

# Annual Results Presentation

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Financial Year  
2021





# Our diversified Group sets us apart from our peers



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 168 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 – senior debt rated A by Fitch and A2 by Moody’s, and affirmed Stable outlook by both agencies in the last three months.



## Subsidiaries



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.

# We've evolved to reflect our changing Society



## Absolute Customer Focus

Outstanding experiences and compelling propositions for our customers

- Deliver a frictionless customer and broker experience
- Enhance our brand and propositions to grow our target customer base



## Together, we're building a better Society

Our purpose is to help more people have a home, help people save for life ahead, and support long term financial wellbeing.

Our strategy is to create outstanding experiences at the moments that matter.

**ONE TEAM | OWNERSHIP | TRUST**

## Powered by Digital Technology & Data



A Society equipped with the right tools to make insightful decisions and deliver outstanding experiences

- Implement cloud and data foundations and enhanced analytics operating model
- Enhance our mobile and app experience



## Brilliant People

A diverse and inclusive culture that supports you to be your best

- Attract, retain, and develop our talent and skills base
- Build a more agile organisation

## Financial Strength



Creating mutual value today and for generations to come

- Optimise our net interest margin by balancing risk and reward
- Improve our cost efficiency and productivity



## Section 2

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### Group Highlights

# Strongest performance in the Society's history



## Record profits

- **Group PBT of £271.8m** (2020: £118.8m) whilst supporting members, colleagues and communities during another period of uncertainty.



## Strong capital base

- The **Common Equity Tier 1 ratio** remains strong at **44.6%** (2020: 38.5%), the **CRR leverage ratio** was **6.2%** (2020: 5.7%).



## Sustainable balance sheet growth

- The **mortgage book** grew by £1.5bn to £23.2bn, a **growth rate of 6.8%** (2020: 8.6%).
- **Savings balances** grew by £1.1bn to £19.8bn, a **growth rate of 5.8%** (2020 7.7%).



## Improved outlook

- A **credit of £13.0m** was recognised in the period for **loan impairment** provisions (2020: a charge of £25.2m), principally as a result of updates to the economic outlook.



## Successful Countrywide acquisition

- **Estate Agency PBT**, inclusive of the profits attributable to Countrywide since acquisition, increased to **£111.3m** (2020: £51.8m).



## Improved asset quality

- Residential mortgages in **arrears by three months or more** were **0.22%** (2020: 0.29%) at almost a quarter of the industry average (0.83%).



## Increasing membership

- **Society membership** grew by 21,859 to take our total membership base to **1,082,997**.



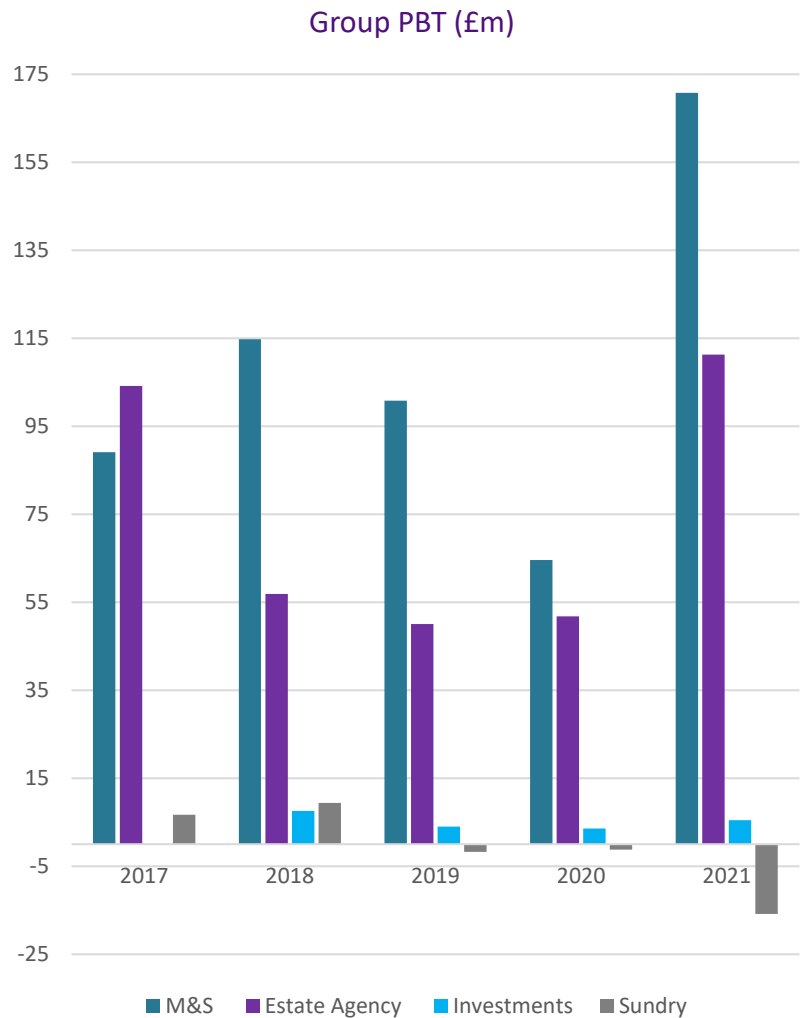
## Intercompany loan repayment & dividends

- **£125m** of the £253m intercompany loan has already been repaid.
- Connells paid **dividends** during the year totalling **£60.0m** (2020: £20.0m).

*“Strongest financial performance in Skipton’s history whilst continuing to deliver for members”*



# Record levels of profitability achieved

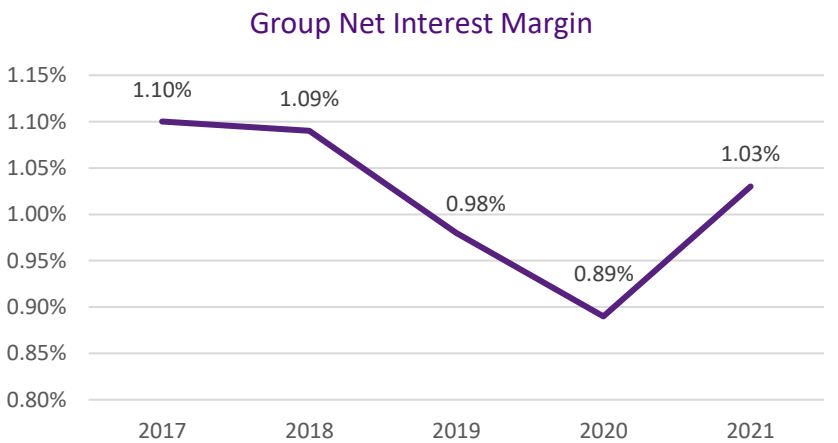
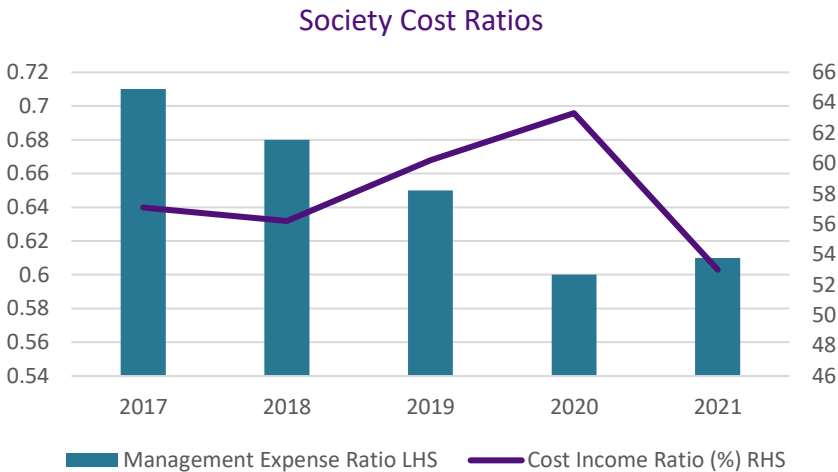


PBT By Division	2021 £m	2020 £m
Mortgages & Savings (M&S)	170.8	64.6
Estate Agency	111.3	51.8
Investment Portfolio	5.5	3.6
Sundry*	(15.8)	(1.2)
Group PBT	271.8	118.8

KPIs	2021	2020
Net Interest Income	£296.7m	£237.9m
Underlying Group PBT	£233.4m	£124.0m
Net Interest Margin	1.03%	0.89%
M&S Management Expense Ratio	0.61	0.60
M&S Cost Income Ratio	53.0%	63.3%
Financial Advice FUM	£4.1bn	£3.5bn

Estate Agency KPIs	2021	2020
Second hand property exchanges	+175%	-16%
Letting properties under management	+211%	+0%

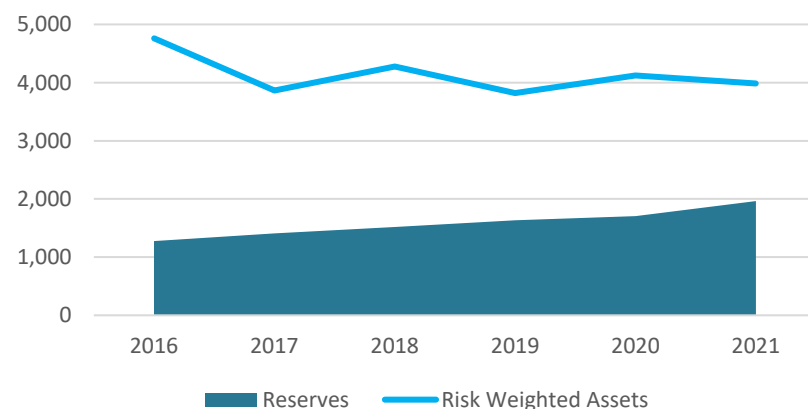
\* Sundry including inter-divisional adjustments relate primarily to the cost of the Connells management incentive scheme



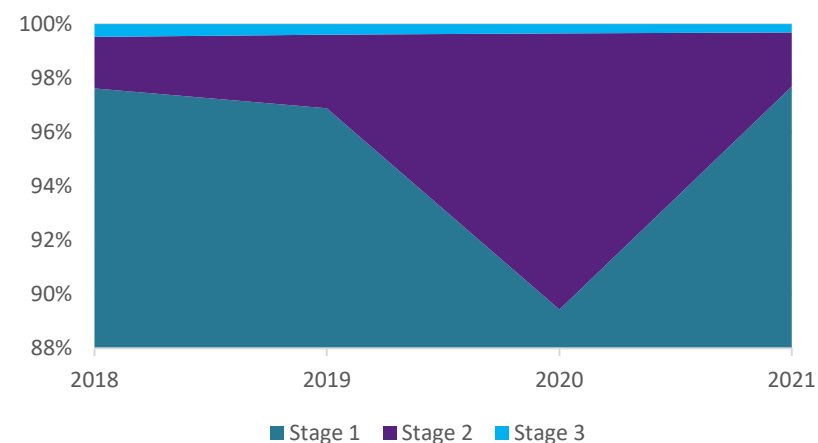
“Record performance driven by an improving economy and the continued success of Skipton’s Group strategy”

# Maintaining a strong capital position and asset quality

## Reserves & Risk Weighted Assets



## Group Residential Loans by Stage



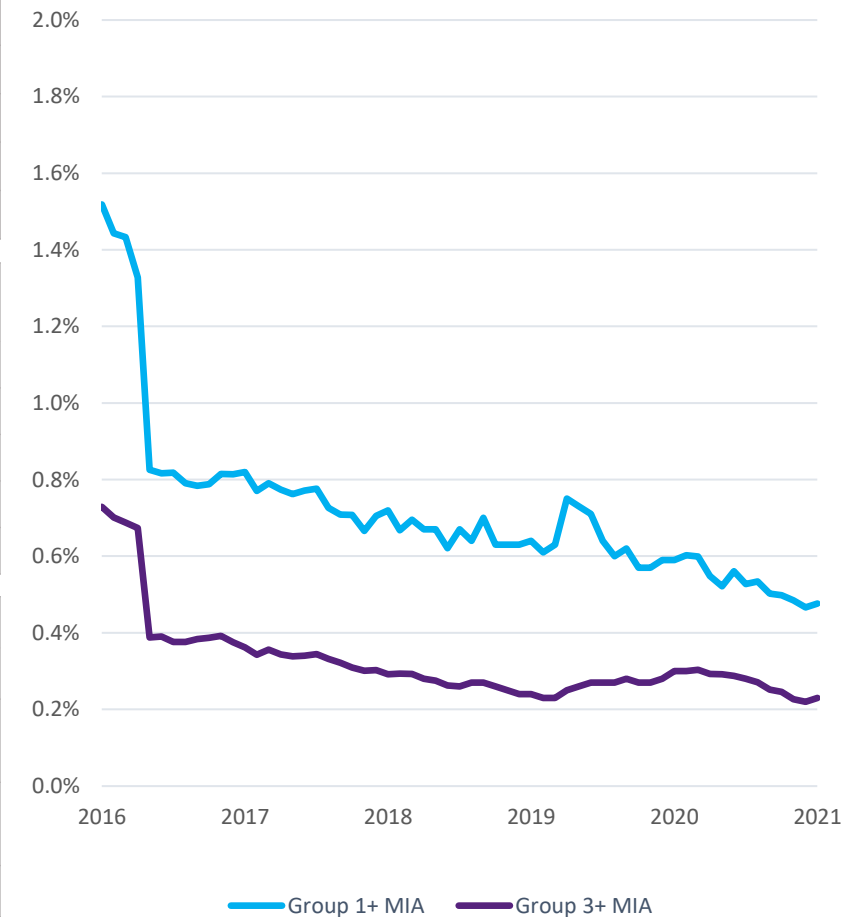
Capital and leverage ratios	2021	2020
CET 1 ratio	<b>44.6%</b>	38.5%
Tier 1 ratio	<b>44.8%</b>	38.9%
Total capital ratio	<b>45.6%</b>	39.5%
CRR leverage ratio	<b>6.2%</b>	5.7%
UK leverage ratio	<b>6.8%</b>	6.5%

Capital resources	2021 £m	2020 £m
CET 1 capital	<b>1,775.5</b>	1,585.6
Total Tier 1 capital	<b>1,784.5</b>	1,603.6
Total Tier 2 capital	<b>31.0</b>	26.9
Total regulatory capital	<b>1,815.5</b>	1,630.5
Risk weighted assets	<b>3,984.7</b>	4,123.2

Asset Quality KPIs	2021	2020
3m+ arrears cases	<b>0.22%</b>	0.29%
3m+ arrears cases industry average*	<b>0.83%</b>	0.91%
Impairment coverage (residential portfolio)	<b>0.05%</b>	0.11%
Problem loans / gross loans	<b>0.31%</b>	0.35%

\*Industry average is >3 months, whilst our measure is 3 months plus

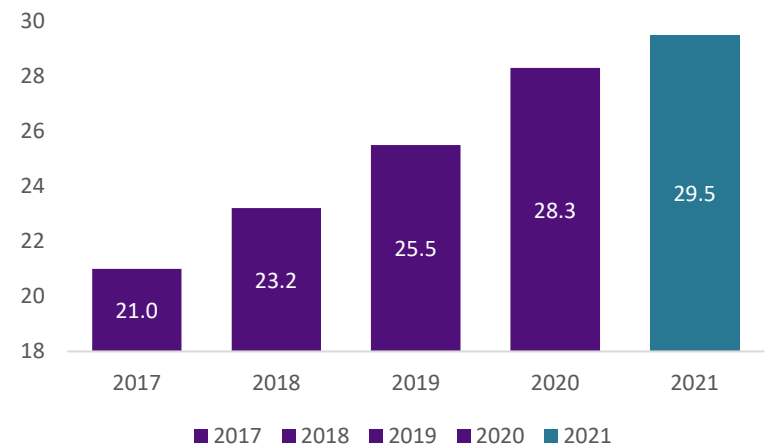
## Group Arrears (months in arrears)



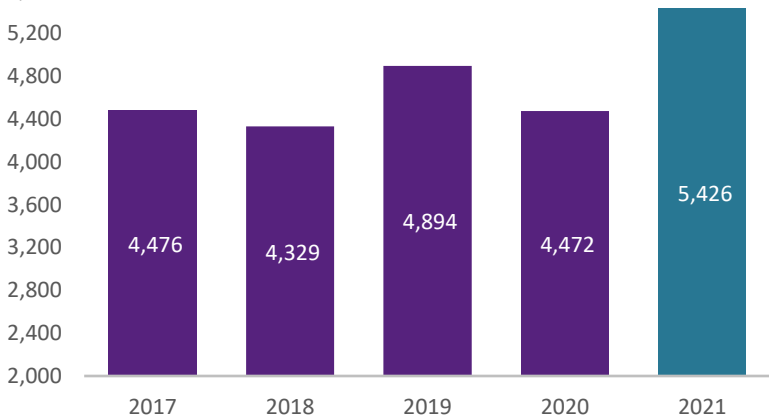
*“Our sustainable business model continues to preserve a strong capital position to protect our members and our corporate investors”*

# Sustainable balance sheet growth and healthy levels of liquidity

Total Assets (£bn)



Gross Mortgage Lending (£m)

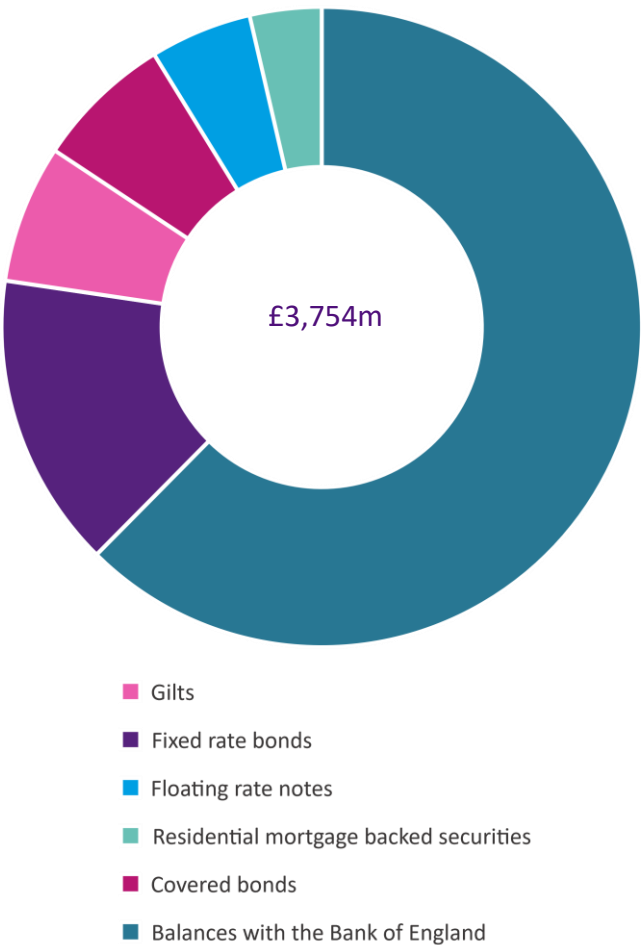


Statement of Financial Position	2021 £m	2020 £m
Liquid Assets	5,096	5,468
Mortgages	23,025	21,865
Other Assets	1,347	930
Total Assets	29,468	28,263
Shares	19,760	18,709
Wholesale Funding <sup>1</sup>	6,671	6,732
Other Liabilities	695	725
Subscribed Capital	378	391
Total Members' Interests	1,964	1,706
Total Members' Interests & Liabilities	29,468	28,263

<sup>1</sup> Including Skipton International Limited

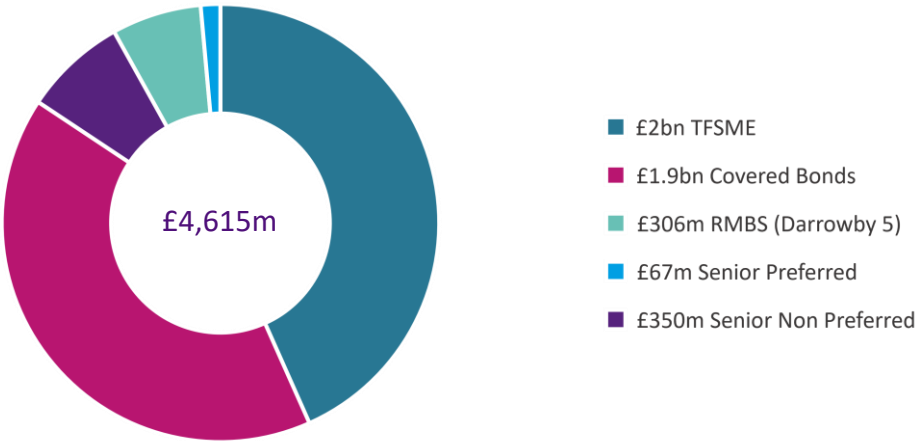
Liquidity KPIs	2021	2020
LCR	173%	194%
Liquidity Ratio	19.3%	21.5%
Net Stable Funding Ratio	146.7%	147.4%

High Quality Liquid Assets by type



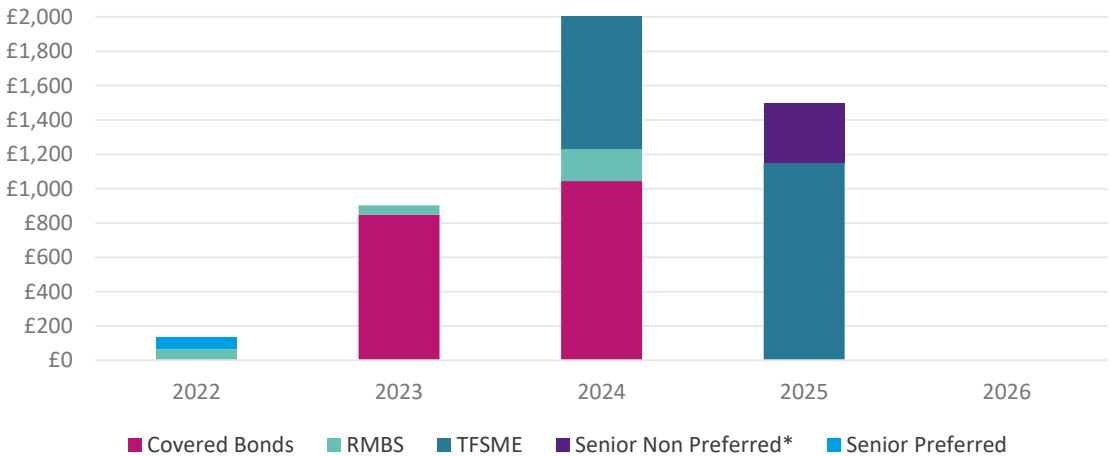
“Group mortgage balances grew by 6.8% (2020: 8.6%) whilst maintaining our prudent credit risk appetite”

# Diverse funding portfolio



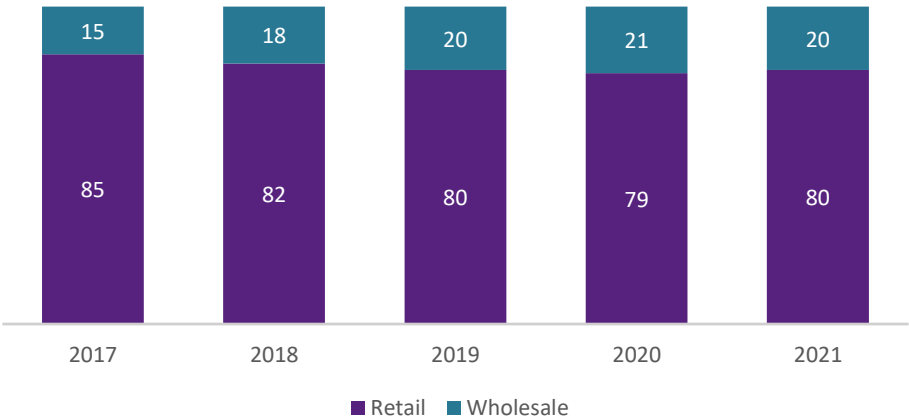
	Fitch	Moody's
Covered Bond	AAA	Aaa
Senior Preferred	A	A2
Baseline Credit Assessment (BCA)	N/A	A3
Issuer Default Rating (IDR)	A-	N/A
Short Term	F1	P-1
Senior Non Preferred	A-	Baa1
Outlook	Stable	Stable
Last Rating Change	August 2021	July 2021

Outstanding Wholesale Funding Maturities (£m)



\* Senior Non Preferred maturity shown to call date

Funding Profile



“We maintain a diverse funding portfolio to prevent over-reliance on any one source”

# ESG overview

As a mutual building society, our founding purpose was a social one: helping people have homes and saving for life ahead. It has remained so ever since.

Our main focus has been further embedding ESG into our processes and strategy. This is especially in setting the foundations to addressing one of society’s biggest challenges: the environment.

To that end, we are responding to climate risk as well as getting our own house in order by reducing our own carbon footprint. This has included moving to LED lighting and installing EV charging points.

### Key Highlights

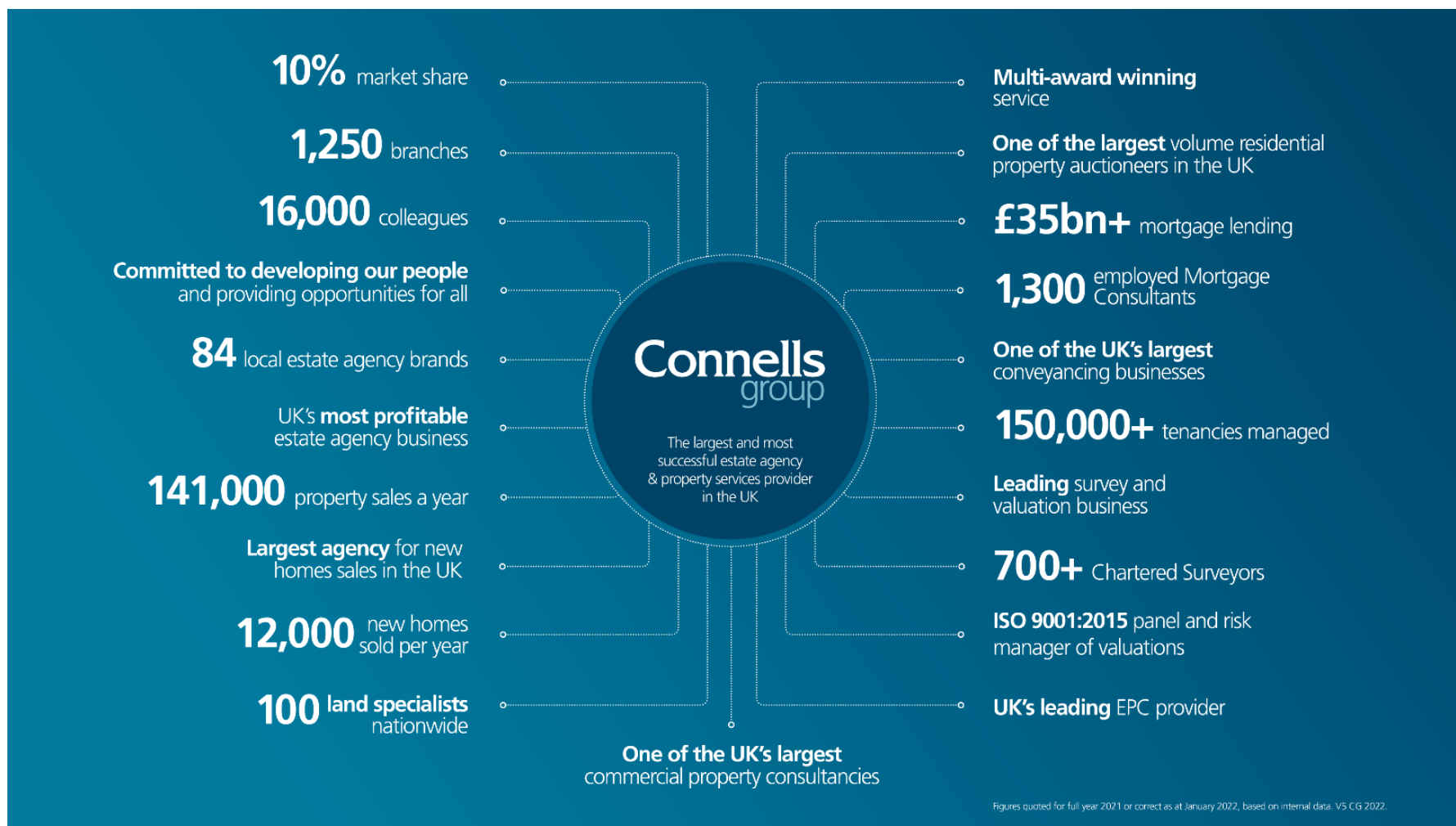
- ✓ Planting 15,000 trees in partnership with the Yorkshire Dales Millennium Trust to help offset direct emissions
- ✓ Recognised by the Support the Goals initiative with a 5 star award
- ✓ Maintained Platinum Investors in People Award
- ✓ Donated over £575k to charities including Mental Health UK

### 2022 Ambitions

- While our 2022 targets are yet to be confirmed, there are some key areas we will look at:
- Reducing our carbon footprint further while exploring how we can hit net zero by 2050
  - Improving our accessibility further
  - Improving our disclosures

2021 Targets	
<div>Financial Sustainability</div> <div></div>	<ul style="list-style-type: none"><li>• Progressing toward long term goal of supporting one million savers (2021: 868k)</li><li>• Help more people invest (FA FUM 2021: £4.1bn)</li><li>• Help 8,000 first time buyers (2021: 7,893)</li></ul>
<div>Social Sustainability</div> <div> </div>	<ul style="list-style-type: none"><li>• Support 40 housing &amp; homeless organisations via our community giving scheme (✓)</li><li>• Become a Disability Smart Accredited organisation (✓)</li><li>• Encouraging 50% of our colleagues to volunteer up to three days per year (impacted by pandemic)</li><li>• Donate £500k to Mental Health UK by the end of 2022 (c£430k to date)</li><li>• Maintain our Platinum Investors in People Award (✓)</li></ul>
<div>Environmental Sustainability</div> <div></div>	<ul style="list-style-type: none"><li>• Progress toward taking more carbon out of the atmosphere than we put into it by 2025 (✓)</li><li>• Progress toward removing 75% of single use plastics by 2025 (impacted by pandemic)</li><li>• Maintain 99% of our waste not going to landfill (✓)</li></ul>
✓ = Completed target in 2021	

# Connells Group



## Highlights

- Profit before tax in the enlarged Estate Agency division increased to £111.3m (2020: £51.8m).
- The combined Connells group delivered solid dividends to the Society of £60m (2020: £20m).
- Repaid £125m of the £253m which was loaned to Connells by the Society, as part of the acquisition of Countrywide.
- Connells' benefitted from £26.9m fair value gains on two businesses (TM Group (UK) Limited and Vibrant Energy Matters Limited) where both Connells and Countrywide previously held a non-controlling investment, and where control was obtained when combined on acquisition.
- Connells subsequently sold its investment in TM Group (UK) Limited on 8 July 2021 for a cash consideration of £58.0m.

# Appendix



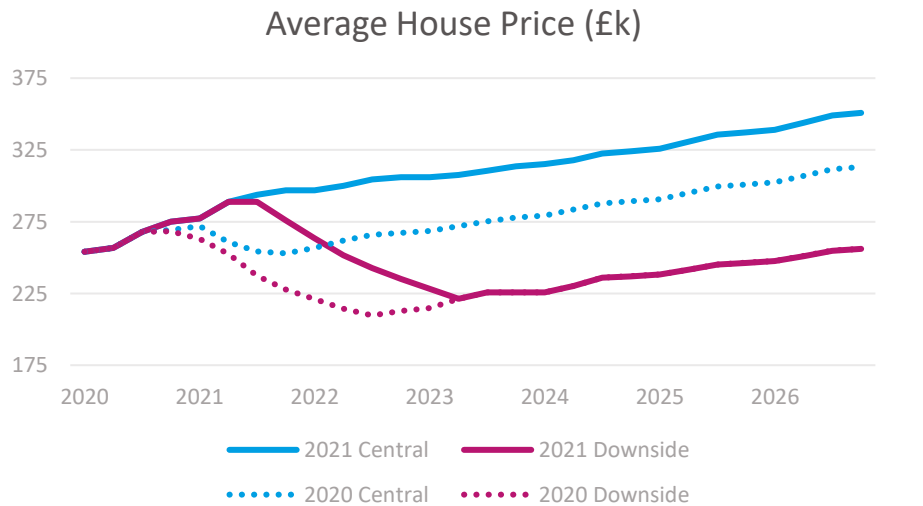
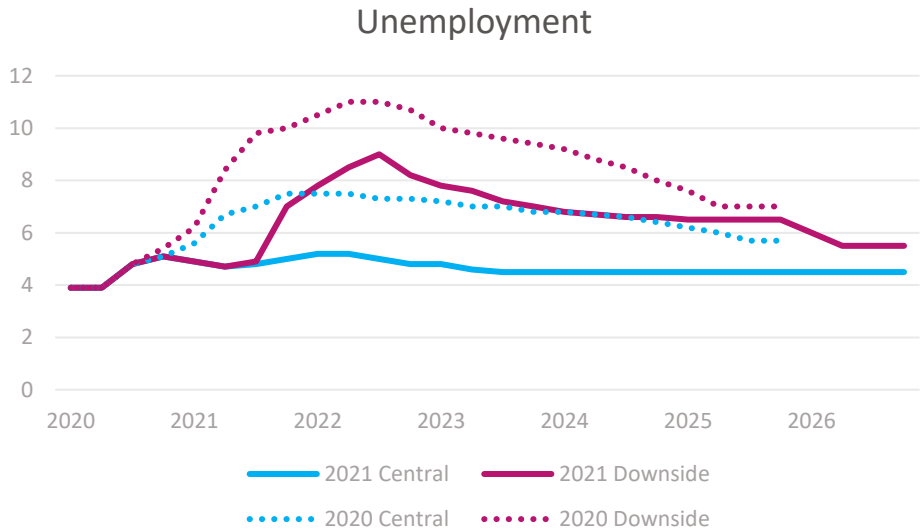


# The economic outlook has improved from 2020

Economic variables (annual rate)		As at 31.12.21				
	Scenario	2022	2023	2024	2025	2026
Bank of England base rate (%) (note 1)	Upside	0.75	1.00	1.25	1.25	1.25
	Central	0.75	0.75	0.75	0.75	0.75
	Downside	(0.25)	(0.25)	0.00	0.00	0.00
Unemployment (%) (note 1)	Upside	4.3	4.2	4.0	4.0	4.0
	Central	4.5	4.5	4.5	4.5	4.5
	Downside	8.5	7.6	6.7	6.5	5.5
House price inflation (UK) (%) (note 2)	Upside	5.1	4.2	4.2	4.2	4.2
	Central	3.0	2.5	3.3	4.1	4.0
	Downside	(16.0)	(7.0)	5.0	4.0	4.0
Commercial property price growth (%) (note 2)	Upside	2.0	2.0	2.0	2.0	2.0
	Central	(14.7)	0.0	0.0	0.0	0.0
	Downside	(18.6)	(3.2)	0.0	0.0	0.0

	Scenario	As at 31.12.20				
		2021	2022	2023	2024	2025
Bank of England base rate (%) (note 1)	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 (%) (note 1)	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) (%) (note 2)	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 (%) (note 2)	Upside	0.0	2.0	2.0	2.0	2.0
	Central	(15.6)	(4.0)	0.0	0.0	0.0
	Downside	(23.3)	(7.5)	0.0	0.0	0.0

Scenario Weightings	2021	2020
Upside	15%	5%
Central	50%	55%
Downside	35%	40%



# We have four purpose ambitions to help us build a better Society, together



## Transitioning to Net Zero

**We will take a leading role in supporting the transition to greener UK homes**

Wider society will rightly see our role as providing finance and support to facilitate the change needed to green housing as we move to net zero by 2050.

The mortgage market looks likely to see new green lending segments develop where we can leverage our unique Group capabilities to drive positive change in the housing market and help customers transition to more energy efficient homes.



## Reducing Housing Inequality

**We will help more first time buyers get on the housing ladder**

We want to help more people have a stake in society through homeownership and create long term financial wellbeing.

Encouraging greater levels of homeownership develops and grows the long term health of the mortgage market. We have the firepower to do more and take more risk than peers by leveraging the Group advantage.

**We will make financial advice more accessible and inclusive**

We believe that access to expert advice is essential in order to truly deliver financial wellbeing for our customers. We bring financial advice to as many people as possible with a compelling proposition offering, excellent service and competitive pricing.

Supporting customers' increasingly complex lives, particularly in relation to pensions and intergenerational wealth transfer, requires access to expert and empathetic service from our people.



## Improving Inclusion



## Rewarding our members

**We will continue to pay well above market average savings rates.**

We want to give back to our members as much as we can and we acknowledge it has been a tough time for savers in recent years.

Encouraging saving and making savings worthwhile is core to our purpose and is a vital part of supporting financial wellbeing.

We have paid above the (CACI) market average consistently and we will continue to do so in the coming years.

# ESG objectives

	Target end state	2022 Objectives	2026 Ambition
Environmental	We want to be net zero in scope 1, 2 and 3* in operational and financed emissions by 2050	<ul style="list-style-type: none"> <li>Maintain Scope 1 and 2 Carbon Neutral operations through Yorkshire Millennium Trust Tree planting offset programme.</li> <li>Develop Net Zero carbon reduction methodology and plans.</li> <li><b>Reduce carbon footprint by 10%</b> (from 2021 YE).</li> <li><b>Reduce single use plastic usage by 40%</b> (from 2019 baseline).</li> <li>Maintain 99% of waste not going to landfill.</li> <li>Explore potential to achieve mortgage portfolio EPC rating of C by 2050 from 2021 start point of D+ as part of Net Zero plan.</li> </ul>	<ul style="list-style-type: none"> <li>Reduce scope 1 and 2 emissions by 50% from 2021 YE start point.</li> <li>Full scope 1, 2 and scope 3 operational emissions offset.</li> <li>Supporting colleague and customers to actively reduce personal carbon footprint.</li> <li>Become a paperless Society.</li> </ul>
Social	We want to be at the forefront of socially-conscious and purpose driven businesses	<ul style="list-style-type: none"> <li><b>Help 10,000 first time buyers</b> (2021, c8,000).</li> <li>Maintain EOS target of 85% or above.</li> <li><b>Achieve women in finance target of 40%</b> (up from 37% in 2021).</li> <li>Launch trial green product propositions.</li> <li>Dormant Asset scheme member donation of &gt;£11m, support 100 community foodbank initiatives with £50k and donate £200k to the Skipton Charitable Foundation.</li> <li>Further develop and implement our workforce of the future strategy.</li> <li><b>Maintain Platinum Investors in People status.</b></li> <li>Further develop our support for vulnerable customers.</li> <li>Launch social mobility working group.</li> </ul>	<ul style="list-style-type: none"> <li>Impactful green propositions for colleagues and customers.</li> <li>Operate in line with corporate social best practice.</li> <li>Clear and loud public voice using the Group's UK housing market footprint to positively influence government policy.</li> <li>Consciously monitoring and acting on a broad range of D&amp;I targets.</li> <li>Actively supporting strong local economy and community – e.g. early careers.</li> </ul>
Governance	We want to be a leader in best-practice ESG strategy integration and governance	<ul style="list-style-type: none"> <li>Implement UN Principles for Responsible Banking framework.</li> <li>Issue 2021 Group Responsible Business Report including TCFD.</li> <li>Rollout of climate risk requirements into overall risk framework.</li> <li>Develop and implement Group ESG and audit plans.</li> <li>Deliver annual board and colleague ESG training.</li> <li>Explore formal Group ESG rating.</li> <li>ESG component included in Exec incentive scheme.</li> <li><b>Develop treasury social and green funding strategy/framework.</b></li> </ul>	<ul style="list-style-type: none"> <li>All colleagues and leaders ESG trained as standard.</li> <li>Fully embedded climate risk framework.</li> <li>ESG integrated and reported in all governance forums.</li> </ul>

\*Scope 1 are direct emissions, Scope 2 are indirect emissions from energy use, Scope 3 cover all other indirect emissions including commuter travel, customer product usage i.e. customers mortgaged homes, and suppliers.  
Note we expect to be able to reduce and offset scope 3 operational emissions considerably earlier than 2050 and this will be pursued as part of Net Zero science based target planning.

# Underlying Group PBT

	2021 £m	2020 £m
Total Group PBT	271.8	118.8
Less profit on disposal of subsidiary undertakings	(0.5)	(0.8)
Less fair value gains / add back fair value losses in relation to the equity release portfolio	(5.5)	2.7
Add back impairment of goodwill	-	2.0
Add back impairment of joint ventures	-	1.5
Less fair value gains on share warrants and equity share investments	(5.5)	(0.2)
Less fair value gains on step-acquisition of Group undertakings	(26.9)	-
<b>Underlying Group PBT</b>	<b>233.4</b>	<b>124.0</b>
Mortgages and Savings	165.3	67.3
Estate Agency	78.9	55.1
Investment Portfolio	5.5	3.6
Sundry incl. inter-divisional adjustments	(16.3)	(2.0)
<b>Underlying Group PBT</b>	<b>233.4</b>	<b>124.0</b>

## Key Contacts



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## Useful links

Main Website:- [skipton.co.uk](https://skipton.co.uk)

Financial Results:- [skipton.co.uk/about-us/financial-results](https://skipton.co.uk/about-us/financial-results)

Sustainability information:- [skipton.co.uk/about-us/our-environment](https://skipton.co.uk/about-us/our-environment)

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