Skipton International Limited

Annual Report & Financial Statements

31 December 2022

SKIPTON INTERNATIONAL

Company's Registration Number: 30112

Contents

SKIPTON INTERNATIONAL

DIRECTORS' REPORT

The Directors present their Annual Report and Audited Financial Statements of Skipton International Limited ("the Bank" or "Skipton") for the year ended 31st December 2022.

PRINCIPAL ACTIVITIES

The Bank's principal activities are the business of deposit taking, mortgage lending and related financial services.

Registered Address:
Tudor House
The Bordage
St Peter Port
Guernsey
GY1 6DS

Skipton International Limited, incorporated under the Companies (Guernsey) Law, 2008, ("Company Law") is a wholly owned subsidiary of Skipton Building Society. Skipton Building Society is a building society incorporated under the Building Societies Act 1986 in the United Kingdom.

CLIMATE RISK

Consideration was given to the potential impact of climate related risks on the Bank's financial performance. Most climate-related physical risks are expected to manifest over a term that is generally longer than the maturity of most of the outstanding loans. It is deemed that the magnitude of any impact of climate risk would not be material in the current reporting period

The Bank is making progress on embedding climate risk in its risk framework, particularly in respect of expected credit losses provision and the impact of climate risk on borrowers' credit risk. This includes engaging with experts in 2022 to perform a flood risk and erosion survey of Guernsey and Jersey to provide data for inclusion in the Bank's climate risk considerations.

DIVIDENDS

Dividends totalling £27,000,000 (2021: £17,000,000), representing 180.0p per ordinary share (2021: 113.3p) were declared on 28th April 2022 and 6th October 2022 and were paid on 20th June 2022 and 12th December 2022 respectively.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year and up to the date of this report were:

Mr RSDM Ndawula	Chairman
Mr MJ Bright	
Mr JA Coupe	Managing Director
Mr JM Dell	Director of Finance, Risk and IT
Mrs SY Mason	
Mr AW Nelson	Resignation 29 September 2022
Mr TK Quigley	Resignation 29 September 2022
Mrs EJ Shaw	Appointment 23 November 2022
Mr G Smith	Appointment 26 September 2022

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of the Bank.

INTRODUCTION FROM THE MANAGING DIRECTOR

Skipton had another very good year with strong growth in mortgage lending and profitability. Over 2022 Skipton delivered a Profit before tax of £39.9m, a 56% increase on 2021. Return On Equity exceeded 30% for the first time at 36.6% and whilst flattered by rises in base rates still represented strong underlying growth from the prior year's 25%.

During 2022, Skipton paid dividends totalling £27m to its parent company, Skipton Building Society.

Skipton retained its Feefo Platinum Trusted Service Provider award and won the 2022 Moneyfacts Offshore Account Provider of the Year award.

Skipton's mortgage book grew strongly with completions increasing to £467m (2021: £376m). The mortgage book continues to perform well with only 9 accounts in any form of arrears at year end (2021: 10 accounts), representing around 1 in 900 accounts (2021: 1:750). There were no arrears cases over 3 months (2021: 1 case). Whilst the book is performing well management considered it prudent to apply a post-model adjustment which increased the IFRS 9 expected credit losses provision by £0.5m

Skipton maintained strong levels of liquidity with a Liquidity Coverage Ratio of 167% at year end (2021: 172%). We also launched US Dollar savings accounts (https://www.skiptoninternational.com/usd-savings-accounts) in 2022 to attract a new source of funding and diversify the Bank's liquidity, as well as providing more choice for our savings customers.

In 2022 we added a further £20,000 to the Skipton Community Fund helping more good causes across the Channel Islands, in addition to our major sponsorships of the Skipton Swimarathon and Skipton Boxing Day Dip in Guernsey, Skipton Big Ideas in Jersey and the Skipton Cup football match between the Isle of Man and Guernsey.

The Bank's success is due to the loyalty of our customers and colleagues, and I'd like to thank you all for making it such a record-breaking year. I hope you enjoy reading our 2022 Financial Statements.

J A Coupe

Mr J A Coupe
Managing Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Companies (Guernsey) Law, 2008 requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards and applicable law.

The Financial Statements are required by law to give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and to enable them to ensure that the Financial Statements comply with the Companies (Guernsey) Law, 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITOR

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

AUDITOR

A resolution for the reappointment of Ernst & Young LLP will be proposed at the next Annual General Meeting.

Mr J A Coupe
Director

Mr J M Dell
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SKIPTON INTERNATIONAL LIMITED

Opinion

We have audited the Financial Statements of Skipton International Limited (the "bank") for the year ended 31 December 2022 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related Notes 1 to 31, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

In our opinion, the Financial Statements:

- give a true and fair view of the state of the bank's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008 and The Banking Supervision (Bailiwick of Guernsey) Law, 2020.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We are independent of the bank in accordance with the ethical requirements that are relevant to our audit of the Financial Statements, including the UK FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the bank's ability to continue as a going concern for a period up until 29 February 2024 from when the Financial Statements are authorised for issue.

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

Other information

The other information comprises the information included in the annual report other than the Financial Statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the bank; or
- the Financial Statements are not in agreement with the bank's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the directors are responsible for assessing the bank'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 bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SKIPTON INTERNATIONAL LIMITED (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the bank and determined that the most significant are those that relate to the reporting framework (IFRS, The Companies (Guernsey) Law, 2008 and The Banking Supervision (Bailiwick of Guernsey) Law, 2020) and the relevant direct tax compliance regulation in the Bailiwick of Guernsey;
- We understood how the bank is complying with those frameworks by making enquiries of management, Group internal audit and those responsible for compliance matters and corroborated this by reviewing supporting documentation. We also reviewed correspondence between the bank and the Guernsey Financial Services Commission, reviewed minutes of the Board and gained an understanding of the bank's approach to governance demonstrated by the Board's approval of the bank's Governance manual and the Board's review of the key risk profile and internal control processes;
- We assessed the susceptibility of the bank's Financial Statements to material misstatement, including how fraud might occur by considering the risk of management override and by assuming interest income relating to the effective interest rate method to be a fraud risk. We considered the controls of the bank established to address risks identified by the directors or that otherwise seek to prevent, deter or detect fraud. We also considered performance targets and their potential to influence management to manage earnings or influence the perceptions of stakeholders;
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved a review of Board minutes, complaints register, compliance reports, and inquiries of internal legal counsel, those charged with governance, executive management, compliance and internal audit, and performance of journal entry testing meeting our defined risk criteria and our understanding of the business; and
- The bank operates in the regulated banking industry. As such the Audit Partner considered the experience and expertise of engagement team to ensure that the team had the appropriate competence and capabilities, which included use of specialists where appropriate.

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

Use of our report

This report is made solely to the bank's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law 2008 and Paragraph 2.1.4 (1) of The Banking Supervision (Accounts, Disclosure and Reporting) Rules and Guidance, 2021. Our audit work has been undertaken so that we might state to the bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the bank and the bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Guernsey, Channel Islands

Date: 20 February 2023

Notes:

1. The maintenance and integrity of the bank's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the web site.

2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £'000	2021 £'000
Interest income calculated using the effective interest method	5	68,420	56,892
Interest income/(expense) on mortgage swap contracts with parent	5	7,855	(7,176)
Interest expense and similar charges	6	(25,258)	(15,471)
Interest (expense)/income on investment swap contracts with parent	6	(781)	345
Net interest income		50,236	34,590
Unrealised gains/(losses) on derivatives and hedged items	7	213	(131)
Other operating income	8	307	240
Total income		50,756	34,699
Administrative expenses	9	(10,291)	(9,220)
Operating profit before impairment		40,465	25,479
Net impairment (losses)/write back		(539)	72
Losses on repossession of loans and advances to customers		-	(46)
Profit before income tax		39,926	25,505
Income tax expense	11	(3,993)	(2,499)
Profit for the year		35,933	23,006

The Notes on pages 13 to 44 form an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 £'000	2021 £'000
Profit for the year	35,933	23,006
Net losses on revaluation of debt securities held at fair value through other comprehensive income taken to equity	(984)	(393)
Net (decrease)/increase in allowance for expected credit losses on debt securities held at fair value through other comprehensive income	(17)	17
Other comprehensive expense before income tax	(1,001)	(376)
Income tax relating to components of other comprehensive income	99	39
Other comprehensive expense for the year net of income tax	(902)	(337)
Total comprehensive income for the year	35,031	22,669

The Notes on pages 13 to 44 form an integral part of the Financial Statements.

All items stated in the Statement of Comprehensive Income will be reclassified subsequently to profit or loss when specific conditions are met.

All items stated in the Income Statement and Statement of Comprehensive Income are derived from continuing operations.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Notes	2022 £'000	2021 £'000
Assets			
Cash and cash equivalents	13	244,288	218,799
Debt securities	15	193,678	210,233
Loans and advances to customers	16	1,863,683	1,720,653
Derivative financial instruments	24	102,464	9,379
Corporation tax receivable		-	80
Deferred tax asset	17	24	-
Property, plant and equipment	21	404	513
Prepayments and other assets		999	882
Right-of-use assets	22	2,031	2,515
Intangible assets	23	703	1,180
Total Assets		2,408,274	2,164,234
Liabilities			
Deposits from customers	18	2,195,503	2,051,051
Loans and advances from financial institutions	14	100,280	9,880
Creditors and other payables	19	2,610	2,374
Lease liabilities	22	2,183	2,660
Corporation tax liability		1,474	-
Deferred tax liability	17	-	75
Total Liabilities		2,302,050	2,066,040
Equity			
Share capital	20	15,000	15,000
Retained earnings		92,478	83,545
Fair value reserve		(1,254)	(351)
Total Equity		106,224	98,194
Total Liabilities and Equity		2,408,274	2,164,234

The Notes on pages 13 to 44 form an integral part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 16 February 2023 and were signed on its behalf by:

Mr J A Coupe
Director

Mr J M Dell
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Share Capital £'000	Fair Value Reserve £'000	Retained Earnings £'000	Total £'000
As at 1 January 2022		15,000	(351)	83,545	98,194
Profit for the year		-	-	35,933	35,933
Other comprehensive income:					
Net movement in the value of debt instruments held at FVOCI		-	(984)	-	(984)
Loss allowance on debt instruments held at FVOCI		-	(17)	-	(17)
Income tax relating to components of other comprehensive income		-	99	-	99
Transactions with owners recorded directly in equity:					
Dividends	12	-	-	(27,000)	(27,000)
As at 31 December 2022		15,000	(1,254)	92,478	106,224

	Notes	Share Capital £'000	Fair Value Reserve £'000	Retained Earnings £'000	Total £'000
As at 1 January 2021		15,000	(14)	77,539	92,525
Profit for the year		-	-	23,006	23,006
Other Comprehensive income:					
Net movement in the value of debt instruments held at FVOCI		-	(393)	-	(393)
Loss allowance on debt instruments held at FVOCI		-	17	-	17
Income tax relating to components of other comprehensive income		-	39	-	39
Transactions with owners recorded directly in equity					
Dividends	12	-	-	(17,000)	(17,000)
As at 31 December 2021		15,000	(351)	83,545	98,194

The Notes on pages 13 to 44 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £'000	2021 £'000
Cash flows from operating activities			
Profit before income tax		39,926	25,505
Adjustments to reconcile profit before income tax to net cash flows:			
Depreciation and amortisation on property, plant and equipment, right-of-use assets and intangible assets		1,390	1,475
Interest expense on leases		44	52
Loss on disposal of debt securities	8	3	-
Unrealised foreign exchange losses		6	-
Net impairment losses/(write back)		539	(72)
Amounts written off on loans and advances to customers		-	46
Working capital adjustments:			
Change in prepayments and other assets		(117)	96
Change in creditors and other payables		236	774
Change in deferred tax asset/liability	17	-	(125)
Change in loans and advances to customers		(225,781)	(155,379)
Change in loans and advances to financial institutions		90,400	32,190
Change in deposits from customers		136,690	114,856
Change in accrued interest on deposits from customers		7,804	(1,163)
Change in accrued interest on loans and advances to customers		(1,295)	(437)
Change in accrued interest and discount on other financial assets		417	92
Change in accrued interest on derivatives		(9,451)	482
Change in fair value of derivative instruments		(83,634)	(32,557)
Change in fair value adjustments for hedged risk		83,421	32,688
Income tax paid		(2,439)	(2,805)
Net cash from operating activities		38,159	15,718
Cash flows from investing activities			
Purchase of equipment and intangible assets		(320)	(138)
Proceeds from maturities and disposals of debt securities	15	153,278	262,734
Purchases of debt securities	15	(138,124)	(435,874)
Net cash from/(used in) investing activities		14,834	(173,278)
Cash flows from financing activities			
Dividends paid	12	(27,000)	(17,000)
Repayment of lease liabilities		(521)	(460)
Net cash used in financing activities		(27,521)	(17,460)
Net increase/(decrease) in cash and cash equivalents		25,472	(175,020)
Net effect of foreign exchange fluctuations on cash and cash equivalents		17	-
Cash and cash equivalents at 1 January		218,799	393,819
Cash and cash equivalents at 31 December	13	244,288	218,799

The Notes on pages 13 to 44 form an integral part of these Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

Skipton International Limited (the "Bank") is a company incorporated and domiciled in Guernsey and is primarily involved in deposit taking, mortgage lending and related financial services. The Bank's registered address is at Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 6DS. The Bank is a wholly owned subsidiary of Skipton Building Society (the "parent"). The parent is a building society incorporated under the Building Societies Act 1986 in the United Kingdom.

2. Basis of preparation

These Financial Statements, which present a true and fair view and comply with the Companies (Guernsey) Law, 2008 and the Banking Supervision (Bailiwick of Guernsey) Law, 2020, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). They were authorised for issue by the Bank's Board of Directors on 16 February 2023.

These Financial Statements have been prepared on a historical cost basis for all Financial Statement captions, unless otherwise stated in Note 4.

Standards issued but not yet effective

A number of new and amended accounting standards and interpretations will be effective for future reporting periods, none of which have been early adopted by the Bank in preparing these Financial Statements. These new and amended standards and interpretations, details of which are set out below, are not expected to have a material impact on the Bank's Financial Statements:

- IFRS 17 Insurance Contracts;
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Definition of Accounting Estimates (Amendments to IAS 8);
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12); and
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).

3. Changes in accounting policies and disclosures

The Bank adopted during the year the following amendments to existing accounting standards, which did not have a material impact on these financial statements:

- Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Reference to the Conceptual Framework (Amendments to IFRS 3); and
- Fees in the '10 per cent' test for derecognition of financial liabilities (Amendments to IFRS 9).

There have been no changes to significant accounting policies during the year; however, the following accounting policies have been applied in the year:

- Foreign currency transactions (refer to Note 4(k))

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Significant accounting policies

Unless explicitly stated, the Bank has consistently applied the following accounting policies to all periods presented in these Financial Statements.

(a) Use of estimates and judgements

In preparing these Financial Statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The Bank employs the following significant estimates:

- The Bank has calculated an adjustment to interest income, in line with the effective interest method. Refer to Note 4(b)(ii) for an explanation as to how this adjustment is applied. As at 31 December 2022, a change in management's judgements in respect of the effective interest calculation has been applied as detailed in Note 26(a).
- The Bank has calculated an expected credit loss against its loans and advances to customers, debt securities and cash and cash equivalents. Refer to Note 4(b)(iii) for an explanation as to how these adjustments are applied. Sensitivity analysis has been performed in Notes 26(a) and 26(b).

Information on the judgements made in applying accounting policies for expected credit losses and interest income that have the most significant effects on the amounts recognised in the Financial Statements are outlined in Note 26.

(i) Going Concern

The Bank's management has assessed its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

The Bank's assessment considers a 12-month period from the date the Financial Statements were signed and authorised by the Board of Directors up to 29th February 2024 and has considered what events would need to occur in order for the going concern assumption to no longer be appropriate. In preparing its assessment, it has considered potential stresses to its main regulatory measures, being liquidity and capital, and have noted that the Bank is unlikely to breach any regulatory limits and will continue to be profitable and viable for the 12-month period.

(b) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognises loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised when the Bank becomes a party to the contractual provisions of the instrument (i.e. the trade date).

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at amortised cost ("AC"), fair value through other comprehensive income ("FVOCI") or FVTPL.

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

4. Significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(ii) Classification and subsequent measurement (continued)

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are SPPI.

All other financial assets are measured at FVTPL.

Financial assets measured at AC are subsequently measured at AC using the effective interest method, less expected credit losses. The effective interest method calculates an interest rate which discounts the forecast cash flows of an asset over its expected life back to its carrying value.

In accordance with the effective interest method, any fees directly attributable to a mortgage, being either upfront fees due to the Bank from customers (which are typically application fees or product fees) or upfront fees due from the Bank to supporting third parties (which are typically valuation fees or conveyancing fees), are deferred and recognised over the expected life of mortgage assets. Historical and forecast mortgage redemption data and management judgement are used to estimate the expected lives of mortgage assets. Any change to management's estimate of expected mortgage lives is accounted for on a prospective basis.

During the year ended 31 December 2022, the judgements that are applied by the Bank for the purposes of determining the expected life of mortgage assets were revised. The changes reflect management's updated assessment that pre-completion fees and costs are attributable to the fixed interest rate period of loans; previously the fees were amortised over the expected life of mortgage customers. Historical fees were adjusted to reflect this change in judgement. The impact of these changes on the Income Statement for the year ended 31 December 2022 is to reduce profit before income tax by £0.1m.

If a change is made to the rate that mortgage customers will revert to at the end of the product's fixed term (i.e. the Bank's Follow on Rate ("FOR") or Standard Variable Rate ("SVR")), an immediate adjustment is made to the carrying value of the mortgage asset.

(iii) Impairment of financial assets

Per IFRS 9, the expected credit loss model applies to the Bank's financial assets measured at AC or debt instruments measured at FVOCI.

The Bank recognises expected credit losses ("ECLs") on the following financial assets that are not measured at FVTPL:

- Loans and advances to customers; and
- Treasury assets, which comprise debt securities and cash and cash equivalents.

ECLs are designed to be an unbiased, probability-weighted estimate of the present value of future credit losses based on forecasts of macroeconomic indicators over a range of possible scenarios. When calculating ECLs on Loans and advances to customers, the Bank considers two key scenarios which are derived using management judgement with reference to external information wherever possible (for example, official stress scenarios as published by the Bank of England from time to time). The two forecast scenarios used by the Bank are referred to as the "base case" scenario and the "adverse scenario". Channel Islands ECLs are weighted at 80% for the base case scenario and 20% for the adverse whereas UK ECLs are weighted at 65% for the base case (2021: 65%) and 35% for the adverse (2021: 35%).

4. Significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(iii) Impairment of financial assets (continued)

This reflects the difference in macroeconomic indicators between the regions. When calculating ECLs on treasury assets, the Bank weights the base case scenario at 95% probability of occurrence and the adverse scenario at 5% probability of occurrence.

The key macroeconomic indicators forecast by the Bank when developing the forecast scenarios include:

- Market interest rates;
- House price inflation or deflation rates;
- Unemployment rates; and
- Credit ratings of large counterparties (including HSBC plc and the Bank of England).

In accordance with IFRS 9, when a financial asset is recognised in line with Note 4(b)(i), it is classified as being a 'stage 1' asset which indicates that the asset is performing. If the credit quality of the financial asset does not change after the initial recognition, the asset will remain classified as 'stage 1' until its derecognition. If a financial asset is subject to a significant increase in credit risk, the asset is transferred into the classification of 'stage 2'. In accordance with IFRS 9, there is a presumption that credit risk has significantly increased when contractual payments are more than 30 days past due. If a financial asset defaults or becomes credit-impaired, the asset is transferred into classification of 'stage 3'. If a financial asset classified as 'stage 2' or 'stage 3' recovers back to the initial credit quality at the time of initial recognition, the financial asset is transferred back into classification of 'stage 1'. There is no set minimum period where a financial asset must stay in any stage.

The Bank generally considers that credit risk has significantly increased on a mortgage account if the account is in arrears or if the account has forbearance terms (where forbearance terms are temporary renegotiations on mortgage accounts made with customers facing financial difficulty in order to facilitate the customers' ability to maintain payments and recover from any arrears). The Bank generally considers that credit risk has significantly increased on a treasury asset if the counterparty's credit rating has significantly decreased since the origination of the asset.

The Bank considers that a mortgage account has defaulted if it is more than 90 days past due, or if it is considered by management that the underlying customer is unlikely to pay their obligations in full without the realisation of collateral. The Bank considers that a treasury asset has defaulted if the underlying counterparty is past due on any contractual payments of principal or interest.

For 'stage 1' financial assets, expected credit losses are calculated as those credit losses that are expected to result from default events occurring within 12 months of the calculation date. For 'stage 2' and 'stage 3' assets, expected credit losses are calculated as those credit losses that are expected to result from default events occurring over the lifetime of the financial assets (i.e. not limited to a 12-month period). The maximum period considered when estimating ECLs is the maximum contractual period over which the Bank is exposed to the credit risk.

The calculation of ECLs is complex and requires the use of models. The inputs to these models require the Bank to apply judgement. The key estimates that the Bank uses to calculate ECLs include:

- Probability of Default ("PD") – being the probability that a customer will default within a defined timeframe;
- Exposure at Default ("EAD") – being the expected outstanding loan amount at the time of default; and
- Loss Given Default ("LGD") – being the loss that is expected to arise on default after taking account of expected recoveries from collateral held.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(iii) Impairment of financial assets (continued)

ECLs are measured by multiplying together the PD, EAD and LGD. As at 31 December 2022 EAD is prudently derived by taking the outstanding loan amount at 31 December 2022. LGD is estimated using weighted average expected losses on a subset of mortgages with specific characteristics as assessed by management from time to time. PD is provided by the Bank's parent and reviewed by management. The Bank's parent is currently better placed to calculate the PD for the Bank due to it having a larger selection of data covering forbearance arrangements, missed payments, and other customer behaviour metrics which might affect PD.

Where necessary, post-model adjustments are included within ECLs to reflect identified risks not captured in model outputs.

No ECLs are recognised against offered mortgages (i.e. off-balance sheet commitments to lend funds) to customers as the total ECL would be immaterial to the Financial Statements.

No ECL is recognised against balances held with the parent (as outlined in Note 25) as all material intercompany balances are fully collateralised.

(iv) Derecognition of financial assets and liabilities

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Subject to the policies outlined in note 4(b)(iii), the Bank will write off a financial asset (in full or in part) if the Bank judges there to be no reasonable expectation that the financial asset can be recovered (in full or in part). If a loan to a customer is to be written off, the Bank will recognise an expense totalling the balance of the loan, plus any expenses incurred during the repossession of the mortgaged property, less the carrying amount of the mortgaged property taken into possession. At 31 December 2022 the balance of loans where the property has been taken into possession was £nil (2021: £nil).

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Bank also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

(v) Hedge accounting

The Bank's derivative financial instruments, which are held solely for hedging purposes, are measured at FVTPL within the Statement of Financial Position. The Bank has elected to adopt the hedge accounting requirements of IFRS 9.

The Bank uses derivative financial instruments to hedge its exposure to market risks arising from operational, financing and investment activities. The Bank does not hold or issue derivative financial instruments for trading purposes. In line with accounting standards, the changes in fair value of derivatives used to hedge particular risks can either be offset in the Income Statement or deferred to equity.

The Bank only undertakes fair value hedges. Hence, where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability (or portion of a recognised asset or liability) or an unrecognised firm commitment, any gain or loss on the hedging instrument is recognised in the Income Statement. To the extent that there is an effective hedge relationship, the associated hedged items (for example, mortgage assets) are stated at fair value in respect of the hedged risk, with any gain or loss also recognised in the Income Statement.

As a result, fair value movements in the hedging instrument and in the hedged items offset each other and reduce profit volatility. Any residual fair value hedge ineffectiveness is also recognised in the Income Statement.

4. Significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(v) Hedge accounting (continued)

The Bank manages the interest rate risk arising from fixed rate mortgages and savings by entering into swaps on a frequent basis. The level of exposure from the mortgage portfolio frequently changes due to new loans being originated, contractual customer repayments and early customer repayments. As a result, the Bank adopts a dynamic hedging strategy to hedge the interest rate risk component within the exposure profile by entering into new swap agreements when it is appropriate to do so. The Bank uses a portfolio of fair value hedges of interest rate risk to recognise fair value changes related to changes in interest rate risk on fixed rate mortgages and savings products, to therefore reduce the profit or loss volatility that would otherwise occur from changes in the fair value of the interest rate swaps alone.

The hedge relationship is reassessed regularly in order that the ratio between the notional value of the hedged items and the notional value of the hedging instruments is recalibrated to be close to 100%.

Occasionally, hedge ineffectiveness can arise whereby a derivative can fail to hedge the interest rate risk to the extent originally expected. The Bank assesses hedge ineffectiveness on an ongoing basis and where it assesses that the hedging instrument is ineffective, the hedging relationship can be rebalanced. Ineffectiveness in the Bank's hedges can be caused by:

- Differences between the expected and actual volume of customer prepayments, as the Bank hedges to the expected repayment date adjusted for expected prepayments based on past experience;
- Differences in the timing of cash flows from monthly mortgage redemptions, and cash flows from interest rate swaps; or
- Differences in the maturities of the interest rate swap and the mortgage loans.

Hedge accounting relationships within the scope of IFRS 9 require hedge accounting to only be discontinued when the qualifying criteria are no longer met. Additionally, if the hedge is no longer highly effective, the relationship must be rebalanced if applicable rather than discontinuing hedge accounting. Fair value gains and losses on derivatives and hedged items in a fair value hedge are recognised in the 'Unrealised losses on derivatives and hedged items' line in the Income Statement.

Fair values are determined by the three-tier valuation hierarchy as defined in IFRS 13 Fair Value Measurement and Amendments to IFRS 7 Financial Instruments: Disclosures. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Interest on derivatives is included within and net against interest receivable where the derivative hedges an asset and within and net against interest expense where the derivative hedges a liability, to align the recognition with its economic purpose.

Any derivatives that do not qualify for hedge accounting are held at fair value with changes in fair value recognised in the 'Unrealised losses on derivatives and hedged items' line in the Income Statement.

(c) Functional and presentation currency

The Financial Statements are presented in Pound Sterling, which is the Bank's functional and presentational currency. Transactions in foreign currencies are translated into Pound Sterling using the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(d) Equipment and intangible assets

Equipment and intangible assets included in the Statement of Financial Position are measured at cost less accumulated depreciation / amortisation and accumulated impairment losses. Depreciation and amortisation are charged so as to write off the capitalised cost of assets less estimated residual values over their estimated useful lives on the following bases:

4. Significant accounting policies (continued)

(d) Equipment and intangible assets (continued)

Office Equipment	2 to 10 years	Straight line basis
Leasehold Improvements	2 to 10 years	Straight line basis
Motor Vehicles	25% of net book value	Reducing balance basis
Computer Software	5 years	Straight line basis once operational

(e) Right-of-use assets and lease liabilities

(i) The Bank's leasing activities and how these are accounted for

The Bank leases three offices, Level 3 – Tudor House, Level 1 South Suite – Tudor House and Waterloo Street. The latter is situated in Jersey, with the other two being situated in Guernsey.

Leases are recognised as right-of-use assets with corresponding lease liabilities at the date at which the leased asset is available for use by the Bank. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments known against each lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. Per IFRS 16, the lease payments should be discounted using the interest rate implicit in the lease and as that rate cannot be readily determined, the Bank has, in accordance with IFRS 16, used the Bank's incremental borrowing rate, being the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. This incremental borrowing rate has been applied against all leases that the Bank have entered into.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost, adjusted for initial direct costs, prepayments and incentives received, and the amount of the initial measurement of lease liability. Subsequently, the Bank measure right-of-use assets using the cost model, being cost less any accumulated depreciation and impairment, net of any adjustments for remeasurements of the lease liability.

The Bank has broken down the liquidity risk of the asset and the liability in Note 26.

(ii) Break clauses

Break clauses are included in all the leases entered into by the Bank. The break clauses held are exercisable only by the Bank and not by the respective lessor.

In determining the lease liability and right-of-use asset, management considered all facts and circumstances as to whether there was any likelihood for a break clause to be invoked. At the date of these Financial Statements, management noted no indications that the break clauses would be exercised.

(f) Taxation

The charge for taxation is based on the profit for the year using tax rates enacted at the reporting date and any adjustment to tax payable in respect of previous years. Where items are recognised directly in equity, the associated tax charge or credit is also recognised in equity. Deferred taxation is recognised in respect of temporary differences between the treatment of items for taxation and accounting purposes which have arisen by the reporting date.

4. Significant accounting policies (continued)

(f) Taxation (continued)

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at least annually and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(g) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash comprises the following which have a maturity of three months or less:

- Reverse repurchase agreement with parent; and
- Deposits with other banks.

Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

(h) Reverse repurchase agreement with parent

Included in cash and cash equivalents is a reverse repurchase agreement with the parent under the terms of which the Bank provides the parent with finance secured against high quality, liquid assets. All reverse repurchase transactions are conducted in line with market standard terms and conditions as defined in International Securities Market Association and The Bond Market Association Global Master Repurchase Agreements between the Bank and the parent.

Interest earned on the reverse repurchase agreement is recognised as interest income.

(i) Interest income and expense

For financial assets at AC, interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate represents the rate that exactly discounts the estimated future cash flows of a financial asset or financial liability over its expected life to its carrying amount.

For financial assets at FVOCI, interest income is recognised in the Income Statement on an effective interest basis. When the assets are derecognised, the accumulated gains or losses within equity are reclassified to the Income Statement.

Any premium or discount arising on the purchase of these assets is amortised over the period to the maturity date of the security on an effective interest basis. Any amounts amortised are charged or credited to the Income Statement in the relevant financial period.

(j) Administrative expenses

The Bank accounts for administrative expenses on the accruals basis. All expenses are raised in the Income Statement as and when the Bank incurs the expense.

(k) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the closing rate of exchange. Exchange differences are taken to the Income Statement as they arise.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Interest income calculated using the effective interest method

	2022 £'000	2021 £'000
On financial assets measured at amortised cost:		
Interest income on deposits placed with parent	1,252	21
Interest income on advances to customers	64,964	56,678
Interest income on advances to credit institutions	24	-
On financial assets at fair value through other comprehensive income:		
Interest income on debt securities	2,180	193
	68,420	56,892
On financial assets at fair value through profit or loss:		
Interest income/(expense) on mortgage swap contracts with parent	7,855	(7,176)
	76,275	49,716

The Bank received cash payments of £63,556k (2021: £53,566k) in relation to interest on advances to customers.

6. Interest expense and similar charges

	2022 £'000	2021 £'000
On financial liabilities measured at amortised cost:		
Interest expense on deposits from customers	25,214	15,419
On lease liabilities:		
Interest expense on lease liabilities	44	52
	25,258	15,471
On financial liabilities at fair value through profit or loss:		
Interest expense/(income) on investment swap contracts with parent	781	(345)
	26,039	15,126

The Bank made cash payments of £2,528k (2021: £3,050k) in relation to interest on deposits from customers and £44k (2021: £52k) in relation to lease liabilities.

7. Unrealised gains/(losses) on derivatives and hedged items

	2022 £'000	2021 £'000
Unrealised losses on hedged items attributable to the hedged risk	(83,421)	(32,688)
Unrealised gains on derivatives held in qualifying fair value hedging relationships	83,634	32,557
	213	(131)

Unrealised gains/(losses) on derivatives and hedged items do not include interest received or paid which is presented within the captions interest expense and similar charges and interest income calculated using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Other operating income

	2022 £'000	2021 £'000
Sundry fee income on loans and advances to customers	260	208
Sundry fee income on deposits from customers	56	32
Loss on disposal of debt securities	(3)	-
Net foreign exchange losses on retranslation of assets and liabilities denominated in USD	(6)	-
	307	240

9. Administrative expenses

	2022 £'000	2021 £'000
Personnel expenses	5,583	4,873
IT related expenses	1,138	1,018
Depreciation and amortisation	906	991
Group charges*	681	611
Establishment expenses	592	564
Commercial expenses	582	527
Professional and Legal expenses	470	416
Other expenses	339	220
	10,291	9,220

*Group charges include professional, IT and other services provided by the Group. Further information can be found in Note 25.

10. Staff numbers

	2022	2021
Directors	7	7
Other	77	72
Total staff numbers at 31 December	84	79

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Income tax expense

The Bank currently makes full provision for income tax at the standard rate applicable to the Bank of 10%.

	2022 £'000	2021 £'000
Analysis of tax charge in the year		
Profit on ordinary activities before tax	39,926	25,505
Current tax expense		
Current tax at 10% (2021: 10%)	3,993	2,551
Adjustments in respect of prior periods	-	(16)
Accelerated capital allowances	-	70
Expense not deductible for tax purposes	-	3
Income not taxable	-	(23)
Total current taxation expense in Income Statement	3,993	2,585
Deferred tax movement recognised in Income Statement	-	(86)
Total taxation expense in Income Statement	3,993	2,499

12. Dividends

	2022 £'000	2021 £'000
Amount paid during the year:		
Dividends at 180.0p per share (2021: 113.3p) per share	27,000	17,000

As at 31 December 2022 total dividends payable were £nil (2021: £nil).

13. Cash and cash equivalents

	2022 £'000	2021 £'000
Reverse repurchase agreement with parent*	213,731	197,816
Deposits with other banks	30,557	20,983
Total Cash and cash equivalents	244,288	218,799

* The reverse repurchase agreement is a funding arrangement which allows the Bank to buy financial assets from the counterparty, Skipton Building Society, who agrees to repurchase the financial assets at a later agreed date. The issuers of all assets held under the reverse repurchase agreement are rated at least Aa3 (2021: Aaa) by Moody's Long Term Rating service.

As at 31 December 2022, the market value of collateral was £213,883k (2021: £198,029k), £152k higher (2021: £213k higher) than the deposits secured.

Included in deposits with other banks is an ECL charge of £24k (2021: £16k).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Loans and advances from financial institutions

	2022 £'000	2021 £'000
Advances received from parent as collateral in relation to derivative financial instruments	100,280	9,880
	100,280	9,880

This balance represents funds due under a Credit Support Annex ("CSA") to an International Swaps and Derivatives Association ("ISDA") agreement between the Bank and its parent.

15. Debt securities

	2022 £'000	2021 £'000
At 1 January	210,233	37,573
Maturities and disposals during the year	(153,278)	(262,734)
Purchases during the year	138,124	435,874
Movement in discount and accrued interest	(417)	(87)
Movement in fair value	(984)	(393)
Gain on maturities and disposals	-	-
At 31 December	193,678	210,233

The maturity profile of debt securities held at 31 December is shown below:

	2022 £'000	2021 £'000
Matures in less than one month	16,636	-
Matures in more than one month but not more than three months	10,708	19,997
Matures in more than three months but not more than one year	77,401	45,116
Matures in more than one year	88,933	145,120
	193,678	210,233

16. Loans and advances to customers

	2022 £'000	2021 £'000
Advances secured on residential property or by share transfer:		
Repayable in less than one month	4,498	3,687
Repayable in more than one month but not more than three months	12,414	11,141
Repayable in more than three months but not more than one year	37,892	34,302
Repayable in more than one year but not more than five years	209,470	183,032
Repayable in more than five years*	1,691,793	1,498,124
Accrued interest receivable	6,082	4,787
Adjustment for fair value hedge accounting	(98,466)	(14,420)
	1,863,683	1,720,653

*Advances secured on residential property or by share transfer are generally on a 25-year mortgage term and the above analysis reflects the contractual maturity profile. Repayment of principal and interest is typically on a monthly instalment basis.

17. Deferred tax

	2022 £'000	2021 £'000
Deferred tax asset/(liability):		
At 1 January	(75)	(200)
Recognised in the Income Statement	-	86
Recognised in Equity	99	39
At 31 December	24	(75)
Accelerated capital allowances	(117)	(117)
Deferred tax recognised in fair value reserve	141	42
	24	(75)

18. Deposits from customers

	2022 £'000	2021 £'000
Retail deposits from customers:		
Repayable in less than one month	728,146	621,897
Repayable in more than one month but not more than three months	455,385	460,441
Repayable in more than three months but not more than one year	808,538	812,679
Repayable in more than one year but not more than five years	188,556	148,918
Accrued interest payable	14,878	7,074
Adjustment for fair value hedge accounting	-	42
	2,195,503	2,051,051

19. Creditors and other payables

	2022 £'000	2021 £'000
Amounts owed to Parent	55	52
Accruals	968	841
Deferred income	764	877
Other creditors	823	604
	2,610	2,374

20. Share capital

	2022 £'000	2021 £'000
Authorised, issued and fully paid		
15,000,000 ordinary shares at £1 each	15,000	15,000
	15,000	15,000

21. Property, plant and equipment

	Leasehold Improvements £'000	Office Equipment £'000	Motor Vehicles £'000	Total £'000
Cost				
At 1 January 2022	297	913	35	1,245
Additions	31	33	-	64
Disposals	-	-	-	-
At 31 December 2022	328	946	35	1,309
Accumulated depreciation				
At 1 January 2022	231	482	19	732
Depreciation charge for the year	22	148	3	173
Eliminated on disposal	-	-	-	-
At 31 December 2022	253	630	22	905
Carrying amounts				
At 1 January 2022	66	431	16	513
At 31 December 2022	75	316	13	404

Included in cost and accumulated depreciation are fully depreciated assets totalling £355k (2021: £252k).

21. Property, plant and equipment (continued)

	Leasehold Improvements £'000	Office Equipment £'000	Motor Vehicles £'000	Total £'000
Cost				
At 1 January 2021	297	890	35	1,222
Additions	-	23	-	23
Disposals	-	-	-	-
At 31 December 2021	297	913	35	1,245
Accumulated depreciation				
At 1 January 2021	155	373	9	537
Depreciation charge for the year	76	109	10	195
Eliminated on Disposals	-	-	-	-
At 31 December 2021	231	482	19	732
Carrying amounts				
At 1 January 2021	142	517	26	685
At 31 December 2021	66	431	16	513

22. Right-of-use assets and lease liabilities

(a) Amounts recognised in the Statement of Financial Position

	2022 £'000	2021 £'000
Right-of-use assets		
Offices - Guernsey	1,951	2,410
Offices - Jersey	80	105
	2,031	2,515

	2022 £'000	2021 £'000
Lease liabilities		
Offices - Guernsey	2,096	2,548
Offices - Jersey	87	112
	2,183	2,660

There were no additions or disposals to the right-of-use assets during the year ended 31 December 2022 (2021: £nil). Refer to Note 26 for the breakdown of the timing of the repayments on the lease liabilities.

(b) Amounts recognised in the Income Statement

	2022 £'000	2021 £'000
Depreciation charge	484	484
Interest expense	44	52
	528	536

The total cash outflow for leases in 2022 was £521k (2021: £460k).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Intangible assets

	2022 £'000	2021 £'000
Cost		
At 1 January	4,190	4,075
Additions	256	115
At 31 December	4,446	4,190
Accumulated amortisation		
At 1 January	3,010	2,214
Amortisation charge for the year	733	796
At 31 December	3,743	3,010
Carrying amounts		
At 1 January	1,180	1,861
At 31 December	703	1,180

Included in cost and accumulated amortisation are fully amortised assets totalling £2,935k (2021: £317k).

24. Derivative financial instruments

All derivative financial instruments are measured at fair value through profit and loss.

	2022 £'000	2021 £'000
Derivatives liabilities designated as fair value hedges	(2,924)	(5,428)
Derivative assets designated as fair value hedges	105,388	14,807
	102,464	9,379

In line with IAS32, the Bank has offset derivative assets and liabilities as they meet the offset criteria as detailed in the standard.

25. Related party transactions

The Bank is a subsidiary of Skipton Building Society.

As well as the transactions and balances disclosed elsewhere in the Financial Statements, the following related party transactions were entered into by the Bank during the year. The outstanding balances at the reporting date relating to those transactions are also detailed.

Key management personnel comprise the Executive Directors, Non-Executive Directors and senior management, who are responsible for ensuring that Skipton International Limited meets its strategic and operational objectives.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Related party transactions (continued)

	Amount 2022 £'000	Amount 2021 £'000	Outstanding Balance 2022 £'000	Outstanding Balance 2021 £'000
a) Group fees				
Professional services provided by the group	250	185	29	32
IT services provided by the group	351	358	20	15
Other services provided by the group	80	68	5	5
Derivative transactions:				
Net interest (receivable)/payable on swap contracts with parent	(7,073)	6,831	-	-
Total	(6,392)	7,442	54	52
b) Net interest				
Net interest income from parent	1,252	21	51	9
Total	1,252	21	51	9
c) Key management personnel				
Salaries and other short-term employee benefits expenses relating to key management personnel	1,084	1,047	344	282
Total	1,084	1,047	344	282

The purchase of goods and services relates to operational support and professional services from the parent.

At 31 December 2022 the savings account balances held by key management personnel and persons who are connected with key management personnel amounted to £2,142k (2021: £880k). The interest expense incurred on these deposits during the year amounted to £19k (2021: £3k).

26. Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity. The Bank's financial instruments are money market assets, debt securities, mortgage advances secured on residential property or by share transfer, customer deposits and derivatives used for risk management purposes.

The principal risks faced by the Bank are credit risk, liquidity risk, interest rate risk, foreign currency risk and operational risk. The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Board of Directors is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors and to the parent.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)

Credit Risk

Credit risk is the risk that a counterparty will be unable to meet its commitment to the Bank. This risk arises principally from loans and advances to customers and exposures to treasury counterparties. This risk is mitigated through a combination of lending in respect of mortgages only where the individual loans are fully secured and by placing the remainder of the Bank's assets with approved institutions in accordance with the Bank's treasury policy.

A list of treasury counterparties as at 31 December 2022 is set out below:

Counterparty	Credit Rating (per Moody's Long Term)
Skipton Building Society	A2 (2021: A2)
Bank of England	Aa3 (2021: Aa3)
Barclays Bank Plc	A1 (2021: A1)
Lloyds Bank International	A1 (2021: A1)
HSBC Bank Plc	A1 (2021: A1)
Asian Development Bank	Aaa (2021: Aaa)
European Bank for Reconstruction and Development	Aaa (2021: Aaa)
International Bank for Reconstruction and Development	Aaa (2021: Aaa)
KfW	Aaa (2021: Aaa)
US Federal Reserve*	Aaa (2021: Aaa)

*New counterparty in 2022

(a) Loans and advances to customers

The residential portfolio is made up of loans secured on residential property or by share transfer. The Bank's residential lending book comprises a large number of smaller loans which have low volatility of credit risk.

The Bank operates across the Channel Islands and the UK. As at 31 December 2022, 18% (2021: 21%) of loans were in Guernsey, 29% (2021: 36%) were in Jersey and 53% (2021: 43%) were in the UK.

As at 31 December 2022, the Bank has an effective interest rate adjustment ("EIR adjustment") totalling £nil (2021 £808k). The Bank offers predominantly fixed-rate mortgages to customers with an initial fixed-rate for a term of 2 to 5 years, which is shorter than the typical overall term of the loan. After the initial fixed term, the initial rate on the loan reverts to the applicable forecasted market variable rate. The effective interest method calculates an interest rate which exactly discounts the forecast cash flows of an asset over its expected life back to its carrying value.

As at 31 December 2022, the effective interest calculation is based on management's judgement that the fixed mortgage rate is a Market Rate, as the fixed rate offered is in line with the interest rates offered on similar mortgage products by the Bank's competitors on the open market. On this basis, the initial fixed product term and any subsequent period at the end of the product term are treated as two discrete periods, such that the blending of interest rates is not necessary.

In the prior year, this calculation was based on the judgement that the fixed mortgage rate was a Bargain Rate and the estimate that customers remain on a Standard Variable Rate ("SVR") or a Follow On Rate ("FOR") for a number of months ("the SVR tail"). When the fixed mortgage rate for the initial term was determined to be a Bargain Rate, the effective interest rate was calculated on a 'blended' basis, taking into account the fixed rate and the SVR or FOR, to obtain a consistent rate of return over the instrument's expected life.

For the year ended 31 December 2022, the impact of these changes is to reduce profit before tax by £808k (2021: £nil).

The following table provides information on loans and advances to customers by payment due status and by IFRS 9 'stage'. Note that the table below excludes net IFRS adjustments of £(98,466k) (2021: £14,454k) which relates to the hedging fair value adjustment and the ECL on mortgages (see Note 26) to show the gross carrying amount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)

Credit Risk (continued)

(a) Loans and advances to customers (continued)

2022

Gross carrying amount	Stage 1 12-month ECL £'000	Stage 2 Lifetime ECL £'000	Stage 3 Lifetime ECL £'000	Total £'000
Not past due	1,957,472	1,744	-	1,959,216
Up to 30 payments past due	-	1,512	-	1,512
31 to 60 days past due	-	549	-	549
61 to 90 days past due	-	872	-	872
Over 90 days past due	-	-	-	-
Total at 31 December	1,957,472	4,677	-	1,962,149

2021

Gross carrying amount	Stage 1 12-month ECL £'000	Stage 2 Lifetime ECL £'000	Stage 3 Lifetime ECL £'000	Total £'000
Not past due	1,731,708	990	-	1,732,698
Up to 30 payments past due	-	1,556	-	1,556
31 to 60 days past due	-	-	-	-
61 to 90 days past due	-	712	-	712
Over 90 days past due	-	-	141	141
Total at 31 December	1,731,708	3,258	141	1,735,107

The following table provides information on movements in the gross carrying amount of loans and advances to customers during the period.

2022

	Stage 1 12-month ECL £'000	Stage 2 Lifetime ECL £'000	Stage 3 Lifetime ECL £'000	Total £'000
Gross carrying amount as at 1 January	1,731,708	3,258	141	1,735,107
Transfers due to changes in credit risk:				
Transfers from stage 1 to stage 2	(2,277)	2,277	-	-
Transfers from stage 1 to stage 3	-	-	-	-
Transfers from stage 2 to stage 1	1,283	(1,283)	-	-
Transfers from stage 2 to stage 3	-	-	-	-
Transfers from stage 3 to stage 1	-	-	-	-
Transfers from stage 3 to stage 2	-	-	-	-
Changes due to modification without derecognition	53	425	-	478
Increases due to origination and acquisition	468,273	-	-	468,273
Decreases due to derecognition and repayments	(241,568)	-	(141)	(241,709)
Write-offs	-	-	-	-
Other adjustments	-	-	-	-
Total at 31 December	1,957,472	4,677	-	1,962,149

26. Financial instruments (continued)

Credit Risk (continued)

(a) Loans and advances to customers (continued)

2021

	Stage 1 12-month ECL £'000	Stage 2 Lifetime ECL £'000	Stage 3 Lifetime ECL £'000	Total £'000
Gross carrying amount as at 1 January	1,572,576	6,591	209	1,579,376
Transfers due to changes in credit risk:				
Transfers from stage 1 to stage 2	(2,510)	2,510	-	-
Transfers from stage 1 to stage 3	(143)	-	143	-
Transfers from stage 2 to stage 1	4,636	(4,636)	-	-
Transfers from stage 2 to stage 3	-	(247)	247	-
Transfers from stage 3 to stage 1	-	-	-	-
Transfers from stage 3 to stage 2	-	-	-	-
Changes due to modification without derecognition	1,236	2	-	1,238
Increases due to origination and acquisition	375,831	-	-	375,831
Decreases due to derecognition and repayments	(219,918)	(962)	(412)	(221,292)
Write-offs	-	-	(46)	(46)
Total at 31 December	1,731,708	3,258	141	1,735,107

The amounts included in the previous tables represent the movement in the gross carrying amount between each reporting period end and not the balance as at the date of the movement.

The following table provides information on movements in the impairment loss allowance for loans and advances to customers during the period.

2022

	Stage 1 12-month ECL £'000	Stage 2 Lifetime ECL £'000	Stage 3 Lifetime ECL £'000	Total £'000
Loss allowance as at 1 January	18	16	-	34
Transfers due to changes in credit risk:				
Transfers from stage 1 to stage 2	-	-	-	-
Transfers from stage 1 to stage 3	-	-	-	-
Transfers from stage 2 to stage 1	-	-	-	-
Transfers from stage 2 to stage 3	-	-	-	-
Transfers from stage 3 to stage 1	-	-	-	-
Transfers from stage 3 to stage 2	-	-	-	-
Increases due to origination and acquisition	5	-	-	5
Decreases due to derecognition and repayments	(3)	2	-	(1)
Write-offs	-	-	-	-
Remeasurements within existing stage	525	20	-	545
Loss allowance at 31 December	545	38	-	583

26. Financial instruments (continued)

Credit Risk (continued)

(a) Loans and advances to customers (continued)

2021

	Stage 1 12-month ECL £'000	Stage 2 Lifetime ECL £'000	Stage 3 Lifetime ECL £'000	Total £'000
Loss allowance as at 1 January	39	-	80	119
Transfers due to changes in credit risk:				
Transfers from stage 1 to stage 2	-	-	-	-
Transfers from stage 1 to stage 3	-	-	-	-
Transfers from stage 2 to stage 1	-	-	-	-
Transfers from stage 2 to stage 3	-	-	-	-
Transfers from stage 3 to stage 1	-	-	-	-
Transfers from stage 3 to stage 2	-	-	-	-
Increases due to origination and acquisition	8	-	-	8
Decreases due to derecognition and repayments	(6)	-	(46)	(52)
Write-offs	-	-	(34)	(34)
Remeasurements within existing stage	(23)	16	-	(7)
Loss allowance at 31 December	18	16	-	34

The loss allowance as at 31 December 2022 includes post-model adjustments totalling £522k (2021: £nil) in relation to mortgage affordability risks. These post-model adjustments are held to reflect the risk of default by mortgage customers associated with rising interest rates and rising cost of living.

The indexed loan-to-value is updated on a quarterly basis to reflect changes in relevant house price indices, which are applied to the portfolio on a regional basis. At 31 December 2022, the average indexed LTV of the Bank's loan portfolio is estimated at 48.90% (2021: 51.00%).

Where appropriate for customers' needs, the Bank may apply forbearance terms wherein the Bank may grant a temporary renegotiation to the customers' repayment terms. This may be applied where the financial stress of the customer is deemed short term with a potential to be recovered. Types of renegotiation may involve arrears capitalisation, a reduction in the monthly payment, a conversion to interest only or a mortgage term extension.

These strategies are undertaken in order to achieve reduced long-term arrears at an early stage. The customer accounts are monitored to ensure that these strategies remain appropriate.

The following table provides further information on the gross carrying amount of residential loans including all loans with forbearance terms existing at 31 December 2022.

26. Financial instruments (continued)

Credit Risk (continued)

(a) Loans and advances to customers (continued)

2022

	Total £'000	Capitalisation £'000	Reduced payment £'000	Transfer to interest only £'000	Term extension £'000	Total renegotiations £'000
Stage 1						
Not past due	1,957,472	-	-	-	-	-
Past due up to 30 days	-	-	-	-	-	-
Over 30 days past due	-	-	-	-	-	-
	1,957,472					
Stage 2						
Not past due	1,744	-	558	1,186	-	1,744
Past due up to 90 days	2,933	-	-	-	-	-
Over 90 days past due	-	-	-	-	-	-
	4,677	-	558	1,186	-	1,744
Stage 3						
Not past due	-	-	-	-	-	-
Past due up to 90 days	-	-	-	-	-	-
Over 90 days past due	-	-	-	-	-	-
Total	1,962,149	-	558	1,186	-	1,744

2021

	Total £'000	Capitalisation £'000	Reduced payment £'000	Transfer to interest only £'000	Term extension £'000	Total renegotiations £'000
Stage 1						
Not past due	1,731,708	-	-	-	-	-
Past due up to 30 days	-	-	-	-	-	-
Over 30 days past due	-	-	-	-	-	-
	1,731,708	-	-	-	-	-
Stage 2						
Not past due	988	-	-	988	-	988
Past due up to 90 days	2,270	-	-	-	-	-
Over 90 days past due	-	-	-	-	-	-
	3,258	-	-	988	-	988
Stage 3						
Not past due	-	-	-	-	-	-
Past due up to 90 days	-	-	-	-	-	-
Over 90 days past due	141	-	-	-	-	-
Total	1,735,107	-	-	988	-	988

As outlined in Note 4(b)(iii) the Bank incorporates several estimates and assumptions into its ECL calculation. The following table outlines the impact of the impairment loss allowance when stressing the material assumptions. Each sensitivity shown considers one change in isolation. The combined impact on the ECL of more than one sensitivity occurring would not necessarily be the sum of the impact of the individual sensitivities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)

Credit Risk (continued)

(a) Loans and advances to customers (continued)

Assumption	Change to current assumption	Indicative increase in impairment loss allowance on loans and advances to customers 2022 £'000	2021 £'000
Modelled ECL			
Probability of Default (12m)	Absolute increase to Stage 1 PD of 0.25%	7	7
Probability of Default (Lifetime)	Absolute increase to Stage 2 PD of 10.00%	33	8
Loss Given Default (Stage 1)	Absolute increase to Stage 1 LGD of 0.25%	41	17
Scenario Weightings	Absolute increase in Downside scenario by 10%	7	8
Post-model adjustments			
Probability of Default (Lifetime)	Absolute increase to Stage 2 PD of 2.00%	89	-
Rate shock threshold	Absolute decrease of 0.25%	261	-
Forecast interest rate swap	Absolute increase of 0.50%	445	-
Forecast house price index	Absolute decrease of 10.00%	989	-

(b) Debt securities

The table below provides details of the Moody's ratings of the Bank's holdings of debt securities:

	2022 £'000	2021 £'000
Aaa	110,439	90,596
Aa2	-	19,997
Aa3	83,239	99,640
	193,678	210,233

26. Financial instruments (continued)

Credit Risk (continued)

(b) Debt securities (continued)

The table below provides a geographic analysis of the Bank's holdings of debt securities (values are shown after accrued interest):

	2022 £'000	2021 £'000
UK	83,239	119,638
Supranational	90,746	90,595
North America	19,693	-
	193,678	210,233

At 31 December 2022 the Bank held expected credit losses of £9k (2021: £26k) against debt securities, all of which were assessed as Stage 1 ECLs due to the Bank not having identified any increase in credit risk on any of the assets:

2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loss allowance at 1 January 2022	26	-	-	26
Decreases within existing stage				
Increases due to origination, acquisition and additions	3	-	-	3
Decrease due to derecognition, repayments and disposals	(20)	-	-	(20)
Loss allowance at 31 December 2022	**9**	**-**	**-**	**9**

2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loss allowance at 1 January 2021	9	-	-	9
Decreases within existing stage	-	-	-	-
Increases due to origination, acquisition and additions	17	-	-	17
Decrease due to derecognition, repayments and disposals	-	-	-	-
Loss allowance at 31 December 2021	**26**	**-**	**-**	**26**

The following table outlines the impact on the impairment loss allowance for treasury assets of possible alternative assumptions of certain estimates used in calculating the ECLs. 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.

		Increase/(Decrease) in impairment allowance	
Assumption	Change to current assumption	2022 £'000	2021 £'000
Downside scenario weighting	Increase from 5% to 15%	4	4
Downside scenario weighting	Increase from 5% to 100%	39	37
Base case scenario weighting	Increase from 95% to 100%	(2)	(2)

26. Financial instruments (continued)

Credit Risk (continued)

c) Derivative financial instruments

The Bank incorporates forward-looking information into its ECL assessment for treasury assets. In addition to the base case scenario view, the Bank also considers the impact of an extreme economic downturn such as a two-notch downgrade on the entire portfolio.

A credit exposure could arise in respect of derivative financial instruments if the Bank or the parent (being the sole counterparty of all of the Bank's derivative financial instruments) was unable to fulfil their contractual obligations. The Bank and the parent address this risk by monitoring the net exposure of these instruments and requires collateral to be posted against the net exposure as necessary. This collateral is in the form of cash placements between the Bank and the parent. The following table quantifies the derivative financial instruments' exposure and the cash collateral placed, along with the net exposure.

2022	Gross Balance £'000	Netting Agreement £'000	Cash collateral £'000	Net Amounts after offsetting £'000
Derivative financial assets	105,388	(2,924)	(100,280)	2,184
Derivative financial liabilities	(2,924)	2,924	-	-

2021	Gross Balance £'000	Netting Agreement £'000	Cash collateral £'000	Net Amounts after offsetting £'000
Derivative financial assets	14,807	(5,428)	(9,880)	(501)
Derivative financial liabilities	(5,428)	5,428	-	-

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulties in realising assets to meet its liabilities as they fall due. The Bank regularly monitors its liquidity position under a number of scenarios and deposits surplus liquidity only with highly rated credit institutions. Currently, the Bank deposits some of its surplus liquidity with its parent company under a reverse repurchase agreement. Under the reverse repurchase agreement with the parent, the Bank's legal exposure is to a mix of high quality, liquid assets that are regularly traded in active markets. All reverse repurchase transactions are conducted in line with market standard terms and conditions as defined in International Securities Market Association and The Bond Market Association Global Master Repurchase Agreements between the Bank and the Parent.

Table 1a summarises the remaining contractual maturity of all liabilities at 31 December 2022 and Table 1b provides comparative figures as at 31 December 2021. Tables 1a and 1b summarises the discounted contractual cash flows of all liabilities. The effect of presenting undiscounted cash flows is an increase of £0.1m in total liabilities (2021: £0.1m) and is not considered to be material.

26. Financial instruments (continued)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Liquidity Risk (continued)

Table 1a

2022 Liabilities	0-3 Months £'000	3-12 Months £'000	1-5 Years £'000	5 Years + £'000	No Specific Maturity £'000	Total £'000
Deposits from customers	1,191,606	814,055	189,842	-	-	2,195,503
Creditors and other payables	2,610	-	-	-	-	2,610
Loans and advances from financial institutions	672	4,052	95,556	-	-	100,280
Corporation tax liability	-	-	-	-	1,474	1,474
Lease liabilities	121	367	1,568	127	-	2,183
Deferred tax liability	-	-	-	-	-	-
Total Liabilities	1,195,009	818,474	286,966	127	1,474	2,302,050

Table 1b

2021 Liabilities	0-3 Months £'000	3-12 Months £'000	1-5 Years £'000	5 Years + £'000	No Specific Maturity £'000	Total £'000
Deposits from customers	1,086,084	815,492	149,433	-	42	2,051,051
Creditors and other payables	2,374	-	-	-	-	2,374
Loans and advances from financial institutions	(354)	(437)	10,631	40	-	9,880
Corporation tax liability	-	-	-	-	-	-
Lease liabilities	158	359	1,707	436	-	2,660
Deferred tax liability	-	-	-	-	75	75
Total Liabilities	1,088,262	815,414	161,771	476	117	2,066,040

Commitments where the Bank has offered mortgages to customers fall into the 0-3 month range. See Note 27.

26. Financial instruments (continued)

Interest rate risk

The main market risk faced by the Bank is interest rate risk. Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The net interest income and market value of the Bank is exposed to movements in interest rates. This exposure is managed on a continuous basis, with limits set by the Board, using derivative financial instruments.

In addition, the Bank monitors interest rate risk exposure against limits by determining the effect on the Bank's current net notional value of assets and liabilities for a parallel shift in interest rates equivalent to 2% for all maturities, in line with regulatory requirements. These results are compared to the appropriate operational trigger at least weekly, and are formally reported to the Board monthly. While performing this sensitivity analysis the following assumptions have been made:

- Off Balance Sheet items are calculated using a varying conversion ratio depending on whether the loan has been offered or not, this is because while applications and offers of loans are less certain, their likelihood to complete can be predicted based on historical analysis:
    - If a loan has been completed, 100% of the value is included in the sensitivity;
    - If a loan has been offered to a customer, 90% of the value is included in the sensitivity; and
    - If a loan has been applied for but not offered, 65% of the value is included in the sensitivity.
- All mortgages will meet their contractual payments as required;
- In certain exceptional circumstances, fixed rate products on deposits can be broken before their maturity date if the customer passes away or enters long term care. A probability assumption for this happening is calculated based on historic data; and
- A static balance sheet is utilised.

Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics – such as the SONIA and Bank of England Base Rate) are also monitored closely by the Bank's management team and regularly reported to the Board.

Interest rate risk also arises when there is an imbalance between rate-sensitive and non-rate sensitive assets and liabilities. Table 1c summarises the imbalance as at 31 December 2022 and Table 1d provides comparative figures for 31 December 2021. Interest rate swaps are used to hedge part of the mortgage book and retail deposit book.

If market interest rates were to increase by 2%, the net impact on the net carrying value of financial instruments would increase by a net amount of approximately £736k (2021: decrease of £273k).

The expected re-pricing periods follow in Table 1c.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)

Interest rate risk (continued)

Table 1c

2022	0-3 Months £'000	3-6 Months £'000	6-12 Months £'000	1-5 Years £'000	5 Years + £'000	Non-Interest Bearing £'000	Total £'000
Assets							
Cash and cash equivalents	244,288	-	-	-	-	-	244,288
Loans & advances to financial institutions	-	-	-	-	-	-	-
Debt securities	118,093	7,327	-	68,258	-	-	193,678
Loans & advances to customers	350,115	69,642	153,916	1,386,648	-	(96,638)	1,863,683
Derivative assets held for risk management	102,464	-	-	-	-	-	102,464
Corporation Tax asset	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	4,161	4,161
Total Assets	814,960	76,969	153,916	1,454,906	-	(92,477)	2,408,274
Liabilities and Equity							
Deposit liabilities from customers	1,530,668	177,635	281,957	191,001	-	14,242	2,195,503
Loans & advances from financial institutions	100,280	-	-	-	-	-	100,280
Lease liabilities	121	122	245	1,568	127	-	2,183
Derivative liabilities	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	2,610	2,610
Corporation Tax liability	-	-	-	-	-	1,474	1,474
Reserves	-	-	-	-	-	106,224	106,224
Total Liabilities and Equity	1,631,069	177,757	282,202	192,569	127	124,550	2,408,274
Off Balance Sheet							
Assets	1,577,675	31,200	9,100	9,800	-	-	1,627,775
Liabilities	(154,000)	(60,500)	(137,200)	(1,276,075)	-	-	(1,627,775)
Total Off-Balance Sheet	1,423,675	(29,300)	(128,100)	(1,266,275)	-	-	-
Interest rate sensitivity gap	607,566	(130,088)	(256,386)	(3,938)	(127)	(217,027)	-
Cumulative interest rate sensitivity gap	607,566	477,478	221,092	217,154	217,027	-	-

26. Financial instruments (continued)

Interest rate risk (continued)

Table 1d

2021	0-3 Months £'000	3-6 Months £'000	6-12 Months £'000	1-5 Years £'000	5 Years + £'000	Non-Interest Bearing £'000	Total £'000
Assets							
Cash and cash equivalents	218,799	-	-	-	-	-	218,799
Loans & advances to financial institutions	-	-	-	-	-	-	-
Debt securities	110,592	20,006	25,111	54,524	-	-	210,233
Loans & advances to customers	464,279	47,395	112,466	1,102,481	7,199	(13,167)	1,720,653
Derivative assets held for risk management	9,379	-	-	-	-	-	9,379
Corporation Tax asset	-	-	-	-	-	80	80
Other assets	-	-	-	-	-	5,090	5,090
Total Assets	803,049	67,401	137,577	1,157,005	7,199	(7,997)	2,164,234
Liabilities and Equity							
Deposit liabilities from customers	1,351,316	199,721	227,939	149,441	-	122,634	2,051,051
Loans & advances from financial institutions	9,880	-	-	-	-	-	9,880
Lease liabilities	158	119	240	1,707	436	-	2,660
Derivative liabilities	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	2,449	2,449
Corporation Tax liability	-	-	-	-	-	-	-
Reserves	-	-	-	-	-	98,194	98,194
Total Liabilities and Equity	1,361,354	199,840	228,179	151,148	436	223,277	2,164,234
Off Balance Sheet							
Assets	1,316,935	15,500	8,300	51,900	-	-	1,392,635
Liabilities	(210,600)	(24,100)	(87,760)	(1,067,925)	(2,250)	-	(1,392,635)
Total Off-Balance Sheet	1,106,335	(8,600)	(79,460)	(1,016,025)	(2,250)	-	-
Interest rate sensitivity gap	548,030	(141,039)	(170,062)	(10,168)	4,513	(231,274)	-
Cumulative interest rate sensitivity gap	548,030	406,991	236,929	226,761	231,274	-	-

The Off-Balance Sheet items are made up of gross nominal value of the Bank's swap contracts.

Fair values of financial instruments

Table 2a summarises the fair value measurement basis used for assets and liabilities held at fair value as at 31 December 2022 and Table 2b provides comparative figures as at 31 December 2021.

Details of the valuation techniques used in measuring the fair value of financial instruments are set out in Table 2b.

26. Financial instruments (continued)

Fair values of financial instruments (continued)

Table 2a

2022	Quoted prices in active markets (Level 1) £'000	Valuation techniques using observable inputs (Level 2) £'000	Total £'000
Financial Assets			
Financial assets held at FVOCI:			
Debt Securities	193,678	-	193,678
	193,678	-	193,678
Financial Assets at fair value through profit and loss:			
Derivative financial instruments	-	102,464	102,464
	-	102,464	102,464

Table 2b

2021	Quoted prices in active markets (Level 1) £'000	Valuation techniques using observable inputs (Level 2) £'000	Total £'000
Financial Assets			
Financial assets held at FVOCI:			
Debt Securities	210,233	-	210,233
	210,233	-	210,233
Financial Liabilities			
Financial liabilities at fair value through profit and loss:			
Derivative financial instruments	-	9,379	9,379
	-	9,379	9,379

Where securities are actively traded in a recognised market, with readily available and quoted prices, these have been used to value the securities. These securities are therefore regarded as having level 1 fair values. Where such prices are not available, discounted cash flows are used using market observable inputs. As such, these securities are categorised as having level 2 fair values.

There were no transfers between levels for both Financial Assets and Financial Liabilities during the year ending 31 December 2022 or 31 December 2021.

Valuation Techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1

The most reliable fair values of FVOCI assets are quoted market prices in an actively traded market.

26. Financial instruments (continued)

Valuation Techniques (continued)

Level 2

Where there is no active market, or there are quoted prices for similar instruments in active markets, valuation techniques are used which include valuation models used to calculate the present value of expected future cash flows. These techniques make use of observable market data for all significant inputs, which include market interest rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Bank's exposure to the risk of fluctuations in foreign exchange rates relates primarily to the Bank's deposits from customers denominated in United States Dollars ("USD").

The Bank manages its foreign currency risk by holding cash and debt securities denominated in USD. The Bank's objective is to manage foreign currency risk by minimising mismatches in the balance and maturity profile of USD-denominated assets and liabilities, and minimising mismatches between interest income and interest expense on USD-denominated assets and liabilities.

USD deposits were launched during the year ended 31 December 2022. At 31 December 2022, the Bank's USD-denominated liabilities amounted to £31,724k (2021: £nil) and USD-denominated assets amounted to £31,781k (2021: £nil). If USD foreign exchange rates were to increase by 5%, the net impact on profit before tax would be approximately £(3k) (2021: £nil).

Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Capital

Capital is considered to be the audited retained earnings and ordinary share capital in issue.

	31 December 2022 £'000	31 December 2021 £'000
Ordinary Shares	15,000	15,000
Retained Earnings	92,479	83,545
Total	107,479	98,545

The Bank is subject to Guernsey Financial Services Commission ("GFSC") capital requirements which are monitored on a monthly basis and a formal submission sent to the GFSC on a quarterly basis. The GFSC's capital requirements are in place in order to cover the regulated activities of the Bank.

The period end capital position is reported to the Board on a monthly basis. The capital position is also given due consideration when corporate plans are prepared, calculating the future requirements based upon the Bank's five-year financial forecast.

The Bank manages the capital balance in order to ensure that both the internal limit and regulatory limit are not breached.

The Board considers that at all times during the year both external and internal requirements were met.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. Commitments and Contingent Liabilities

As at 31 December 2022, the Bank has offered mortgages to customers amounting to £91,162k (2021: £73,824k). These offers are subject to the Bank's terms and conditions.

28. Loans, Overdrafts and Limits

At 31 December 2022, Skipton International Limited has the following loans, overdrafts and limits in place with HSBC Bank PLC:
Overdraft Facility of £1,000k (2021: £1,000k)
Business Card Facility of £30k (2021: £30k)

29. Directors Emoluments

The aggregate amount of remuneration paid to or recoverable by Directors in respect of qualifying services was £601k (2021: £580k). Additionally, the Bank was charged £20k (2021: £19k) in respect of director services provided by Skipton Building Society.

30. Ultimate Parent

The Bank is a wholly owned subsidiary of Skipton Building Society, a building society incorporated under the Building Societies Act 1986. The Group Annual Report and Accounts are available from the Society's Head Office, The Bailey, Skipton, North Yorkshire BD23 1DN.

31. Post balance sheet events

There were no significant events since the year end which would require revision of the figures or disclosures in the Financial Statements.