SKIPTON INTERNATIONAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2024

Company's Registration Number: 30112

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INTRODUCTION FROM THE CHIEF EXECUTIVE OFFICER

Skipton delivered strong profitability in 2024, despite continuing economic uncertainties and inflationary pressures (domestic and global). In 2024 Skipton delivered a Profit before tax of £31.0m, a 34.4% decrease on the exceptional performance of 2023. Return On Equity returned to trend at 19.9% following the prior year's 39.9% which was flattered by rises in base rates.

During 2024, Skipton paid dividends totalling £16m to its parent, Skipton Building Society.

Skipton retained its Feefo Platinum Trusted Service Provider award for the fifth consecutive year and won the Moneyfacts Offshore Account Provider of the Year award, for the third consecutive year.

Skipton's mortgage book decreased slightly due to lower completions in the year of £167m (2023: £375m). The mortgage book continues to perform well with only 23 accounts in any form of arrears at year end (2023: 17 accounts), representing around 1 in 330 accounts (2023: 1:500). There were 10 arrears cases over 3 months (2023: 4 cases).

In 2024 we donated a further £80,000 from 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 and Jersey Special Gymnastics Club in Jersey.

The Bank's success is due to the loyalty of our customers and colleagues, and I would like to thank you all. This is my final report to you as Skipton's Chief Executive Officer as I will be stepping down in June 2025 after 14 years during which I have felt privileged to serve as Managing Director and Chief Executive Officer. I hope you enjoy reading our 2024 Annual Report and Financial Statements.

Mr J A Coupe
Chief Executive Officer

CHAIRMAN'S REPORT

I am pleased to present my first report as Chairman since joining the Board of Directors of Skipton in October 2024. I join Skipton at a time of change where the Bank is consolidating its key risk mitigation procedures and building capacity required to meet the dynamic regulatory landscape in the financial services sector in Guernsey.

The Bank made a profit before tax of £31m in 2024 which, whilst a reduction from 2023's profit of £47m, is a strong financial result despite the internal and economic challenges linked to inflation and interest and swap rate fluctuations. To further strengthen the Bank's customer offering and strategic implementation, we continue to increase the Bank's capacity in various teams, including strategic recruitments in our Executive Committee. As a result of these initiatives, we have seen an increase in administration expenses during the year. Despite this, the Bank was able to pay a dividend of £16m to its parent, Skipton Building Society, an increase from £10m in the previous year.

Skipton focuses on long term relationships and customer loyalty, and prides itself on providing exceptional customer experience. Our colleagues' dedication to this has enabled the Bank to retain its Feefo Platinum Trusted Service Provider award and the Moneyfacts Offshore Account Provider of the Year award for numerous consecutive years.

I am pleased to announce that Jim Coupe has decided 2025 is the year in which he will commence his well-earned retirement.

Jim has been a driving force behind the growth of Skipton since its inception following the merger of Skipton Guernsey and Scarborough Channel Islands in 2009. During his tenure, our Bank has seen innovation in products like the UK Buy-To-Let proposition; growth in customers – which now span over 100 countries; a large number of awards for fantastic customer service; and can claim the accolade of being one of the largest lenders of its kind with mortgage lending surpassing £2bn.

I would like to thank Jim for his enormous contributions and wish him all the best for his future. I know he will be championing us from the sidelines as we continue to build a resilient and successful international bank.

The outlook for 2025 is promising. It is a privilege to lead a proven purpose-driven business and I would like to wholeheartedly thank every one of our colleagues who have played their part in helping grow our business while successfully navigating these times of change.

Mr E E Barnett
Chairman

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 2024.

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 physical and transitional risks on the Bank's financial performance. 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 to perform a flood risk and erosion survey of Guernsey and Jersey to provide data for inclusion in the Bank's climate risk considerations. The analysis of this data is ongoing and the results are not yet included in the Bank's calculations of expected credit losses provisions as at 31 December 2024.

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. Any financial impacts from transition risks are expected to transpire before physical risks. The results of this assessment did not lead to a change in carrying amounts of loans as at 31 December 2024 or 31 December 2023. The future impact of climate-related risks on credit risk is uncertain, and the Bank will continue to monitor developments in future periods.

DIVIDENDS
Dividends totalling £16,000,000 (2023: £10,000,000), representing 106.67p per ordinary share (2023: 66.67p) were declared on 13th December 2024 and were paid on 19th December 2024.

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

Mr E Barnett	Chairman	Appointed 01 October 2024
Mr MJ Bright		
Mr JA Coupe	Chief Executive Officer	
Mr JM Dell	Chief Financial Officer	
Mrs SY Mason		
Mr G Smith		
Mr RSDM Ndawula	Chairman	Resigned 01 October 2024
Mrs EJ Shaw		Resigned 04 October 2024

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

GOING CONCERN
The Directors are satisfied that there are no material uncertainties that may cast significant doubt about the Bank's ability to continue as a going concern and have, therefore, continued to adopt the going concern basis in preparing these Financial Statements, as explained in note 4(a)(i) to the Financial Statements.

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 MEMBERS OF SKIPTON INTERNATIONAL LIMITED

Opinion

We have audited the financial statements of Skipton International Limited (the "Bank") for the year ended 31 December 2024 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 material accounting policy information. 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 2024 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 to 28 February 2026 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.

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

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 5, 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.

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, 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;

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

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

- 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 improper revenue recognition and measurement of loan impairments relating to mortgages to be fraud risks. We considered the controls of the bank has 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 our understanding, we designed audit procedures to identify noncompliance with laws and regulations. This involved reviewing Board minutes, complaints register, compliance reports, and management's ongoing response to the Guernsey Financial Services Commission's PRISM report. We also reviewed regulatory correspondence, made inquiries with external legal counsel, governance, executive management, compliance, and internal audit, and performed journal entry testing based on our risk criteria and business understanding; 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
28 February 2025

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2024

	Notes	**2024**	2023
		£'000	£'000
Interest income calculated using the effective interest method	5	**119,651**	101,492
Interest income on mortgage swap contracts with parent	5	**46,801**	48,743
Interest expense and similar charges	6	**(114,597)**	(89,784)
Interest expense on investment swap contracts with parent	6	**(44)**	(517)
Net interest income		**51,811**	59,934
Unrealised losses on derivatives and hedged items	7	**(140)**	(542)
Other operating income	8	**349**	278
Total income		**52,020**	59,670
Administrative expenses	9	**(21,399)**	(11,935)
Operating profit before impairment		**30,621**	47,735
Net impairment credits/(losses)		**388**	(456)
Profit before income tax		**31,009**	47,279
Income tax expense	11	**(3,084)**	(4,745)
Profit for the year		**27,925**	42,534

The Notes on pages 14 to 45 form an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2024

	2024	2023
	£'000	£'000
Profit for the year	**27,925**	42,534
Other comprehensive income:		
Net gains on revaluation of debt securities held at fair value through other comprehensive income taken to equity	**127**	1,324
Net decrease in allowance for expected credit losses on debt securities held at fair value through other comprehensive income	**9**	14
Other comprehensive income before income tax	**136**	1,338
Income tax relating to components of other comprehensive income	**(13)**	(132)
Other comprehensive income for the year net of income tax	**123**	1,206
Total comprehensive income for the year	**28,048**	43,740

The Notes on pages 14 to 45 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 2024

	Notes	**2024**	2023
		£'000	£'000
Assets			
Cash and cash equivalents	13	**235,537**	233,586
Debt securities	15	**276,924**	247,221
Loans and advances to customers	16	**2,062,993**	2,105,469
Derivative financial instruments	24	**53,386**	66,313
Property, plant and equipment	21	**848**	806
Prepayments and other assets		**936**	708
Right-of-use assets	22	**2,303**	2,926
Intangible assets	23	**296**	520
Total Assets		**2,633,223**	2,657,549
Liabilities			
Deposits from customers	18	**2,417,659**	2,446,032
Loans and advances from financial institutions	14	**52,050**	63,770
Creditors and other payables	19	**7,700**	2,146
Lease liabilities	22	**2,580**	3,220
Corporation tax liability		**1,208**	2,398
Deferred tax liability	17	**14**	19
Total Liabilities		**2,481,211**	2,517,585
Equity			
Share capital	20	**15,000**	15,000
Retained earnings		**136,937**	125,012
Fair value reserve		**75**	(48)
Total Equity		**152,012**	139,964
Total Liabilities and Equity		**2,633,223**	2,657,549

The Notes on pages 14 to 45 form an integral part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 28 February 2025 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 2024

	Notes	Share Capital £'000	Fair Value Reserve £'000	Retained Earnings £'000	Total £'000
As at 1 January 2024		**15,000**	**(48)**	**125,012**	**139,964**
Profit for the year		-	-	27,925	27,925
Other comprehensive income:					
Net movement in the value of debt instruments held at FVOCI		-	127	-	127
Loss allowance on debt instruments held at FVOCI		-	9	-	9
Income tax relating to components of other comprehensive income		-	(13)	-	(13)
Transactions with owners recorded directly in equity:					
Dividends	12	-	-	(16,000)	(16,000)
As at 31 December 2024		**15,000**	**75**	**136,937**	**152,012**

	Notes	Share Capital £'000	Fair Value Reserve £'000	Retained Earnings £'000	Total £'000
As at 1 January 2023		15,000	(1,254)	92,478	106,224
Profit for the year		-	-	42,534	42,534
Other Comprehensive income:					
Net movement in the value of debt instruments held at FVOCI		-	1,324	-	1,324
Loss allowance on debt instruments held at FVOCI		-	14	-	14
Income tax relating to components of other comprehensive income		-	(132)	-	(132)
Transactions with owners recorded directly in equity					
Dividends	12	-	-	(10,000)	(10,000)
As at 31 December 2023		15,000	(48)	125,012	139,964

The Notes on pages 14 to 45 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2024

	Notes	**2024**	2023
		£'000	£'000
Cash flows from operating activities			
Profit before income tax		**31,009**	47,279
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		**1,250**	1,103
Interest expense on leases	6	**85**	95
Unrealised losses on derivatives and hedged items	7	**140**	542
Loss on disposal of debt securities	8	**-**	2
Unrealised foreign exchange (gains)/ losses	8	**(22)**	11
Net impairment (credits)/losses		**(388)**	456
Working capital adjustments:			
Change in prepayments and other assets		**(228)**	291
Change in creditors and other payables		**5,554**	(464)
Change in loans and advances to customers		**50,499**	(186,799)
Change in loans and advances to financial institutions		**(11,720)**	(36,510)
Change in deposits from customers		**(39,022)**	220,384
Change in accrued interest on deposits from customers		**10,649**	30,145
Change in accrued interest on loans and advances to customers		**(542)**	(1,716)
Change in accrued interest and discount on other financial assets		**(3,359)**	(1,238)
Change in accrued interest on derivatives		**5,710**	(18,108)
Income tax paid		**(4,292)**	(3,910)
Net cash from operating activities		**45,323**	51,563
Cash flows from investing activities			
Purchase of equipment and intangible assets		**(324)**	(744)
Proceeds from maturities and disposals of debt securities	15	**666,744**	131,655
Purchases of debt securities	15	**(692,961)**	(182,636)
Net cash (used in) investing activities		**(26,541)**	(51,725)
Cash flows from financing activities			
Dividends paid	12	**(16,000)**	(10,000)
Repayment of lease liabilities	22	**(845)**	(534)
Net cash used in financing activities		**(16,845)**	(10,534)
Net increase/(decrease) in cash and cash equivalents		**1,937**	(10,696)
Net effect of foreign exchange fluctuations on cash and cash equivalents		**14**	(6)
Cash and cash equivalents at 1 January		**233,586**	244,288
Cash and cash equivalents at 31 December	13	**235,537**	233,586

The Notes on pages 14 to 45 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 regulated by the Guernsey Financial Services Commission ("GFSC"). 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 28 February 2025.

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

3. Adoption of new and revised International Financial Reporting Standards

The Bank adopted during the year the following new accounting standards and amendments to existing accounting standards, none of which had a material impact on these financial statements:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Non-current liabilities with covenants (Amendments to IAS 1);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16); and
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7).

Standards issued but not yet effective

The new and amended accounting standards and interpretations set out below will be effective for future reporting periods (subject to UK endorsement for some) and have not been early adopted by the Bank in preparing these financial statements. These new and amended standards and interpretations are not expected to have a material impact on the Bank's financial statements:

- Lack of exchangeability (Amendments to IAS 21);
- Amendments to Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7);
- IFRS 18 Presentation and Disclosure in Financial Statements;
- IFRS 19 Subsidiaries without Public Accountability: Disclosures; and
- Annual Improvements to IFRS Accounting Standards – Volume 11.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Material 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.
- 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).
- The Bank has assessed that it may have contingent liabilities relating to conduct costs. Refer to Note 27 for details of contingent liabilities.

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 28 February 2026 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:

- 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").

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Material accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(ii) Classification and subsequent measurement (continued)

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. The expected lives of mortgage assets are based on the average contractual terms of mortgages. A change to management's estimate of expected mortgage lives results in an adjustment to the carrying amount of the mortgage asset (discounted at its effective interest rate) at the point this change is made, with a corresponding increase or decrease in interest income calculated using the effective interest method.

(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 three 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 three forecast scenarios used by the Bank are referred to as the "base case", the "upside", and the "downside scenarios". Channel Islands ECLs are weighted at 80% for the base case scenario (2023: 80%) and 20% for the downside (2023: 20%) whereas UK ECLs are weighted at 60% for the base case (2023: 60%), 10% for the upside (2023: 10%) and 30% for the downside (2023: 30%). 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 downside 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Material accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(iii) Impairment of financial assets (continued)

The tables below show the key forecast macroeconomic indicators used for the purposes of calculating ECLs.

Economic variables (annual rate)		**As at 31 December 2024**				
	Scenario	**2025**	**2026**	**2027**	**2028**	**2029**
Bank of England Base Rate (%) *(note A)*	Upside	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**
	Central	**4.00**	**3.75**	**3.75**	**3.75**	**3.75**
	Downside	**6.00**	**6.00**	**5.00**	**5.00**	**5.00**
Unemployment (UK) (%) *(note A)*	Upside	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**
	Central	**4.1**	**4.3**	**4.4**	**4.4**	**4.2**
	Downside	**6.7**	**6.0**	**6.0**	**6.0**	**6.0**
House price inflation (UK) (%) *(note B)*	Upside	**4.2**	**4.2**	**4.2**	**4.2**	**4.2**
	Central	**3.0**	**3.5**	**2.5**	**3.0**	**4.0**
	Downside	**(1.0)**	**(11.5)**	**(1.0)**	**1.0**	**4.0**
House price inflation (Guernsey) (%) (note B)	Central	**1.0**	**2.0**	**2.0**	**2.0**	**2.0**
	Downside	**(4.0)**	**(2.0)**	**0.0**	**0.0**	**0.0**
House price inflation (Jersey) (%) *(note B)*	Central	**0.0**	**2.0**	**2.0**	**2.0**	**2.0**
	Downside	**(6.0)**	**(4.0)**	**(2.0)**	**0.0**	**0.0**

		As at 31 December 2023				
	Scenario	2024	2025	2026	2027	2028
Bank of England Base Rate (%) *(note A)*	Upside	3.50	3.50	3.50	3.50	3.50
	Central	5.00	4.00	3.75	3.75	3.75
	Downside	5.00	2.50	2.00	2.00	2.00
Unemployment (UK) (%) *(note A)*	Upside	4.1	4.0	4.0	4.0	4.0
	Central	4.7	5.0	5.1	4.7	4.1
	Downside	9.0	7.2	6.6	6.0	6.0
House price inflation (UK) (%) *(note B)*	Upside	4.2	4.2	4.2	4.2	4.2
	Central	(4.0)	1.5	3.0	3.0	3.0
	Downside	(15.6)	1.9	4.0	4.0	4.0
House price inflation (Guernsey) (%) *(note B)*	Central	(3.0)	1.0	2.0	2.0	2.0
	Downside	(6.0)	(4.0)	(2.0)	0.0	0.0
House price inflation (Jersey) (%) *(note B)*	Central	(8.0)	(2.0)	0.0	2.0	2.0
	Downside	(10.0)	(6.0)	(4.0)	(2.0)	0.0

Notes

A. The Bank of England Base Rates and unemployment rates are the forecast position at 31 December each year.

B. House price inflation is the annual growth rate in each year. The Bank's views are specific to the Bank's own portfolio and are not intended to reflect views for the entire UK and Channel Islands property market. In addition to house price inflation, the Bank's impairment calculations also include a 'forced sale discount' reflecting the likely reduction in property price when selling a repossessed property. The forced sale discount is calculated at account level, taking into account the specific circumstances of each account and the property in question.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Material accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(iii) Impairment of financial assets (continued)

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.

ECLs are measured by multiplying together the PD, EAD and LGD. As at 31 December 2024 EAD is prudently derived by taking the outstanding loan amount at 31 December 2024. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Material accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(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 2024 the balance of loans where the property has been taken into possession was £nil (2023: £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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Material accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(v) Hedge accounting (continued)

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 interest receivable where the derivative hedges an asset and within 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) 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. 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.

(i) OECD Pillar Two model rules

The Skipton Group, of which the Bank is part of, is within the scope of the newly introduced OECD Pillar Two model rules. Pillar Two legislation came into effect in the UK on 1 January 2024 but within the jurisdictions in which the Bank currently operates (Guernsey and Jersey) the legislation has been implemented for accounting periods starting on or after 1 January 2025. The Group and Bank have applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 Income Taxes issued in May 2023.

Under the Pillar Two legislation, each company in the Skipton Group may be liable to pay a qualified domestic minimum top-up tax (QDMTT), or a broadly equivalent tax as determined by individual tax authorities, where their domestic operations have an effective tax rate of less than 15% and where the tax jurisdiction in question has adopted, locally, the Pillar Two rules.

Where the effective tax rate, as calculated under the Global Anti-Base Erosion (GloBE) Rules, remains below 15% with respect to a particular jurisdiction, the Skipton Group is liable for a further global top-up tax. This global top-up tax also applies to the Skipton Group in respect of jurisdictions that do not adopt, or have not yet adopted, the Pillar Two rules. Further information relating to the OECD Pillar Two model rules is contained in the Skipton Group's Annual Report & Accounts.

Guernsey is implementing in full the OECD's Pillar Two rules, meaning that the company will be liable for a domestic top-up tax, payable to the Guernsey Revenue Service, to ensure that the company's Guernsey profits are taxed at a minimum rate of 15%.

Jersey is introducing a Multinational Corporate Income Tax (MCIT) which applies the OECD Model Rules and takes account of certain instances of double taxation. The Jersey branch of the Bank will pay this 15% MCIT on its Jersey profits to Revenue Jersey.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Material accounting policies (continued)

(e) 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.

(f) 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.

(g) 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.

5. Interest income calculated using the effective interest method

	2024	2023
	£'000	£'000
On financial assets measured at amortised cost:		
Interest income on deposits placed with parent	**7,699**	11,463
Interest income on advances to customers	**97,287**	84,176
Interest income on advances to credit institutions	**820**	650
On financial assets at fair value through other comprehensive income:		
Interest income on debt securities	**13,845**	5,203
	119,651	101,492
On financial assets at fair value through profit or loss:		
Interest income on mortgage swap contracts with parent	**46,801**	48,743
	166,452	150,235

The Bank received cash payments of £97,121k (2023: £83,103k) in relation to interest on advances to customers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Interest expense and similar charges

	2024	2023
	£'000	£'000
On financial liabilities measured at amortised cost:		
Interest expense on deposits from customers	**111,055**	84,733
Interest expense on advances from credit institutions	**5**	7
Interest expense on deposits from parent	**3,452**	4,949
On lease liabilities:		
Interest expense on lease liabilities	**85**	95
	114,597	89,784
On financial liabilities at fair value through profit or loss:		
Interest expense on investment swap contracts with parent	**44**	517
	114,641	90,301

The Bank made cash payments of £13,313k (2023: £6,826k) in relation to interest on deposits from customers.

7. Unrealised losses on derivatives and hedged items

	2024	2023
	£'000	£'000
Unrealised gains on hedged items attributable to the hedged risk	**7,077**	53,718
Unrealised losses on derivatives held in qualifying fair value hedging relationships	**(7,217)**	(54,260)
	(140)	**(542)**

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.

The accumulated fair value adjustments on hedged items included in the carrying amount of loans and advances to customers as at 31 December 2024 was £37,088k (2023: £44,165k). Refer to Note 24 for further information.

8. Other operating income

	2024	2023
	£'000	£'000
Sundry fee income on loans and advances to customers	**272**	217
Sundry fee income on deposits from customers	**55**	74
Loss on disposal of debt securities	**-**	(2)
Net foreign exchange gains/ (losses) on retranslation of assets and liabilities denominated in USD	**22**	(11)
	349	278

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Administrative expenses

	2024	2023
	£'000	£'000
Personnel expenses	**12,996**	6,450
IT related expenses	**1,832**	1,391
Professional and Legal expenses	**2,553**	926
Group charges*	**1,336**	797
Establishment expenses	**983**	739
Commercial expenses	**579**	697
Depreciation and amortisation	**506**	522
Other expenses	**614**	413
	21,399	11,935

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

10. Staff numbers

	2024	2023
Directors	**6**	7
Other	**167**	89
Total staff numbers at 31 December	**173**	96

11. Income tax expense

The Bank currently makes full provision for income tax at the standard rate applicable to the Bank of 10%. With the implementation of the Pillar Two rules, the tax rate will increase to 15% with effect from 1 January 2025. Due to the complexities in applying the legislation and calculating GloBE income, the quantitative impact of the enacted legislation is not yet reasonably estimable. Further information can be found in Note 4(d)(i).

	2024	2023
	£'000	£'000
Analysis of tax charge in the year		
Profit on ordinary activities before tax	**31,009**	47,279
Current tax expense		
Current tax at 10% (2023: 10%)	**3,101**	4,728
Adjustments in respect of prior periods	**-**	144
Accelerated capital allowances	**20**	12
Expense not deductible for tax purposes	**(4)**	16
Income not taxable	**(15)**	(66)
Total current taxation expense in Income Statement	**3,102**	4,834
Deferred tax movement recognised in Income Statement	**(18)**	(89)
Total taxation expense in Income Statement	**3,084**	4,745

12. Dividends

	2024	2023
	£'000	£'000
Amount paid during the year:		
Dividends at 106.67p per share (2023: 66.7p) per share	**16,000**	10,000

As at 31 December 2024 total dividends payable were £nil (2023: £nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Cash and cash equivalents

	2024	2023
	£'000	£'000
Reverse repurchase agreement with parent*	**200,925**	208,920
Deposits with other banks	**34,612**	24,666
Total Cash and cash equivalents	**235,537**	233,586

* 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 (2023: Aa3) by Moody's Long Term Rating service.

As at 31 December 2024, the market value of collateral was £201,059k (2023: £209,193k), £134k higher (2023: £273k higher) than the deposits secured.

Included in deposits with other banks is an ECL charge of £27k (2023: £19k).

14. Loans and advances from financial institutions

	2024	2023
	£'000	£'000
Advances received from parent as collateral in relation to derivative financial instruments	**52,050**	63,770
	52,050	63,770

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. This balance is not offset against derivative financial instruments as the Company does not currently have a legally enforceable right to set off the amounts under IAS 32.

15. Debt securities

	2024 FVOCI and Total £'000	2023 FVOCI and Total £'000
At 1 January	**247,221**	193,678
Maturities and disposals during the year	**(666,744)**	(131,655)
Purchases during the year	**692,961**	182,636
Movement in discount and accrued interest	**3,359**	1,238
Movement in fair value	**127**	1,324
At 31 December	**276,924**	247,221

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

	2024	2023
	£'000	£'000
Matures in less than one month	**20,436**	45,360
Matures in more than one month but not more than three months	**198,627**	50,359
Matures in more than three months but not more than one year	**57,861**	151,502
Matures in more than one year	**-**	-
	276,924	247,221

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Loans and advances to customers

	2024	2023
	£'000	£'000
Advances secured on residential property or by share transfer:		
Repayable in less than one month	**4,066**	4,312
Repayable in more than one month but not more than three months	**10,970**	10,839
Repayable in more than three months but not more than one year	**39,152**	40,881
Repayable in more than one year but not more than five years	**221,173**	228,843
Repayable in more than five years*	**1,817,006**	1,857,991
Accrued interest receivable	**8,340**	7,798
Adjustment for fair value hedge accounting	**(37,714)**	(45,195)
	2,062,993	2,105,469

*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

	2024	2023
	£'000	£'000
Deferred tax (liability)/asset:		
At 1 January	**(19)**	24
Recognised in the Income Statement	**18**	89
Recognised in Equity	**(13)**	(132)
At 31 December	**(14)**	(19)

Accelerated capital allowances	**(37)**	(56)
Deferred tax recognised in fair value reserve	**(5)**	8
Deferred tax on lease liabilities and right-of-use assets	**28**	29
	(14)	(19)

18. Deposits from customers

	2024	2023
	£'000	£'000
Retail deposits from customers:		
Repayable in less than one month	**598,253**	726,631
Repayable in more than one month but not more than three months	**650,204**	478,402
Repayable in more than three months but not more than one year	**994,769**	963,413
Repayable in more than one year but not more than five years	**118,761**	232,563
Accrued interest payable	**55,672**	45,023
	2,417,659	2,446,032

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Creditors and other payables

	2024	2023
	£'000	£'000
Amounts owed to Related Parties	**418**	73
Accruals	**1,692**	1,333
Deferred income	**319**	227
Other creditors*	**5,271**	513
	7,700	2,146

*Other creditors include £4,128k (2023: £58k) of funds received and unallocated as at 31 December 2024 pending standard regulatory source of funds and onboarding procedures.

20. Share capital

	2024	2023
	£'000	£'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	**Office Equipment**	**Motor Vehicles**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Cost				
At 1 January 2024	**662**	**1,211**	**35**	**1,908**
Additions	**8**	**296**	**-**	**304**
Disposals	**-**	**(1)**	**-**	**(1)**
At 31 December 2024	**670**	**1,506**	**35**	**2,211**
Accumulated depreciation				
At 1 January 2024	**304**	**773**	**25**	**1,102**
Depreciation charge for the year	**55**	**205**	**2**	**262**
Eliminated on disposal	**-**	**(1)**	**-**	**(1)**
At 31 December 2024	**359**	**977**	**27**	**1,363**
Carrying amounts				
At 1 January 2024	**358**	**438**	**10**	**806**
At 31 December 2024	**311**	**529**	**8**	**848**

Included in cost and accumulated depreciation are fully depreciated assets totalling £727k (2023: £485k).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Property, plant and equipment (continued)

	Leasehold Improvements	Office Equipment	Motor Vehicles	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2023	328	946	35	1,309
Additions	334	265	-	599
Disposals	-	-	-	-
At 31 December 2023	662	1,211	35	1,908
Accumulated depreciation				
At 1 January 2023	253	630	22	905
Depreciation charge for the year	51	143	3	197
Eliminated on Disposals	-	-	-	-
At 31 December 2023	304	773	25	1,102
Carrying amounts				
At 1 January 2023	75	316	13	404
At 31 December 2023	358	438	10	806

22. Right-of-use assets and lease liabilities
(a) Amounts recognised in the Statement of Financial Position

Right-of-use assets	**2024**	2023
	£'000	£'000
Offices – Guernsey	**1,092**	1,494
Offices – Jersey	**1,211**	1,432
	2,303	2,926

Lease liabilities	**2024**	2023
	£'000	£'000
Offices - Guernsey	**1,202**	1,635
Offices - Jersey	**1,378**	1,585
	2,580	3,220

There were additions of £169k to right-of-use assets and lease liabilities relating to a new lease for the additional office space at St. Andrew's House in Guernsey in 2024 (2023: £1,476k relating to new offices in Jersey at 15-17 Esplanade). There was a derecognition of £49k on the right-of-use asset and lease liability during the year (2023: £nil). Refer to Note 26 for the breakdown of the timing of the repayments on the lease liabilities.

As at 31 December 2024, the Bank was exposed to future cash flows of £nil (2023: £169k) relating to leases not yet commenced that are not included in the lease liabilities and right-of-use assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Right-of-use assets and lease liabilities (continued)

(b) Amounts recognised in the Income Statement

	2024	2023
	£'000	£'000
Depreciation charge	**744**	581
Interest expense	**85**	95
	829	676

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2024	2023
	£'000	£'000
At 1 January	**3,220**	2,183
Additions	**169**	1,476
Disposals	**(49)**	-
Accretion of interest	**85**	95
Payments	**(845)**	(534)
At 31 December	**2,580**	3,220

The total cash outflow for leases in 2024 was £845k (2023: £534k).

23. Intangible assets

	2024	2023
	£'000	£'000
Cost		
At 1 January	**4,591**	4,446
Additions	**20**	145
At 31 December	**4,611**	4,591
Accumulated amortisation		
At 1 January	**4,071**	3,743
Amortisation charge for the year	**244**	328
At 31 December	**4,315**	4,071
Carrying amounts		
At 1 January	**520**	703
At 31 December	**296**	520

Included in cost and accumulated amortisation are fully amortised assets totalling £3,945k (2023: £3,070k).

24. Derivative financial instruments

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

	2024	2023
	£'000	£'000
Derivatives liabilities designated as fair value hedges	**(3,714)**	(13,633)
Derivative assets designated as fair value hedges	**57,100**	79,946
	53,386	66,313

In line with IAS 32, the Bank has offset derivative assets and liabilities as they meet the offset criteria as detailed in the standard.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Derivative financial instruments (continued)

The table below provides further detail on the Bank's fair value hedges used in hedge accounting relationships:

2024	**Notional**	**Carrying amount** (note 1)		**Changes in fair value credit / (charge)** (note 2)	**Hedge ineffectiveness (credit) / charge** (note 3)
		Assets	**Liabilities**		
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Interest rate swaps	**1,690,715**	**38,921**	**(3,714)**	**(7,741)**	**(664)**

2023	Notional	Carrying amount (note 1)		Changes in fair value credit / (charge) (note 2)	Hedge ineffectiveness (credit) / charge (note 3)
		Assets	Liabilities		
	£'000	£'000	£'000	£'000	£'000
Interest rate swaps	1,965,875	56,057	(13,109)	(53,735)	(17)

Notes:

1. The Statement of Financial Position lines that includes these items are 'Derivative financial instruments'.
2. The change in fair value during the period that was used as the basis for calculating hedge ineffectiveness and which was recognised in the 'Unrealised gains/(losses) on derivatives and hedged items' line in the Income Statement.
3. The amount of hedge ineffectiveness recognised in the Income Statement during the period. The Income Statement line that includes the hedge ineffectiveness recognised during the period is 'Unrealised gains/(losses) on derivatives and hedged items'.

Hedged items

The tables below provide further detail on the Bank's hedged items:

2024	**Carrying amount**		**Fair value adjustments on hedged item** (note 1)	**SOFP line**	**Change in fair value (charge) / credit** (note 2)	**Amount remaining on items de-designated from hedge relationship** (note 3)
	Assets	**Liabilities**				
	£'000	**£'000**	**£'000**		**£'000**	**£'000**
Fixed rate mortgages	**1,431,907**	**-**	**(37,088)**	**Line 4**	**7,077**	**-**
Fixed rate savings	**-**	**-**	**-**	**n/a**	**-**	**-**

2023	Carrying amount		Fair value adjustments on hedged item (note 1)	SOFP line	Change in fair value (charge) / credit (note 2)	Amount remaining on items de-designated from hedge relationship (note 3)
	Assets	Liabilities				
	£'000	£'000	£'000		£'000	£'000
Fixed rate mortgages	1,449,932	-	(44,165)	Line 4	53,718	-
Fixed rate savings	-	-	-	n/a	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Derivative financial instruments (continued)

Hedged items (continued)

Notes:

1. Fair value adjustments on hedged items are included within the Statement of Financial Position as adjustments to the relevant SOFP line;
2. The change in fair value during the period that is used as the basis for calculating hedge ineffectiveness and is recognised within the 'Unrealised gains/(losses) on derivatives and hedged items' line in the Income Statement.
3. The accumulated amount of fair value hedge adjustments remaining for any hedged items that have ceased to be adjusted for hedging gains and losses.

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 the Bank meets its strategic and operational objectives.

	Amount 2024 £'000	Amount 2023 £'000	**Outstanding Balance 2024 £'000**	Outstanding Balance 2023 £'000
a) Group fees				
Professional services provided by the group	**274**	351	**149**	42
IT services provided by the group	**979**	362	**31**	24
Other services provided by the group	**83**	85	**4**	7
	1,336	798	**184**	73
Derivative transactions:				
Net interest receivable on swap contracts with parent	**(46,757)**	(48,226)	**(18,179)**	(23,889)
Total	**(45,421)**	(47,428)	**(17,995)**	(23,816)
b) Net interest				
Interest income from parent	**7,699**	11,463	**279**	436
Interest expense to parent	**(3,452)**	(4,949)	**(194)**	(340)
Total	**4,247**	6,514	**85**	96
c) Key management personnel				
Salaries and other short-term employee benefits expenses relating to key management personnel	**1,196**	928	**522**	301
Total	**1,196**	**928**	**522**	**301**

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

At 31 December 2024 the savings account balances held by key management personnel and persons who are connected with key management personnel amount to £1,632k (2023: £2,116k). The interest expense incurred on these deposits during the year amounted to £74k (2023: £64k).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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. This includes balances placed with the parent, Skipton Building Society, under the reverse repurchase agreement (as outlined in Note 13).

A list of treasury counterparties as at 31 December 2024 is set out below:

Counterparty	Credit Rating (per Moody's Long Term)
Skipton Building Society	A2 (2023: A2)
Bank of England	Aa3 (2023: Aa3)
Barclays Bank Plc	Not applicable (2023: A1)
Lloyds Bank International	A1 (2023: A1)
HSBC Bank Plc	A1 (2023: A1)
European Bank for Reconstruction and Development	Not applicable (2023: Aaa)
KfW	Not applicable (2023: Aaa)
US Federal Reserve	Aaa (2023: Aaa)

(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 2024, 14% (2023: 15%) of loans were in Guernsey, 24% (2023: 25%) were in Jersey and 62% (2023: 60%) were in the UK.

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)

Credit risk (continued)

(a) Loans and advances to customers (continued)

The effective interest calculation is based on management's judgement that the initial mortgage rate is a Market Rate, as the initial 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 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.

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 £(37,714k) (2023: £45,196k) which relates to the hedging fair value adjustment and the ECL on mortgages (see Note 16) to show the gross carrying amount.

		2024		
Gross carrying amount	*Stage 1 12-month ECL £'000*	*Stage 2 Lifetime ECL £'000*	*Stage 3 Lifetime ECL £'000*	***Total £'000***
Not past due	2,089,084	3,855	-	**2,092,939**
Up to 30 days past due	-	1,847	-	**1,847**
31 to 60 days past due	-	2,736	-	**2,736**
61 to 90 days past due	-	-	-	**-**
Over 90 days past due	-	-	3,185	**3,185**
Total at 31 December	2,089,084	8,438	3,185	**2,100,707**

		2023		
Gross carrying amount	*Stage 1 12-month ECL £'000*	*Stage 2 Lifetime ECL £'000*	*Stage 3 Lifetime ECL £'000*	***Total £'000***
Not past due	2,145,511	835	-	**2,146,346**
Up to 30 days past due	-	2,842	-	**2,842**
31 to 60 days past due	-	606	-	**606**
61 to 90 days past due	-	-	160	**160**
Over 90 days past due	-	-	711	**711**
Total at 31 December	**2,145,511**	**4,283**	**871**	**2,150,665**

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

		2024		
	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	**2,145,511**	**4,283**	**871**	**2,150,665**
Transfers due to changes in credit risk:				
Transfers from stage 1 to stage 2	(8,479)	8,479	-	-
Transfers from stage 1 to stage 3	(3,028)	-	3,028	-
Transfers from stage 2 to stage 1	2,473	(2,473)	-	-
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	-	-	-	-
Increases due to origination and acquisition	163,719	-	-	163,719
Decreases due to derecognition and repayments	(211,112)	(1,851)	(714)	(213,677)
Total at 31 December	**2,089,084**	**8,438**	**3,185**	**2,100,707**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)

Credit Risk (continued)

(a) Loans and advances to customers (continued)

	2023 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	1,957,472	4,677	-	1,962,149
Transfers due to changes in credit risk:				
Transfers from stage 1 to stage 2	(4,302)	4,302	-	-
Transfers from stage 1 to stage 3	(840)	-	840	-
Transfers from stage 2 to stage 1	2,860	(2,860)	-	-
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	68	-	1	69
Increases due to origination and acquisition	376,345	-	30	376,375
Decreases due to derecognition and repayments	(186,092)	(1,836)	-	(187,928)
Total at 31 December	2,145,511	4,283	871	2,150,665

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.

	2024 Stage 1 12-month ECL £'000	Stage 2 Lifetime ECL £'000	Stage 3 Lifetime ECL £'000	**Total £'000**
Loss allowance as at 1 January	**653**	**206**	**173**	**1,032**
Transfers due to changes in credit risk:				
Transfers from stage 1 to stage 2	(3)	3	-	-
Transfers from stage 1 to stage 3	(1)	-	1	-
Transfers from stage 2 to stage 1	1	(1)	-	-
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	-	-	-	-
Increases due to origination and acquisition	49	-	-	49
Decreases due to derecognition and repayments	(64)	(89)	-	(153)
Write-offs	-	-	-	-
Remeasurements within existing stage	(604)	29	274	(301)
Loss allowance at 31 December	**31**	**148**	**448**	**627**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)

Credit Risk (continued)

(a) Loans and advances to customers (continued)

	2023			
	Stage 1 12-month ECL £'000	*Stage 2 Lifetime ECL £'000*	*Stage 3 Lifetime ECL £'000*	*Total £'000*
Loss allowance as at 1 January	544	39	-	583
Transfers due to changes in credit risk:				
Transfers from stage 1 to stage 2	(1)	1	-	-
Transfers from stage 1 to stage 3	-	-	-	-
Transfers from stage 2 to stage 1	1	(1)	-	-
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	-	-	172	172
Increases due to origination and acquisition	104	-	-	104
Decreases due to derecognition and repayments	(52)	(15)	-	(67)
Write-offs	-	-	-	-
Remeasurements within existing stage	57	181	-	238
Loss allowance at 31 December	653	205	172	1,030

The loss allowance as at 31 December 2024 amounts to £627k (2023: £1,030k) and includes post-model adjustments totalling £nil (2023: £395k) in relation to mortgage affordability risks. No post-model adjustments were deemed necessary in the current year as the model is considered to sufficiently capture the major credit risks of default.

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 2024, the average indexed LTV of the Bank's loan portfolio is estimated at 52.22% (2023: 50.46%).

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 2024.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)

Credit Risk (continued)

(a) Loans and advances to customers (continued)

2024	***Total***	*Of which:* Capitalisation	Reduced payment	Transfer to interest only	Term extension	***Total renegotiations***
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	***£'000***
Stage 1						
Not past due	**2,089,084**	-	-	-	-	-
Past due up to 30 days	-	-	-	-	-	-
Over 30 days past due	-	-	-	-	-	-
	2,089,084	-	-	-	-	-
Stage 2						
Not past due	**3,855**	-	1,624	2,231	-	3,855
Past due up to 90 days	**4,583**	-	-	-	-	-
Over 90 days past due	-	-	-	-	-	-
	8,438	-	**1,624**	**2,231**	-	**3,855**
Stage 3						
Not past due	-	-	-	-	-	-
Past due up to 90 days	-	-	-	-	-	-
Over 90 days past due	**3,185**	-	-	-	-	-
Total	**2,100,707**	-	**1,624**	**2,231**	-	**3,855**

2023	***Total***	*Of which:* Capitalisation	Reduced payment	Transfer to interest only	Term extension	***Total renegotiations***
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	***£'000***
Stage 1						
Not past due	**2,145,511**	-	-	-	-	-
Past due up to 30 days	-	-	-	-	-	-
Over 30 days past due	-	-	-	-	-	-
	2,145,511	-	-	-	-	-
Stage 2						
Not past due	**835**	-	108	727	-	835
Past due up to 90 days	**3,448**	-	-	-	-	-
Over 90 days past due	-	-	-	-	-	-
	4,283	-	**108**	727	-	**835**
Stage 3						
Not past due	-	-	-	-	-	-
Past due up to 90 days	-	-	-	-	-	-
Over 90 days past due	**871**	-	-	-	-	-
Total	**2,150,665**	-	**108**	727	-	**835**

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)

		Indicative increase in impairment loss allowance on loans and advances to customers	
		2024	2023
		£'000	£'000
Modelled ECL			
Probability of Default (12m)	Absolute increase to Stage 1 PD of 0.25%	**30**	95
Probability of Default (Lifetime)	Absolute increase to Stage 2 PD of 10.00%	**57**	88
Loss Given Default (Stage 1)	Absolute increase to Stage 1 LGD of 0.25%	**14**	39
Scenario Weightings	Absolute increase in Downside scenario by 10.00%	**24**	92
Post-model adjustments			
Probability of Default (Lifetime)	Absolute increase to Stage 2 PD of 2.00%	-	40
Rate shock threshold	Absolute decrease of 0.25%	**-**	225
Forecast interest rate swap	Absolute increase of 0.50%	**-**	748
Forecast house price index	Absolute decrease of 10.00%	**-**	634
UK average rental prices	Decrease of 10.00%	**-**	279

(b) Debt securities

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

	2024	2023
	£'000	£'000
Aaa	**30,981**	69,789
Aa3	**245,943**	177,432
	276,924	247,221

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)

Credit Risk (continued)

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

	2024	2023
	£'000	£'000
UK	**245,943**	177,432
Supranational	**-**	50,289
North America	**30,981**	19,500
	276,924	247,221

At 31 December 2024 the Bank held expected credit losses of £31k (2023: £22k) 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:

2024	*Stage 1 £'000*	*Stage 2 £'000*	*Stage 3 £'000*	*Total £'000*
Loss allowance at 1 January 2024	22	-	-	22
Decreases within existing stage	-	-	-	-
Increases due to origination, acquisition and additions	31	-	-	31
Decrease due to derecognition, repayments and disposals	(22)	-	-	(22)
Loss allowance at 31 December 2024	**31**	**-**	**-**	**31**

2023	*Stage 1 £'000*	*Stage 2 £'000*	*Stage 3 £'000*	*Total £'000*
Loss allowance at 1 January 2023	9	-	-	9
Decreases within existing stage	-	-	-	-
Increases due to origination, acquisition and additions	18	-	-	18
Decrease due to derecognition, repayments and disposals	(5)	-	-	(5)
Loss allowance at 31 December 2023	**22**	**-**	**-**	**22**

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**	**2024 £'000**	2023 £'000
Downside scenario weighting	Increase from 5% to 15%	**4**	4
Downside scenario weighting	Increase from 5% to 100%	**35**	37
Base case scenario weighting	Increase from 95% to 100%	**(2)**	(2)

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)

Credit Risk (continued)

(c) Derivative financial instruments and reverse repurchase agreements

A credit exposure could arise in respect of derivative financial instruments and reverse repurchase agreements 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 and debt security placements between the Bank and the parent. The following table quantifies the financial instruments' exposure and the collateral placed, along with the net exposure.

2024	**Gross Balance £'000**	**Netting Agreement £'000**	**Net amount presented in the SOFP £'000**	**Collateral £'000**	**Net Exposure £'000**
Derivative financial assets	**57,100**	**(3,714)**	**53,386**	**(52,050)**	**1,336**
Derivative financial liabilities	**(3,714)**	**3,714**	**-**	**-**	**-**
Reverse repurchase agreement with parent	**200,925**	**-**	**200,925**	**(200,925)**	**-**

2023	Gross Balance £'000	Netting Agreement £'000	Net amount presented in the SOFP £'000	Collateral £'000	Net Exposure £'000
Derivative financial assets	79,946	(13,633)	66,313	(63,770)	2,543
Derivative financial liabilities	(13,633)	13,633	-	-	-
Reverse repurchase agreement with parent	208,920	-	208,920	(208,920)	-

Refer to Note 13 for additional information regarding the market value of the collateral.

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 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 2024 and Table 1b provides comparative figures as at 31 December 2023. Tables 1a and 1b summarises the discounted contractual cash flows of all liabilities. The effect of presenting undiscounted cash flows is an increase of £0.3m in total liabilities (2023: £0.4m) and is not considered to be material.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)
Liquidity Risk (continued)

Table 1a

2024 **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	**1,277,883**	**1,018,216**	**121,560**	**-**	**-**	**2,417,659**
Creditors and other payables	**7,700**	**-**	**-**	**-**	**-**	**7,700**
Loans and advances from financial institutions	**3,181**	**6,065**	**42,804**	**-**	**-**	**52,050**
Corporation tax liability	**-**	**-**	**-**	**-**	**1,208**	**1,208**
Lease liabilities	**149**	**396**	**1,537**	**498**	**-**	**2,580**
Deferred tax liability	**-**	**-**	**-**	**-**	**14**	**14**
Total Liabilities	**1,288,913**	**1,024,677**	**165,901**	**498**	**1,222**	**2,481,211**

Table 1b

2023 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	1,227,629	981,479	236,924	-	-	2,446,032
Creditors and other payables	2,146	-	-	-	-	2,146
Loans and advances from financial institutions	4,347	10,359	49,429	(365)	-	63,770
Corporation tax liability	-	-	-	-	2,398	2,398
Lease liabilities	148	495	1,850	727	-	3,220
Deferred tax liability	-	-	-	-	19	19
Total Liabilities	1,234,270	992,333	288,203	362	2,417	2,517,585

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2024 and Table 1d provides comparative figures for 31 December 2023. 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 be a decrease by a net amount of approximately £1,438k (2023: an increase by £914k).

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

2024	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	235,537	-	-	-	-	-	235,537
Loans & advances to financial institutions	-	-	-	-	-	-	-
Debt securities	219,063	57,861	-	-	-	-	276,924
Loans & advances to customers	395,380	65,128	237,361	1,450,093	-	(84,969)	2,062,993
Derivative assets held for risk management	53,386	-	-	-	-	-	53,386
Corporation Tax asset	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	4,383	4,383
Total Assets	903,366	122,989	237,361	1,450,093	-	(80,586)	2,633,223
Liabilities and Equity							
Deposit liabilities from customers	1,618,831	168,313	364,213	249,659	-	16,643	2,417,659
Loans & advances from financial institutions	52,050	-	-	-	-	-	52,050
Lease liabilities	149	150	246	1,537	498	-	2,580
Derivative liabilities	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	7,714	7,714
Corporation Tax liability	-	-	-	-	-	1,208	1,208
Reserves	-	-	-	-	-	152,012	152,012
Total Liabilities and Equity	1,671,030	168,463	364,459	251,196	498	177,577	2,633,223
Off Balance Sheet							
Assets	1,539,495	101,220	46,000	4,000	-	-	1,690,715
Liabilities	(257,190)	(59,500)	(122,000)	(1,252,025)	-	-	(1,690,715)
Total Off-Balance Sheet	1,282,305	41,720	(76,000)	(1,248,025)	-	-	-
Interest rate sensitivity gap	514,641	(3,754)	(203,098)	(49,128)	(498)	(258,163)	-
Cumulative interest rate sensitivity gap	514,641	510,887	307,789	258,661	258,163	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)

Interest rate risk (continued)

Table 1d

2023	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	233,586	-	-	-	-	-	233,586
Loans & advances to financial institutions	-	-	-	-	-	-	-
Debt securities	105,762	141,459	-	-	-	-	247,221
Loans & advances to customers	395,380	65,128	237,361	1,450,093	-	(42,493)	2,105,469
Derivative assets held for risk management	66,313	-	-	-	-	-	66,313
Corporation Tax asset	-	-	-	-	-	-	-
Other assets		-	-	-	-	4,960	4,960
Total Assets	801,041	206,587	237,361	1,450,093	-	(37,533)	2,657,549
Liabilities and Equity							
Deposit liabilities from customers	1,618,831	168,313	364,213	249,659	-	45,016	2,446,032
Loans & advances from financial institutions	63,770	-	-	-	-	-	63,770
Lease liabilities	148	163	332	1,850	727	-	3,220
Derivative liabilities	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	2,165	2,165
Corporation Tax liability	-	-	-	-	-	2,398	2,398
Reserves	-	-	-	-	-	139,964	139,964
Total Liabilities and Equity	1,682,749	168,476	364,545	251,509	727	189,543	2,657,549
Off Balance Sheet							
Assets	1,686,075	41,800	263,000	35,000	-	-	2,025,875
Liabilities	(444,600)	(37,200)	(167,550)	(1,359,825)	(16,700)	-	(2,025,875)
Total Off-Balance Sheet	1,241,475	4,600	95,450	(1,324,825)	(16,700)	-	-
Interest rate sensitivity gap	359,767	42,711	(31,734)	(126,241)	(17,427)	(227,076)	-
Cumulative interest rate sensitivity gap	359,767	402,478	370,744	244,503	227,076	-	-

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 2024 and Table 2b provides comparative figures as at 31 December 2023.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)

Fair values of financial instruments (continued)

Table 2a

2024	**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	**276,924**	**-**	**276,924**
	276,924	**-**	**276,924**
Financial Assets at fair value through profit and loss:			
Derivative financial instruments	**-**	**53,386**	**53,386**
	-	**53,386**	**53,386**

Table 2b

2023	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	247,221	-	247,221
	247,221	-	247,221
Financial Liabilities			
Financial liabilities at fair value through profit and loss:			
Derivative financial instruments	-	66,313	66,313
	-	66,313	66,313

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 2024 or 31 December 2023.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial instruments (continued)

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.

At 31 December 2024, the Bank's USD-denominated liabilities amounted to £42,719k (2023: £28,935k) and USD-denominated assets amounted to £42,625k (2023: £28,894k). If GBP:USD foreign exchange rates were to increase by 5%, the net impact on profit before tax would be approximately £4k (2023: £2k).

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 2024 **£'000**	31 December 2023 £'000
Ordinary Shares	**15,000**	15,000
Retained Earnings	**136,937**	125,012
Total	**151,937**	140,012

The Bank is subject to the 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 2024, the Bank has offered mortgages to customers amounting to £17,791k (2023: £67,697k). These offers are subject to the Bank's terms and conditions.

The Bank is undertaking a review exercise following a review from the GFSC in 2023 as part of the latter's PRISM approach to supervision. The Bank has assessed that it is probable that further costs may be incurred in relation to this matter. However, at this stage, it is not possible to make a reliable estimate of the amount or timing of any cost. Accordingly, no provision has been raised in the financial statements.

28. Loans, Overdrafts and Limits

At 31 December 2024, the Bank has the following loans, overdrafts and limits in place with HSBC Bank PLC:
Overdraft Facility of £1,000k (2023: £1,000k)
Business Card Facility of £50k (2023: £40k)

29. Directors Emoluments

The aggregate amount of remuneration paid to or recoverable by Directors in respect of qualifying services was £744k (2023: £595k). Additionally, the Bank was charged £21k (2023: £20k) 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.