Annual Results Presentation

Financial Year 2020

SKIPTON BUILDING SOCIETY
Since 1853

Our Group

The UK's fourth largest building society by asset size.

Committed to mutuality – As a mutual organisation, the Society is owned by its members and as such we are able to take decisions to promote long term sustainability. Our focus is on delivering on our Purpose which is to 'help more people into homes, help people save for life ahead and support long term financial well being'.

Our story started in 1853 and we have been helping generations of members for over 167 years; we're well placed to help even more in the future. We are a purpose-led organisation and as times change our purpose stays the same, although how we fulfil it has and will evolve.

Structure - the Building Society sits at the head of the Mortgages & Savings (M&S) division, complemented by subsidiary investments which provide additional earnings and potential future capital gains.

Credit ratings - rated A- (negative) by Fitch and Baa1 (stable) by Moody's, affirmed by both agencies in the last three months.

Channel Island and Expat lending in low risk markets with less competitive intensity and proportionate regulation generating returns in excess of those achievable by the Society. A well understood, core competence business that diversifies our margin income.

A market leading, highly profitable, diversified income stream from a well managed business in a related housing market. Sits outside of the Prudential Group generating significant return on capital employed.

A defensive investment. Protecting our core technology – (development language and database) ensuring we control our own IT destiny.

Income diversification outside of the mortgage market. A well managed business generating consistent earnings through the cycle and return on capital higher than the core business.

Specialist lending legacy portfolio in managed run off since 2008. Higher margin, higher risk returns. Major de-risking exercise undertaken in 2017 to reduce exposure to non performing assets. In 2021 we will be transferring the servicing in-house.

Building a Better Society - Our Business Model

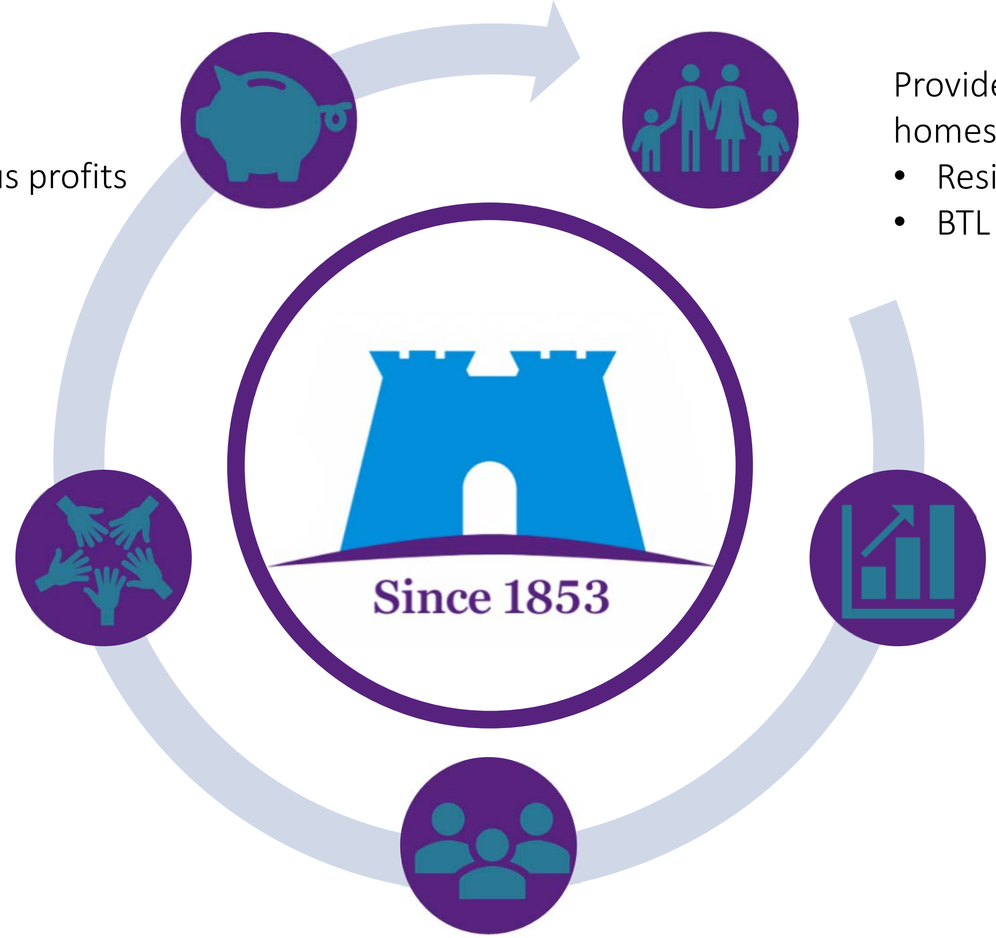
Where the money comes from

- Member's deposits
- Wholesale Markets
- Retained earnings from previous profits in the Society & dividends from subsidiaries

What we do with it

Provide mortgages to help people into homes:

- Residential mortgages (80%)
- BTL mortgages (20%)



What we use our profits for

- Enhancing our customer experience
- Investing in the future of the Society
- Maintaining capital strength

How we generate income

- Net Interest Income
- The difference between the interest received from our borrowers and on our liquid assets, and the interest payable to our savers and on wholesale funding
- Other Income
- Provision of financial advice and other financial products and services

What we incur costs on

- Paying our colleagues
- Property & Operating costs
- Mortgage and other impairment losses
- Paying taxes

Society Strategy – Priorities & Strategic Objectives

We want to be known for always delivering…

Outstanding **Customer Experience**

Outstanding **Colleague Experience**

…so we're focusing on four key priorities…

- **Brilliant People**
- **Absolute Customer Focus**
- **Powered by Digital Technology & Data**
- **Financial Strength**

…in order to achieve…

1 million Savings and Financial Advice Customers

Top 10 lender

£6bn Funds Under Management

Together, we're building a **better** Society

Sustainability in Focus

In pursuit of our vision, in 2019 the Society released its sustainability report which focused on four UN Sustainable Development Goals (SDGs) with associated challenging targets set against those goals:

Goal 11 – Sustainable Cities and Communities

We will help more people into homes and support our local communities. Our founding purpose of helping people own their homes contributes to sustainable communities. We'll help make our communities inclusive, safe, resilient and sustainable through our fundraising, volunteering and community activities.

Goal 16 -- Peace, Justice and Strong Institutions

We will always be owned by, and responsible to, our members, not shareholders. We'll maintain our position as a strong institution and put the needs of our customers first. Our purpose to help customers have a home, save for the future and support their long term financial well-being depends on us being accountable, inclusive and effective.

Goal 8 -- Decent Work and Economic Growth

At the time of setting our goals we were the only building society with the highest Investors in People (IIP) accreditation level – their Platinum accreditation, which is only awarded to the top 0.5% of organisations assessed. And in 2020 we retained this certification, which we have now held for four years, demonstrating our commitment to being one of the best places to work. We strongly believe ensuring all our people flourish and investing in our people contributes to an inclusive and diverse workplace.

Goal 12 -- Responsible Consumption and Production

We will give more back to the planet than we take. We're passionate about protecting our planet for future generations. We'll make sure our contribution to the environment is always greater than the impact of our operations.

"We have identified four goals where we feel we can have the greatest impact and support our strategy and vision to build a more sustainable society."

Key Business & Financial Highlights

1,061,138 members
Society member numbers increased by 14,844 to 1,061,138 (2019: by 38,868)

£1.3bn Savings balances growth
Savings balances grew by £1.3bn to £18.7bn by the end of 2020, an annual growth rate of 7.7% (2019: by £1.2bn, a growth rate of 7.6%)

£4.5bn Gross mortgage lending
Gross mortgage lending was £4.5bn (2019: £4.9bn) despite intensive competition in the mortgage market

£1.7bn Mortgage book growth
The mortgage book grew by £1.7bn to £21.8bn, a growth rate of 8.6% (2019: £1.9bn, a growth rate of 10.3%) with Group UK residential mortgage arrears by three months or more representing only 0.29% of mortgage accounts (2019: 0.25%)

£118.8m Total Group Profit Before Tax (PBT)
Total Group PBT was £118.8m, below the level of 2019 (2019: £153.2m). Group net interest margin was 0.89% (2019: 0.98%)

£124.0m Underlying Group PBT
Underlying Group PBT was £124.0m, representing 3.1% of Risk Weighted Assets (2019: £155.2m, 4.1% of RWA's)

39.7% Group Common Equity Tier 1 ratio
The Common Equity Tier 1 ratio remained strong at 39.7% (2019: 39.1%) and the Leverage ratio remained healthy at 5.7% (2019: 6.0%)

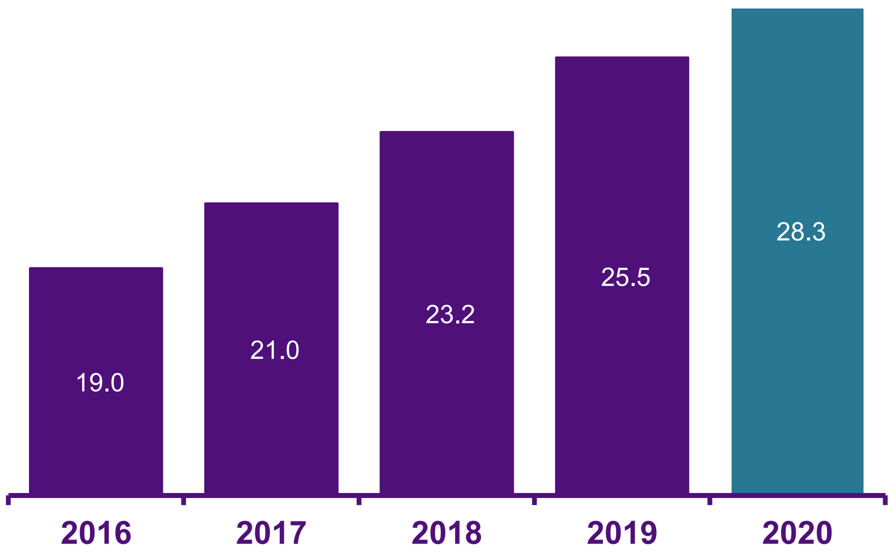
10.9% Increase in Group Total Assets
Group Total Assets increased 10.9% during the year to £28.3bn (2019: 25.5bn)

Group statement of financial position

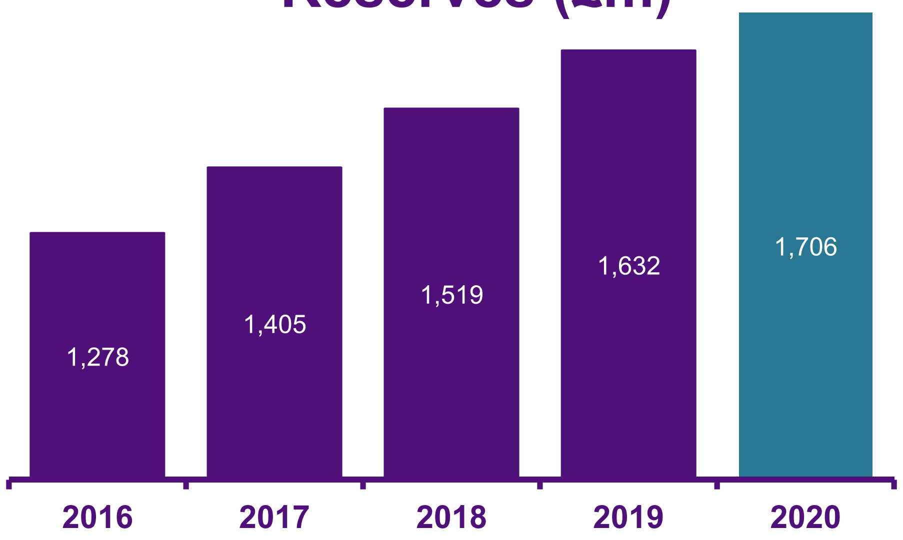
	2019 £m	**2020 £m**
Liquid Assets	4,523	**5,468**
Mortgages	20,066	**21,865**
Other Assets	900	**931**
Total Assets	25,489	**28,263**
Shares	17,364	**18,709**
Wholesale Funding[1]	5,798	**6,732**
Other Liabilities	653	**725**
Subscribed Capital	42	**391**
Reserves	1,632	**1,706**
Total Liabilities & Reserves	25,489	**28,263**

[1] *Including Skipton International Limited*

Total Group Assets (£bn)



Reserves (£m)



Group income statement

	2019* £m	**2020 £m**
Net Interest Income	238.1	**237.9**
Total Income	710.9	**654.3**
Admin Expenses	(554.0)	**(506.3)**
Loan Impairment	(0.5)	**(25.7)**
Other Impairment and realised losses	(0.3)	**(3.7)**
Provisions	(2.9)	**0.2**
Group PBT	153.2	**118.8**

- Underlying Group PBT was £124.0m[1] (2019: £155.2m)
- Group Net Interest Margin reduced to 0.89% (2019: 0.98%)
- Mortgages & Savings division produced an underlying PBT of £67.3m (2019: £103.9m)

[1] *See appendix for Group underlying profits breakdown*
** The comparative period has been re-presented*

Group PBT by division

	2019 £m	2020 £m
Mortgages & Savings	100.8	**64.6**
Estate Agency	50.1	**51.8**
Investment Portfolio	4.0	**3.6**
Sundry including interdivisional Adjustments[1]	(1.7)	**(1.2)**
Profit Before Tax	153.2	**118.8**

[1] *Sundry including inter-divisional adjustments relate primarily to the elimination of inter-divisional trading and the cost of the Connells management incentive scheme*

- The Mortgages & Savings division reported pre-tax profits of £64.6m (2019: £100.8m). Despite a material increase in mortgage impairment provisions arising from a more pessimistic view of the economic outlook due to the pandemic and continuing margin pressures due to the low interest environment, the Mortgages and Savings division reported underlying pre-tax profits for the year of £67.3m (2019: £103.9m).
- The Estate Agency division produced a good performance in a difficult market, reporting profits of £51.8m (2019: £50.1m). Underlying PBT of £55.1m (2019: £50.1m). Further details set out on page 16.
- The Investment Portfolio, whilst impacted by reduced income, delivered underlying profits of £3.6m (2019: £4.0m) with Skipton Business Finance generating a profit of £3.6m (2019: £4.0m) whilst Jade Software Corporation broke even during the year (2019: broke even).

Prudent provisioning

	2019 £m	**2020 £m**
Impairment charge on loans and advances to customers	0.5	**25.7**
Other impairment and realised losses	0.3	**3.7**
Total impairment losses	0.8	**29.4**

	2019 £m	**2020 £m**
Financial Services Compensation Scheme	(0.3)	**0**
Provisions for the costs of surplus properties	(0.1)	**(0.2)**
Survey and valuation claims	0.8	**0.3**
Customer compensation	(0.8)	**0.6**
Other	3.3	**(0.9)**
Total provisions charge	2.9	**(0.2)**

Mortgage impairment

- The impairment charge on residential loans and advances to customers for the Mortgages and Savings division was £13.7m (2019: £0.5m). The key driver for the increase in loan impairment charges is the changes made to the Society's forward-looking economic assumptions which have been updated to reflect the expected adverse economic impact caused by the COVID-19 pandemic.

- Similarly, in the commercial mortgage portfolio, arrears also remain low, however there was a charge to the Income Statement in the year of £11.5m for the impairment allowance on this portfolio (2019: £0.2m credit), again driven by the change in forward-looking economic assumptions.

- We believe we have taken a prudent approach to mortgage loan impairment.

Other impairment losses and realised losses

- These mainly comprised of impairment of goodwill and joint ventures within the estate agency business.

Capital

MREL Update

- The Bank of England has issued the Society with a binding requirement of 18% of risk weighted assets for the period 1 January 2020 to 31 December 2021; the indicative requirement is 18% of risk weighted assets from 1 January 2022 to 31 December 2022, and from 1 January 2023 indicative MREL will be the greater of 2x (pillar 1 plus pillar 2A capital requirements) or 2x the leverage ratio, plus applicable capital requirement buffers.

- MREL at the end of the transitional period is subject to review by the Bank of England and may change. Compliance with MREL is reflected in the Society's corporate plans.

- During 2020, the Society issued £350m of MREL eligible senior non-preferred debt.

The following table shows the composition of the prudential group's regulatory capital. The capital ratios are reported on a Basel III reforms transitional basis. On a transitional basis £40m of PIBS are being phased out of Additional Tier 1 capital over the period to 2022. Under CRD IV end-point rules the PIBS are fully transitioned into Tier 2 capital.

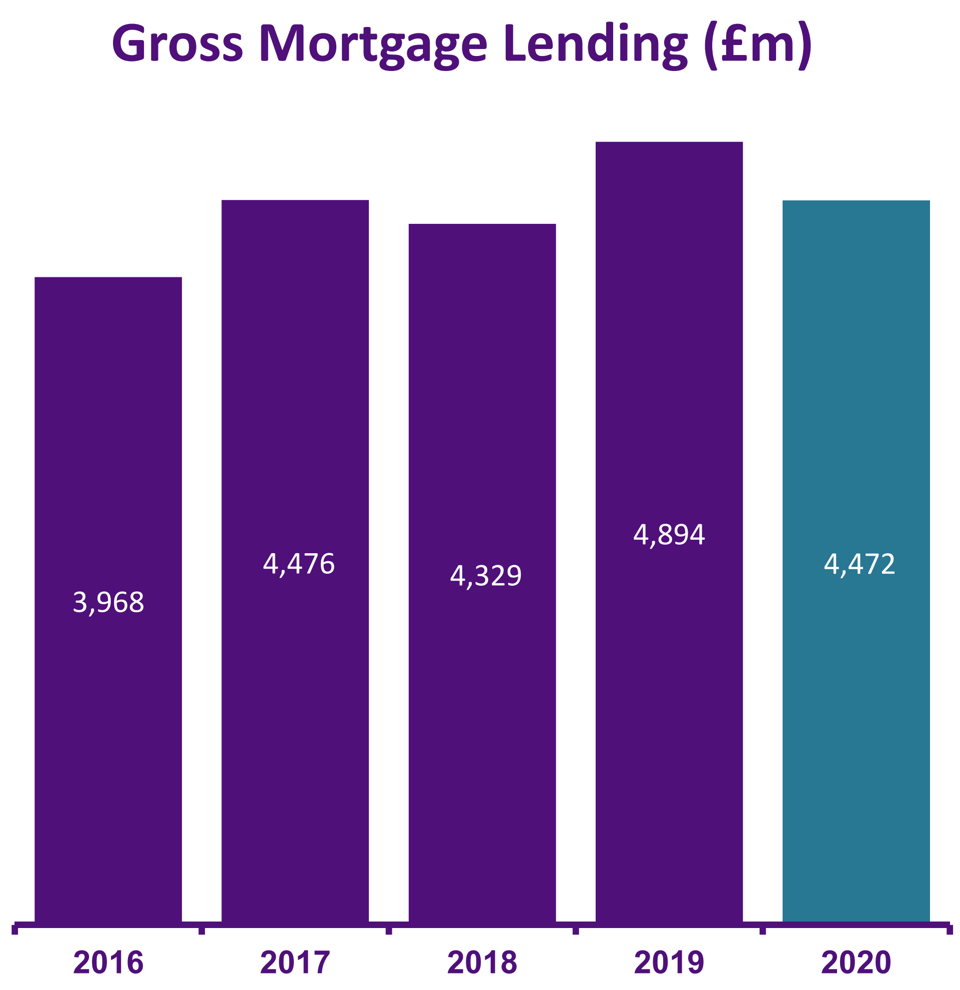
	2019	2020
Capital resources £m:		
Common Equity Tier 1 capital	1,493.2	1,585.6
Total Tier 1 capital	1,520.2	1,603.6
Total regulatory capital	1,533.2	1,630.5
Risk weighted assets	3,819.4	3,996.7
Capital and leverage ratios (note 1)		
Common Equity Tier 1 ratio (CET 1)	39.1%	39.7%
Leverage ratio	6.0%	5.7%

Note

1. The CET 1 ratio is calculated as relevant capital divided by risk weighted assets and the leverage ratio is calculated as Tier 1 capital divided by total exposure i.e. total assets per the prudential group consolidated position (subject to some regulatory adjustments). The leverage ratio is reported on a Basel III reforms end-point basis; under the Basel III reforms end-point rules all existing Additional Tier 1 instruments that become ineligible as capital are excluded in full.

"Our strong capital position and diversified business enabled us to continue to deliver to members and invest in the future."

Mortgage Highlights



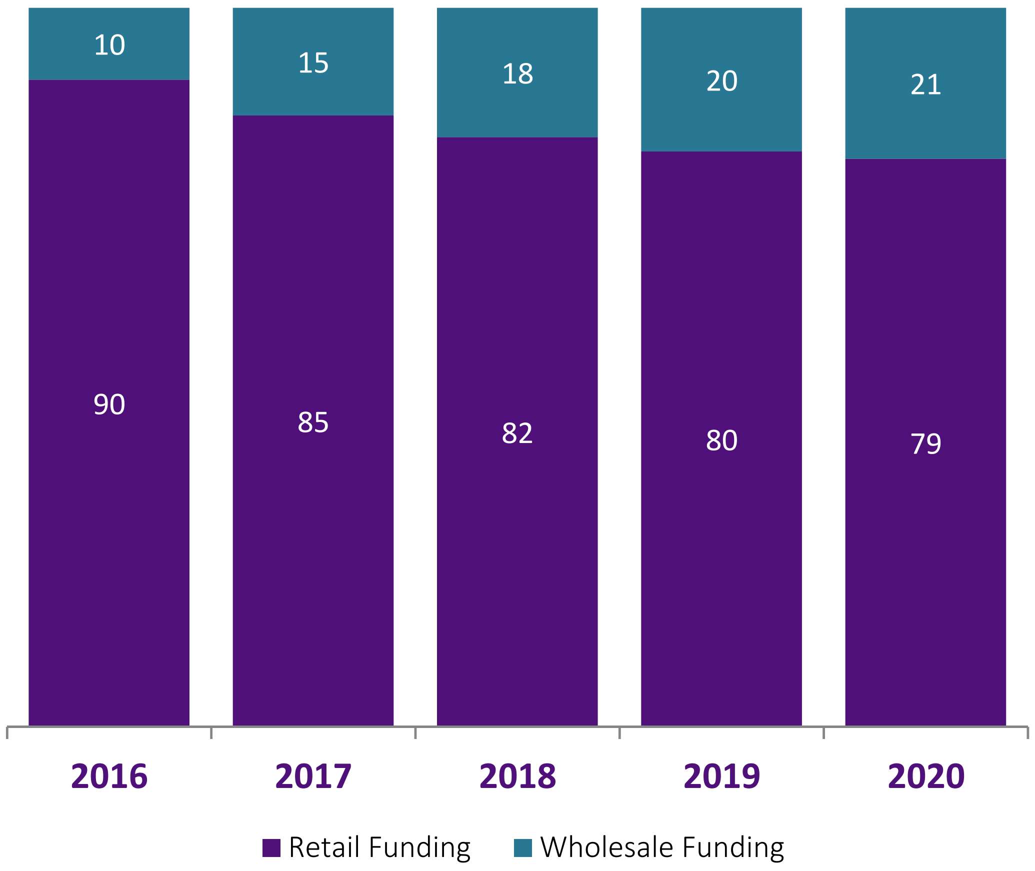
"Sustainable mortgage growth supported by our diversified group model, without moving up the risk curve"

Mortgage Highlights

- Gross mortgage lending amounted to £4,472m (2019: £4,894m).
- The Group achieved strong net mortgage growth of 8.6%, with net mortgage lending totalling £1.7bn (2019: £1.9bn).
- The Society's average residential loan-to-value (LTV) ratio (calculated on a valuation-weighted basis) on new lending has fallen slightly to 54.2% (2019: 56.2%). The average valuation-weighted LTV on the Group residential mortgage book remained low at 44.8% (2019: 46.8%).
- In 2020, the Group has supported over 25k customers with a COVID-19 payment deferral. The Government's furlough support scheme means that many of our customers whose jobs may have otherwise been at risk have received significant support from the Government.
- Throughout 2020, we have enabled 24.5k people to purchase or re-mortgage their properties.

Funding Highlights

Funding Profile (%)



Funding Highlights

- The Group's wholesale funding ratio increased to 21.0% (2019: 20.2%).
- Our Savings balances grew by £1.3bn to £18.7bn, a growth rate of 7.7% (2019: 7.6%).
- In February 2020, the Society successfully completed its fifth securitisation transaction through Darrowby No. 5 plc, allowing the Society to raise £500m of funding. In the same month, the Society repaid £400m of funding under the Government's Term Funding Scheme (TFS).
- In September 2020, the Society issued £350m of MREL eligible senior non-preferred debt.
- At 31 December 2020 the Society had £1,250m of TFS outstanding (2019: £1,650m). The Society has been accepted as a participant in the new TFSME and during the year the Society has drawn down £850m under the scheme, against a borrowing allowance of £3.2bn (as at 31 December 2020).

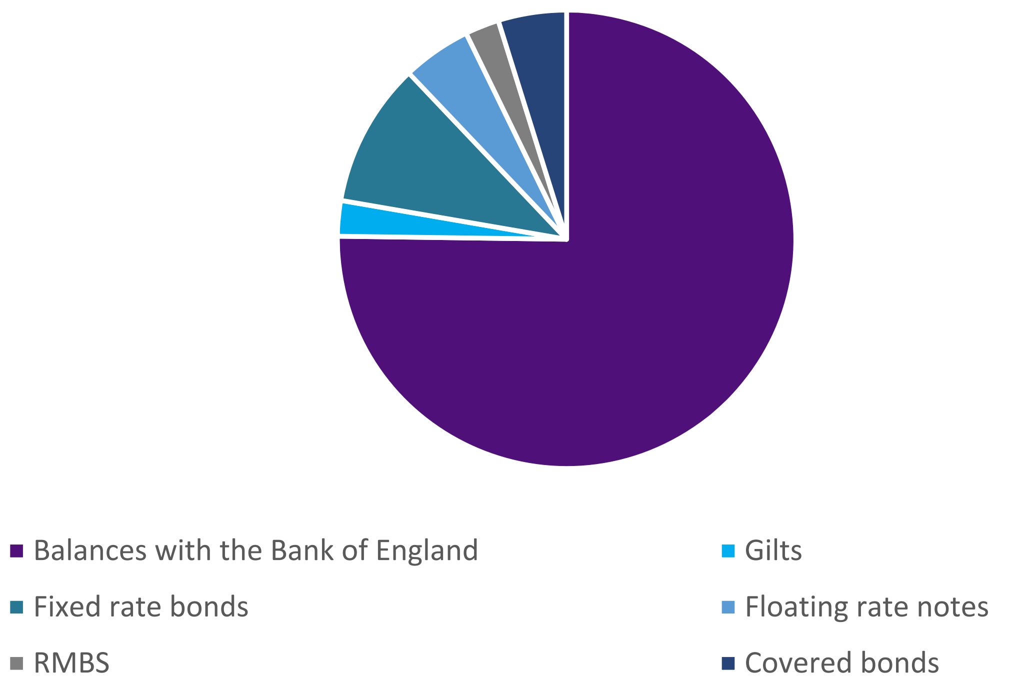
"Our wholesale strategy is to access funds from a number of diverse sources to minimise refinance risk."

Liquidity

Liquidity Highlights

- The Liquidity Coverage Ratio was 194% (2019: 207%) and the liquidity ratio (as a percentage of shares and deposit liabilities) was 21.5% (2019: 19.5%).
- The Group's liquidity levels are closely managed by senior management and have remained above internal and regulatory limits throughout the period. Liquid assets at 31 December 2020 were £5.5bn (2019: £4.5bn), providing the Group flexibility in what may be an unpredictable market.
- The Society has access to the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME), where additional liquidity can be accessed through to 31 October 2021.
- The Group's NSFR 147.4% at 31 December 2020 (2019: 147.5%) is well in excess of the regulatory requirement of 100%, confirming that the Group holds sufficient stable funding to meet the new requirement.

High Quality Liquid Assets - £4,207m

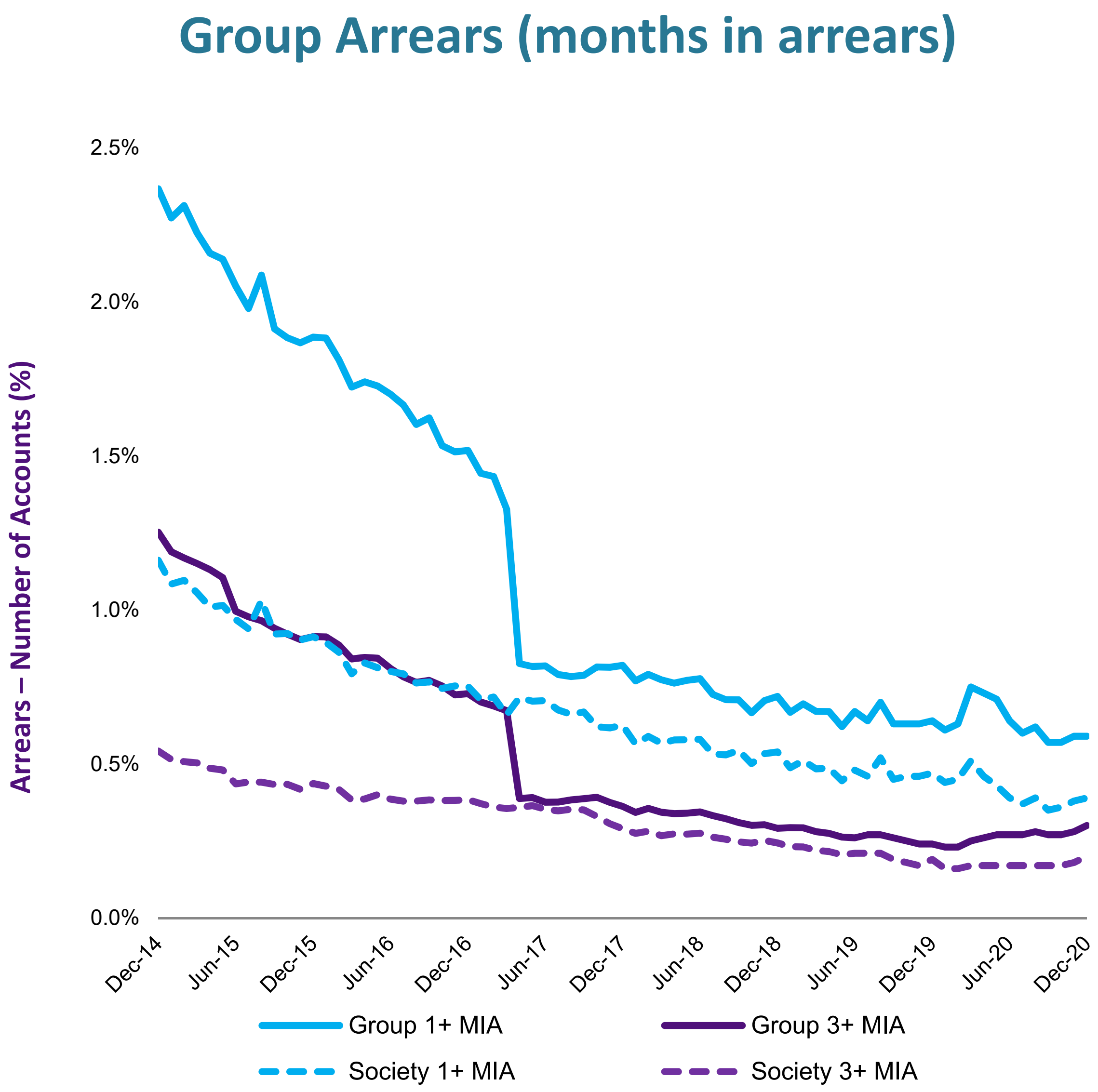


"The Group maintains substantial levels of high quality liquid assets in order to support growth plans and recognise market uncertainty."

Asset Quality

Asset Quality

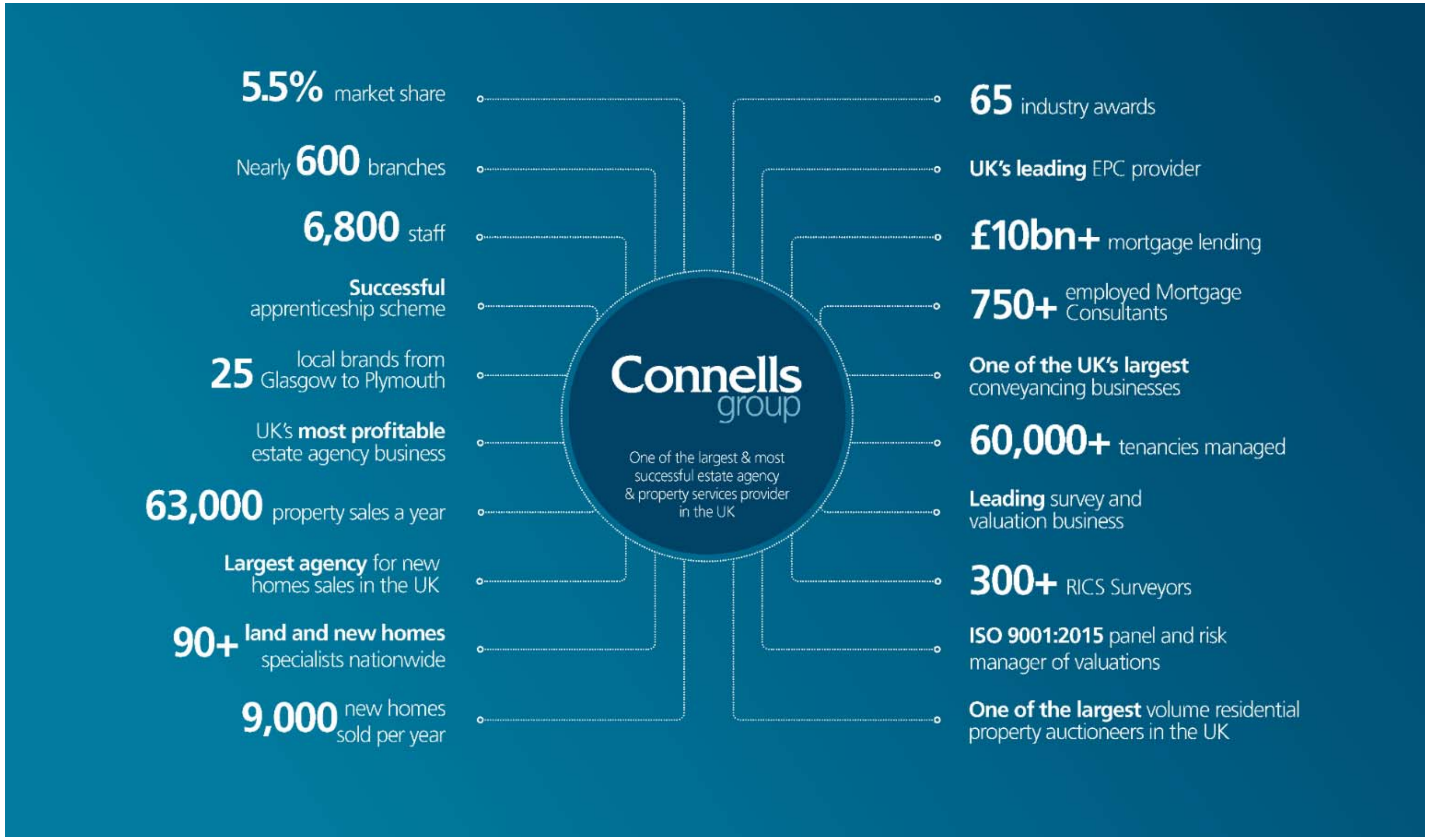
- The Group's arrears position continues to be well below the industry average. The Group's UK residential mortgages in **arrears by three months or more** represent only **0.29%** of mortgage accounts (2019: 0.25%), which compares to an industry average of 0.83% of residential mortgages in arrears by more than three months.
- Whilst levels of mortgage arrears have remained low throughout 2020 we anticipate arrears levels to rise, in line with projected increases in unemployment as government support to the economy is removed, consistent with official forecasts and commentators generally predicting a significant increase in unemployment in 2021.
- The Group's commercial mortgage portfolio reduced in the year by 7.5% to £219.0m. The average LTV of this portfolio reduced to 48.7% from 49.1% and the proportion of accounts in arrears by three months or more in this portfolio increased to 2.58% (2019: 0.62%).
- The quality of the SIL mortgage book remains good, with only one case in arrears by three months or more (2019: no cases).
- Over 25k borrowers took a payment deferral in the year, of which only 5% were still in place at the year end.



Estate Agency

Connells Group Overview

- The Society holds a 99.8% share holding in a real estate business called Connells
- Connells has grown into the most profitable corporate High Street estate agency in the UK which focuses on property sales, surveys and valuations, conveyancing, lettings, asset management and mortgage and insurance broking
- Connells also provides the Society with a unique insight into the housing market through its circa 590 branches. This provides invaluable input into the Society's lending plans
- The Society's strong capital position is further reinforced by dividends from the Connells group, which are invested back into the Society for the benefit of our members and bolstering our capital position.



Note: This information is prior to the Countrywide plc acquisition

"A market leading, highly profitable, diversified income stream from a well managed business in a related housing market"

Connells Group Overview

Business & Financial Update

- The Estate Agency division recorded underlying profits of £55.1m (2019: £50.1m). Following a buoyant start to the year, Connells has navigated unprecedented terrain as it closed its branches to the public on 23 March for two months, in line with Government guidelines, to help efforts in preventing the spread of coronavirus.
- With virtually no transactional business during the first lockdown, the number of properties that Connells exchanged contracts on during the year was 16% lower than in 2019 and total income fell by 13% to £378.6m (2019: £427.7m).
- Connells' management moved effectively to home working and took swift and decisive action to manage its cost base and liquidity position; it utilised the Government's Coronavirus Job Retention Scheme ('CJRS') and placed 78% (at its peak) of its colleagues on furlough (5,300 staff).

Countrywide Acquisition

- On 8 March 2021, Connells completed the acquisition of Countrywide plc for cash consideration of £134.3m. Countrywide is a property services group with over 600 branches across the UK. The Connells Board believes that the expertise within the group's management team will be able to drive improved profitability for Countrywide and the enlarged group. However, financial results in 2021 will be impacted by one-off costs associated with the combination of the two businesses.
- The acquisition is a recognition by the Society that the competition in the mortgage and savings market is likely to increase over time where bank base rate is projected to remain low for a considerable time, thereby depressing interest rate margins across the industry. This is likely to coincide with an increase in the regulatory capital requirements e.g. the proposed Leverage, MREL and Basel III requirements. The alternative is to either materially go up the credit risk curve or generate lower profits, both of which the Skipton board has little appetite for.

Summary

- Underlying Group PBT was £124.0m
- A healthy sustainable Group NIM of 0.89%, despite the reduction in Base Rate
- Strong CET 1 capital and leverage ratios of 39.7% and 5.7% respectively
- Balanced savings growth of £1.3bn to £18.7bn by the end of 2020, an annual growth rate of 7.7% (2019: by £1.2bn, a growth rate of 7.6%)
- The mortgage book grew by £1.7bn to £21.8bn, a growth rate also of 7.7%
- Maintained excellent asset quality, despite the unprecedented challenges throughout the year
- Group residential mortgages in arrears by three months or more, remain stable at 0.29%
- The Liquidity Coverage Ratio was 194% and the liquidity ratio (as a percentage of shares and deposit liabilities) was 21.5%

"We saw good balanced growth in both mortgage and savings balances within our risk appetite and invested further in the future of the Society, all while reducing our management expense ratio and upholding strong capital ratios and healthy levels of liquidity."

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Useful links

Main Website:- skipton.co.uk
Financial Results:- skipton.co.uk/about-us/financial-results

Appendix

SKIPTON
BUILDING SOCIETY
Since 1853

Underlying Group PBT

	2019 £m	**2020 £m**
Total Group profit before tax	153.2	**118.8**
Less profit on disposal of subsidiary undertakings	(1.1)	**(0.8)**
Add back fair value gains in relation to the equity release portfolio	3.4	**2.7**
Less fair value losses on share warrants and equity share investments	-	**(0.2)**
Add back impairment of goodwill	-	**2.0**
Add back impairment of joint ventures	-	**1.5**
Less FSCS levy	(0.3)	**-**
Underlying Group profit before tax	155.2	**124.0**

Underlying Group Profit before tax by division	2019 £m	**2020 £m**
Mortgages and Savings	103.9	**67.3**
Estate Agency	50.1	**55.1**
Investment Portfolio	4.0	**3.6**
Sundry incl. inter-divisional adjustments[1]	(2.8)	**(2.0)**
Underlying Group profit before tax	155.2	**124.0**

[1] Sundry including inter-divisional adjustments relate primarily to the elimination of inter-divisional trading and the cost of the Connells long term management incentive scheme.

IFRS9 Economic Scenarios

Economic variables (annual rate)	Scenario	As at 31.12.20 2021	2022	2023	2024	2025
Bank of England base rate (%)	Upside	0.10	0.25	0.50	0.50	0.75
	Central	0.10	0.10	0.10	0.10	0.10
	Downside	(0.50)	(0.50)	(0.50)	(0.25)	0.00
Unemployment (%)	Upside	5.0	4.8	4.5	4.5	4.5
	Central	7.5	7.3	6.8	6.4	5.7
	Downside	10.0	10.7	9.4	8.0	7.0
House price inflation (UK) (%)	Upside	1.0	4.1	4.2	4.2	4.2
	Central	(6.0)	5.6	4.1	4.1	4.1
	Downside	(15.1)	(6.6)	6.1	5.0	4.0
Commercial property price growth (%)	Upside	-	2.0	2.0	2.0	2.0
	Central	(15.6)	(4.0)	-	-	-
	Downside	(23.3)	(7.5)	-	-	-

Capital Markets Live Transactions

Covered Bonds in Issuance

Start Date	End Date	Currency	Amount	GBP Equiv.	Coupon
02/05/2018	02/05/2023	GBP	£400m	£400m	SONIA +40.1bps
02/10/2018	02/10/2023	EUR	€500m	£448.1m	Fixed 0.50%
27/03/2019	22/02/2024	GBP	£600m	£600m	SONIA +68bps
25/09/2019	22/09/2024	EUR	€500m	£443.5m	Fixed 0.01%
Total				£1,891.6m	

Securitisations in Issuance

Start Date	Step-up (End Date)	Currency	AAA Notes Issued	AAA Notes 31 Dec 20	Coupon
24/02/2020	23/12/2024 (Dec 2057)	GBP (Darrowby 5)	£600m	£524m	SONIA +53bps

Unsecured Debt in Issuance

Start Date	End Date	Currency (instrument)	Amount	GBP Equiv. Outstanding	Coupon
30/06/2017	30/06/2022	GBP (Senior Preferred)	£350m	£67m	Fixed 1.75%
02/10/2020	02/10/2026	GBP (6NC5 SNP (MREL))	£350m	£350m	Fixed 2.00%
Total				£417m	

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