2019 Investor Presentation

September 2019

SKIPTON
BUILDING SOCIETY
Since 1853

Executive Summary

- The Society is a UK based mutual organisation, focused on lending and savings, that was established in 1853 in Skipton, North Yorkshire. Its headquarters are in Skipton

- It is the UK's fourth largest building society by asset size, totalling £24.3bn. Skipton operates from 88 branches throughout the UK and as at 30 June 2019 had 1,030,526 members (December 2018: 1,010,426)

- The Society's wholesale funding strategy is to develop a more diversified secured and unsecured funding base across a range of currencies, maturities and instrument types

- The Society has been an active securitisation sponsor since 2011, having issued 4 transactions under the Darrowby series

- The Society has issued 3 Covered Bond transactions since May 2018, in both GBP and Euros, with its latest transaction referenced against SONIA

- The €7.5bn Covered Bond programme is rated AAA by Fitch and Aaa by Moody's. As of 30 July 2019, the pool size was £2.7bn, weighted average indexed LTV of 58.87%, weighted average seasoning of 2.69 years and London & South East concentration of 29.9%

- The Society is Rated A- (stable) by Fitch and Baa1 (positive) by Moody's, upgraded by both agencies in the last three years

Source: Skipton Building Society

Contents

Group overview

SKIPTON BUILDING SOCIETY
Since 1853

Skipton Group

- The UK's fourth largest building society by asset size
- **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
- **Group model** - our M&S division allows us to achieve our purpose, our new financial advice proposition helps our members plan for their future whilst helping the Society differentiate itself form other high street providers. Our estate agency, Connells along with our investment portfolio provides a diversified revenue stream which is reinvested into the business for the benefit of our members
- **Committed to mutuality** - mutual status provides focus on supporting our members via a strong balance sheet and longer term decisions to invest in the development of the business
- **Credit ratings** - rated A- (stable) by Fitch and Baa1 (positive) by Moody's, upgraded by both agencies in the last two years

SKIPTON BUILDING SOCIETY Since 1853

SKIPTON INTERNATIONAL LIMITED | SKIPTON BUSINESS FINANCE | Connells

Deliver strong return on capital employed

amber homeloans | NYM north yorkshire mortgages

Remaining books are in run-off

jade™

Core IT platform

The Society's Strategy and Objectives

- Focus on generating sustainable profits to maintain a strong balance sheet and take long term decisions to invest in the development of the business for the benefit of our current and future members

- Our objectives are fundamental to our success and are built around the following four pillars: **Our Customers, Our People, Our Proposition** and **Our Financial Strength**

Our Customers

- Customers are at the heart of our business strategy. Under our strapline 'For Your Life Ahead', we target savings and investment customers who are planning for and moving through retirement

- We focus on helping members to own their own homes by providing good value mortgages, together with excellent personal service, to both our mortgage customers and intermediary partners. In July, we launched the Skipton App to meet the needs of our digital customers

- This commitment to our members has been demonstrated by the Society being the first financial services provider to launch a Cash Lifetime ISA (LISA), helping people to save for their first home or longer term financial needs. The first half of 2019 has seen continued success in attracting LISA customers, with net growth of 17,864 customers during the period, bringing the total number of LISA customers to 147,571 and balances to £875.7m (FY 2018: £602.4m) including a government bonus of £65.1m received by our customers during the first half of 2019. LISA balances provide the Society with a sticky source of retail funding

Our People

- Our human touch sets our service apart in an increasingly commoditised industry

- We ensure that this focus on our members, people and relationships is part of our culture

- We maintained high levels of employee engagement, with a score of 89% (HY 2018: 89%), above industry benchmarks, we develop the skills of our people to deliver our customer proposition and we implement initiatives to foster current and future leaders

The Society's Strategy and Objectives

Our Proposition

- Providing good value products and consistently excellent service to our members remains key to our proposition, we continually monitor our customer needs to ensure the products we offer are aligned to their needs
- The provision of financial advice for our target market is a key differentiator and integral to the delivery of our 'For Your Life Ahead' customer proposition. We have recently transformed our Financial Advice proposition, we now offer a range of funds in partnership with Aberdeen Standard Investments. There's a new tiered ongoing service allowing customers to choose the level of service appropriate for their needs

Our Financial Strength

- Maintaining an appropriate mix of wholesale and retail funding is essential to the Group achieving both its retail savings and lending growth. The Group's wholesale funding ratio increased to 18.9% (HY 2018: 17.8% and FY 2018: 18.4%)
- We manage liquidity and capital within strict limits defined by our low risk appetite and we believe in our resilience, even under an extreme environment. We believe our financial strength is more than adequate to withstand any negative operating environment which may stem from Brexit
- Managing loan impairment losses remains a key priority. Arrears cases are closely monitored and continue to improve to lower levels, Group residential mortgages in arrears by 3 months or more has fallen to 0.27% (HY 2018: 0.34%)
- The Group's investment in Connells remains a part of our financial strategy, creating additional financial strength
- The Mortgages & Savings division cost income ratio increased for the first half of the year to 57.2% (HY 2018: 54.3%) due to margin pressures and increased investment. The management expense ratio improved at 0.65% (HY 2018: 0.67%)

Estate Agency – Connells Group

- The Society holds a 99.9% share holding in a real estate business called Connells
- Connells maintained strong profits from lettings, surveys and valuations and mortgage services despite a continued subdued housing market in the first half of 2019
- The Connells group reported a pre-tax profit of £26.2m for the first six months of 2019 (H1 2018: £28.9m and FY 2018: £56.9m)
- The UK housing market remains a softer market, which is reflected in a 8% fall in the number of house sales (exchanges) (HY 2018: 3.8%) arranged by Connells during the period
- Connells' diversified business model meant that other areas of its business contributed well during the period, and Connells reported solid profits with relative stability despite the fall in house sales
- Asset management is a natural hedge to the remainder of the business and will naturally see profits fall slightly as the market improves, but still remain a meaningful contributor to the Connells group

"Robust financial performance in a subdued market".

Source: Skipton Building Society

Financial highlights

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Since 1853

Business and Financial Highlights

In the six months to 30 June 2019, Skipton's key performance highlights included:

1,030,526 members
Society member numbers increased by 20,100 to 1,030,526 (HY 2018: 971,902)

£0.6bn Savings balances growth
Savings balances grew by £0.6bn to £16.7bn, a growth rate of 3.6% (HY 2018: £0.5bn, a growth rate of 3.1% and FY 2018: £1.1bn, a growth rate of 7.7%)

£2.5bn Gross residential mortgage lending
Gross residential mortgage lending of £2.5bn (HY 2018: £1.8bn and FY 2018: £4.3bn), this represents a 43% increase from the same period in the prior year

£1.2bn Mortgage book growth
The mortgage book grew by £1.2bn to £19.2bn, a growth rate of 5.9% (HY 2018: £0.5bn, a growth rate of 2.8% and FY 2018: £1.6bn, a growth rate of 10.0%)

£72.3m Total Group Profit Before Tax (PBT)
Total Group PBT was £72.3m (HY 2018: £104.7m and FY 2018: £188.2m), the decrease is predominantly in the Mortgages & Savings division, which can be attributed primarily to fair value losses of £12.5m in our equity release portfolio, which is in runoff

£84.2m Underlying Group PBT
Underlying Group PBT was £84.2m (HY 2018: £94.9m and FY 2018: £186.1m), profitability remains strong despite a challenging environment

33.5% Group Common Equity Tier 1 ratio
Group Common Equity Tier 1 ratio improved to 33.5% (HY 2018: 33.3% and FY 2018: 32.9%)

89% Employee engagement
Society employee engagement continues to remains well above financial services industry norms at 89% (HY 2018: 89% and FY 2018: 89%)

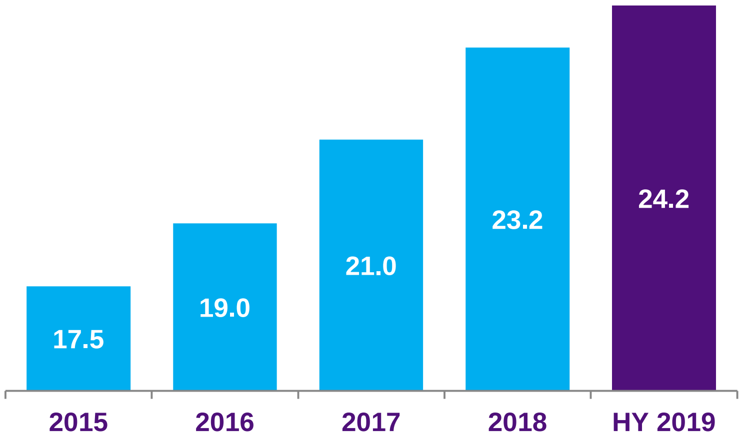
"Skipton's resilient business model delivers another set of strong results".

Group Balance Sheet

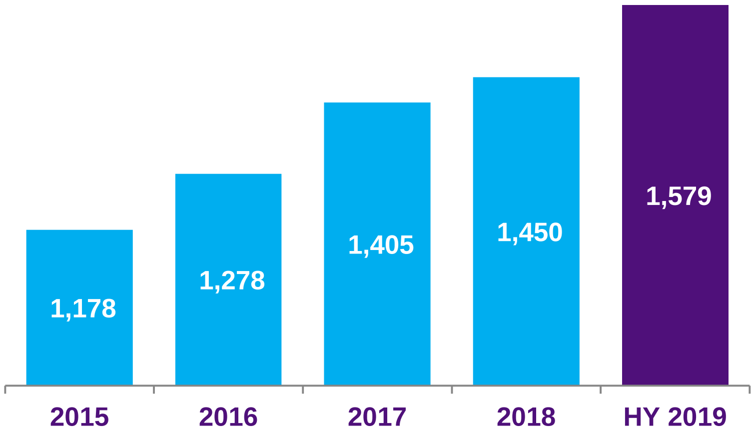
	HY 2018 £m	2018 £m	**HY 2019 £m**
Liquid Assets	4,241	4,202	**4,054**
Mortgages	16,931	18,127	**19,280**
Other Assets	885	875	**911**
Total Assets	22,057	23,204	**24,245**
Shares	15,438	16,113	**16,713**
Wholesale Funding[1]	4,605	4,989	**5,280**
Other Liabilities	522	535	**631**
Subscribed Capital	42	42	**42**
Reserves	1,450	1,525	**1,579**
Total Liabilities & Reserves	22,057	23,204	**24,245**

- Group total assets increased by 10% since HY 2018 to £24.2bn (HY 2018: £22.1bn and FY 2018: £23.2bn)
- Group CET1 ratio 33.5% (HY 2018: 33.3% and FY 2018: 32.9%)
- Leverage ratio 6.1% (HY 2018: 5.9% and FY 2018: 6.2%)

Total Group Assets (£bn)



Reserves (£m)



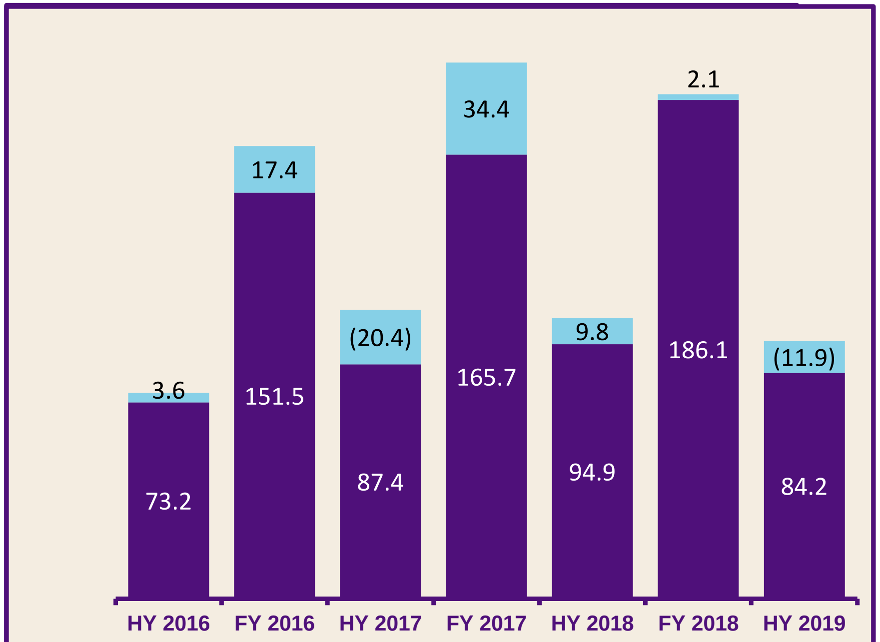
[1] *Including Skipton International Limited.*

Group income statement

	2017 £m	2018 £m	**HY 2019 £m**
Net Interest Income	220.6	241.2	**119.9**
Total Income	735.6	724.5	**354.8**
Admin Expenses	(523.1)	(521.0)	**(274.7)**
Loan Impairment	4.0	(2.5)	**-**
Other Impairment and realised losses	(0.1)	(0.8)	**(1.0)**
Provisions	(16.3)	(12.0)	**(6.8)**
Group PBT	200.1	188.2	**72.3**

- Underlying Group PBT was £84.2m[1] (HY 2018: £94.9m and FY 2018: £186.1m)
- Mortgages & Savings division pre tax profits was £44.3m (HY 2018: £65.8m and FY 2018: 114.3m)

Group PBT[2] (£m)



Group profit before tax by reporting period

Year	HY 2016	FY 2016	HY 2017	FY 2017	HY 2018	FY 2018	HY 2019
PBT	76.8	168.9[3]	67.0[4]	200.1[5]	104.7[6]	188.2[7]	72.3[8]

Source: Skipton Building Society
[1] See appendix for Group underlying profits breakdown
[2] The shaded parts of the charts included material exceptional items detailed in footnotes 3, 4, 5, 6 and 7
[3] Includes profit from part disposal of shares in ZPG Plc of £17.0m
[4] Includes a £15.0m loss on disposal following the sale of a non performing and recently non performing portfolio
[5] Includes profit from the complete disposal of shares in ZPG Plc of £38.5m, a £15.0m loss on disposal following the sale of a non performing or recently non performing portfolio and a profit of £15.9m following the disposal of HML to Computershare in 2014
[6] Includes a profit of £8.1m gain in fair value in relation to the equity release portfolio
[7] Includes a profit of £3.3m following the disposal of HML to Computershare
[8] Includes a fair value loss of £12.5m in relation to the equity release portfolio

Group PBT by division

	HY 2018 £m	2018 £m	**HY 2019 £m**
Mortgages & Savings	65.8	114.3	**44.3**
Estate Agency	28.9	56.9	**26.2**
Investment Portfolio	3.5	7.6	**1.7**
Sundry including interdivisional adjustments[1]	6.5	9.4	**0.1**
Profit Before Tax	104.7	188.2	**72.3**

[1] *Sundry including inter-divisional adjustments relates primarily to the elimination of inter-divisional trading, the cost of the Connells management incentive scheme for senior managers of Connells Limited and additional profit on disposal recognised in relation to the sale of HML in 2014.*

- Despite continued margin pressures, the Mortgages & Savings division reported underlying pre-tax profits of £56.8m (HY 2018: £57.1m). The statutory profit for the first half of 2018 included a £8.1m fair value gain in relation to the Group's equity release portfolio, whilst the first half of 2019 included a fair value loss on the Society's equity release portfolio of £12.5m – see appendix for further information. Each of these items are excluded from underlying profit – see appendix

- The UK property market continued to be subdued during the first six months of the year, however our Estate Agency division, Connells continued to perform well and achieved a pre-tax profit of £26.2m (HY 2018: £28.9m). The number of house sales (exchanges) arranged by Connells in the period was 8% below the comparative period in 2018. However the land and new homes, lettings, mortgage services, conveyancing and survey and valuations divisions within Connells all contributed well in the period, further demonstrating the benefits of Connells' diversified business model

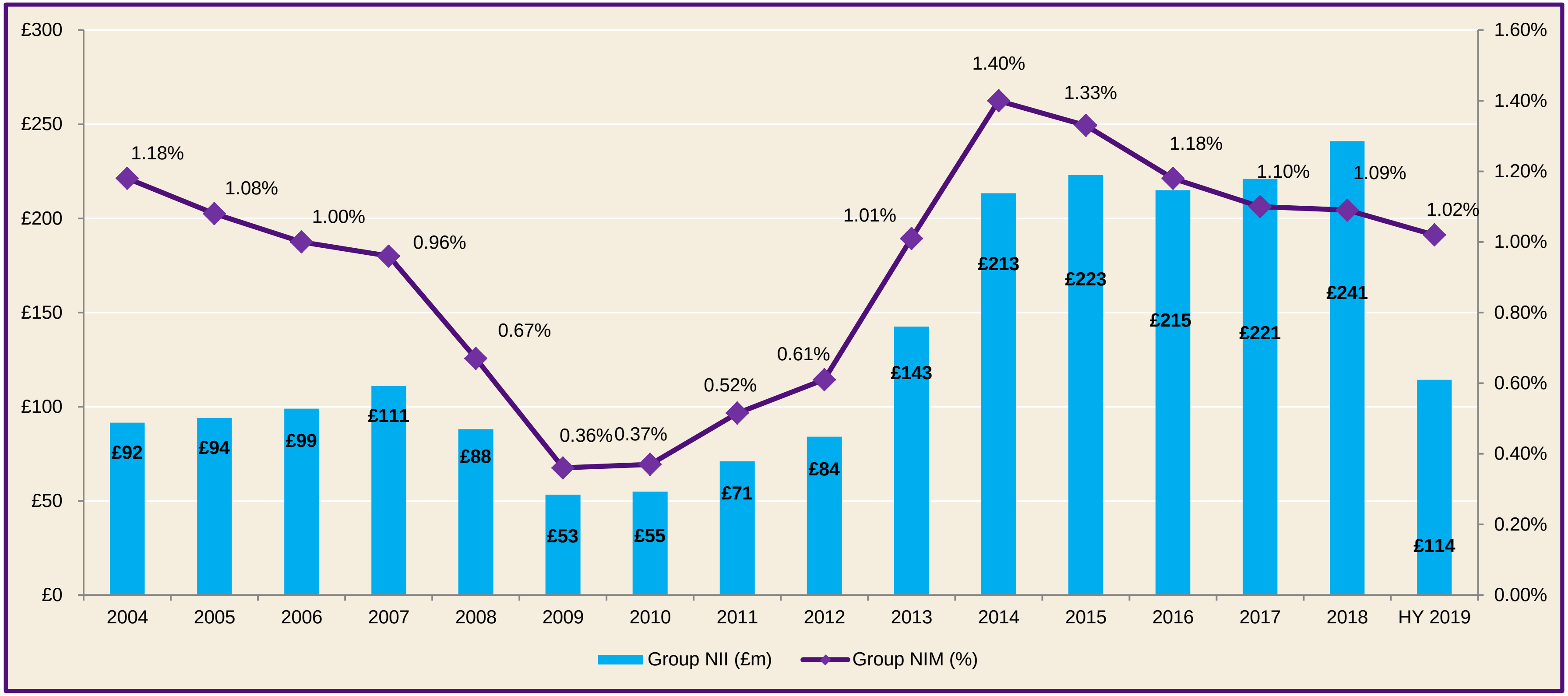
- Skipton Business Finance Limited produced a pre-tax profit for the period of £1.8m (HY 2018: £1.7m)

- Jade Software Corporation reported a small loss of £0.2m for the six months ended 30 June 2019 (HY 2018: £1.7m)

- Sundry mainly comprises £0.6m of deferred consideration profit relating to the disposal of HML in 2014 (HY 2018: £2.4m) and a £0.1m credit (HY 2018: £4.0m credit) relating to the management incentive scheme for senior managers of Connells

Sustainable Group Net Interest Margin (NIM)

Group NIM



- The Group saw a low in NIM in 2009, followed by a strong recovery in the following years
- The increased net interest margin, to a peak of 1.40%, was driven by the removal of the SVR cap in March 2010 and cheap government funding from FLS and TFS (August 2012 to February 2018)
- The current NIM has improved and back to levels seen pre-crisis at 1.02% (HY 2018: 1.14% and FY 2018: 1.09%)

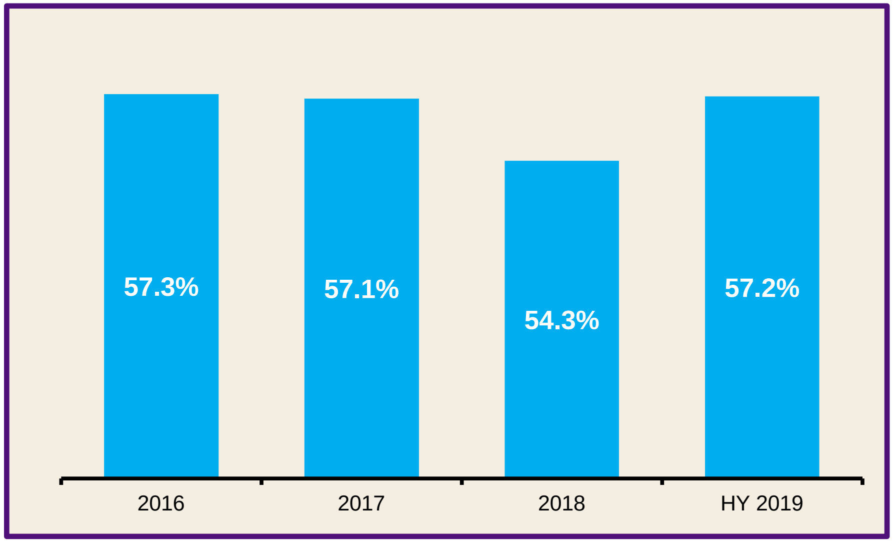
Source: Skipton Building Society

Cost analysis

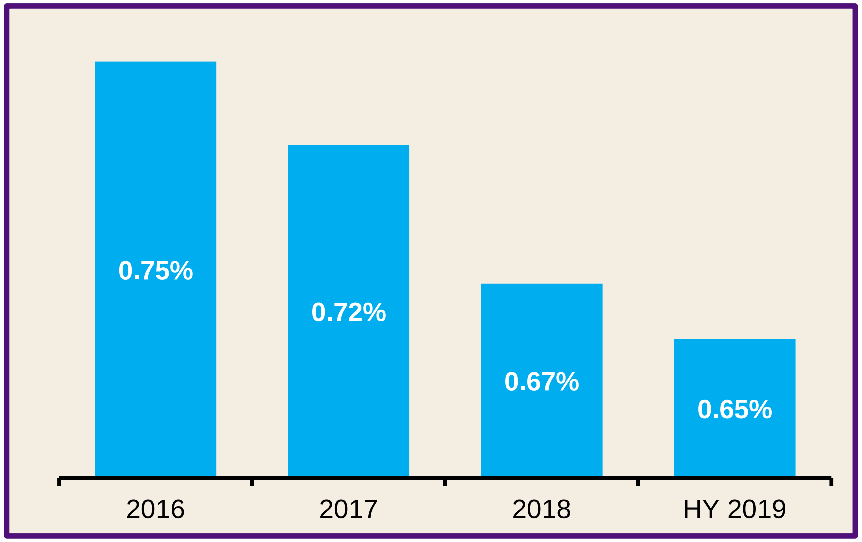
- The cost income ratio for the Mortgages & Savings (M&S) was 57.2% (HY 2018: 54.3%), the slight increase was due to investments made for the long term benefit of members which include developing online services, a mobile app and a new financial advise proposition

- The management expense ratio for the M&S division has seen an improvement to 0.65% (HY 2018: 0.67%)

M&S Cost Income Ratio (%)



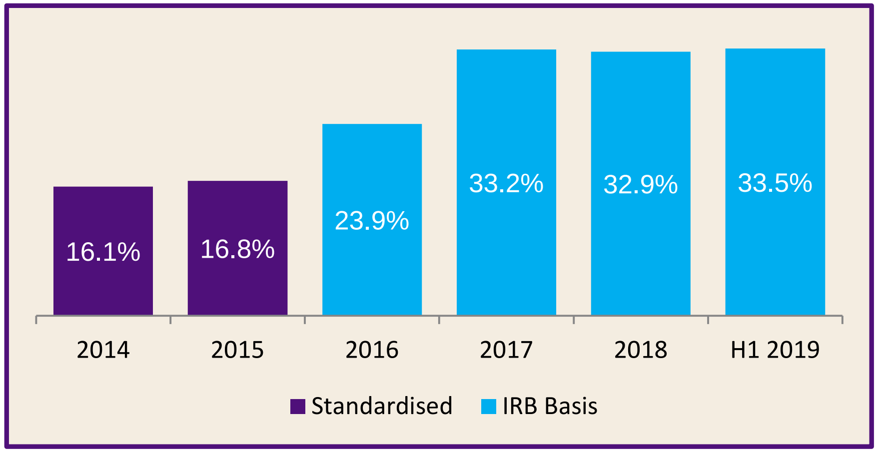
M&S Management expenses over mean total assets (%)



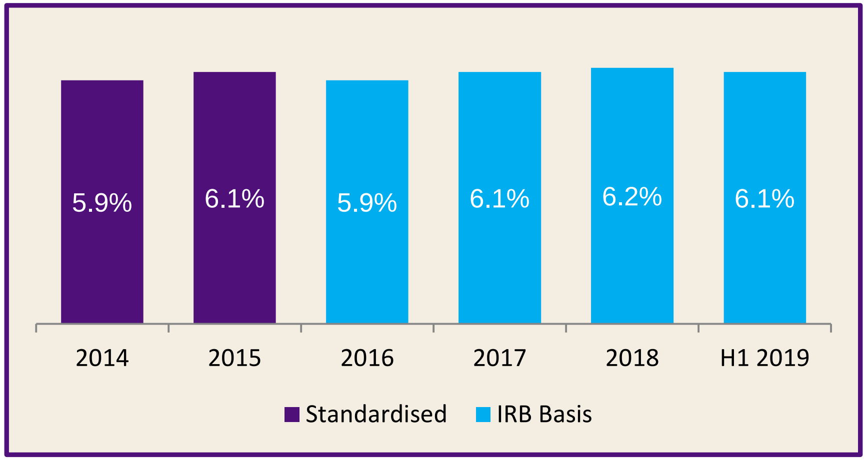
Source: Skipton Building Society

Skipton Group's Capital strength

Group Common Equity Tier 1 Ratio



Leverage Ratio



- During 2016, the Society achieved Internal Ratings Based (IRB) status for credit risk
- In the first half of 2019, the Group Common Equity Tier 1 ratio, calculated on a transitional basis, improved further at 33.5% (HY 2018: 33.3%)
- Leverage ratio calculated on a fully loaded basis at 6.1% (HY 2018: 5.9%)
- The Minimum Requirement for Own Funds and Eligible Liabilities (MREL) is being phased in over a transitional period to 1 January 2022. The MREL set for the Society, by the Bank of England, for the transitional period is equal to the minimum regulatory capital requirements for the period to 31 December 2019, then changes to the higher rate of 18% of risk weighted assets by 1 January 2020 for the period to 31 December 2021. MREL at the end of the transitional period is subject to review by the Bank of England and may change. MREL issuance requirements remain modest

"Skipton's Capital strength continues to grow placing the Society in a strong position ahead of political uncertainty".

Mortgage focus

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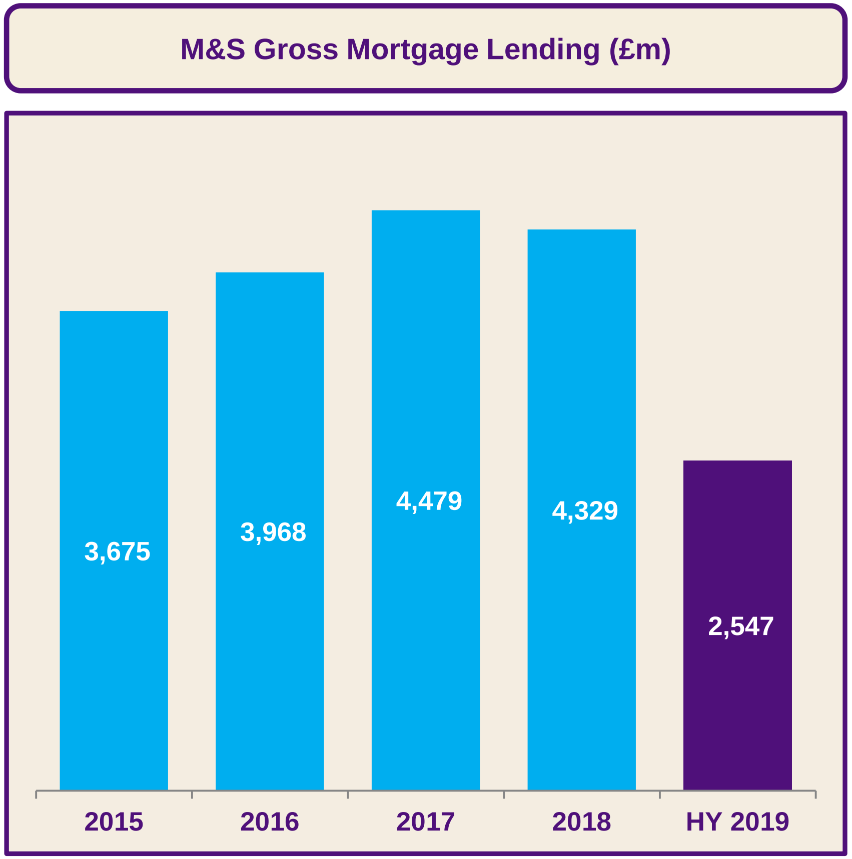
Mortgage highlights



- Gross mortgage lending in the first half of the year increased to £2.5bn (HY 2018: £1.8bn), 43% higher than the same period in 2018. This increase was achieved despite the intense competition within the mortgage market
- Net mortgage lending amounted to £1.1bn (H1 2018: £457m), this grew mortgage balances by 6% (H1 2018: 3%)
- Credit risk appetite has not been relaxed during the year
- Helped 14,641 (HY 2018: 10,855) homeowners to purchase or remortgage their properties. This included 2,640 first time buyers (HY 2018: 2,078) and 4,619 buy-to-let borrowers (HY 2018: 3,409)
- The average indexed loan-to-value of Group residential mortgages was 47.0% (H1 2018: 47.9%)
- The Society was the first financial services provider to offer a Cash Lifetime ISA (LISA). Now, 148,000 customers hold a LISA with the Society (HY 2018: 110,000) and LISA customers benefitted from £65.1m of government bonuses

"Strong growth without extending our risk appetite"

Source: Skipton Building Society

Asset quality

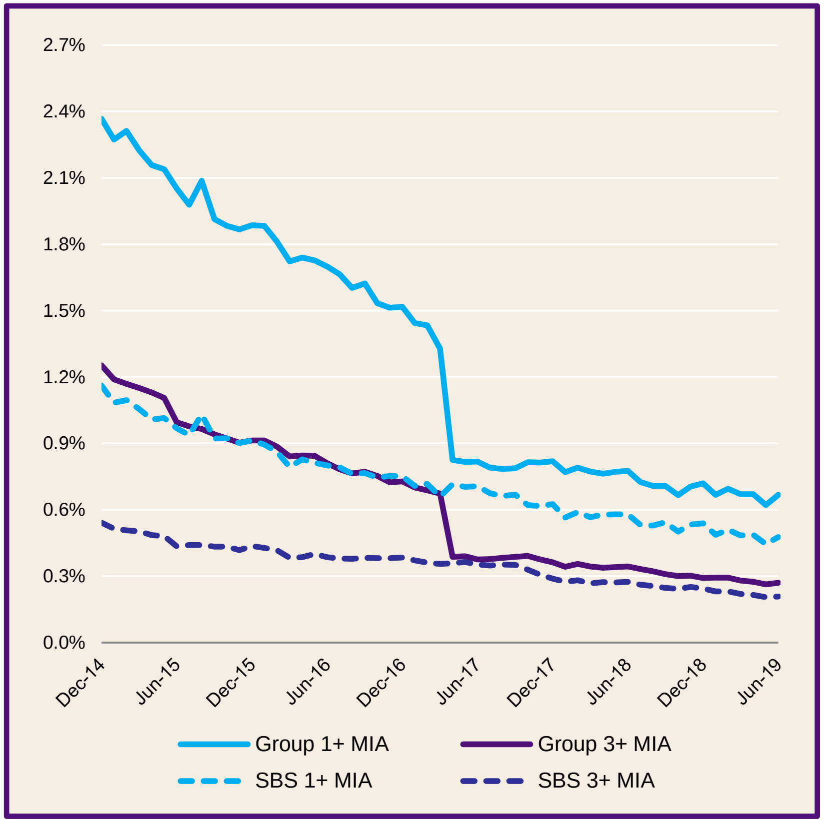
- Group residential mortgages in arrears by three months or more continues to fall further to 0.27% (HY 2018: 0.34%), current arrears levels compare to an industry average of 0.78%*

- The percentage of cases in Amber Homeloans (Amber) and North Yorkshire Mortgages (NYM) in arrears by three months or more were 2.21% and 1.40% respectively (HY 2018: 2.41% and 1.01%). Both books are closed to new business and have been in run-off since 2008. The combined total of mortgage balances within Amber and NYM decreased by 5.7% during the last six months to £702.6m (six months ended 30 June 2018: decrease of 5.5% to £791.0m; year ended 31 December 2018: decrease of 11.0% to £744.9m)

- Arrears levels within our commercial lending portfolio (closed to new business since 2008) remain low. There was a credit to the Income Statement in the period of £0.6m for the impairment allowance on this portfolio (HY 2018: £0.2m credit; FY 2018: £1.0m charge)

- SIL, our Channel Islands operation, once again performed well in the first six months of the year, reporting pre-tax profits of £10.2m (six months ended 30 June 2018: £10.0m; year ended 31 December 2018: £20.1m). The quality of the mortgage book remains good, with only one case in arrears by three months or more (30 June 2018: two cases; 31 December 2018: one case)

Group Arrears (months in arrears)

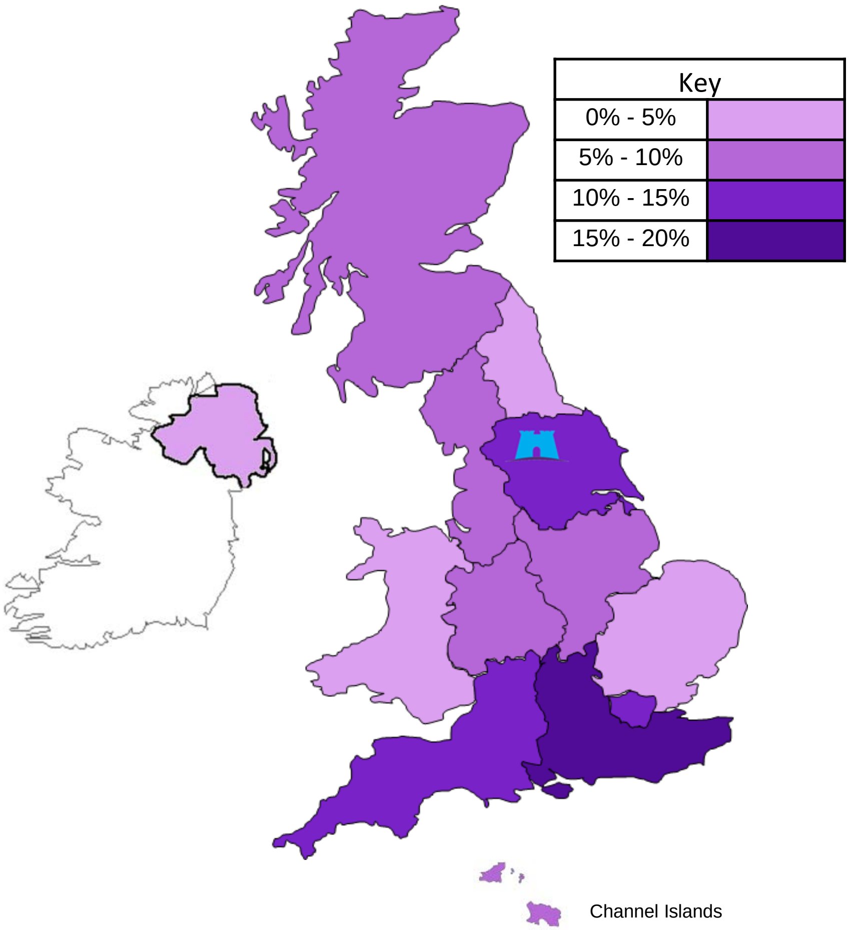


"Asset quality has continued to strengthen".

* Source: UK Finance, industry arrears data (residential mortgages in arrears by more than three months) at 31 March 2019.

Residential portfolio

Geographically Diversified Residential Portfolio[1]



- Broad geographic spread of lending, reflects nationwide branch franchise and national reach of intermediary lending
- No specific concentration across product type or loan-to-value

Source: Skipton Building Society

[1]Representative of the Full year 2018 Group residential mortgage portfolio which include BTL and Equity Release

Liquidity & Funding

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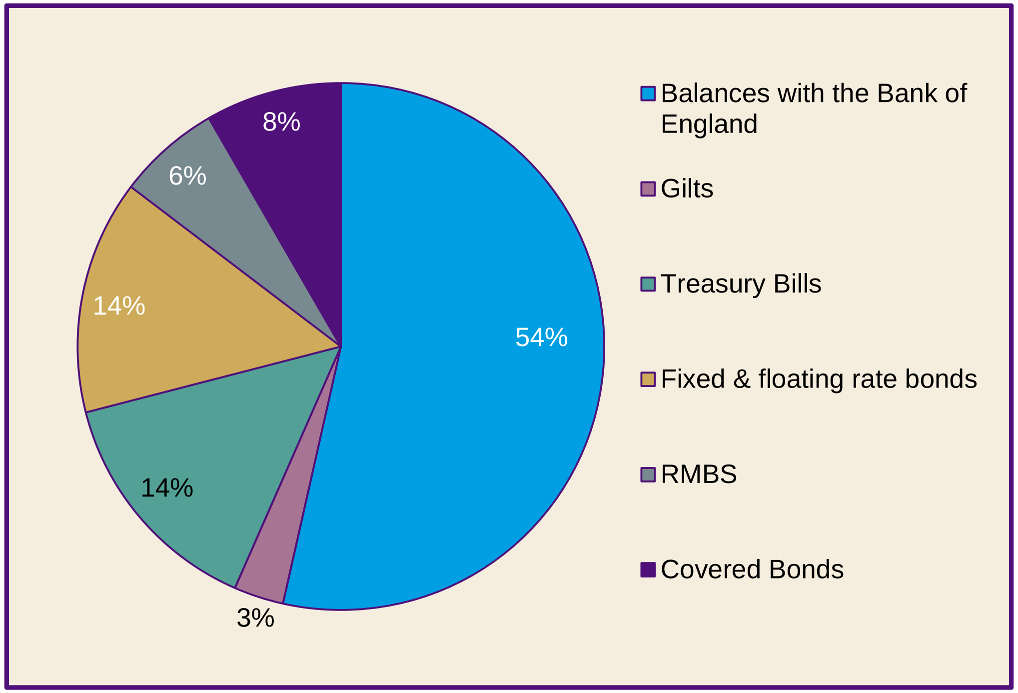
Liquidity

- The Society holds sufficient liquidity to meet all of its internal/external regulatory minimum levels of liquidity
- Liquidity as a percentage of SDL (Shares, Deposits and Liabilities) of 18.4%
- Liquidity Coverage Ratio of 177%
- Net Stable Funding Ratio of 139%
- The Society maintains a diverse stock of both High Quality Liquid Assets (HQLA) and Non HQLA assets, the liquidity of which is tested with various counterparties on a regular basis
- Contingent liquidity is pre-positioned with the Bank of England in the form of mortgage assets

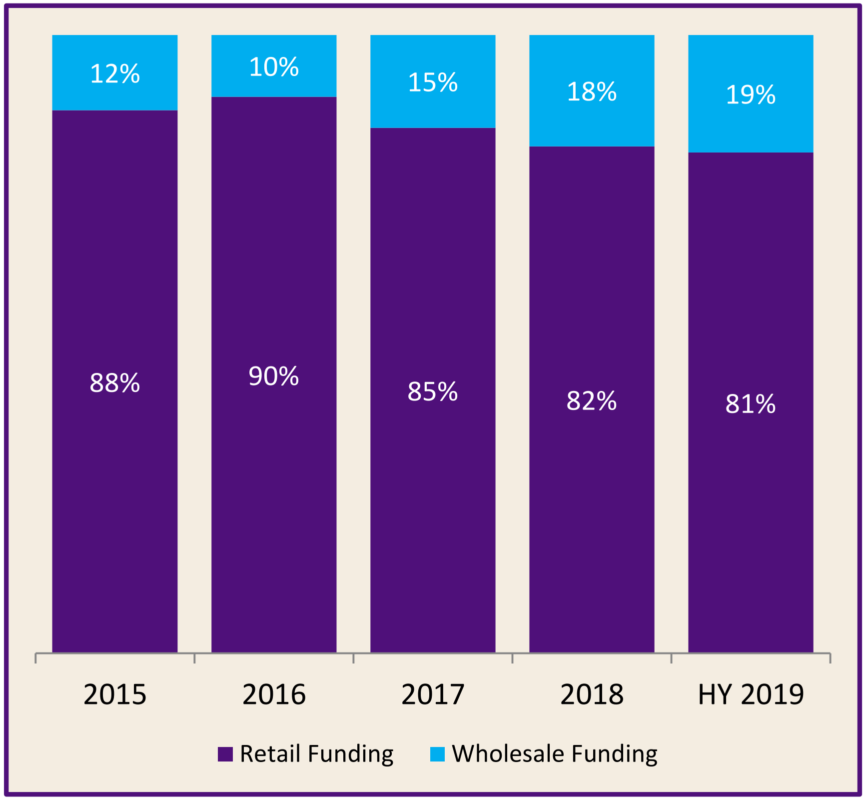
High Quality Liquid Assets (HQLA) - £2,832m



Source: Skipton Building Society

Funding highlights

Funding Profile (%)



- The Society's savings balances grew by £0.6bn to £16.7bn, a growth rate of 3.6% since the end of 2018 (HY 2018: £0.5bn and a growth rate of 3.1%)
- The Group's wholesale funding ratio increased to 18.9% (HY 2018: 17.8%; FY 2018: 18.4%)
- The Society continues to steadily repay the Government's Term Funding Scheme (TFS), repaying £200m in H1 2019 leaving an outstanding balance of £1.65bn. (HY 2018: £1.85bn and FY 2018: £1.85bn)
- In March 2019, the Society successfully issued its first SONIA linked Covered Bond, raising £600m of 5 year funding. The Society has now issued 3 Covered Bond transactions from its covered bond programme with different currencies, indexes and maturities
- The Society remains keen to grow and diversify its wholesale funding base and will look to attract term funding by seeking opportunities to issue senior unsecured debt, covered bonds and securitisations

"A broadened wholesale funding base allows the Society to provide members with more competitively priced products and services".

Covered Bond Programme Overview

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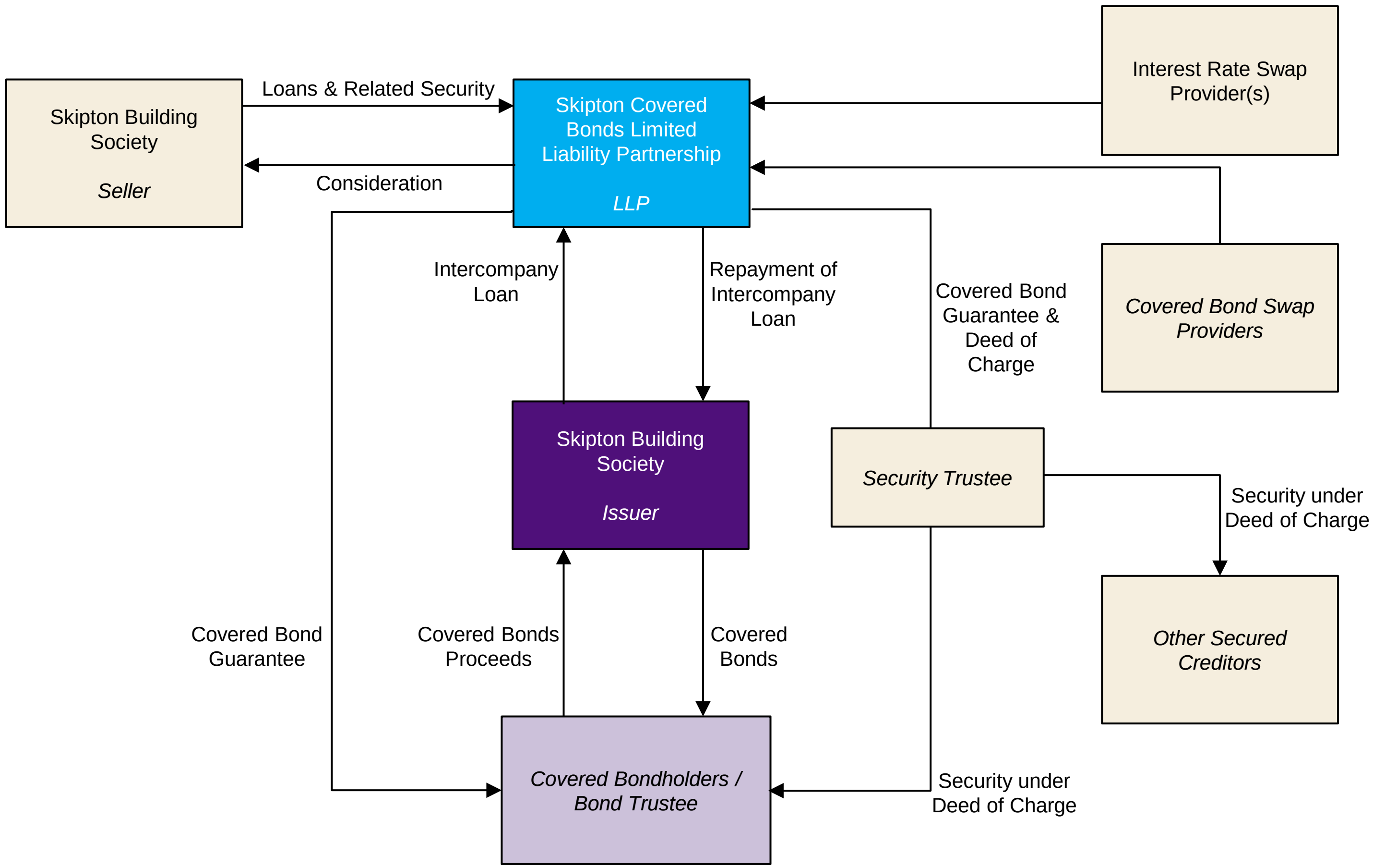
Covered bond structural overview

- Skipton Building Society Covered Bonds LLP ("LLP") is a consolidated entity of the Society

- The LLP is a bankruptcy remote SPV into which the collateral pool is transferred. The guarantee offered by the LLP is supported by mortgage collateral enabling a AAA-rating



Source: Prospectus dated 22 June 2018

Covered bond mortgage criteria

Initial Criteria
▪ Completion after June 2001*
▪ Maximum indexed LTV of 95%
▪ Loans must have made 2 payments*
▪ No Guarantor Loans
▪ Remaining term no more than 35 years*
▪ Max current balance £1m*
▪ No Staff Mortgages*
▪ All properties situated in England, Wales and Scotland*
▪ Loans must only be on residential properties*
▪ Each loan is in sterling*
▪ Date of Valuation not more than 6 months before date of mortgage*
▪ No arrears when first entering the pool
Concentration Limit
▪ Max 15% on Buy-To-Let
▪ Max 10% on Help-To-Buy

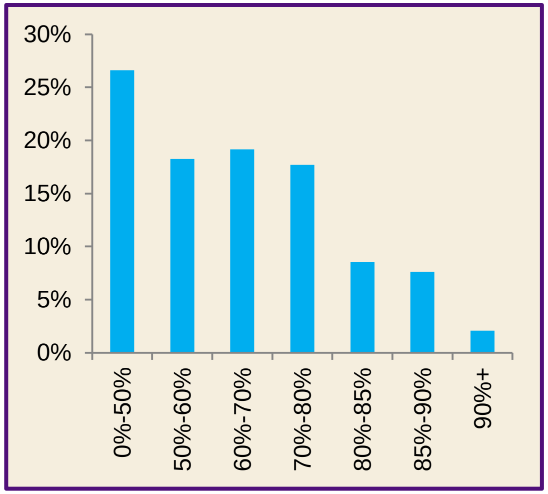
* A warranty exists in programme documentation

Covered bonds pool analysis

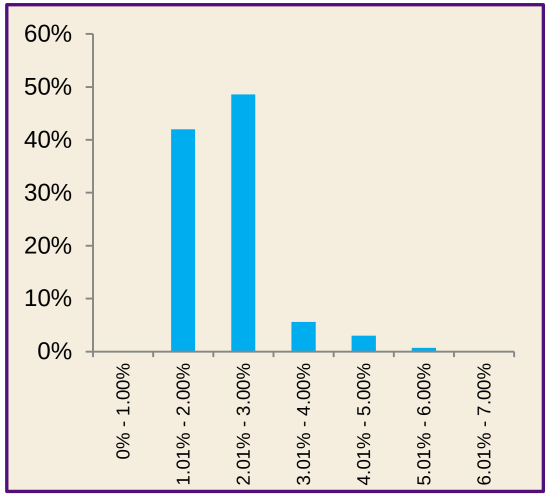
Pool Overview (31 July 2019)

Pool Size	£2,731.85m
Average current balance	£138,574
Max current balance	£892,766
WA CLTV (non-indexed)	64.2%
WA Indexed CLTV	58.9%
WA OLTV	70.0%
WA Seasoning (months)	32.5
WA Years to maturity (yr)	21.6
WA Current interest rate	2.2%
Interest only mortgages	8.9%
BTL concentration	12.3%

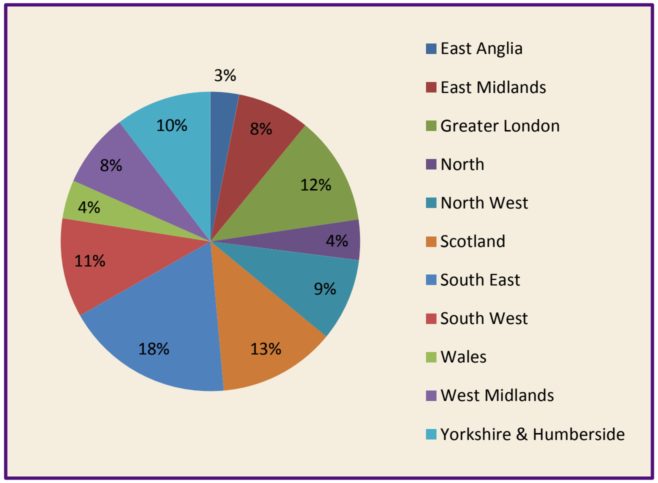
Indexed Current LTV (%)*



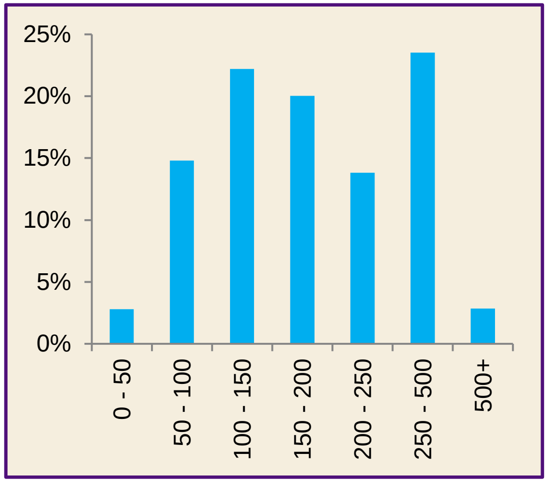
Current Interest Rate (%)*



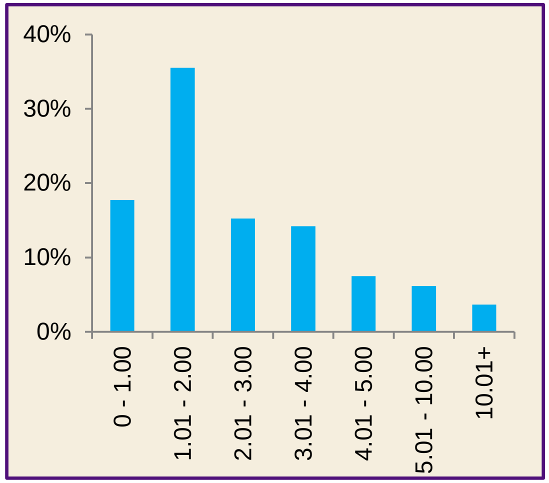
Regional Distribution



Current Balance (£'000)*



Seasoning (years)*



Source: Covered Bond Investor Report.
**All data is displayed using the current balances as a percentage of the total portfolio.*

Sustainability Strategy

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Sustainability Strategy

- In 2019, the Society released its sustainability report which aligns the Society's approach to the UN Sustainable Development Goals (SDGs). Having agreed four key goals on which to focus we set out challenging targets against the four goals where it was felt we could have the greatest impact. These are:

Goal 11 – Sustainable Cities and Communities: We will help more people into homes and support our local communities.

We will do this by:

- Helping 30,000 first-time buyers into homes by 2022
- Supporting 1,000 homeless people by 2022
- Increasing the time our people spend volunteering in the community by 100% by 2022

Goal 8 – Decent Work and Economic Growth: We will be one of the best places to work.

We will do this by:

- Increasing the number of young people who gain employment following our apprenticeship programmes by 200% by 2022
- Offering 50% of places on our talent development programmes to women, to foster a healthy pipeline of female talent
- Maintaining our Investors in People platinum accreditation

Goal 16 – Peace, Justice and Strong Institutions: We will always be owned by and responsible to our members, not shareholders.

We will do this by:

- Becoming a Disability Smart accredited organisation by 2020
- Showing that we care about our customers by delivering a customer empathy score in excess of 80%
- Ensuring that our net customer satisfaction levels are always above 90%

Goal 12 – Responsible Consumption and Production: We will give more to the planet than we take.

We will do this by:

- Eliminating single-use plastics by 2020
- Sending zero waste to landfill by 2022
- Halving our carbon footprint by 2022

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SKIPTON
BUILDING SOCIETY
Since 1853

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Useful links

Main Website:-	skipton.co.uk
Financial Results:-	skipton.co.uk/about-us/financial-results
Covered Bonds Data:-	skipton.co.uk/investorrelations/wholesalefundingprogrammes

Appendix

SKIPTON
BUILDING SOCIETY
Since 1853

Prudent provisioning

	HY 2018 £m	**HY 2019 £m**
Impairment losses on loans and advances to customers	1.7	**-**
Other impairment and similar losses	0.5	**1.0**
Total	2.2	**1.0**

	HY 2018 £m	**HY 2019 £m**
FSCS credit	(0.6)	**-**
Provision for the costs of surplus properties	0.1	**(0.1)**
Commission clawbacks	5.9	**7.4**
Survey and valuation claims	0.2	**0.4**
Customer compensation	0.1	**(0.9)**
Total provisions charge	5.7	**6.8**

Mortgage impairment

- The impairment charge on residential mortgages was £0.6m (HY 2018: £1.9m). There was a credit to the Income Statement of £0.6m for the impairment allowance on the commercial mortgages portfolio (HY 2018: £0.2m credit)

Other impairment and similar losses

- This consists of £0.4m (HY 2018: £0.4m) realised losses on the equity release portfolio and a charge of £0.6m (HY 2018: £0.1m) for impairment loss allowances on liquid assets

Provisions charge

- The key component of the provisions charge again relates to commission clawbacks in Connells of £7.4m (HY 2018: £5.9m), which arise in the ordinary course of business

Underlying Group PBT

	HY 2018 £m	**HY 2019 £m**
Total Group profit before tax	104.7	72.3
Less profit on disposal of subsidiary undertakings	(2.4)	(0.6)
Add back fair value losses / less fair value gains in relation to the equity release portfolio	(8.1)	12.5
Add back impairment of goodwill	1.3	-
Less FSCS levy	(0.6)	-
Underlying Group profit before tax	94.9	**84.2**

Underlying Group Profit before tax by division	HY 2018 £m	**HY 2019 £m**
Mortgages & Savings	57.1	56.8
Estate Agency	30.2	26.2
Investment Portfolio	3.5	1.7
Sundry incl. inter-divisional adjustments[1]	4.1	(0.5)
Underlying Group profit before tax	94.9	**84.2**

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

Lending Policy

In order to be accepted for a mortgage the customer has to pass each of the following:

1) Application scorecard 2) Affordability Assessment and 3) Lending policy

	Criteria	Lending Policy
Residential Lending Policy	Maximum loan size	£500k (at 95% LTV) £500k – £625k (at 85% LTV) £625k – £750k (at 80% LTV) £750k – £1m (at 75% LTV) - Loans greater than £1m require senior management / Board approval
	Maximum Loan to Value (LTV)	Capital & Interest: 95% Part & Part: 80% Interest only: 70% Where there is an element of debt consolidation the LTV is limited to a maximum of 75%.
	Affordability	The stressed mortgage payment is calculated on a Capital & Interest basis over the mortgage term requested at the prevailing mortgage variable interest rate plus any rate loading. Where the product term is fixed for a period of 5 years or more the stress rate is MVR +2% and for products term that is fixed for less than 5 years MVR+3%.
	Interest Only	Not available to First Time Buyers. Affordability assessment calculated on a Capital &Interest repayment basis. Acceptable repayment strategies are limited to 'Equity in another property in the UK', sale of a main residence property (Min £400k equity), 'UK shares and bonds held as investment', 'Cash savings in a UK deposit account', 'payment through an endowment policy', 15% pension as long as pension pot minimum is £250k.
	Lending into retirement	If retirement <=10 years away, proof of projected pension income & current income with the lower of the two used in the affordability model. If retirement 10+ years away and the expiry term extends up to five years after retirement starts, evidence of a pension exists is required. If retirement 10+ years away and the expiry term extends beyond five years after retirement starts, additional underwriter assessments are carried out.
	Contract variation	The following post completion changes are considered to have a material impact on affordability, therefore an affordability assessment is conducted in all cases: - term extension - changing from interest only to repayment (and vice versa) - product switches (depending on circumstances) - consent to let - addition or removal of customer - additional borrowing
Buy-to-Let Lending Policy	Maximum loan size	£1m
	Maximum LTV	75%
	Minimum Income	£20k per annum
	Portfolio Size	Less than 4 mortgaged properties (£3m maximum portfolio size).
	Rental Income Cover	Rental income cover for higher rate and additional rate tax payers must meet the Society's calculation of 145% at 5.5%. Where the product term is fixed for a period of 5 years or more the rental income calculation is 145% at 5%. For standard rate tax payers the required rental coverage is 125% at 5.5%. Where the product term is fixed for a period of 5 years or more the rental income calculation is 125% at 5%.
Buy-to-Let Lending Policy Portfolio Landlord	Maximum loan size	£1m
	Maximum LTV	75%
	Minimum Income	£45k sole, £60k joint per annum
	Portfolio Size	4+ mortgaged properties. A maximum of 5 properties with the Society and a maximum portfolio size of 10 properties (£3m maximum portfolio size).
	Rental Income Cover	Rental income cover must meet Society's calculation of 145% at 5.5%. Where the product term is fixed for a period of 5 years or more the rental income calculation is 145% at 5%.

Capital & Debt

Type	ISIN	Start Date	Maturity/Call Date	Currency	Outstanding Amount (£m/€m)	Coupon (Pre-Call)
PIBS	GB0008194119	05/03/1992	Perpetual	GBP	25	12.875%
PIBS	GB0004440623	26/04/2000	Perpetual	GBP	15	8.5%
RMBS - Darrowby 4	XS1306412708	15/02/2016	22/02/2021	GBP	119[1]	3m LIBOR + 0.80%
Covered Bond	XS1815379497	02/05/2018	02/05/2023	GBP	400	3m LIBOR + 0.31%
Covered Bond	XS1887330188	02/10/2018	02/10/2023	EUR	500	0.5%
Covered Bond	XS1969613055	27/03/2019	22/02/2024	GBP	600	SONIA + 0.68%
Senior Unsecured	XS1640528854	30/06/2017	30/06/2022	GBP	350	1.75%

[1]Outstanding amounts include Class A Notes in issue only

Source: Skipton Building Society
Data as at: 31 July 2019

Equity Release Portfolio

- The Society has an investment in an equity release mortgage portfolio with balances totalling £247.6m and a fair value of £412m as at 30 June 2019
- The equity release portfolio is closed to new business and was inherited from the merger with Scarborough Building Society in 2009
- The valuation of this portfolio is reliant on the discounting of future cash flows. The size and timing of these cash flows is dependent on a number of factors including inflation (RPI), mortality rates, future house prices, redemption profiles and property dilapidation
- The equity release portfolio is economically hedged with derivative financial instruments, the market value of which are linked to inflation (RPI), mortality rates, future house prices, redemption profiles and interest rate curves
- For the half year ended 30 June 2019, a £12.5m loss was taken to the income statement in relation to the change in fair value of the equity release mortgage portfolio and its associated swaps. This loss was largely driven by three component parts:

Yield curves -£4.2m	SONIA and LIBOR yield curves fell by around 40 basis points at the longer end of the curve (>10 years). This increased the fair value of the mortgage portfolio and reduced the fair value of the swaps. The mortgage portfolio is less sensitive to yield curve movements due to being discounted using an illiquidity premium above the risk free rate.
UK housing market -£4.1m	The UK housing market forecast is based on the Skipton Group's economic indicators. The long term forecast remained at 4% but the shorter term forecasts were downgraded slightly. Lower house price forecasts lead to higher expected No Negative Equity Guarantee (NNEG) losses in the portfolio.
Inflation -£3.1m	Inflation assumptions are based on a market-derived curve. At the shorter end (<5 years) there was an increase of around 7 basis points. This reduced the fair value of the swaps and increased the fair value of the portfolio. As with the yield curves, the swaps are more sensitive to RPI assumption movements in terms of fair value.

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