2) |
| **Balance at 30 June 2023** | 2,286.4 | (18.7) | 42.8 | (2.4) | 4.2 | 2,312.3 | (0.1) | 2,312.2 |

# Condensed Consolidated Statement of Changes in Members' Interests (cont.)

## Audited for the year ended 31 December 2023

| £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 income** | | | | | | | | |
| Remeasurement losses on defined benefit obligations | (3.4) | - | - | - | - | (3.4) | - | (3.4) |
| Net gains / (losses) from changes in fair value | - | 1.7 | (34.9) | 0.6 | - | (32.6) | - | (32.6) |
| Debt securities at FVOCI: impairment loss allowance | - | (0.1) | - | - | - | (0.1) | - | (0.1) |
| Realised losses transferred to Income Statement | - | - | 10.2 | - | - | 10.2 | - | 10.2 |
| Exchange differences on translation of foreign operations | - | - | - | - | (0.3) | (0.3) | - | (0.3) |
| **Total other comprehensive (expense) / income** | (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 |

The Notes on pages 39 to 88 form an integral part of this condensed consolidated half-yearly financial report.

# Condensed Consolidated Statement of Cash Flows

## For the half year ended 30 June 2024

| £m | Notes | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 Restated * | Audited 12 months to 31.12.23 Restated * |
|---|---|---|---|---|
| Cash flows from operating activities | | | | |
| Profit before tax | | **157.0** | 148.9 | 333.4 |
| Adjustments for: | | | | |
| Impairment (credits) / losses on financial instruments | 15a)(i) | **(8.6)** | 9.7 | (2.0) |
| Depreciation and amortisation | | **35.1** | 36.2 | 74.2 |
| Impairment of property, plant and equipment, right-of-use assets and investment property | | **0.6** | 0.9 | 2.3 |
| Profit on disposal of property, plant and equipment, investment property and intangible assets | | **(0.4)** | - | (0.2) |
| Fair value (gains) / losses on financial instruments held at FVTPL | 15a)(ii) | **(7.8)** | (3.4) | (23.5) |
| Interest on subordinated liabilities and subscribed capital | 4 | **16.9** | 9.9 | 27.1 |
| Interest on lease liabilities | 4 | **1.4** | 1.0 | 2.3 |
| Other non-cash movements | 15a)(iii) | **3.0** | 13.0 | (34.1) |
| | | **197.2** | 216.2 | 379.5 |
| Changes in operating assets and liabilities: | | | | |
| Movement in prepayments and accrued income | | **(13.1)** | (6.6) | (12.2) |
| Movement in accruals and deferred income | | **(8.7)** | (20.8) | 4.9 |
| Movement in provisions for liabilities | | **(5.3)** | (1.4) | (5.3) |
| Net movement in derivatives | | **11.6** | (126.2) | (116.2) |
| Movement in loans and advances to customers | | **(1,571.8)** | (1,723.7) | (3,085.1) |
| Movement in shares | | **1,608.3** | 1,160.4 | 3,470.8 |
| Net movement in amounts owed to credit institutions and other customers | | **(156.4)** | 352.7 | (400.2) |
| Net movement in debt securities in issue | | **97.0** | 71.5 | (198.4) |
| Net movement in loans and advances to credit institutions | | **144.1** | 55.3 | 76.5 |
| Net movement in other assets | | **(28.1)** | 18.1 | 20.0 |
| Net movement in other liabilities | | **13.6** | (5.7) | 5.8 |
| Contributions to defined benefit scheme | | **(24.6)** | (3.6) | (8.4) |
| Income taxes paid | | **(29.3)** | (18.1) | (58.3) |
| **Net cash flows from operating activities** | | **234.5** | (31.9) | 73.4 |

* The information shown above for the 6 months to 30 June 2023 and for the 12 months to 31 December 2023 is restated to reflect the appropriate presentation of certain non-cash movements (see Note 1b) for details).

# Condensed Consolidated Statement of Cash Flows (continued)

## For the half year ended 30 June 2024

| £m | Notes | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|---|
| **Net cash flows from operating activities** | | **234.5** | (31.9) | 73.4 |
| **Cash flows from investing activities** | | | | |
| Purchase of debt securities | 9 | **(2,165.0)** | (1,087.5) | (2,476.7) |
| Proceeds from maturities and disposals of debt securities | | **1,368.8** | 774.7 | 1,828.5 |
| Purchase of non-controlling interests | | **-** | - | (0.2) |
| Other investing activities | 15b)(i) | **(19.5)** | (12.5) | (26.5) |
| **Net cash flows from investing activities** | | **(815.7)** | (325.3) | (674.9) |
| **Cash flows from financing activities** | | | | |
| Exercise of share options in subsidiary management incentive scheme | | **-** | (3.1) | (2.5) |
| Exercise of put options held by non-controlling shareholders | | **-** | (0.4) | (0.4) |
| Proceeds from issue of subordinated liabilities | | **-** | 347.9 | 350.0 |
| Interest paid on subordinated liabilities and subscribed capital | | **(17.0)** | (5.9) | (23.0) |
| Interest paid on lease liabilities | | **(1.4)** | (1.0) | (2.3) |
| Payment of lease liabilities | | **(19.9)** | (18.7) | (41.2) |
| **Net cash flows from financing activities** | | **(38.3)** | 318.8 | 280.6 |
| | | | | |
| Decrease in cash and cash equivalents | | **(619.5)** | (38.4) | (320.9) |
| Cash and cash equivalents at 1 January | | **3,294.3** | 3,615.2 | 3,615.2 |
| Decrease in impairment loss allowance on cash and cash equivalents | | **0.1** | - | - |
| **Cash and cash equivalents at end of period** | | **2,674.9** | 3,576.8 | 3,294.3 |

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

## For the half year ended 30 June 2024

| £m | Notes | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|---|
| Cash in hand and balances with the Bank of England | | **2,509.4** | 3,520.1 | 3,266.2 |
| Mandatory reserve deposit with the Bank of England (Note A) | | **-** | (103.1) | (106.6) |
| | | **2,509.4** | 3,417.0 | 3,159.6 |
| Loans and advances to credit institutions | | **165.5** | 159.8 | 134.7 |
| **Cash and cash equivalents at end of period** | | **2,674.9** | 3,576.8 | 3,294.3 |

Note

A. 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 for the period ended 30 June 2024 is charged to the Income Statement within the line 'Administrative expenses'.

The Notes on pages 39 to 88 form an integral part of this condensed consolidated half-yearly financial report.

# Notes to the Condensed Consolidated Financial Statements

# 1. Introduction

These financial statements show the financial performance of the Group for the half year ended 30 June 2024 and the financial position of the Group as at that date.

## a) Basis of preparation

This half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting*, as contained in UK-adopted international accounting standards, and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority. This half-yearly financial report should be read in conjunction with the Group's latest annual financial statements for the year ended 31 December 2023.

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited financial statements, except as follows:

- revisions to how certain non-cash movements are presented within the Statement of Cash Flows, including prior period adjustments (see Note 1b))
- certain revisions to the assessment of commercial loan impairment (see Note 1c))

The Group's latest audited financial statements were prepared in accordance with UK-adopted international accounting standards in conformity 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.

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

## b) Changes to significant accounting policies and other prior period adjustments

There have been no changes to significant accounting policies within the period.

**Prior period adjustments**

During the period ended 30 June 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 previously inappropriately classified non-cash movements in the operating section of the Condensed Consolidated Statement of Cash Flows. There was no impact on net cash flows for the affected periods and no impact on cash held at the end of those periods. 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. These restatements are unaudited for the purposes of this half-yearly financial report.

# 1. Introduction (continued)

## Condensed Consolidated Statement of Cash Flows

| Unaudited 6 months to 30.06.23 (£m) | Previously reported | Adjustments | Restated |
|---|---|---|---|
| **Within reconciliation of 'Net cash flows from operating activities'** | | | |
| Adjustments for: | | | |
| Fair value (gains) / losses on financial instruments held at FVTPL | 8.9 | (12.3) | **(3.4)** |
| Other non-cash movements | 11.5 | 1.5 | **13.0** |
| Changes in operating assets and liabilities: | | | |
| Movement in fair value of derivatives | (304.5) | 178.3 | **(126.2)** |
| Movement in fair value adjustments for hedged risk | 155.8 | (155.8) | - |
| Movements in debt securities | 11.7 | (11.7) | - |

## Condensed Consolidated Statement of Cash Flows

| Audited 12 months to 31.12.23 (£m) | Previously reported | Adjustments | Restated |
|---|---|---|---|
| **Within reconciliation of 'Net cash flows from operating activities'** | | | |
| Adjustments for: | | | |
| Fair value (gains) / losses 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 | - |

## c) Critical accounting judgements and estimates in applying accounting policies

Note 1u) to the 2023 Annual Report and Accounts sets out the key estimates, assumptions and judgements made by the Group which affect the amounts recognised in the financial statements. Updated information for certain key judgements and estimates is set out below.

### Impairment of mortgage loans and advances

#### 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 period ended 30 June 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.

# 1. Introduction (continued)

- **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 Statement for the six months ended 30 June 2024 is to increase Group profit by £0.7m.

Prior to the changes discussed above, 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. The sensitivity of commercial loan impairment to these factors is considered on page 50.

**Significant Increase in Credit Risk (SICR)**

Assessing loan impairment in accordance with IFRS 9 requires the Group to determine whether credit risk has significantly increased since the loan was initially recognised.

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 (PD) for the loan; 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 are set with the aim of identifying accounts with significantly increased credit risk before the borrower misses a payment. The Group periodically reviews the effectiveness of these thresholds in achieving this objective and revises the thresholds as considered appropriate; no changes were considered necessary during the period ended 30 June 2024. Details of the thresholds applied are shown below:

| **Multiple by which remaining lifetime PD has increased compared to initial estimate** | | | |
|---|---|---|---|
| Lifetime PD band at initial recognition | **Unaudited, applied at 30.06.24** | Unaudited, applied at 30.06.23 | Audited, applied at 31.12.23 |
| Slight risk | **initial estimate x 9** | initial estimate x 9 | initial estimate x 9 |
| Low risk | **initial estimate x 5** | initial estimate x 5 | initial estimate x 5 |
| Medium risk | **initial estimate x 4** | initial estimate x 4 | initial estimate x 4 |
| High risk | **initial estimate x 1** | initial estimate x 1 | initial estimate x 1 |

The Group also makes use of 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. Introduction (continued)

## Forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of ECLs. In accordance with IFRS 9, the Group's estimate of ECLs is an unbiased and probability-weighted amount that reflects a range of possible outcomes. 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. Given the high degree of uncertainty, the scenarios and weightings are continually reassessed by management and subject to formal update at least quarterly.

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 30 June 2024 were determined with due consideration to the significant economic uncertainties arising from current inflationary pressures (domestic and global) and rising interest rate environment.

The Group's central scenario as at 30 June 2024 assumes minimal growth in 2024. Geopolitical tensions continue in 2024, keeping pressure on gas and oil prices. Whilst a brief period of real wages growth has given some respite to households, pressures remain and many households are still yet to face the likely rate shock when their existing fixed rate mortgage deal matures. Unemployment rises slowly, with the peak lasting from late 2024 until mid-2027. Businesses continue to feel the impacts of inflation and rising wage bills. Inflation falls temporarily to the 2% target, but pressures remain and it continues to run generally above target until early 2026; in response the Bank of England holds interest rates at the 5.25% peak throughout the period to August 2024, commencing steady reductions from September 2024. House prices grow in 2024, with higher increases in 2025. There is a change in UK government in July 2024.

The Group's upside scenario as at 30 June 2024 assumes the economy grows strongly in 2024. Pressures on gas and oil prices ease, consumer confidence rises and unemployment remains low. Inflation falls swiftly, allowing the Bank of England to start cutting interest rates in order to stimulate economic growth. House price inflation recovers quickly, with growth in 2024 and into the medium term.

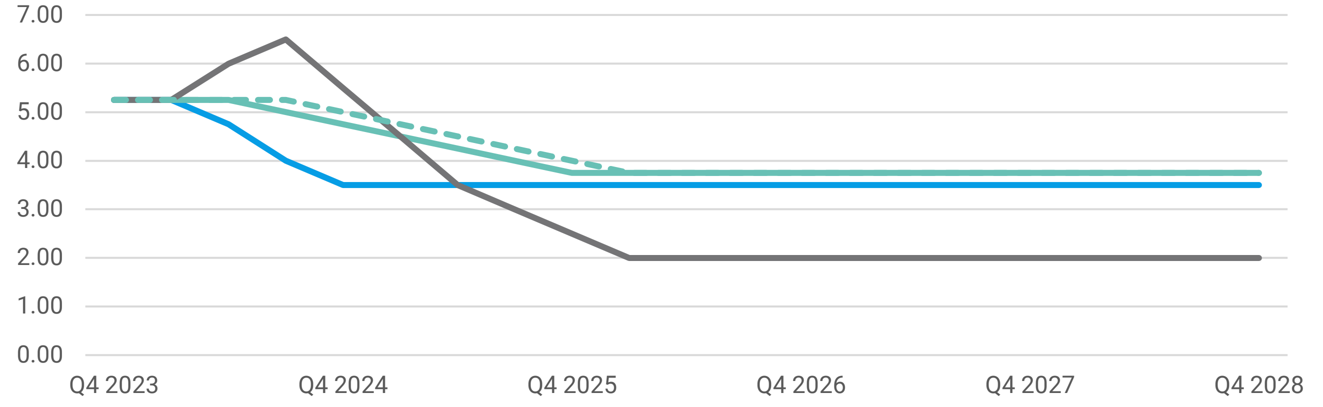
The Group's downside scenario as at 30 June 2024 assumes a period of severe stagflation, with high inflation and low growth. Geopolitical tensions escalate, causing further pressure on oil and gas prices and supply chain difficulties. An adverse weather event in 2024 causes food supply issues, resulting in further food inflation. There are no energy support packages, despite gas and electric prices increasing again. Inflation remains persistently high into the mid-term and the Bank of England reverts to raising interest rates beyond 6%; this hurts households and businesses alike, leading to rising unemployment, house price falls and recessionary conditions. Industrial disputes and strikes become widespread, causing significant disruption to business.

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 period taking account of significant economic uncertainties.

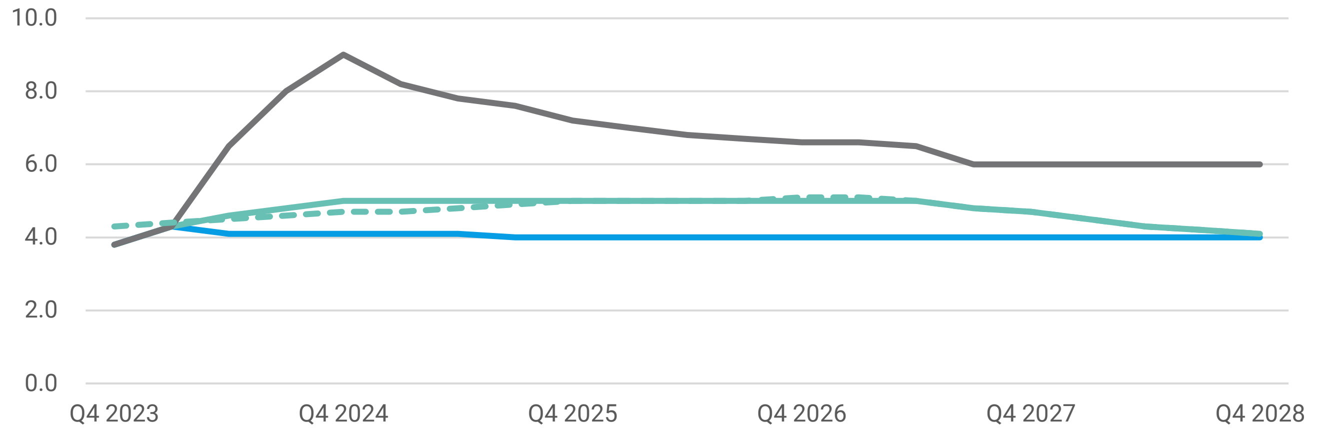
## 1. Introduction (continued)

The graphs below show the historical and forecasted bank base rate, unemployment rate and indexed residential house prices for the Group's three economic scenarios, along with the prior year central scenario for context (as forecasted at 31 December 2023). 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:

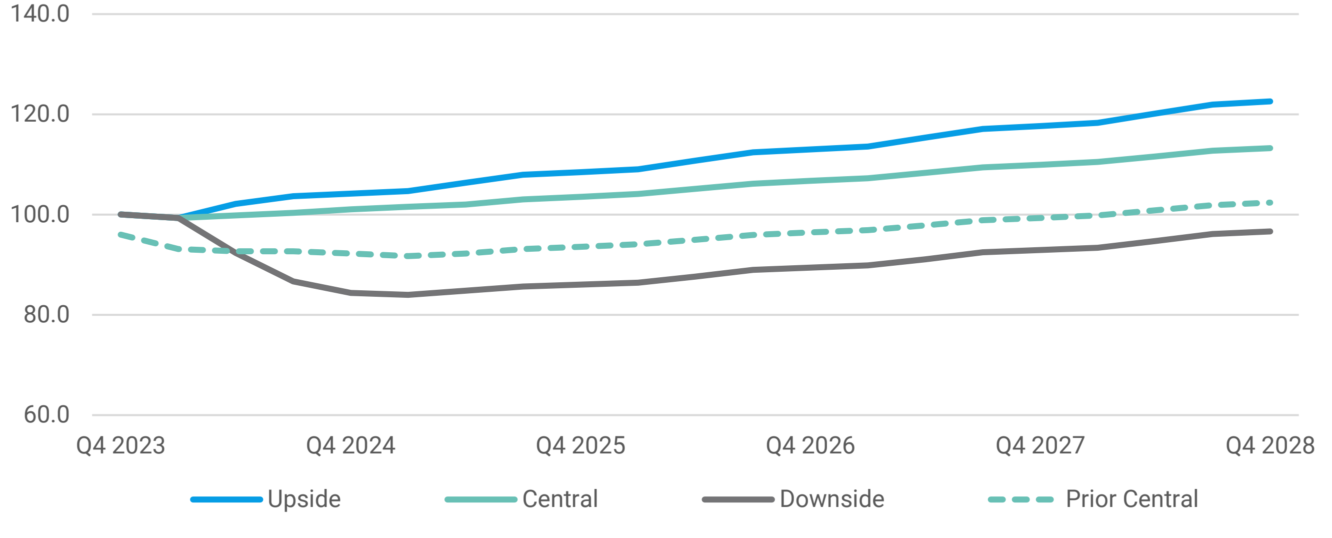
### UK Bank Base Rate (%)




### Unemployment Rate (%)




### Indexed residential house price



# 1. Introduction (continued)

## Economic Variables

| Unaudited as at 30.06.24 | Scenario | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|
| Bank of England base rate (%) (Note A) | Upside | **3.50** | **3.50** | **3.50** | **3.50** | **3.50** |
| | Central | **4.75** | **3.75** | **3.75** | **3.75** | **3.75** |
| | Downside | **5.50** | **2.50** | **2.00** | **2.00** | **2.00** |
| Unemployment (%) (Note A) | Upside | **4.1** | **4.0** | **4.0** | **4.0** | **4.0** |
| | Central | **5.0** | **5.0** | **5.0** | **4.7** | **4.1** |
| | Downside | **9.0** | **7.2** | **6.6** | **6.0** | **6.0** |
| UK house price inflation (%) (Note B) | Upside | **4.2** | **4.2** | **4.2** | **4.2** | **4.2** |
| | Central | **1.0** | **2.5** | **3.0** | **3.0** | **3.0** |
| | Downside | **(15.6)** | **1.9** | **4.0** | **4.0** | **4.0** |
| Commercial property price growth (%) (Note B) | Upside | **2.0** | **2.0** | **2.0** | **2.0** | **2.0** |
| | Central | **(7.6)** | **(4.8)** | **(1.0)** | **1.0** | **1.0** |
| | Downside | **(14.7)** | **(7.5)** | **0.0** | **0.0** | **0.0** |

| Unaudited as at 30.06.23 | Scenario | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| Bank of England base rate (%) (Note A) | Upside | 5.00 | 3.50 | 3.50 | 3.50 | 3.50 |
| | Central | 6.00 | 5.25 | 4.75 | 4.25 | 4.00 |
| | Downside | 7.25 | 4.00 | 2.00 | 2.00 | 2.00 |
| Unemployment (%) (Note A) | Upside | 3.9 | 4.1 | 3.8 | 3.8 | 3.8 |
| | Central | 4.2 | 4.4 | 4.1 | 4.1 | 4.1 |
| | Downside | 6.3 | 8.2 | 7.0 | 6.6 | 6.0 |
| UK house price inflation (%) (Note B) | Upside | (1.7) | 4.2 | 4.2 | 4.2 | 4.2 |
| | Central | (7.0) | (4.0) | 3.0 | 4.0 | 4.0 |
| | Downside | (13.9) | (11.2) | 5.0 | 4.0 | 4.0 |
| Commercial property price growth (%) (Note B) | Upside | 0.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| | Central | (5.7) | (5.7) | (2.0) | 1.0 | 1.0 |
| | Downside | (11.2) | (11.2) | 0.0 | 0.0 | 0.0 |

# 1. Introduction (continued)

## Economic Variables (continued)

| Audited as at 31.12.23 | Scenario | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|
| Bank of England base rate (%) (Note A) | Upside | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| | Central | 5.00 | 4.00 | 3.75 | 3.75 | 3.75 |
| | Downside | 5.00 | 2.50 | 2.00 | 2.00 | 2.00 |
| Unemployment (%) (Note A) | Upside | 4.1 | 4.0 | 4.0 | 4.0 | 4.0 |
| | Central | 4.7 | 5.0 | 5.1 | 4.7 | 4.1 |
| | Downside | 9.0 | 7.2 | 6.6 | 6.0 | 6.0 |
| UK house price inflation (%) (Note B) | Upside | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 |
| | Central | (4.0) | 1.5 | 3.0 | 3.0 | 3.0 |
| | Downside | (15.6) | 1.9 | 4.0 | 4.0 | 4.0 |
| Commercial property price growth (%) (Note B) | Upside | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| | Central | (8.7) | (4.5) | 1.0 | 1.0 | 1.0 |
| | Downside | (18.6) | (3.2) | 0.0 | 0.0 | 0.0 |

Notes

A. The Bank of England base rates and unemployment rates represent positions as at 31 December each year. Unemployment is presented on an International Labour Organisation (ILO) basis.

B. House price inflation (HPI) and commercial property price growth represent annual growth rates each year. The Group's views for commercial property price growth are specific to the Group's own commercial portfolio and are not intended as views for the entire UK commercial property market. In addition to HPI/commercial property price growth, the Group's loan impairment calculations 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, considering the specific circumstances of each account and the property in question.

## Economic variables (peak or trough over 5 year forecast period)

| | Scenario | **Unaudited as at 30.06.24** | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
|---|---|---|---|---|
| Bank of England base rate (%) (Note A) | Upside | **3.50 / 4.75** | 3.50 / 5.25 | 3.50 / 5.25 |
| | Central | **3.75 / 5.25** | 4.00 / 6.00 | 3.75 / 5.25 |
| | Downside | **2.00 / 6.50** | 2.00 / 7.25 | 2.00 / 6.50 |
| Unemployment (%) (Note B) | Upside | **4.1** | 4.1 | 4.1 |
| | Central | **5.0** | 4.4 | 5.1 |
| | Downside | **9.0** | 9.0 | 9.0 |
| UK house price inflation (%) (Note C) | Upside | **22.6 / (0.7)** | 15.7 / (3.2) | 22.6 / 0.0 |
| | Central | **13.3 / (0.7)** | 2.7 / (10.7) | 6.6 / (4.4) |
| | Downside | **0.0 / (16.0)** | 0.0 / (23.5) | 0.0 / (16.0) |
| Commercial property price growth (%) (Note C) | Upside | **10.4 / 0.0** | 8.2 / 0.0 | 10.4 / 0.0 |
| | Central | **0.0 / (12.8)** | 0.0 / (12.8) | 0.0 / (12.8) |
| | Downside | **0.0 / (21.2)** | 0.0 / (21.2) | 0.0 / (21.2) |

Notes

A. For Bank of England base rate is shown the lowest / highest rate that occurs at any time during the 5 year forecast period.

B. For unemployment is shown the highest rate that occurs at any time during the 5 year forecast period.

C. For house price inflation and for commercial property price growth is shown the largest cumulative growth / fall from 1 January 2024 (30 June 2023: from 1 January 2023; 31 December 2023: from 1 January 2024) over the 5 year forecast period.

## 1. Introduction (continued)

The relative weightings assigned to each scenario have also been reviewed during the period taking into account the basis of each scenario and also the level of uncertainty over the economic outlook, both domestic and global. The Group's scenario weightings as at 30 June 2024 are 55% for the central scenario, 10% for the upside scenario and 35% for the downside scenario (30 June 2023: central scenario 50%, upside scenario 10%, downside scenario 40%; 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).

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 and judgement the Group uses to measure credit risk include Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). 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.

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 outputs reported to the Society's Model Governance Committee for review, challenge and approval. In addition, the ECL calculation and all sub-components are subject to regular first-line review and independent validation. Where necessary, post model adjustments (PMAs) are included within ECLs to reflect identified risks not captured in model outputs; each material PMA is subject to review and challenge by the Society's Loan Impairment Working Group, subject to approval by the Retail Credit Committee and subject to oversight by the Board Audit Committee.

# 1. Introduction (continued)

With respect to residential mortgages, the Group held PMAs as follows:

| £m | Unaudited as at 30.06.24 | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
|---|---|---|---|
| Model risk - downturn scenario (Note A) | **2.9** | 8.8 | 4.5 |
| Model risk – Base Rate (Note B) | **2.6** | - | 5.3 |
| Affordability (Note C) | **1.7** | 2.9 | 2.8 |
| Flats subject to fire safety risks (Note D) | **1.0** | 3.6 | 1.3 |
| Other | **-** | - | 0.3 |
| | **8.2** | 15.3 | 14.2 |

Notes

A. This PMA is held to address model risk in the downturn scenario where key assumptions are expected to behave differently in a recession; there is currently insufficient data available to establish, and thus to model, robust relationships for these assumptions. The PMA was derived by considering the reduction in redemption rates and reduction in cure rates (following default) as observed during the global financial crisis 2007-2008; these were applied to the model, on a judgement basis, to understand the impact to model outputs.

B. This PMA is held to address model risk where it may take longer than was true historically for borrowers to be impacted by the high Base Rate environment. The PMA was derived by assessing the impact on model outputs of applying a time lag to the inputted Base Rate assumptions.

C. As discussed on page 42, UK economic conditions are currently volatile; even where unemployment is low, the cost of living crisis may impact the ability of the Group's borrowers to meet scheduled loan repayments. This PMA is therefore held to reflect the risks associated with the cost of living crisis as key economic assumptions may behave differently from the recent past, including the historical data used to build the Group's loan impairment models. With respect to the Society, high risk accounts are identified for this purpose by utilising the Society's lending affordability assessment; loans are considered high risk if the current mortgage balance exceeds what the revised maximum loan amount would be. For those high risk accounts currently in Stage 1 (12-month ECLs), the PMA is applied such that lifetime losses are held. With respect to other Group entities, high risk accounts are identified for this purpose where the borrower's interest rate is forecast to increase by more than a certain threshold; thresholds are based on the median forecast interest rate increase for the relevant portfolio and / or the interest rate applied within the Group entity's lending affordability assessment. For accounts identified as high risk, a PMA is held to reflect the impact of applying a Stage 2 PD to the account.

D. This PMA is held to reflect the risks associated with flats subject to fire safety risks such as unsuitable cladding. Due to limited available data to identify affected properties individually, an assumption is made, in line with UK market exposure estimates, regarding the affected proportion of flats in the Group's residential portfolio; assumptions relating to the property values have also been applied.

# 1. Introduction (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.

| Unaudited as at 30.06.24 | 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 | 10.9 | 3.9 | 6.9 | 21.7 | 98.3 | 1.4 |
| 100% upside | 100 | - | - | 3.5 | 1.5 | 5.0 | 10.0 | 98.5 | 1.2 |
| 100% central | - | 100 | - | 5.6 | 2.4 | 5.7 | 13.7 | 98.4 | 1.3 |
| 100% downside | - | - | 100 | 21.0 | 7.5 | 9.5 | 38.0 | 97.7 | 2.0 |
| **Commercial** | | | | | | | | | |
| Actual probability weighted ECL | 10 | 55 | 35 | 0.2 | 0.2 | 4.8 | 5.2 | 83.8 | 5.4 |
| 100% upside (Notes C and D) | 100 | - | - | 0.2 | 0.2 | 4.8 | 5.2 | 83.8 | 5.4 |
| 100% central (Notes C and D) | - | 100 | - | 0.2 | 0.2 | 4.8 | 5.2 | 83.8 | 5.4 |
| 100% downside (Notes C and D) | - | - | 100 | 0.2 | 0.2 | 4.8 | 5.2 | 83.8 | 5.4 |

| Unaudited as at 30.06.23 | 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 | 50 | 40 | 17.4 | 19.7 | 4.4 | 41.5 | 79.5 | 20.3 |
| 100% upside | 100 | - | - | 4.7 | 1.9 | 2.4 | 9.0 | 96.4 | 3.3 |
| 100% central | - | 100 | - | 8.8 | 7.1 | 3.6 | 19.5 | 89.6 | 10.2 |
| 100% downside | - | - | 100 | 19.1 | 46.5 | 15.1 | 80.7 | 62.1 | 37.7 |
| **Commercial** | | | | | | | | | |
| Actual probability weighted ECL | 10 | 50 | 40 | 1.2 | 7.6 | 0.7 | 9.5 | 69.4 | 25.5 |
| 100% upside (Note C) | 100 | - | - | 1.0 | 5.4 | 0.6 | 7.0 | 69.4 | 25.5 |
| 100% central (Note C) | - | 100 | - | 1.1 | 6.6 | 0.7 | 8.4 | 69.4 | 25.5 |
| 100% downside (Note C) | - | - | 100 | 1.3 | 9.4 | 0.8 | 11.5 | 69.4 | 25.5 |

# 1. Introduction (continued)

| Audited as at 31.12.23 | 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 (Note C) | 100 | - | - | 0.6 | 4.4 | 1.6 | 6.6 | 67.4 | 28.0 |
| 100% central (Note C) | - | 100 | - | 0.6 | 5.7 | 1.7 | 8.0 | 67.4 | 28.0 |
| 100% downside (Note C) | - | - | 100 | 0.7 | 8.6 | 1.8 | 11.1 | 67.4 | 28.0 |

Notes

A. For the purposes of calculating each scenario's 100% weighted ECL, each loan is allocated to a stage by considering only that scenario. For the purposes of the actual probability-weighted ECL, each loan's stage allocation is based on a weighted average PD (that takes account of all scenarios) and this stage allocation is held constant across the scenarios; a probability-weighted 12 month or lifetime ECL (which also takes account of all scenarios) is then calculated for each loan based on that stage allocation.

B. For the purposes of this analysis, gross exposures include the off-balance sheet loan commitments for which the Group holds ECLs (see Note 1g) to the 2023 Annual Report and Accounts).

C. For the Commercial portfolio, the staging of balances is driven by factors that do not include scenario weightings (such as arrears 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 period ended 30 June 2024 (see Note 1c) for details). Under the revised approach, commercial ECLs do not vary according to scenario weightings.

# 1. Introduction (continued)

The tables below outline the impact on the impairment loss allowance for the residential and commercial loan portfolios of possible alternative assumptions of certain estimates used in calculating the ECLs. Each sensitivity shown considers one change in isolation and the combined impact on the impairment loss allowance of more than one sensitivity occurring would not necessarily be the sum of the impact of the individual sensitivities. Similarly, the impacts of each sensitivity should not be extrapolated due to the likely non-linear effects.

## Residential

| Assumption | Change to current assumption | Increase/(decrease) in impairment loss allowance | | |
|---|---|---|---|---|
| £m | | **Unaudited as at 30.06.24** | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
| Downside scenario weighting (Note A) | Absolute increase of 10% | **0.6** | 6.3 | 3.5 |
| Significant increase in credit risk criteria (Note B) | Relative reduction by 25% | **0.1** | 7.6 | 0.4 |
| Future house price inflation (Note C) | + / - 0.5% pa | **(0.8) / 0.9** | (2.5) / 2.9 | (1.2) / 1.3 |
| Unemployment (Note D) | + / - 0.5% pa | **1.1 / (1.0)** | 7.2 / (5.8) | 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 35% to 45% (30 June 2023: from 40% to 50%; 31 December 2023: from 35% to 45%), with a relative decrease to the probability weighting assigned to each of the central and upside scenarios.

B. As outlined on page 41, 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.

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.

## Commercial

Management has revised during the period the judgements and estimates that are applied by the Group for the purposes of assessing commercial loan impairment (see pages 40 and 41 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.

| Assumption | Change to current assumption | Increase/(decrease) in impairment loss allowance | | |
|---|---|---|---|---|
| £m | | **Unaudited as at 30.06.24** | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
| Lifetime Loss Rate (Note A) | + / - 1% | 0.2 / (0.1) | N/A | N/A |

Notes

A. As noted above, the Group has during the period adopted a Loss Rate method to measure commercial loan impairment (see pages 40 and 41 for further 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 periods shown as the Loss Rate method was not applied in those earlier periods.

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 30 June 2024 the total commercial impairment allowance held by the Group included £4.7m in respect of account-specific impairment based on management judgement (30 June 2023: £5.3m; 31 December 2023: £5.3m).

# 1. Introduction (continued)

## Impairment of treasury assets

The Group incorporates forward-looking information into its ECL assessment for treasury assets. In addition to the central scenario, the Group also considers the impact of an extreme economic downturn such as a two-notch downgrade on the entire portfolio. At 30 June 2024, the relative weightings assigned to each scenario were 95% for the central scenario and 5% for the downside scenario (30 June 2023: central scenario 95%, downside scenario 5%; 31 December 2023: central scenario 95%, downside scenario 5%).

## 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 first half of 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 42. As at 30 June 2024, the fair value of the equity release portfolio was £285.9m (30 June 2023: £265.6m; 31 December 2023: £293.3m); further detail on the movements in the portfolio in the period can be found in Note 11.

The following table outlines the impact of reasonably possible alternative assumptions of key inputs which rely on management judgement and are not market observable.

| Assumption | Change to current assumption | (Decrease)/increase in fair value of portfolio | | |
|---|---|---|---|---|
| £m | | **Unaudited as at 30.06.24** | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
| Redemption rates | + / - 1% pa | **(0.9) / 1.0** | (0.0) / 0.0 | (1.3) / 1.5 |
| Illiquidity premia | + / - 0.2% | **(4.7) / 4.8** | (4.4) / 4.5 | (4.9) / 5.1 |
| HPI forecast | + / - 0.5% pa | **4.6 / (4.9)** | 4.8 / (5.1) | 5.2 / (5.5) |
| Property volatility | + / - 1% | **(2.9) / 2.8** | (2.7) / 2.7 | (3.0) / 3.0 |
| RPI volatility | + / - 0.5% pa | **(1.2) / 0.9** | (1.3) / 1.0 | (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.

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

## 1. Introduction (continued)

did not lead to a change in carrying amounts as at 30 June 2024, as at 30 June 2023, or as at 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 movements in the valuation of the portfolio, further details of which are found below.

### Derivative financial instruments

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

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

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

| Assumption | Change to current assumption | (Decrease) / increase in liability | | |
|---|---|---|---|---|
| £m | | **Unaudited as at 30.06.24** | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
| Redemption rates (Note A) | + / - 1% pa | **(1.3) / 1.4** | (2.1) / 2.3 | (2.1) / 2.3 |
| RPI volatility (Note A) | + / - 0.5% pa | **(2.4) / 2.0** | (3.0) / 2.7 | (2.3) / 1.8 |

Note

A. There would be a corresponding credit / charge 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.

### 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. The key drivers of these cash flows are set out in Note 21 to the 2023 Annual Report and Accounts.

## 1. Introduction (continued)

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.

The discount rate used to discount the future expected cash flows is based on the cost of capital assigned to each reportable segment for which goodwill has been allocated 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.

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<br>% | **Unaudited as at 30.06.24** | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
|---|---|---|---|
| Connells | **20** | 17 | 16 |
| Other | **11 - 12** | 12 - 13 | 13 |

For goodwill and brands held by the Group, the impairment assessment is typically carried out at the operating segment level. 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. With respect to goodwill and brands held by the Group, management's assessment as at 30 June 2024 indicates there is significant headroom in relation to all CGUs; no reasonably possible alternative assumptions relating to any of the key inputs used would result in impairment.

### Other intangible assets

Other intangible assets 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 above for goodwill.

Brands are held by the Estate Agency division 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 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 is provided above.

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.

As at 30 June 2024 no impairment was recognised against other intangible assets (30 June 2023: no impairment; 31 December 2023: no impairment).

# 1. Introduction (continued)

For goodwill and brands held by the Group, the impairment assessment is typically carried out at the operating segment level (as described above for goodwill). With respect to goodwill and brands held by the Group, management's assessment as at 30 June 2024 indicates there is significant headroom in relation to all CGUs; no reasonably possible alternative assumptions relating to any of the key inputs used would result in impairment.

## d) Going concern

The Group's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance are set out in the Financial Overview on pages 12 to 20.

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 sufficient buffers over regulatory liquidity and capital requirements in order to continue to be authorised to carry on its business. In assessing the Group's going concern status the Directors also consider risks from business activities, market changes and economic factors, such as the significant uncertainties arising from current inflationary pressures, which may affect future performance and financial position, together with the implication of principal risks including business risk and operational resilience. Updates to these principal risks can be found in the 'Principal and Emerging Risks and Uncertainties' section of this half-yearly report.

The Group's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Group should be able to operate at adequate levels of both liquidity and capital for the foreseeable future. Consequently, after reviewing the Group's latest forecasts and the updated key risks it faces, the Directors are satisfied that there are no material uncertainties that may cast significant doubt over the Group's ability to continue as a going concern for the foreseeable future, a period of at least 12 months from the date of this report. Accordingly, the Group continues to adopt the going concern basis in preparing the half-yearly financial report.

The Directors' Report in the 2023 Annual Report and Accounts included a statement of longer term viability, which stated that the Directors had a reasonable expectation that the Group would be able to continue in operation until at least the end of 2028. Having considered various options, the Directors determined that a five year period is an appropriate period for the purposes of the Group's viability statement; 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, and also the period over which associated stress testing is performed.

# 2. Other information

The half-yearly financial information set out in this announcement is unaudited and does not constitute statutory accounts within the meaning of section 81A of the Building Societies Act 1986 (the Act).

The financial information in respect of the year ended 31 December 2023 has been extracted from the audited 2023 Annual Report and Accounts, which have been filed with the Financial Conduct Authority.

The Independent Auditor's Report on the 2023 Annual Report and Accounts was unqualified and it did not draw attention to any matters by way of emphasis nor contain any statement under section 79(6) of the Act.

A copy of this half-yearly financial report has been placed on the website of Skipton Building Society. The Directors are responsible for the maintenance and integrity of information on the Society's website. Copies of the 2023 Annual Report and Accounts and this half-yearly financial report are available at www.skipton.co.uk/about-us/financial-results.

Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The half-yearly financial report for the six months ended 30 June 2024 was approved by the Board of Directors on 1 August 2024.

## 3. Interest receivable and similar income

| £m | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|
| On financial assets held at amortised cost: | | | |
| On loans fully secured on residential property | 565.7 | 376.7 | 855.1 |
| On other loans and advances | 13.3 | 11.3 | 25.1 |
| On other liquid assets | 78.5 | 78.1 | 170.9 |
| | 657.5 | 466.1 | 1,051.1 |
| On financial assets held at FVOCI: | | | |
| On debt securities | 82.6 | 43.4 | 109.6 |
| On financial instruments held at FVTPL: | | | |
| Net income on derivative financial instruments held to hedge assets in qualifying hedge accounting relationships | 285.6 | 260.8 | 585.7 |
| Interest receivable accounted for using effective interest rate method | 1,025.7 | 770.3 | 1,746.4 |
| On financial instruments held at FVTPL: | | | |
| On loans and advances to customers | - | - | 0.1 |
| On equity release portfolio | 9.7 | 11.4 | 22.0 |
| Net income on derivative financial instruments held to hedge assets in non-qualifying hedge accounting relationships | 6.5 | 3.9 | 11.5 |
| Other interest and similar income | 16.2 | 15.3 | 33.6 |
| | 1,041.9 | 785.6 | 1,780.0 |

## 4. Interest payable and similar charges

| £m | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|
| On financial liabilities held at amortised cost: | | | |
| On shares held by individuals | 523.6 | 273.1 | 697.8 |
| On shares held by others | 4.1 | 1.6 | 4.4 |
| On subscribed capital | 2.2 | 2.2 | 4.5 |
| On deposits and other borrowings: | | | |
| Subordinated liabilities | 14.7 | 7.7 | 22.6 |
| Wholesale and other funding | 164.4 | 153.4 | 306.8 |
| Lease liabilities | 1.4 | 1.0 | 2.3 |
| | 710.4 | 439.0 | 1,038.4 |
| On financial instruments held at FVTPL: | | | |
| Net expense on derivative financial instruments held to hedge liabilities | 92.7 | 69.1 | 198.9 |
| Finance credit on put option liability | (0.1) | (0.2) | (0.1) |
| | 803.0 | 507.9 | 1,237.2 |

## 5. Fees and commissions receivable

The tables below provide information regarding the nature, amount and timing of fees and commissions receivable.

| Unaudited 6 months to 30.06.24 £m | Products and services transferred at a point in time | Products and services transferred over time | Total |
|---|---|---|---|
| Mortgage origination fees | 34.6 | 12.7 | 47.3 |
| Other mortgage related fees | 1.0 | - | 1.0 |
| General insurance income | 41.4 | 0.5 | 41.9 |
| Commissions earned on property sales | 146.0 | - | 146.0 |
| Commissions earned on property lettings | 70.5 | 49.0 | 119.5 |
| Commercial property services fees | 21.3 | 21.8 | 43.1 |
| Survey and valuation fees | 55.6 | - | 55.6 |
| Asset management commission | 9.4 | 0.1 | 9.5 |
| Conveyancing fees | 29.0 | - | 29.0 |
| Financial advice fees | 16.8 | - | 16.8 |
| Software and consultancy fees | - | 8.7 | 8.7 |
| Factoring and invoice discounting services | 7.5 | - | 7.5 |
| Other fees and commissions | 7.2 | 0.2 | 7.4 |
| | 440.3 | 93.0 | 533.3 |

| Unaudited 6 months to 30.06.23 £m | Products and services transferred at a point in time | Products and services transferred over time | Total |
|---|---|---|---|
| Mortgage origination fees | 31.2 | 11.1 | 42.3 |
| Other mortgage related fees | 1.2 | - | 1.2 |
| General insurance income | 35.5 | 0.5 | 36.0 |
| Commissions earned on property sales | 121.8 | - | 121.8 |
| Commissions earned on property lettings | 54.6 | 57.1 | 111.7 |
| Commercial property services fees | 21.2 | 19.6 | 40.8 |
| Survey and valuation fees | 48.4 | - | 48.4 |
| Asset management commission | 6.9 | 0.1 | 7.0 |
| Conveyancing fees | 25.3 | - | 25.3 |
| Financial advice fees | 16.8 | - | 16.8 |
| Software and consultancy fees | - | 10.3 | 10.3 |
| Factoring and invoice discounting services | 6.7 | - | 6.7 |
| Other fees and commissions | 6.1 | 0.3 | 6.4 |
| | 375.7 | 99.0 | 474.7 |

## 5. Fees and commissions receivable (continued)

| Audited 12 months to 31.12.23 £m | Products and services transferred at a point in time | Products and services transferred over time | Total |
|---|---|---|---|
| Mortgage origination fees | 46.4 | 27.6 | 74.0 |
| Other mortgage related fees | 2.3 | - | 2.3 |
| General insurance income | 84.5 | 1.0 | 85.5 |
| Commissions earned on property sales | 275.6 | - | 275.6 |
| Commissions earned on property lettings | 108.9 | 121.3 | 230.2 |
| Commercial property services fees | 44.7 | 37.4 | 82.1 |
| Survey and valuation fees | 93.2 | - | 93.2 |
| Asset management commission | 15.3 | 0.1 | 15.4 |
| Conveyancing fees | 56.8 | - | 56.8 |
| Financial advice fees | 32.4 | - | 32.4 |
| Software and consultancy fees | - | 19.2 | 19.2 |
| Factoring and invoice discounting services | 14.3 | - | 14.3 |
| Other fees and commissions | 10.3 | 2.4 | 12.7 |
| | 784.7 | 209.0 | 993.7 |

The tables below provide a reconciliation of fees and commissions receivable by the Group to the amounts presented by reportable segment in Note 20.

| Unaudited 6 months to 30.06.24 £m | Society | SIL | Connells | Other^ | Total |
|---|---|---|---|---|---|
| Mortgage origination fees | - | - | 48.4 | (1.1) | 47.3 |
| Other mortgage related fees | 0.9 | 0.1 | - | - | 1.0 |
| General insurance income | 0.5 | - | 41.4 | - | 41.9 |
| Commissions earned on property sales | - | - | 146.0 | - | 146.0 |
| Commissions earned on property lettings | - | - | 119.5 | - | 119.5 |
| Commercial property services fees | - | - | 42.4 | 0.7 | 43.1 |
| Survey and valuation fees | - | - | 59.3 | (3.7) | 55.6 |
| Asset management commission | - | - | 9.5 | - | 9.5 |
| Conveyancing fees | - | - | 29.5 | (0.5) | 29.0 |
| Financial advice fees | 16.4 | - | - | 0.4 | 16.8 |
| Software and consultancy fees | - | - | - | 8.7 | 8.7 |
| Factoring and invoice discounting services | - | - | - | 7.5 | 7.5 |
| Other fees and commissions | - | - | 7.4 | - | 7.4 |
| Fees and commissions receivable | 17.8 | 0.1 | 503.4 | 12.0 | 533.3 |
| Fees and commissions payable and other income | 4.2 | - | (0.4) | (4.9) | (1.1) |
| Net non-interest income | 22.0 | 0.1 | 503.0 | 7.1 | 532.2 |

^ As noted on page 13 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.

## 5. Fees and commissions receivable (continued)

| Unaudited 6 months to 30.06.23 £m | Society | SIL | Connells | Other | Total |
|---|---|---|---|---|---|
| Mortgage origination fees | - | - | 43.1 | (0.8) | 42.3 |
| Other mortgage related fees | 1.1 | 0.1 | - | - | 1.2 |
| General insurance income | 0.5 | - | 35.5 | - | 36.0 |
| Commissions earned on property sales | - | - | 121.8 | - | 121.8 |
| Commissions earned on property lettings | - | - | 111.7 | - | 111.7 |
| Commercial property services fees | - | - | 40.8 | - | 40.8 |
| Survey and valuation fees | - | - | 53.2 | (4.8) | 48.4 |
| Asset management commission | - | - | 7.0 | - | 7.0 |
| Conveyancing fees | - | - | 25.6 | (0.3) | 25.3 |
| Financial advice fees | 16.4 | - | - | 0.4 | 16.8 |
| Software and consultancy fees | - | - | - | 10.3 | 10.3 |
| Factoring and invoice discounting services | - | - | - | 6.7 | 6.7 |
| Other fees and commissions | - | 0.1 | 6.3 | - | 6.4 |
| Fees and commissions receivable | 18.0 | 0.2 | 445.0 | 11.5 | 474.7 |
| Fees and commissions payable and other income | 2.9 | - | (1.1) | (3.2) | (1.4) |
| Net non-interest income | 20.9 | 0.2 | 443.9 | 8.3 | 473.3 |

| Audited 12 months to 31.12.23 £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 income | 5.3 | - | (2.9) | (9.0) | (6.6) |
| Net non-interest income | 39.9 | 0.3 | 933.7 | 13.2 | 987.1 |

# 6. Other operating income and expenses

## a) Fair value gains on financial instruments mandatorily held at FVTPL

| £m | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|
| Hedging instruments and hedged items | **0.1** | (1.8) | (1.6) |
| Derivatives associated with equity release portfolio (Note 11) | **12.5** | 14.1 | 1.8 |
| Equity release portfolio (Note 11) | **(6.9)** | (17.3) | 9.2 |
| Share warrants | **3.2** | 8.3 | 13.3 |
| Put options held by minority shareholders | **(0.2)** | 0.1 | 0.3 |
| Equity share investments | **(0.9)** | - | 0.5 |
| | **7.8** | 3.4 | 23.5 |

## b) Other income

| £m | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|
| Realised profits on treasury assets held at FVOCI | **0.2** | - | 0.1 |
| Share of profits from joint ventures | **0.3** | 0.5 | 1.1 |
| Other | **1.9** | 1.2 | 1.7 |
| | **2.4** | 1.7 | 2.9 |

## c) Administrative expenses

| £m | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|
| Employee costs: | | | |
| Wages and salaries | **357.4** | 338.9 | 701.8 |
| Social security costs | **37.8** | 34.7 | 72.2 |
| Pension costs: | | | |
| Defined contribution arrangements | **14.0** | 13.1 | 26.6 |
| Past service costs | **-** | - | (0.8) |
| | **409.2** | 386.7 | 799.8 |
| Other administrative expenses | **217.2** | 209.0 | 425.0 |
| | **626.4** | 595.7 | 1,224.8 |

## d) Impairment and provisions

| £m | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|
| Impairment credits / (losses) on loans and advances to customers (Note 7) | **9.3** | (9.3) | 3.1 |
| Impairment credits on liquid assets | **-** | 0.1 | 0.1 |
| Realised losses on equity release portfolio (Note 11) | **(0.8)** | (0.5) | (0.8) |
| Provisions for liabilities (Note 14) | **(4.5)** | (0.6) | 1.2 |
| | **4.0** | (10.3) | 3.6 |

## 7. Impairment on loans and advances to customers

| £m | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|
| (Credit) / charge during the period: | | | |
| Loans fully secured on residential property | **(6.9)** | 9.6 | (3.0) |
| Loans fully secured on land | **(2.6)** | (0.4) | (0.9) |
| Other loans and advances | **0.2** | 0.1 | 0.8 |
| | **(9.3)** | 9.3 | (3.1) |

| £m | Unaudited as at 30.06.24 | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
|---|---|---|---|
| Expected credit loss (ECL) allowance at end of period (see Note 10): | | | |
| Loans fully secured on residential property | **21.7** | 41.5 | 29.0 |
| Loans fully secured on land | **5.2** | 9.5 | 9.0 |
| Other loans and advances | **1.7** | 1.1 | 1.6 |
| | **28.6** | 52.1 | 39.6 |

## 8. Taxation

The tax expense for the period, summarised in the table below, has been calculated by applying individual tax rates for each tax jurisdiction based on the estimated average annual tax rate, by jurisdiction, to estimated taxable profits for the period.

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 are aimed at ensuring that large corporate groups are subject to a minimum effective tax rate of 15% in each jurisdiction within which they operate; further details are provided in the 2023 Annual Report and Accounts. The charge estimated by the Group in respect of Pillar Two, for the six month period to 30 June 2024, is £0.7m and this is included within the current tax expense below (six months ended 30 June 2023: £nil; year ended 31 December 2023: £nil). This charge does not include any element of deferred tax as the Group has applied the temporary mandatory exception issued by the IASB in May 2023. Also, this charge remains an estimate as the Group is currently engaged with tax specialists to develop a detailed application of the rules and guidance.

| £m | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|
| Current tax expense | **33.9** | 34.0 | 80.3 |
| Deferred tax expense / (credit) | **4.3** | 2.2 | (1.5) |
| Total tax expense | **38.2** | 36.2 | 78.8 |

The Group's effective tax rate for the period was 24.4% (six months ended 30 June 2023: 24.4%; year ended 31 December 2023: 23.7%), which differs from the standard rate of corporation tax in the UK of 25.0% (2023: 23.5%). The effective tax rate is impacted by disallowable expenditure, non-taxable income and the lower tax rate in Guernsey which applies to the taxable profits of Skipton International Limited. Further, the Society's annual profits above £100m are subject to a 3% banking companies surcharge.

The banking companies surcharge rate reduced from 8% to 3% with effect from 1 April 2023, whilst the level of taxable profits above which the surcharge applies increased from £25m pa to £100m pa from the same date.

## 9. Debt securities

Movements in debt securities during the period are summarised as follows:

| £m | Unaudited as at 30.06.24 | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
|---|---|---|---|
| At 1 January | **3,337.7** | 2,640.3 | 2,640.3 |
| Additions | **2,165.0** | 1,087.5 | 2,476.7 |
| Maturities and disposals | **(1,368.7)** | (774.7) | (1,828.4) |
| Changes in fair value | **(12.5)** | (14.4) | 49.2 |
| Other | **-** | 0.3 | (0.1) |
| At end of period | **4,121.5** | 2,939.0 | 3,337.7 |

All debt securities are held at FVOCI. Impairment loss allowances on debt securities held at FVOCI are charged to the Income Statement but, in line with the requirements of IFRS 9, do not reduce the carrying value of the assets; instead the loss allowance is recognised through other comprehensive income. The amount of impairment loss allowance debited to the Income Statement in respect of debt securities held at FVOCI, measured on an ECL basis, for the six months ended 30 June 2024 was £0.1m (six months ended 30 June 2023: £0.1m credit; year ended 31 December 2023: £0.1m credit).

## 10. Loans and advances to customers held at amortised cost

| Unaudited as at 30.06.24<br>£m | Gross carrying amount | ECL allowance (Note 7) | Fair value adjustment for hedged risk | Carrying amount | % |
|---|---|---|---|---|---|
| Loans fully secured on residential property (Note A) | **29,757.0** | **(21.7)** | **(420.4)** | **29,314.9** | **98.8** |
| Loans fully secured on land (Note B) | **124.5** | **(5.2)** | **-** | **119.3** | **0.4** |
| Other lending: | | | | | |
| Debt factoring advances | **191.4** | **(1.7)** | **-** | **189.7** | **0.6** |
| Other loans (Note C) | **50.8** | **-** | **-** | **50.8** | **0.2** |
| | **30,123.7** | **(28.6)** | **(420.4)** | **29,674.7** | **100.0** |

| Unaudited as at 30.06.23<br>£m | Gross carrying amount | ECL allowance (Note 7) | Fair value adjustment for hedged risk | Carrying amount | % |
|---|---|---|---|---|---|
| Loans fully secured on residential property (Note A) | 26,819.0 | (41.5) | (1,271.4) | 25,506.1 | 98.7 |
| Loans fully secured on land (Note B) | 148.2 | (9.5) | - | 138.7 | 0.5 |
| Other lending: | | | | | |
| Debt factoring advances | 160.8 | (1.1) | - | 159.7 | 0.6 |
| Other loans (Note C) | 54.8 | - | - | 54.8 | 0.2 |
| | 27,182.8 | (52.1) | (1,271.4) | 25,859.3 | 100.0 |

## 10. Loans and advances to customers held at amortised cost (continued)

| Audited as at 31.12.23<br>£m | Gross carrying amount | ECL allowance (Note 7) | Fair value adjustment for hedged risk | Carrying amount | % |
|---|---|---|---|---|---|
| Loans fully secured on residential property (Note A) | 28,192.3 | (29.0) | (350.9) | 27,812.4 | 98.8 |
| Loans fully secured on land (Note B) | 135.2 | (9.0) | - | 126.2 | 0.4 |
| Other lending: | | | | | |
| Debt factoring advances | 171.2 | (1.6) | - | 169.6 | 0.6 |
| Other loans (Note C) | 53.2 | - | - | 53.2 | 0.2 |
| | 28,551.9 | (39.6) | (350.9) | 28,161.4 | 100.0 |

Notes

A. Also known as residential mortgages.

B. Also known as commercial loans.

C. Includes certain advances made to residential mortgage customers in Guernsey and Jersey by Skipton International Limited; these advances are secured on shares in a property management company which owns the building in which the properties are located.

### a) Residential mortgages

The majority of loans and advances to customers are secured on UK residential properties and are geographically diverse. The Group's portfolio of loans fully secured on residential properties includes lending by the Society and by Skipton International Limited (which lends in the Channel Islands and in the UK). It also includes the specialist mortgage books previously held by Amber Homeloans Limited and North Yorkshire Mortgages Limited (both closed to new lending since 2008); the assets and activities of these entities were hived-up into the Society with effect from 1 June 2021. The Group's credit risk appetite explicitly considers geographical regions in order to manage concentration risk.

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. The transition timeline will be subject to the impacts of the recent change in UK Government. The results of the Group's assessment did not lead to a change in carrying amounts at 30 June 2024 (nor at 30 June 2023 or 31 December 2023). The future impact of climate-related risks on the Group's credit risk is uncertain, and the Group will continue to monitor developments in future periods.

At 30 June 2024 the average indexed loan-to-value (LTV) of Group residential mortgages on a valuation-weighted basis (calculated as the total outstanding balance divided by the total value of collateral held) was 48.3% (30 June 2023: 43.4%; 31 December 2023: 44.5%).

The tables below provide information on movements in the gross carrying amount of residential loans and advances to customers during the period.

## 10. Loans and advances to customers held at amortised cost (continued)

| Unaudited as at 30.06.24<br>£m | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross carrying amount at 1 January 2024 | **27,485.7** | **628.6** | **78.0** | **28,192.3** |
| Transfers due to changes in credit risk (Note A): | | | | |
| To Stage 1 | **352.6** | **(352.5)** | **(0.1)** | **-** |
| To Stage 2 | **(208.6)** | **213.3** | **(4.7)** | **-** |
| To Stage 3 | **(5.1)** | **(12.4)** | **17.5** | **-** |
| Modification of contractual cashflows | **(14.2)** | **(3.2)** | **15.4** | **(2.0)** |
| Increases due to origination | **3,210.2** | **6.4** | **-** | **3,216.6** |
| Decrease due to derecognition and repayments | **(1,595.8)** | **(48.9)** | **(8.4)** | **(1,653.1)** |
| Write-offs | **-** | **(0.3)** | **(1.7)** | **(2.0)** |
| Other movements | **4.7** | **0.2** | **0.3** | **5.2** |
| Gross carrying amount at 30 June 2024 | **29,229.5** | **431.2** | **96.3** | **29,757.0** |

| Unaudited as at 30.06.23 (re-presented (Note A))<br>£m | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross carrying amount at 1 January 2023 | 20,685.8 | 4,351.4 | 60.1 | 25,097.3 |
| Transfers due to changes in credit risk (Note A): | | | | |
| To Stage 1 | 890.0 | (889.9) | (0.1) | - |
| To Stage 2 | (2,754.6) | 2,762.6 | (8.0) | - |
| To Stage 3 | (1.4) | (11.2) | 12.6 | - |
| Modification of contractual cashflows | (13.4) | 6.5 | 4.0 | (2.9) |
| Increases due to origination | 3,336.7 | 34.9 | - | 3,371.6 |
| Decrease due to derecognition and repayments | (1,251.7) | (389.3) | (5.3) | (1,646.3) |
| Write-offs | - | (1.0) | (1.9) | (2.9) |
| Other movements | - | 2.1 | 0.1 | 2.2 |
| Gross carrying amount at 30 June 2023 | 20,891.4 | 5,866.1 | 61.5 | 26,819.0 |

# 10. Loans and advances to customers held at amortised cost (continued)

| Audited as at 31.12.23<br>£m | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross carrying amount at 1 January 2023 | 20,685.8 | 4,351.4 | 60.1 | 25,097.3 |
| Transfers due to changes in credit risk (Note A): | | | | |
| To Stage 1 | 3,473.4 | (3,471.8) | (1.6) | - |
| To Stage 2 | (266.4) | 273.5 | (7.1) | - |
| To Stage 3 | (6.0) | (17.6) | 23.6 | - |
| Modification of contractual cashflows | (5.2) | (13.7) | 14.5 | (4.4) |
| Increases due to origination | 6,575.3 | 26.9 | 1.1 | 6,603.3 |
| Decrease due to derecognition and repayments | (2,980.5) | (514.9) | (9.8) | (3,505.2) |
| Write-offs | (0.2) | (1.5) | (3.4) | (5.1) |
| Other movements | 9.5 | (3.7) | 0.6 | 6.4 |
| Gross carrying amount at 31 December 2023 | 27,485.7 | 628.6 | 78.0 | 28,192.3 |

Note

A. For the purposes of the analysis presented above, the amounts shown for 'transfers due to changes in credit risk' are based on account balances at the start of the reporting period (not account balances at the date of transfer). The comparative amounts for the six months ended 30 June 2023 are re-presented above according to this basis (the analysis for that period as previously reported showed transfers into the new stage based on account balances at the end of the reporting period); this revision is presentational only and there is no impact on total amounts reported for the six months ended 30 June 2023.

Amounts presented within 'Other movements' in the tables above include movements in the Group's effective interest rate asset.

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 30 June 2024, Stage 3 loans include £19.5m being held in Stage 3 under this probation period (30 June 2023: £15.0m; 31 December 2023: £16.6m).

The following tables 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 1c). ECL coverage shows the level of loss allowance expressed as a percentage of the gross carrying amount.

For the purposes of regulatory capital requirements, the Group applies an Internal Ratings Based (IRB) approach to certain credit risk exposures (as discussed in the Financial Overview on page 18). 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.

## 10. Loans and advances to customers held at amortised cost (continued)

| Unaudited as at 30.06.24 £m Probability of default | Gross carrying amount | | | | Loss allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| <0.15% | 526.9 | 0.9 | - | 527.8 | 0.4 | - | - | 0.4 |
| 0.15% - <0.25% | 2,410.1 | 0.4 | - | 2,410.5 | 0.5 | - | - | 0.5 |
| 0.25% - <0.5% | 14,453.8 | 0.9 | - | 14,454.7 | 4.5 | - | - | 4.5 |
| 0.5% - <0.75% | 8,127.0 | 7.8 | - | 8,134.8 | 3.3 | - | - | 3.3 |
| 0.75% - <2.5% | 3,657.9 | 79.2 | - | 3,737.1 | 2.1 | 0.1 | - | 2.2 |
| 2.5% - <10% | 53.8 | 96.2 | - | 150.0 | 0.1 | 0.2 | - | 0.3 |
| 10% - <100% | - | 245.8 | - | 245.8 | - | 3.6 | - | 3.6 |
| Default | - | - | 96.3 | 96.3 | - | - | 6.9 | 6.9 |
| | 29,229.5 | 431.2 | 96.3 | 29,757.0 | 10.9 | 3.9 | 6.9 | 21.7 |
| ECL coverage (%) | | | | | 0.04% | 0.90% | 7.17% | 0.07% |

| Unaudited as at 30.06.23 £m Probability of default | Gross carrying amount | | | | Loss allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| <0.15% | 7.1 | 1.0 | - | 8.1 | 0.9 | - | - | 0.9 |
| 0.15% - <0.25% | 54.8 | 2.6 | - | 57.4 | - | - | - | - |
| 0.25% - <0.5% | 1,758.9 | 1.6 | - | 1,760.5 | 0.8 | - | - | 0.8 |
| 0.5% - <0.75% | 5,788.4 | 4.8 | - | 5,793.2 | 3.4 | - | - | 3.4 |
| 0.75% - <2.5% | 13,086.2 | 69.2 | - | 13,155.4 | 12.0 | - | - | 12.0 |
| 2.5% - <10% | 195.9 | 2,455.4 | - | 2,651.3 | 0.3 | 3.4 | - | 3.7 |
| 10% - <100% | 0.1 | 3,331.5 | - | 3,331.6 | - | 16.3 | - | 16.3 |
| Default | - | - | 61.5 | 61.5 | - | - | 4.4 | 4.4 |
| | 20,891.4 | 5,866.1 | 61.5 | 26,819.0 | 17.4 | 19.7 | 4.4 | 41.5 |
| ECL coverage (%) | | | | | 0.08% | 0.34% | 7.15% | 0.15% |

| Audited as at 31.12.23 £m Probability of default | Gross carrying amount | | | | Loss allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 |
| | 27,485.7 | 628.6 | 78.0 | 28,192.3 | 16.2 | 6.0 | 6.8 | 29.0 |
| ECL coverage (%) | | | | | 0.06% | 0.95% | 8.72% | 0.10% |

## 10. Loans and advances to customers held at amortised cost (continued)

The tables below provide information on movements in the impairment loss allowance for residential loans and advances to customers during the period:

| Unaudited as at 30.06.24<br>£m | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Loss allowance at 1 January 2024 | **16.2** | **6.0** | **6.8** | **29.0** |
| Transfers due to changes in credit risk: | | | | |
| To Stage 1 | **0.2** | **(1.2)** | **-** | **(1.0)** |
| To Stage 2 | **(0.1)** | **1.1** | **(0.1)** | **0.9** |
| To Stage 3 | **-** | **(0.5)** | **0.7** | **0.2** |
| Remeasurements within existing stage | **(5.9)** | **(0.6)** | **0.1** | **(6.4)** |
| Modification of contractual cashflows | **-** | **(0.6)** | **0.5** | **(0.1)** |
| Increases due to origination | **1.5** | **-** | **-** | **1.5** |
| Decreases due to derecognition and repayments | **(1.0)** | **(0.3)** | **(0.8)** | **(2.1)** |
| Write-offs | **-** | **-** | **(0.3)** | **(0.3)** |
| Loss allowance at 30 June 2024 | **10.9** | **3.9** | **6.9** | **21.7** |

| Unaudited as at 30.06.23<br>£m | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Loss allowance at 1 January 2023 | 11.2 | 17.7 | 3.6 | 32.5 |
| Transfers due to changes in credit risk: | | | | |
| To Stage 1 | 0.8 | (2.8) | - | (2.0) |
| To Stage 2 | (1.4) | 6.9 | (0.1) | 5.4 |
| To Stage 3 | - | (0.4) | 1.1 | 0.7 |
| Remeasurements within existing stage | 3.6 | (1.4) | (0.2) | 2.0 |
| Modification of contractual cashflows | - | 0.3 | 0.5 | 0.8 |
| Increases due to origination | 4.0 | 0.2 | - | 4.2 |
| Decreases due to derecognition and repayments | (0.8) | (0.8) | (0.2) | (1.8) |
| Write-offs | - | - | (0.3) | (0.3) |
| Loss allowance at 30 June 2023 | 17.4 | 19.7 | 4.4 | 41.5 |

| Audited as at 31.12.23<br>£m | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Loss allowance at 1 January 2023 | 11.2 | 17.7 | 3.6 | 32.5 |
| Transfers due to changes in credit risk: | | | | |
| To Stage 1 | 1.8 | (12.0) | - | (10.2) |
| To Stage 2 | (0.1) | 1.6 | (0.1) | 1.4 |
| To Stage 3 | - | (0.5) | 2.2 | 1.7 |
| Remeasurements within existing stage | (0.8) | 0.1 | 0.3 | (0.4) |
| Modification of contractual cashflows | - | 0.3 | 1.4 | 1.7 |
| Increases due to origination | 5.5 | 0.3 | 0.1 | 5.9 |
| Decreases due to derecognition and repayments | (1.4) | (1.5) | (0.3) | (3.2) |
| Write-offs | - | - | (0.4) | (0.4) |
| Loss allowance at 31 December 2023 | 16.2 | 6.0 | 6.8 | 29.0 |

## 10. Loans and advances to customers held at amortised cost (continued)

The tables below provide information on residential loans and advances by payment due status:

| Unaudited as at 30.06.24 £m | Gross carrying amount | | | | ECL allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Not past due | 29,229.5 | 299.6 | 8.5 | 29,537.6 | 10.9 | 1.1 | 0.9 | 12.9 |
| Past due: | | | | | | | | |
| Up to 30 days | - | 71.1 | 1.5 | 72.6 | - | 1.1 | 0.1 | 1.2 |
| 31 to 60 days | - | 42.8 | 6.7 | 49.5 | - | 1.1 | 0.1 | 1.2 |
| 61 to 90 days | - | 17.7 | 8.0 | 25.7 | - | 0.6 | 0.3 | 0.9 |
| Over 90 days | - | - | 71.6 | 71.6 | - | - | 5.5 | 5.5 |
| | 29,229.5 | 431.2 | 96.3 | 29,757.0 | 10.9 | 3.9 | 6.9 | 21.7 |

| Unaudited as at 30.06.23 £m | Gross carrying amount | | | | ECL allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Not past due | 20,891.4 | 5,767.3 | 6.5 | 26,665.2 | 17.4 | 17.1 | 0.7 | 35.2 |
| Past due: | | | | | | | | |
| Up to 30 days | - | 57.4 | 2.3 | 59.7 | - | 1.4 | 0.1 | 1.5 |
| 31 to 60 days | - | 30.6 | 3.7 | 34.3 | - | 0.8 | 0.1 | 0.9 |
| 61 to 90 days | - | 10.8 | 8.2 | 19.0 | - | 0.4 | 0.2 | 0.6 |
| Over 90 days | - | - | 40.8 | 40.8 | - | - | 3.3 | 3.3 |
| | 20,891.4 | 5,866.1 | 61.5 | 26,819.0 | 17.4 | 19.7 | 4.4 | 41.5 |

| Audited as at 31.12.23 £m | Gross carrying amount | | | | ECL allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 16.2 | 2.2 | 1.0 | 19.4 |
| Past due: | | | | | | | | |
| Up to 30 days | - | 67.0 | 1.8 | 68.8 | - | 1.5 | 0.1 | 1.6 |
| 31 to 60 days | - | 42.5 | 3.5 | 46.0 | - | 1.5 | 0.1 | 1.6 |
| 61 to 90 days | - | 12.7 | 7.3 | 20.0 | - | 0.8 | 0.2 | 1.0 |
| Over 90 days | - | - | 56.9 | 56.9 | - | - | 5.4 | 5.4 |
| | 27,485.7 | 628.6 | 78.0 | 28,192.3 | 16.2 | 6.0 | 6.8 | 29.0 |

# 10. Loans and advances to customers held at amortised cost (continued)

## b) Commercial loans

The commercial loans portfolio (also known as loans fully secured on land) was closed to new business in November 2008. Loans secured on commercial property are well diversified by both industry type and geographical location. The tables below provide information on movements in the gross carrying value of commercial loans and advances to customers during the period.

| Unaudited as at 30.06.24<br>£m | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross carrying amount at 1 January 2024 | **91.0** | **37.8** | **6.4** | **135.2** |
| Transfers due to changes in credit risk (Note A): | | | | |
| To Stage 1 | **22.9** | **(22.9)** | **-** | **-** |
| To Stage 2 | **(1.4)** | **1.4** | **-** | **-** |
| To Stage 3 | **-** | **(2.1)** | **2.1** | **-** |
| Modification of contractual cashflows | **-** | **(7.4)** | **7.2** | **(0.2)** |
| Decreases due to derecognition and repayments | **(8.1)** | **(0.1)** | **(2.3)** | **(10.5)** |
| Gross carrying amount at 30 June 2024 | **104.4** | **6.7** | **13.4** | **124.5** |

| Unaudited as at 30.06.23 (re-presented (Note A))<br>£m | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross carrying amount at 1 January 2023 | 105.3 | 46.9 | 7.1 | 159.3 |
| Transfers due to changes in credit risk (Note A): | | | | |
| To Stage 1 | 4.3 | (4.3) | - | - |
| To Stage 2 | (0.8) | 0.8 | - | - |
| To Stage 3 | (0.3) | - | 0.3 | - |
| Modification of contractual cashflows | 0.7 | (2.5) | 0.7 | (1.1) |
| Decreases due to derecognition and repayments | (6.4) | (3.1) | (0.5) | (10.0) |
| Gross carrying amount at 30 June 2023 | 102.8 | 37.8 | 7.6 | 148.2 |

| Audited as at 31.12.23<br>£m | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross carrying amount at 1 January 2023 | 105.3 | 46.9 | 7.1 | 159.3 |
| Transfers due to changes in credit risk (Note A): | | | | |
| To Stage 1 | 4.8 | (4.8) | - | - |
| To Stage 2 | (1.6) | 1.6 | - | - |
| To Stage 3 | (0.1) | - | 0.1 | - |
| Modification of contractual cashflows | 0.1 | (0.8) | 0.1 | (0.6) |
| Decreases due to derecognition and repayments | (17.2) | (5.1) | (0.9) | (23.2) |
| Write-offs | (0.3) | - | - | (0.3) |
| Gross carrying amount at 31 December 2023 | 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). The comparative amounts for the six months ended 30 June 2023 are re-presented above according to this basis (the analysis for that period as previously reported showed transfers into the new stage based on account balances at the end of the reporting period); this revision is presentational only and there is no impact on total amounts reported for the six months ended 30 June 2023.

## 10. Loans and advances to customers held at amortised cost (continued)

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 30 June 2024, Stage 3 loans include £0.3m being held in Stage 3 under this probation period (30 June 2023: £nil; 31 December 2023: £nil).

Details of forbearance activity in the period can be found in Note 10c) below.

The tables below provide information on movements in the impairment loss allowance for commercial loans and advances to customers during the period:

| Unaudited as at 30.06.24<br>£m | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Loss allowance at 1 January 2024 | **0.6** | **6.6** | **1.8** | **9.0** |
| Transfers due to changes in credit risk: | | | | |
| To Stage 1 | **-** | **(2.1)** | **-** | **(2.1)** |
| To Stage 3 | **-** | **(1.2)** | **1.1** | **(0.1)** |
| Remeasurements within existing stage | **(0.4)** | **-** | **-** | **(0.4)** |
| Decreases due to derecognition and repayments | **-** | **-** | **(1.1)** | **(1.1)** |
| Modification of contractual cashflows | **-** | **(3.1)** | **3.0** | **(0.1)** |
| Loss allowance at 30 June 2024 | **0.2** | **0.2** | **4.8** | **5.2** |

| Unaudited as at 30.06.23<br>£m | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Loss allowance at 1 January 2023 | 1.3 | 7.8 | 0.8 | 9.9 |
| Transfers due to changes in credit risk: | | | | |
| To Stage 1 | 0.1 | (0.2) | - | (0.1) |
| Remeasurements within existing stage | (0.1) | 0.1 | - | - |
| Decreases due to derecognition and repayments | (0.1) | (0.5) | - | (0.6) |
| Modification of contractual cashflows | - | 0.4 | (0.1) | 0.3 |
| Loss allowance at 30 June 2023 | 1.2 | 7.6 | 0.7 | 9.5 |

| Audited as at 31.12.23<br>£m | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Loss allowance at 1 January 2023 | 1.3 | 7.8 | 0.8 | 9.9 |
| Transfers due to changes in credit risk: | | | | |
| To Stage 1 | - | (0.2) | - | (0.2) |
| To Stage 2 | - | 0.1 | - | 0.1 |
| Remeasurements within existing stage | (0.5) | (0.1) | - | (0.6) |
| Decreases due to derecognition and repayments | (0.2) | (0.6) | - | (0.8) |
| Modification of contractual cashflows | - | (0.4) | 1.0 | 0.6 |
| Loss allowance at 31 December 2023 | 0.6 | 6.6 | 1.8 | 9.0 |

## 10. Loans and advances to customers held at amortised cost (continued)

The tables below provide information on commercial loans by payment due status:

| Unaudited as at 30.06.24 £m | Gross carrying amount | | | | ECL allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Not past due | 104.4 | 0.4 | 11.0 | 115.8 | 0.2 | - | 4.7 | 4.9 |
| Past due: | | | | | | | | |
| Up to 30 days | - | 2.4 | - | 2.4 | - | 0.1 | - | 0.1 |
| 31 to 60 days | - | 2.3 | - | 2.3 | - | 0.1 | - | 0.1 |
| 61 to 90 days | - | 1.6 | 0.3 | 1.9 | - | - | - | - |
| Over 90 days | - | - | 2.1 | 2.1 | - | - | 0.1 | 0.1 |
| | 104.4 | 6.7 | 13.4 | 124.5 | 0.2 | 0.2 | 4.8 | 5.2 |
| ECL coverage (%) | | | | | 0.19% | 2.99% | 35.82% | 4.18% |

| Unaudited as at 30.06.23 £m | Gross carrying amount | | | | ECL allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Not past due | 101.6 | 30.3 | 2.8 | 134.7 | 1.2 | 4.9 | 0.6 | 6.7 |
| Past due: | | | | | | | | |
| Up to 30 days | 1.2 | 6.2 | 0.4 | 7.8 | - | 2.7 | - | 2.7 |
| 31 to 60 days | - | 1.2 | - | 1.2 | - | - | - | - |
| 61 to 90 days | - | 0.1 | 1.1 | 1.2 | - | - | - | - |
| Over 90 days | - | - | 3.3 | 3.3 | - | - | 0.1 | 0.1 |
| | 102.8 | 37.8 | 7.6 | 148.2 | 1.2 | 7.6 | 0.7 | 9.5 |
| ECL coverage (%) | | | | | 1.17% | 20.11% | 9.21% | 6.41% |

| Audited as at 31.12.23 £m | Gross carrying amount | | | | ECL allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Not past due | 89.6 | 31.7 | 2.1 | 123.4 | 0.6 | 6.1 | 0.6 | 7.3 |
| Past due: | | | | | | | | |
| Up to 30 days | 1.4 | 2.7 | - | 4.1 | - | 0.4 | - | 0.4 |
| 31 to 60 days | - | 0.4 | - | 0.4 | - | - | - | - |
| 61 to 90 days | - | 3.0 | 0.2 | 3.2 | - | 0.1 | - | 0.1 |
| Over 90 days | - | - | 4.1 | 4.1 | - | - | 1.2 | 1.2 |
| | 91.0 | 37.8 | 6.4 | 135.2 | 0.6 | 6.6 | 1.8 | 9.0 |
| ECL coverage (%) | | | | | 0.66% | 17.46% | 28.13% | 6.66% |

### c) Forbearance

Where appropriate for customers, the Group applies a policy of forbearance. The Group's approach to forbearance is described in Note 40 to the 2023 Annual Report and Accounts and our approach to forbearance remained materially unchanged in the period. At 30 June 2024, the percentage of residential mortgage balances that have been subject to forbearance is 0.6% (30 June 2023: 0.7%; 31 December 2023: 0.5%). For commercial balances the percentage is 11.7% (30 June 2023: 28.1%; 31 December 2023: 11.8%).

## 11. Equity release portfolio held at FVTPL

Movements in the equity release portfolio during the period are summarised as follows:

| £m | **Unaudited as at 30.06.24** | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
|---|---|---|---|
| At 1 January | **293.3** | 278.7 | 278.7 |
| Redemptions | **(2.0)** | (1.6) | (3.7) |
| Movements in fair value | **(6.9)** | (17.3) | 9.2 |
| Realised losses on redemption | **(0.8)** | (0.5) | (0.8) |
| Accrued interest | **2.3** | 6.3 | 9.9 |
| At end of period | **285.9** | 265.6 | 293.3 |

Further details of how the valuation of the equity release portfolio is derived, including the key inputs into the calculation, are found in Note 1c).

The Group holds derivative financial instruments to economically hedge the movements in fair value of the equity release portfolio, as outlined in Note 1c). The movement in fair value of the derivatives held to hedge the equity release portfolio during the period was a £12.5m gain and is included in the Income Statement line 'Fair value gains on financial instruments mandatorily held at FVTPL' (30 June 2023: £14.1m gain; 31 December 2023: £1.8m gain).

## 12. Intangible assets

| £m | **Unaudited as at 30.06.24** | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
|---|---|---|---|
| Goodwill | **218.0** | 216.9 | 217.7 |
| Other intangible assets | **92.4** | 102.1 | 95.5 |
| | **310.4** | 319.0 | 313.2 |

| Goodwill<br>£m | **Unaudited as at 30.06.24** | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
|---|---|---|---|
| **Cost, less amortisation to 1 January 2004*** | | | |
| At 1 January | **230.2** | 228.8 | 228.8 |
| Acquisitions of subsidiary undertakings and business units | **0.2** | 0.6 | 1.0 |
| Revaluations of put options | **0.1** | - | 0.4 |
| At end of period | **230.5** | 229.4 | 230.2 |
| **Impairment losses** | | | |
| At 1 January and end of period | **12.5** | 12.5 | 12.5 |
| | | | |
| Net book value at 1 January | **217.7** | 216.3 | 216.3 |
| Net book value at end of period | **218.0** | 216.9 | 217.7 |

* Prior to the transition to IFRS on 1 January 2005, goodwill was held in line with UK GAAP at cost less accumulated amortisation. Goodwill arising on acquisitions before the transition to IFRS on 1 January 2005 has been retained at its previous UK GAAP amount.

## 12. Intangible assets (continued)

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; at Skipton Group level, the allocation of goodwill typically reflects the Group's operating segments. The carrying value of goodwill has been allocated as follows:

| **Unaudited as at 30.06.24**<br>Operating segment (£m) | Cost of goodwill | Accumulated impairment | Carrying value |
|---|---|---|---|
| Connells | **219.2** | **7.5** | **211.7** |
| Other | **11.3** | **5.0** | **6.3** |
| **Total goodwill** | **230.5** | **12.5** | **218.0** |

| Unaudited as at 30.06.23<br>Operating segment (£m) | Cost of goodwill | Accumulated impairment | Carrying value |
|---|---|---|---|
| Connells | 218.1 | 7.5 | 210.6 |
| Other | 11.3 | 5.0 | 6.3 |
| Total goodwill | 229.4 | 12.5 | 216.9 |

| Audited as at 31.12.23<br>Operating segment (£m) | Cost of goodwill | Accumulated impairment | Carrying value |
|---|---|---|---|
| Connells | 218.9 | 7.5 | 211.4 |
| Other | 11.3 | 5.0 | 6.3 |
| Total goodwill | 230.2 | 12.5 | 217.7 |

Based upon the Directors' assessment of recoverable amounts, the Directors have concluded that no impairment of goodwill is required to be recognised in the six months to 30 June 2024 (six months to 30 June 2023: £nil; year ended 31 December 2023: £nil).

The recoverable amounts of the operating segments are determined from value in use calculations. The key assumptions for the value in use calculations are detailed in Note 1c).

## 13. Debt securities in issue

| £m | **Unaudited as at 30.06.24** | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
|---|---|---|---|
| Covered bonds (Note A) | **2,371.7** | 2,495.9 | 2,251.5 |
| Securitisations | **162.8** | 211.5 | 186.0 |
| Fair value adjustment for hedged risk | **(21.4)** | (60.1) | (22.8) |
| | **2,513.1** | 2,647.3 | 2,414.7 |
| Debt securities in issue are repayable from the reporting date in the ordinary course of business as follows: | | | |
| In not more than one year | **587.1** | 1,037.0 | 908.6 |
| In more than one year | **1,926.0** | 1,610.3 | 1,506.1 |
| | **2,513.1** | 2,647.3 | 2,414.7 |

Note

A. As discussed on page 18, the Group issued a €500m 5-year covered bond in June 2024. In February 2024, a £300m covered bond previously issued by the Group matured.

## 14. Provisions for liabilities

| £m | Unaudited as at 30.06.24 | Unaudited as at 30.06.23 | Audited as at 31.12.23 |
|---|---|---|---|
| Provision for the costs of surplus properties | 4.8 | 7.0 | 5.6 |
| Commission clawbacks (Note A) | 17.6 | 17.0 | 17.0 |
| Survey and valuation claims | 4.9 | 7.2 | 5.2 |
| Customer compensation | 0.3 | 0.5 | 0.3 |
| Other provisions | 5.8 | 1.6 | 1.3 |
| | 33.4 | 33.3 | 29.4 |

Note

A. Includes expected future clawback on insurance commissions in the event of early termination by the customer; insurance commission income is recognised net of this provision.

The movement in provisions for liabilities in the period has resulted in a net Income Statement charge of £9.3m, of which a £4.5m charge is recognised in the line 'Provisions for liabilities' and a £4.8m charge is recognised against 'Fees and commissions receivable' (six months ended 30 June 2023: £7.8m charge, of which a £0.6m charge is recognised in the line 'Provisions for liabilities' and a £7.2m charge is recognised against 'Fees and commissions receivable'; year ended 31 December 2023: £7.5m charge, of which a £1.2m credit is recognised in the line 'Provisions for liabilities' and a £8.7m charge is recognised against 'Fees and commissions receivable').

# 15. Cash flows

## a) Cash flows from operating activities

### i) Impairment (credits) / losses on financial instruments

For the purposes of the Condensed Consolidated Statement of Cash Flows, amounts presented within the line 'Impairment (credits) / losses on financial instruments' include the following:

| £m | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|
| Impairment (credits) / losses on loans and advances to customers (net of recoveries) (Note 7) | (9.3) | 9.3 | (3.1) |
| Loans and advances recovered | 0.3 | 0.1 | 0.4 |
| Impairment credits on liquid assets | - | (0.1) | (0.1) |
| Impairment losses on trade receivables | 0.4 | 0.4 | 0.8 |
| | (8.6) | 9.7 | (2.0) |

### ii) Fair value (gains) / losses on financial instruments held at FVTPL

For the purposes of the Condensed Consolidated Statement of Cash Flows, amounts presented within the line 'Fair value (gains) / losses on financial instruments held at FVTPL' include the following:

| £m | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|
| | | Restated * | Restated * |
| Fair value gains on hedging instruments and hedged items | (12.6) | (12.3) | (0.2) |
| Fair value losses / (gains) on equity release portfolio (Note 11) | 6.9 | 17.3 | (9.2) |
| Fair value gains on share warrants | (3.2) | (8.3) | (13.3) |
| Fair value losses / (gains) on put options held by minority shareholders | 0.2 | (0.1) | (0.3) |
| Fair value losses / (gains) on equity share investments at FVTPL | 0.9 | - | (0.5) |
| | (7.8) | (3.4) | (23.5) |

* The information shown above for the 6 months to 30 June 2023 and for the 12 months to 31 December 2023 is restated to reflect the appropriate presentation of certain non-cash movements (see Note 1b) for details). The restatement relates solely to the 'Fair value gains on hedging instruments and hedged items' line which was not previously included in this breakdown.

# 15. Cash flows (continued)

### iii) Other non-cash movements

For the purposes of the Condensed Consolidated Statement of Cash Flows, amounts presented within the line 'Other non-cash movements' include the following:

| £m | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|
| | | Restated * | Restated * |
| Profit on disposal of treasury assets | **(0.2)** | - | (0.1) |
| Realised losses on equity release portfolio (Note 11) | **0.8** | 0.5 | 0.8 |
| Income Statement (credit) / charge for fair value of subsidiary management incentive scheme liability | **(4.2)** | 0.8 | (0.3) |
| Share of profits from joint ventures | **(0.3)** | (0.5) | (1.1) |
| Other | **6.9** | 12.2 | (33.4) |
| | **3.0** | 13.0 | (34.1) |

* The information shown above for the 6 months to 30 June 2023 and for the 12 months to 31 December 2023 is restated to reflect the appropriate presentation of certain non-cash movements (see Note 1b) for details). The restatement relates solely to the 'Other' line included in the table above, which was previously recognised as £10.7m for 30 June 2023 and £(39.7)m for 31 December 2023.

## b) Cash flows from investing activities

### i) Other investing activities

For the purposes of the Condensed Consolidated Statement of Cash Flows, amounts presented within the line 'Other investing activities' include the following:

| £m | Unaudited 6 months to 30.06.24 | Unaudited 6 months to 30.06.23 | Audited 12 months to 31.12.23 |
|---|---|---|---|
| Purchase of property, plant and equipment and investment property | **(11.2)** | (7.8) | (17.6) |
| Purchase of intangible assets | **(5.2)** | (4.9) | (10.1) |
| Proceeds from disposal of property, plant and equipment, investment property and intangible assets | **1.2** | 0.4 | 1.6 |
| Dividends received from joint ventures | **-** | 0.9 | 0.9 |
| Purchase of other business units | **(0.8)** | (0.9) | (1.4) |
| Investment in equity share investments | **(3.5)** | (0.2) | (0.2) |
| Proceeds from liquidation of equity share investment | **-** | - | 0.2 |
| Proceeds from disposal of equity share investments | **-** | - | 0.1 |
| | **(19.5)** | (12.5) | (26.5) |

# 16. Financial instruments

## a) Classification and measurement

The tables below summarise the classification of the carrying amounts of the Group's financial assets and liabilities:

| Unaudited as at 30.06.24 £m | Amortised cost | FVOCI | FVTPL | Total |
|---|---|---|---|---|
| Cash in hand and balances with the Bank of England | 2,509.4 | - | - | 2,509.4 |
| Loans and advances to credit institutions | 482.1 | - | - | 482.1 |
| Debt securities | - | 4,121.5 | - | 4,121.5 |
| Derivative financial instruments | - | - | 953.6 | 953.6 |
| Loans and advances to customers | 29,674.7 | - | 0.9 | 29,675.6 |
| Equity release portfolio | - | - | 285.9 | 285.9 |
| Equity share investments | - | - | 13.1 | 13.1 |
| Trade receivables | 72.9 | - | - | 72.9 |
| Share warrants | - | - | 18.3 | 18.3 |
| Other assets | 0.1 | - | - | 0.1 |
| **Total financial assets** | 32,739.2 | 4,121.5 | 1,271.8 | 38,132.5 |
| Other non-financial assets | | | | 588.8 |
| **Total assets** | | | | 38,721.3 |
| Shares | 27,534.0 | - | - | 27,534.0 |
| Amounts owed to credit institutions and other customers | 4,745.9 | - | - | 4,745.9 |
| Debt securities in issue | 2,513.1 | - | - | 2,513.1 |
| Derivative financial instruments | - | - | 325.6 | 325.6 |
| Lease liabilities | 95.0 | - | - | 95.0 |
| Trade payables | 11.4 | - | - | 11.4 |
| Fair value of put option obligation | - | - | 3.6 | 3.6 |
| Subordinated liabilities | 680.9 | - | - | 680.9 |
| Subscribed capital | 41.6 | - | - | 41.6 |
| **Total financial liabilities** | 35,621.9 | - | 329.2 | 35,951.1 |
| Other non-financial liabilities | | | | 214.9 |
| **Total liabilities** | | | | 36,166.0 |

# 16. Financial instruments (continued)

| Unaudited as at 30.06.23 £m | Amortised cost | FVOCI | FVTPL | Total |
|---|---|---|---|---|
| Cash in hand and balances with the Bank of England | 3,520.1 | - | - | 3,520.1 |
| Loans and advances to credit institutions | 538.6 | - | - | 538.6 |
| Debt securities | - | 2,939.0 | - | 2,939.0 |
| Derivative financial instruments | - | - | 1,794.1 | 1,794.1 |
| Loans and advances to customers | 25,859.3 | - | 1.1 | 25,860.4 |
| Equity release portfolio | - | - | 265.6 | 265.6 |
| Equity share investments | - | - | 1.4 | 1.4 |
| Trade receivables | 67.5 | - | - | 67.5 |
| Share warrants | - | - | 13.8 | 13.8 |
| Other assets | 0.3 | - | - | 0.3 |
| **Total financial assets** | 29,985.8 | 2,939.0 | 2,076.0 | 35,000.8 |
| Other non-financial assets | | | | 577.7 |
| **Total assets** | | | | 35,578.5 |
| Shares | 23,398.0 | - | - | 23,398.0 |
| Amounts owed to credit institutions and other customers | 5,654.8 | - | - | 5,654.8 |
| Debt securities in issue | 2,647.3 | - | - | 2,647.3 |
| Derivative financial instruments | - | - | 550.1 | 550.1 |
| Lease liabilities | 107.8 | - | - | 107.8 |
| Trade payables | 9.3 | - | - | 9.3 |
| Fair value of put option obligation | - | - | 3.1 | 3.1 |
| Subordinated liabilities | 643.3 | - | - | 643.3 |
| Subscribed capital | 41.6 | - | - | 41.6 |
| **Total financial liabilities** | 32,502.1 | - | 553.2 | 33,055.3 |
| Other non-financial liabilities | | | | 211.0 |
| **Total liabilities** | | | | 33,266.3 |

# 16. Financial instruments (continued)

| Audited as at 31.12.23<br>£m | Amortised cost | FVOCI | FVTPL | Total |
|---|---|---|---|---|
| Cash in hand and balances with the Bank of England | 3,266.2 | - | - | 3,266.2 |
| Loans and advances to credit institutions | 488.8 | - | - | 488.8 |
| Debt securities | - | 3,337.7 | - | 3,337.7 |
| Derivative financial instruments | - | - | 1,000.8 | 1,000.8 |
| Loans and advances to customers | 28,161.4 | - | 0.9 | 28,162.3 |
| Equity release portfolio | - | - | 293.3 | 293.3 |
| Equity share investments | - | - | 10.5 | 10.5 |
| Trade receivables | 58.0 | - | - | 58.0 |
| Share warrants | - | - | 15.1 | 15.1 |
| Other assets | 0.2 | - | - | 0.2 |
| **Total financial assets** | 31,974.6 | 3,337.7 | 1,320.6 | 36,632.9 |
| Other non-financial assets | | | | 589.0 |
| **Total assets** | | | | 37,221.9 |
| Shares | 25,949.8 | - | - | 25,949.8 |
| Amounts owed to credit institutions and other customers | 4,902.2 | - | - | 4,902.2 |
| Debt securities in issue | 2,414.7 | - | - | 2,414.7 |
| Derivative financial instruments | - | - | 452.2 | 452.2 |
| Lease liabilities | 103.0 | - | - | 103.0 |
| Trade payables | 10.2 | - | - | 10.2 |
| Fair value of put option obligation | - | - | 3.5 | 3.5 |
| Subordinated liabilities | 685.3 | - | - | 685.3 |
| Subscribed capital | 41.6 | - | - | 41.6 |
| **Total financial liabilities** | 34,106.8 | - | 455.7 | 34,562.5 |
| Other non-financial liabilities | | | | 238.1 |
| **Total liabilities** | | | | 34,800.6 |

## 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 (see 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 deposit, for which traded prices are readily available.

## 16. Financial instruments (continued)

### 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 cleared 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 acting at arm's-length.

### Transfers between levels

The Group makes transfers between 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 six months ended 30 June 2024, the six months ended 30 June 2023 or the year ended 31 December 2023.

## 16. Financial instruments (continued)

The following tables provide an analysis of financial assets and liabilities held within the Group Statement of Financial Position at fair value, grouped into Levels 1 to 3 of the fair value hierarchy.

| Unaudited as at 30.06.24<br>£m | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets held at FVOCI: | | | | |
| Debt securities | 4,074.1 | 47.4 | - | 4,121.5 |
| Financial assets at FVTPL: | | | | |
| Derivative financial instruments | - | 926.5 | 27.1 | 953.6 |
| Loans and advances to customers | - | - | 0.9 | 0.9 |
| Equity release portfolio | - | - | 285.9 | 285.9 |
| Equity share investments | - | - | 13.1 | 13.1 |
| Share warrants | - | - | 18.3 | 18.3 |
| | 4,074.1 | 973.9 | 345.3 | 5,393.3 |
| **Financial liabilities** | | | | |
| Financial liabilities at FVTPL: | | | | |
| Derivative financial instruments | - | 286.5 | 39.1 | 325.6 |
| Fair value of put option obligation | - | - | 3.6 | 3.6 |
| | - | 286.5 | 42.7 | 329.2 |
| | 4,074.1 | 687.4 | 302.6 | 5,064.1 |

| Unaudited as at 30.06.23<br>£m | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets | | | | |
| Financial assets held at FVOCI: | | | | |
| Debt securities | 2,858.0 | 81.0 | - | 2,939.0 |
| Financial assets at FVTPL: | | | | |
| Derivative financial instruments | - | 1,757.8 | 36.3 | 1,794.1 |
| Loans and advances to customers | - | - | 1.1 | 1.1 |
| Equity release portfolio | - | - | 265.6 | 265.6 |
| Equity share investments | 0.1 | - | 1.3 | 1.4 |
| Share warrants | - | - | 13.8 | 13.8 |
| | 2,858.1 | 1,838.8 | 318.1 | 5,015.0 |
| Financial liabilities | | | | |
| Financial liabilities at FVTPL: | | | | |
| Derivative financial instruments | - | 502.4 | 47.7 | 550.1 |
| Fair value of put option obligation | - | - | 3.1 | 3.1 |
| | - | 502.4 | 50.8 | 553.2 |
| | 2,858.1 | 1,336.4 | 267.3 | 4,461.8 |

# 16. Financial instruments (continued)

| Audited as at 31.12.23<br>£m | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets | | | | |
| Financial assets held at FVOCI: | | | | |
| Debt securities | 3,239.8 | 97.9 | - | 3,337.7 |
| Financial assets at FVTPL: | | | | |
| Derivative financial instruments | - | 975.4 | 25.4 | 1,000.8 |
| Loans and advances to customers | - | - | 0.9 | 0.9 |
| Equity release portfolio | - | - | 293.3 | 293.3 |
| Equity share investments | - | - | 10.5 | 10.5 |
| Share warrants | - | - | 15.1 | 15.1 |
| | 3,239.8 | 1,073.3 | 345.2 | 4,658.3 |
| Financial liabilities | | | | |
| Financial liabilities at FVTPL: | | | | |
| Derivative financial instruments | - | 404.1 | 48.1 | 452.2 |
| Fair value of put option obligation | - | - | 3.5 | 3.5 |
| | - | 404.1 | 51.6 | 455.7 |
| | 3,239.8 | 669.2 | 293.6 | 4,202.6 |

### Movements in the Level 3 portfolio

The tables below analyse the movements in the Level 3 portfolio during the period:

| Unaudited as at 30.06.24<br>£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 |
| (Loss) / gain recognised in Income Statement | (0.9)[A] | (6.9)[B] | - | 12.5[C] | (0.1)[D] | 3.2[E] | 7.8 |
| Revaluation to goodwill | - | - | - | - | (0.1) | - | (0.1) |
| Accrued interest | - | 2.3[F] | - | (1.8)[F] | - | - | 0.5 |
| Repayments | - | (2.0) | - | - | - | - | (2.0) |
| Realised losses | - | (0.8)[G] | - | - | - | - | (0.8) |
| Additions / other | 3.5 | - | - | - | 0.1 | - | 3.6 |
| At 30 June | 13.1 | 285.9 | 0.9 | (12.0) | (3.6) | 18.3 | 302.6 |

# 16. Financial instruments (continued)

Notes

A. These are unrealised losses and are included in the Income Statement line 'Fair value gains on financial instruments mandatorily held at FVTPL'; as presented within Note 6a) line 'Equity share investments'.

B. These are unrealised losses and are included in the Income Statement line 'Fair value gains on financial instruments mandatorily held at FVTPL'; as presented within Note 6a) 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 6a) line 'Derivatives associated with equity release portfolio'.

D. These are unrealised losses and are included in the Income Statement. Of this figure, £0.1m arises from changes to exercise dates and the unwind of the discount and is included in the 'Interest payable and similar charges' line in the Income Statement, and £(0.2)m arises from revaluations of market values and is included in the Income Statement line 'Fair value gains on financial instruments mandatorily held at FVTPL'; as presented within Note 6a) line 'Put options held by minority shareholders'.

E. 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 6a) line 'Share warrants'.

F. Included in the Income Statement line 'Interest receivable and similar income: Other'.

G. Included in the Income Statement line 'Impairment and provisions'; as presented within Note 6d) line 'Realised losses on equity release portfolio'.

| Unaudited as at 30.06.23 £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 |
| (Loss) / gain recognised in Income Statement | - | (17.3)[A] | - | 14.1[B] | 0.3[C] | 8.3[D] | - | 5.4 |
| Exercise of put options by non-controlling interests | - | - | - | - | 0.4 | - | - | 0.4 |
| Accrued interest | - | 6.3[E] | 0.1 | 1.0[E] | - | - | - | 7.4 |
| Repayments | - | (1.6) | - | - | - | - | - | (1.6) |
| Realised losses | - | (0.5)[F] | - | - | - | - | - | (0.5) |
| Additions / other | 0.2 | - | - | - | - | (21.1) | (1.4) | (22.3) |
| At 30 June | 1.3 | 265.6 | 1.1 | (11.4) | (3.1) | 13.8 | - | 267.3 |

Notes

A. These are unrealised losses and are included in the Income Statement line 'Fair value gains on financial instruments mandatorily held at FVTPL'; as presented within Note 6a) line 'Equity release portfolio'.

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 6a) line 'Derivatives associated with equity release portfolio'.

C. These are unrealised gains and are included in the Income Statement. Of this figure, £0.2m arises from changes to exercise dates and the unwind of the discount and is included in the 'Interest payable and similar charges' line in the Income Statement, and £0.1m arises from revaluations of market values and is included in the Income Statement line 'Fair value gains on financial instruments mandatorily held at FVTPL'; as presented within Note 6a) line 'Put options held by minority shareholders'.

D. 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 6a) line 'Share warrants'.

E. Included in the Income Statement line 'Interest receivable and similar income: Other'.

F. Included in the Income Statement line 'Impairment and provisions'; as presented within Note 6d) line 'Realised losses on equity release portfolio'.

# 16. Financial instruments (continued)

| Audited as at 31.12.23 £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 interests | - | - | - | - | 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 6a) 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 6a) 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 6a) 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 6a) 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 6a) line 'Share warrants'.

F. Included in the Income Statement line 'Interest receivable and similar income: Other'.

G. Included in the Income Statement line 'Impairment and provisions'; as presented within Note 6d) line 'Realised losses on equity release portfolio'.

### Level 3 valuation techniques

For the Level 3 financial instruments shown above, the valuation techniques remain unchanged from those disclosed in Note 41b) to the 2023 Annual Report and Accounts.

**Equity release portfolio:** Further details on the inputs into the valuation of the equity release portfolio, and the impact of reasonably possible alternative assumptions of certain inputs, are found in Note 1c).

**Derivative financial instruments:** Further details on the inputs into the valuation of derivatives, and the impact of reasonably possible alternative assumptions of certain inputs, are found in Note 1c).

Any change in fair value of the derivative liabilities associated with the equity release portfolio is offset to some extent by a corresponding but opposite change in the fair value of the equity release portfolio. These sensitivities are outlined in Note 1c). 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. For the six months ended 30 June 2024 the net impact to the Income Statement was a credit of £5.6m (six months ended 30 June 2023: £3.2m charge; year ended 31 December 2023: £11.0m credit).

# 16. Financial instruments (continued)

## c) Fair values of financial instruments not carried at fair value

The table below summarises the carrying values and fair values of those financial assets and liabilities not presented within the Statement of Financial Position at fair value.

| £m | Unaudited as at 30.06.24 | | Unaudited as at 30.06.23 | | Audited as at 31.12.23 | |
|---|---|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value |
| **Financial assets** | | | | | | |
| Cash in hand and balances with the Bank of England | **2,509.4** | **2,509.4** | 3,520.1 | 3,520.1 | 3,266.2 | 3,266.2 |
| Loans and advances to credit institutions | **482.1** | **482.1** | 538.6 | 538.6 | 488.8 | 488.8 |
| Loans and advances to customers | **29,674.7** | **29,728.5** | 25,859.3 | 26,173.3 | 28,161.4 | 27,965.8 |
| Trade receivables | **72.9** | **72.9** | 67.5 | 67.5 | 58.0 | 58.0 |
| Other assets | **0.1** | **0.1** | 0.3 | 0.3 | 0.2 | 0.2 |
| | **32,739.2** | **32,793.0** | 29,985.8 | 30,299.8 | 31,974.6 | 31,779.0 |
| **Financial liabilities** | | | | | | |
| Shares | **27,534.0** | **27,502.4** | 23,398.0 | 23,270.7 | 25,949.8 | 25,913.1 |
| Amounts owed to credit institutions | **2,006.4** | **2,006.4** | 3,062.2 | 3,062.2 | 2,093.4 | 2,093.4 |
| Amounts owed to other customers | **2,739.5** | **2,749.1** | 2,592.6 | 2,577.4 | 2,808.8 | 2,820.6 |
| Debt securities in issue | **2,513.1** | **2,510.9** | 2,647.3 | 2,653.8 | 2,414.7 | 2,408.4 |
| Lease liabilities | **95.0** | **95.0** | 107.8 | 107.8 | 103.0 | 103.0 |
| Trade payables | **11.4** | **11.4** | 9.3 | 9.3 | 10.2 | 10.2 |
| Subordinated liabilities | **680.9** | **689.7** | 643.3 | 638.2 | 685.3 | 682.9 |
| Subscribed capital | **41.6** | **63.9** | 41.6 | 57.3 | 41.6 | 57.8 |
| | **35,621.9** | **35,628.8** | 32,502.1 | 32,376.7 | 34,106.8 | 34,089.4 |

The methodology and assumptions for determining the fair values of those financial assets and liabilities not presented within the Statement of Financial Position at fair value are set out on page 234 of the 2023 Annual Report and Accounts, and remained materially unchanged in the period.

# 17. Related party transactions

Transactions with related parties are entered into in the normal course of business. The Group has not entered into any new related party transactions during the half year ended 30 June 2024 that have materially affected the financial position or the performance of the Group during that period.

Related party transactions for the half year ended 30 June 2024 are similar in nature to those for the year ended 31 December 2023. Full details of the Group's related party transactions for the year ended 31 December 2023 can be found in Note 8 Related party transactions in the 2023 Annual Report and Accounts.

# 18. Other financial commitments and contingent liabilities

As reported in the Group's 2023 Annual Report and Accounts (Note 36), the Society confirmed that it would provide continuing support to certain of its subsidiary undertakings that had net liabilities or which relied on the Society for ongoing funding.

There have been no significant changes in contingent liabilities during the half year ended 30 June 2024.

# 19. Subsequent events

There have been no material post balance sheet events between 30 June 2024 and the approval by the Board of this half-yearly financial report.

Following the recent Court of Appeal decision in July 2024 upholding the High Court ruling in the Virgin Media v NTL pension case, management acknowledges its requirements of Section 37 of the Pension Schemes Act 1993. Management is not aware of any immediate issues that would arise from these rulings and has a reasonable expectation that Section 37 has been complied with in respect of the Group schemes. Due to the complexity of the legislation and the need to consult with actuaries and legal advisors, it is too early to determine the exact impact on the financial statements and pension obligations and therefore no adjustment has been made to the valuation of the Group schemes. However, management is in dialogue with the Scheme Trustees to determine the extent of assessment that will be undertaken to ensure that the pension schemes remain compliant with all regulatory requirements.

## 20. Segmental reporting

The Group's structure and reportable segments are outlined in the Financial Overview on page 13.

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, £32.2m (six months ended 30 June 2023: £28.9m; year ended 31 December 2023: £59.6m) was generated outside the UK.

| Unaudited 6 months to 30.06.24<br>£m | Society | SIL | Connells | Other^ | Total |
|---|---|---|---|---|---|
| Net interest income | 197.3 | 27.5 | 2.6 | 11.5 | 238.9 |
| Net non-interest income | 22.0 | 0.1 | 503.0 | 7.1 | 532.2 |
| Fair value gains on hedged items and derivatives | 12.1 | 0.2 | - | 0.3 | 12.6 |
| Fair value losses on equity release portfolio | (6.9) | - | - | - | (6.9) |
| Fair value gains on share warrants | - | - | 3.2 | - | 3.2 |
| Fair value losses on put options held by minority shareholders | - | - | (0.2) | - | (0.2) |
| Fair value losses on equity share investments mandatorily held at FVTPL | - | - | (0.9) | - | (0.9) |
| Fair value gains / (losses) on other instruments mandatorily held at FVTPL | 1.9 | - | - | (1.9) | - |
| Realised profits on treasury assets held at FVOCI | 0.2 | - | - | - | 0.2 |
| Share of profits from joint ventures | - | - | 0.3 | - | 0.3 |
| **Total income** | 226.6 | 27.8 | 508.0 | 17.0 | 779.4 |
| Administrative expenses | (122.5) | (9.4) | (488.1) | (6.4) | (626.4) |
| Realised losses on equity release portfolio | (0.8) | - | - | - | (0.8) |
| Impairment and provisions for liabilities | 9.7 | (0.2) | 0.1 | (4.8) | 4.8 |
| **Profit before tax** | 113.0 | 18.2 | 20.0 | 5.8 | 157.0 |
| Taxation | (30.8) | (1.8) | (5.3) | (0.3) | (38.2) |
| **Profit after tax** | 82.2 | 16.4 | 14.7 | 5.5 | 118.8 |
| | | | | | |
| Total assets | 36,154.2 | 2,657.7 | 625.3 | (715.9) | 38,721.3 |
| Total liabilities | 33,952.8 | 2,501.4 | 383.5 | (671.7) | 36,166.0 |
| | | | | | |
| **Total income can be analysed as follows:** | | | | | |
| External income | 266.9 | (0.1) | 499.5 | 13.1 | 779.4 |
| Income from other segments | (40.3) | 27.9 | 8.5 | 3.9 | - |
| **Total income** | 226.6 | 27.8 | 508.0 | 17.0 | 779.4 |

^ 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.

## 20. Segmental reporting (continued)

| Unaudited 6 months to 30.06.23 £m | Society | SIL | Connells | Other | Total |
|---|---|---|---|---|---|
| Net interest income | 236.9 | 30.0 | 0.1 | 10.7 | 277.7 |
| Net non-interest income | 20.9 | 0.2 | 443.9 | 8.3 | 473.3 |
| Fair value gains on hedged items and derivatives | 10.5 | - | - | 1.8 | 12.3 |
| Fair value losses on equity release portfolio | (17.3) | - | - | - | (17.3) |
| Fair value gains on share warrants | - | - | 8.3 | - | 8.3 |
| Fair value gains on put options held by minority shareholders | - | - | 0.1 | - | 0.1 |
| Fair value gains / (losses) on other instruments mandatorily held at FVTPL | 2.1 | - | - | (2.1) | - |
| Share of profits from joint ventures | - | - | 0.5 | - | 0.5 |
| Total income | 253.1 | 30.2 | 452.9 | 18.7 | 754.9 |
| Administrative expenses | (115.5) | (5.5) | (458.5) | (16.2) | (595.7) |
| Realised losses on equity release portfolio | (0.5) | - | - | - | (0.5) |
| Impairment and provisions for liabilities | (9.3) | (0.2) | (0.2) | (0.1) | (9.8) |
| Profit / (loss) before tax | 127.8 | 24.5 | (5.8) | 2.4 | 148.9 |
| Taxation | (34.6) | (2.4) | 1.6 | (0.8) | (36.2) |
| Profit / (loss) after tax | 93.2 | 22.1 | (4.2) | 1.6 | 112.7 |
| | | | | | |
| Total assets | 33,326.0 | 2,510.0 | 602.5 | (860.0) | 35,578.5 |
| Total liabilities | 31,346.4 | 2,391.5 | 375.5 | (847.1) | 33,266.3 |
| | | | | | |
| Total income can be analysed as follows: | | | | | |
| External income | 293.9 | 6.8 | 447.7 | 6.5 | 754.9 |
| Income from other segments | (40.8) | 23.4 | 5.2 | 12.2 | - |
| Total income | 253.1 | 30.2 | 452.9 | 18.7 | 754.9 |

## 20. Segmental reporting (continued)

| Audited 12 months to 31.12.23 £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: | | | | | |
| 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 |

# Responsibility Statement of the Directors

We confirm that to the best of our knowledge:

- the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the consolidation as a whole as required by DTR 4.2.4R of the *Disclosure Guidance and Transparency Rules*;
- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*, as contained in UK-adopted international accounting standards; and
- the half-yearly financial report includes a fair review of the information required by:
    - DTR 4.2.7R of the *Disclosure Guidance and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
    - DTR 4.2.8R of the *Disclosure Guidance and Transparency Rules*, being related parties transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance during the period, and any changes in the related parties transactions described in the last annual report that could have a material effect on the financial position or performance in the first six months of the current financial year.

The current Board of Directors represents those individuals responsible for the half-yearly financial report. The Directors who served during the period are listed below:

**Gwyn Burr**
Non-Exec Director, Chair

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

**Mark Lund**
Non-Exec Director, Deputy Chair

**Andrew Bottomley**
Executive Director

**Bobby Ndawula**
Executive Director, resigned 26/03/24

**Denis Hall**
Non-Exec Director

**Heather Jackson**
Non-Exec Director

**Iain Cummings**
Non-Exec Director

**Philip Moore**
Non-Exec Director

**Steven Davis**
Non-Exec Director

**Sarah Whitney**
Non-Exec Director, resigned 29/02/24

**Paul Chambers**
Executive Director, appointed 26/03/24

Signed on behalf of the Board by

Gwyn. V. Burr

Gwyn Burr, Chair
1 August 2024

# Independent Review Report to Skipton Building Society

## Conclusion

We have been engaged by Skipton Building Society ('the Society') and its subsidiaries (together, 'the Group') to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2024 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Members' Interests, Condensed Consolidated Statement of Cash Flows and the related explanatory Notes 1 to 20. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2024 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

## Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE) issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in Note 1a), the annual financial statements of the Group are prepared in accordance with UK-adopted international accounting standards in conformity 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 condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting*, as contained in UK-adopted international accounting standards, and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

## Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

## Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the Group'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 to cease operations, or have no realistic alternative but to do so.

## Auditor’s Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

## Use of our report

This report is made solely to the Group in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP

Edinburgh

1 August 2024

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