Investor Presentation

September 2020

SKIPTON BUILDING SOCIETY

Since 1853

Contents

Introduction

Executive Summary

- The Society has a clear strategy which has been consistent for many years and continues to serve us well

- The Society entered the pandemic induced recession in a strong financial position, with healthy capital and liquidity ratios

- Whilst income for the whole of 2020 will be lower than last year, the Society is confident that it is well placed to maintain its financial strength. The Estate Agency division Connells, has seen strong trading since the estate agency market re-opened, and the mortgage market has seen margins improve

- We have reasonably prudent economic indicators underpinning our loan impairment provisions

- The Society is taking a prudent approach by bringing forward this Senior Non Preferred transaction, which will support our MREL requirement over the life of our Corporate Plan

Skipton 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

- **Group model** – The M&S division comprises the Society, Skipton International Limited, which carries out mortgage lending in the Channel Islands and the UK and accepts deposits in Guernsey. In addition the division includes our specialist lending businesses, Amber Homeloans Limited and North Yorkshire Mortgages Limited, both of which ceased lending in 2008. The Skipton Group also holds significant presence in the estate agency sector through the Connells group, which includes property sales, surveys and valuations, conveyancing, lettings, asset management and mortgage and insurance broking

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

SKIPTON BUILDING SOCIETY
Since 1853

SKIPTON INTERNATIONAL LIMITED
SKIPTON BUSINESS FINANCE
Connells

Deliver strong return on capital employed

amber homeloans
NYM north yorkshire mortgages

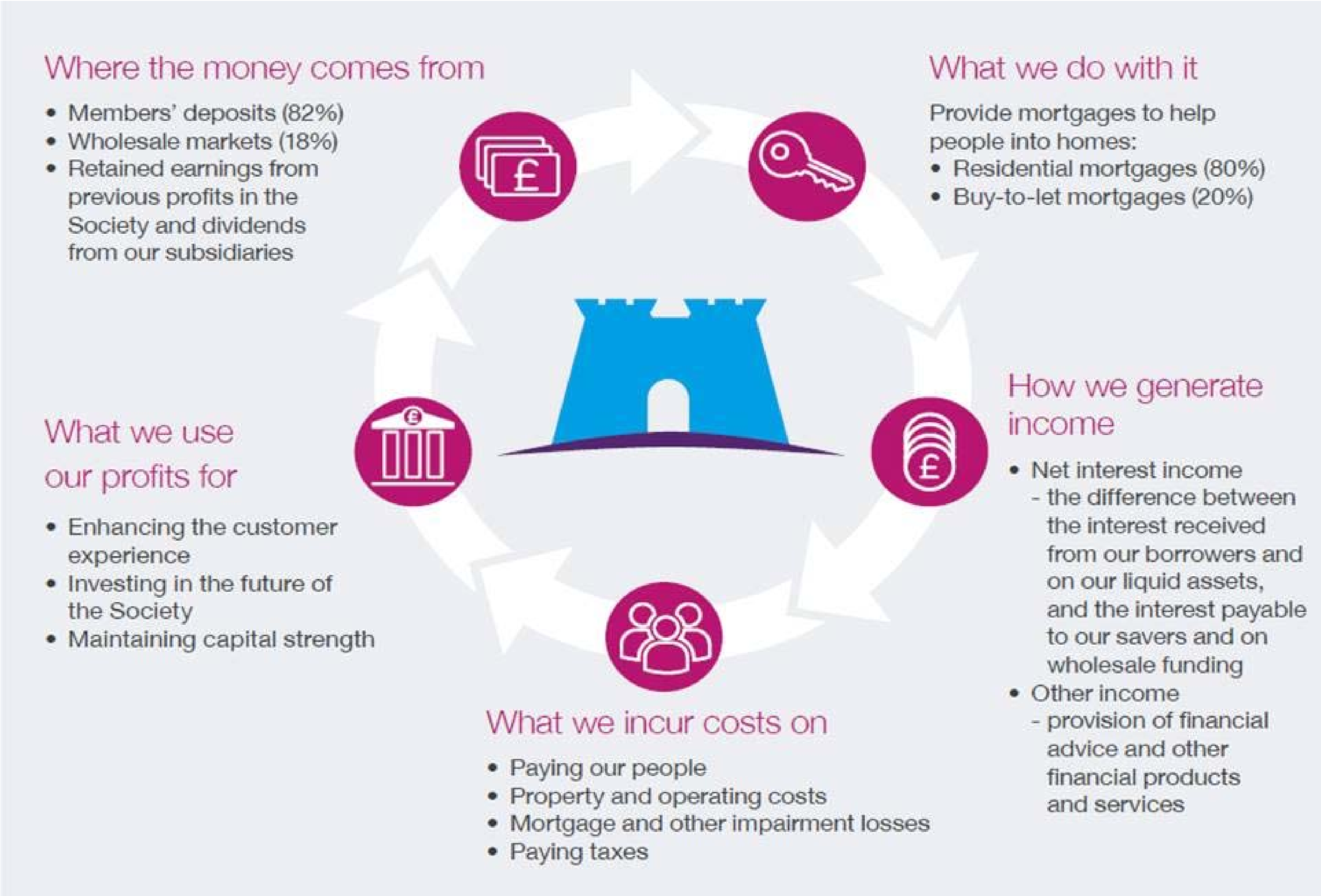
Remaining books are in run-off

jade™

Core IT platform

Our business model

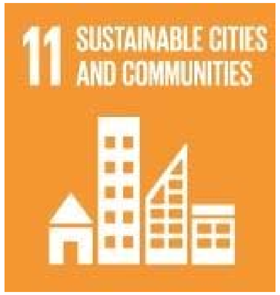
- The Society's business model can be summarised as follows:



Sustainability Strategy

- Our focus on long term sustainability does not end with the Society itself but extends to the communities we operate in
- This aligns to our core vision of ‘Building a better Society’
- 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:

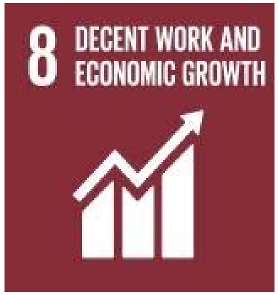
Goal 11 – Sustainable Cities and Communities: We will help more people into homes and support our local communities.



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

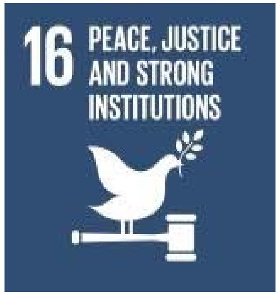
Goal 8 – Decent Work and Economic Growth: We will be one of the best places to work.



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

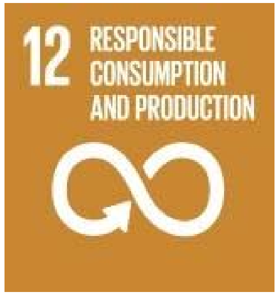
Goal 16 – Peace, Justice and Strong Institutions: We will always be owned by and responsible to our members, not shareholders.



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

Half Year Performance

SKIPTON
BUILDING SOCIETY
Since 1853

Business and Financial Highlights

1,045,969 members
Society continued to support its membership through a difficult time with 1,045,969 members (HY 2019: 1,030,526)

£0.2bn Savings balances growth
Savings balances grew by £0.2bn to £17.6bn, (HY 2019: £0.6bn), this represents a 1.4% growth since the end of 2019 (HY 2019: 3.6%)

£2.1bn Gross residential mortgage lending
Gross residential mortgage lending of £2.1bn (HY 2019: £2.5bn)

£0.9bn Mortgage book growth
The mortgage book grew by £0.9bn to £21.0bn, a growth rate of 4.7% (HY 2019: £1.1bn, a growth rate of 5.9%)

£34.4m Total Group Profit Before Tax (PBT)
Total Group PBT was £34.4m (HY 2019: £67.0m), profits have been heavily impacted in the short term by a worsening of the economic outlook arising from the effects of the COVID-19 outbreak

£47.9m Underlying Group PBT
Underlying Group PBT was £47.9m (HY 2019: £78.9m). Group net interest margin was 0.87% (FY 2019: 0.98%)

37.5% Group Common Equity Tier 1 ratio
The Common Equity Tier 1 ratio remains strong at 37.5% (HY 2019: 33.5%, FY 2019: 39.1%) and the leverage ratio was 6.0% (HY 2019: 6.1%)

A Liquidity Coverage Ratio of 173%
The liquidity coverage ratio remains well above both the regulatory limit of 100% and the internal limit set by the Board throughout the period. As at HY 2020 the LCR was 173% (HY 2019: 177%)

"Despite an unforeseen challenging environment the Society continues to demonstrate excellent asset quality, strong capital strength & high liquidity"

Group statement of financial position and income statement

	HY 2019 £m	FY 2019 £m	**HY 2020 £m**
Liquid Assets	4,054	4,523	**3,989**
Mortgages	19,263	20,066	**21,156**
Other Assets	911	900	**959**
Total Assets	24,228	25,489	**26,105**
Shares	16,711	17,364	**17,645**
Wholesale Funding[1]	5,280	5,798	**5,985**
Other Liabilities	629	653	**800**
Subscribed Capital	42	42	**42**
Reserves	1,566	1,632	**1,633**
Total Liabilities & Reserves	24,228	25,489	**26,105**

	HY 2019 £m	FY 2019 £m	**HY 2020 £m**
Net Interest Income	119.9	238.1	**111.2**
Total Income	349.5	726.1	**292.0**
Admin Expenses	(274.7)	(554.0)	**(230.6)**
Loan Impairment	-	(0.5)	**(19.1)**
Other Impairment and realised losses	(1.0)	(0.3)	**(2.9)**
Provisions	(6.8)	(18.1)	**(5.0)**
Group reported PBT	67.0	153.2	**34.4**

- Underlying Group PBT was £47.9m[1] (HY 2019: £78.9m)
- Group Net Interest Margin reduced to 0.87% (FY 2019: 0.98%)
- Mortgages & Savings division underlying PBT of £26.0m (HY 2019: £51.5m)

"Strong profitability and diversification of income through our business model"

[1] *See **appendix 1** for Group underlying profits breakdown*

Group PBT by division

	HY 2019 £m	FY 2019 £m	**HY 2020 £m**
Mortgages & Savings	39.0	100.8	**15.6**
Estate Agency	26.2	50.1	**17.2**
Investment Portfolio	1.7	4.0	**1.2**
Sundry including interdivisional Adjustments[1]	0.1	(1.7)	**(0.4)**
Profit Before Tax	67.0	153.2	**34.4**

[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 £15.6m (HY 2019: £39.0m), a reduction of £14.0m, predominantly as a result of loan impairment charges in the division of 23.4m (HY 2019: £nil) as a consequence of the worsening economic outlook arising from COVID-19, significantly impacting the Group's loan impairment charges which, in line with the IFRS 9 accounting standard, need to be booked upfront before they are incurred. In addition, the two Bank Base Rate cuts announced by the Bank of England in March 2020 has contributed to a reduction in net interest income during the period. The division reported an underlying PBT of £26.0m (HY 2019: £51.5m)
- The Estate Agency division reported a PBT of £17.2m (HY 2019: £26.2m; FY 2019: £50.1m). Connells 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
- The Investment Portfolio includes invoice discounting and debt factoring through Skipton Business Finance Limited and the provision of software solutions to a range of industries through Jade Software Corporation Limited, who also assist in the development of the Society's core technology
- SBF delivered pre-tax profits of £1.1m (HY 2019: £1.8m). Profit for the period has been adversely impacted by COVID-19, with decreased client sales leading to reduced income, whilst impairment provisions have also increased to reflect the challenges being faced by clients as a result of the pandemic
- Jade Software Corporation (JSC) recorded a PBT of £0.1m (HY 2019: £0.2m loss)

"Both main divisions of the Group remained profitable despite the challenging economic operating environment"

Prudent provisioning

	HY 2019 £m	FY 2019 £m	**HY 2020 £m**
Impairment charge on loans and advances to customers	-	0.5	**19.1**
Other impairment and realised losses	1.0	0.3	**2.9**
Total impairment losses	1.0	0.8	**22.0**

	HY 2019 £m	FY 2019 £m	**HY 2020 £m**
Financial Services Compensation Scheme	-	(0.3)	**-**
Provisions for the costs of surplus properties	(0.1)	(0.1)	**(0.1)**
Commission clawbacks / rebates	7.4	15.2	**4.6**
Survey and valuation claims	0.4	0.8	**-**
Customer compensation	(0.9)	(0.8)	**0.5**
Other	-	3.3	**-**
Total provisions charge	6.8	18.1	**5.0**

Mortgage loan impairment

- The loan impairment charge on residential mortgages was £11.6m (2019: £0.6m)
- The key driver for the increase in the loan impairment charge is changes made to forward-looking economic assumptions to reflect the economic uncertainty caused by the COVID-19 pandemic. See **appendix 2** for the Society's forward looking economic assumptions
- The impairment charge on commercial mortgages was £7.1m (2019: £0.6m credit). Commercial mortgage arears also remain low, with the charge also driven by the change in forward-looking economic assumptions. We are also providing support through concessionary arrangements with commercial customers who have been financially affected by COVID-19, which has led to an increase in overall impairment
- Impairment charges on other loans amounted to £0.4m in the period (2019: £nil). These are all in Skipton Business Finance and reflect the challenges being faced by its clients as a result of the pandemic

Other impairment losses and realised losses

- These mainly comprise impairment of goodwill of £2.0m and of joint ventures of £1.0m in Connells

Provisions charge

- The key component of the provisions charge relates to commission clawbacks in Connells of £4.6m (2019: £7.4m), which arise in the ordinary course of business

Key Balance Sheet Metrics

Capital & MREL

Capital

- The following table shows the composition of the prudential group's regulatory capital as at HY 2020. The capital ratios are reported on a CRD IV transitional basis
- On an end-point basis our CET1 ratio would remain the same at 37.5%. The leverage ratio is reported on an end-point basis
- Under CRD IV end-point rules the PIBS are fully transitioned into Tier 2 capital. On an end-point basis our CET1 ratio would remain the same at 37.5%. The leverage ratio is reported on an end-point basis.

MREL

- MREL is set for the Society by the Bank of England. For the transitional period until 31 December 2021, the Society is required to hold MREL liabilities greater than 18% of risk weighted assets
- MREL at the end of the transitional period is subject to review by the Bank of England.
- As at HY 2020, the Society is in compliance with the current risk weighted asset and leverage requirements.
- The proposed SNP issuance is in line with the Society's prudent approach to ensuring continued compliance with MREL requirements

	HY 2019* £m	**HY 2020 £m**
Capital Resources £m:		
Common Equity Tier 1 capital	1,443.0	**1,515.4**
Total Tier 1 capital	1,470.0	**1,533.4**
Total Tier 2 capital	13.0	**22.0**
Total regulatory capital	1,483.0	**1,555.4**
Risk weighted assets	4,329.4	**4,042.0**
Capital and leverage ratios **		
Common Equity Tier 1 ratio (CET 1)	33.3%	**37.5%**
Leverage ratio	6.0%	**6.0%**

* The comparative period has been restated as outlined in note 1b) to the Condensed Consolidated Financial Statements, resulting in a decrease to Common Equity Tier 1 capital, Total Tier 1 capital and total regulatory capital for the half year 30 June 2019 of £11.8m.

** 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 CRD IV end-point basis; under CRD IV end-point rules all existing Additional Tier 1 instruments that become ineligible as capital are excluded in full.

"A strong capital and MREL position provides the Society with excellent resilience in this continuing challenging environment"

Liquidity

- The Group continues to hold healthy levels of liquid assets to support the business and to help mitigate the current economic uncertainty arising from the COVID-19 pandemic
- The Liquidity Coverage Ratio (LCR) as at 30 June 2020 was 173%
- Liquidity remains well above both the regulatory limit of 100% and the internal limit set by the Board throughout the period
- Contingent liquidity is pre-positioned with the Bank of England in the form of mortgage assets.
- At 30 June 2020, the Society held £2.8bn of unencumbered High Quality Liquid Assets (HQLA), as shown in the table
- The Group's NSFR was 142% as at 30 June 2020 which is well in excess of the minimum regulatory requirement of 100%
- When measured as a percentage of shares, deposits and borrowings, the liquidity ratio remained strong at 16.9%

High Quality Liquid Assets (HQLA)	£m	% of HQLA
Reserve Account	751.4	26%
Gilts	293.5	10%
Treasury bills	670.6	24%
Fixed rate bonds	573.5	20%
Floating rate notes	204.0	7%
RMBS	72.3	3%
Covered bonds	278.4	10%
TOTAL	**2,843.7**	

"Strong levels of liquidity and access to the Bank of England TFSME with contingent liquidity pre-positioned"

Mortgages

- Gross mortgage lending amounted to £2,086m (HY 2019: £2,547m), whilst net lending was £938m (HY 2019: £1,063m). We achieved strong net growth in our mortgage book in the period of 4.7% (HY 2019: 5.9%), without compromising the quality of our mortgage assets

- Helped 12,376 (HY 2019: 14,641) homeowners to purchase or remortgage their properties. This included 2,369 first time buyers (HY 2019: 2,640) and 3,627 (HY 2019: 4,619) Buy-to-let borrowers

- At 30 June 2020 the average indexed loan-to-value (LTV) of Group residential mortgages on a valuation-weighted basis (calculated as the total outstanding balance divided by the total fair value of collateral held) is 46.3% (HY 2019: 47.0%)

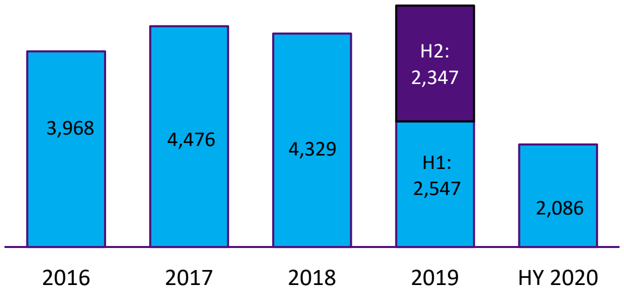
- Suspension of in-person house valuations at the end of March impacted on the range of mortgage products, particularly in the high loan-to-value (LTV) range, that we could offer in the short term. However, our agile response to expand the use of different valuation techniques has meant we were able to continue to offer mortgages up to 75% LTV throughout the restrictions, and we increased this to 85% LTV from June following the restoration of physical valuations

- The Society set up a dedicated mortgage payment deferral mailbox, enabling customers to quickly log requests for help. In addition to quickly arranging over 22,000 mortgage deferrals, the Society proactively called customers who had arranged a mortgage deferral to check they had all the information and support they needed

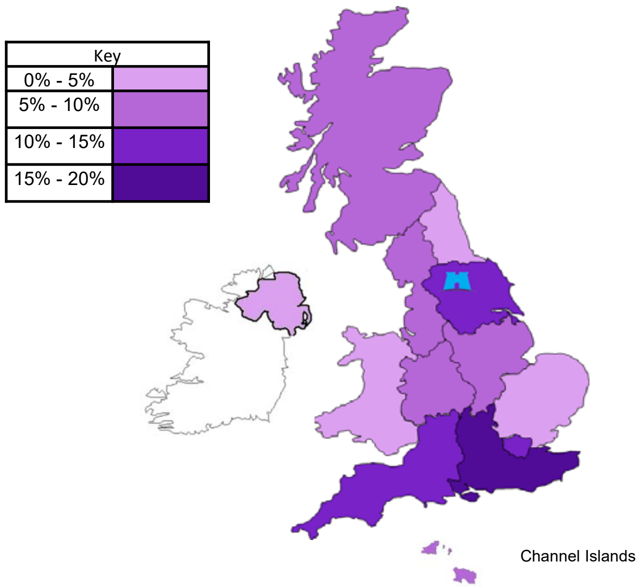
- At its peak, 15% of the Society's borrowers had a mortgage payment deferral. At 30 June 2020, this figure had reduced to 5%

- Mortgage payment deferrals are showing good signs of performance, as at HY 2020 98% of members who decided not to extend their payment deferral paid the full monthly amount due on their mortgage in the following month

Gross Mortgage Lending (£m)



Geographically Diversified Residential Portfolio[1]



Source: Skipton Building Society
[1]Representative of the Full year 2019 Group residential mortgage portfolio which include BTL and Equity Release

Asset quality

- Group residential mortgages in arrears by three months or more, represented only 0.27% of mortgage accounts (FY 2019: 0.25%), which compares to an industry average of 0.74% of mortgages in arrears by more than three months*

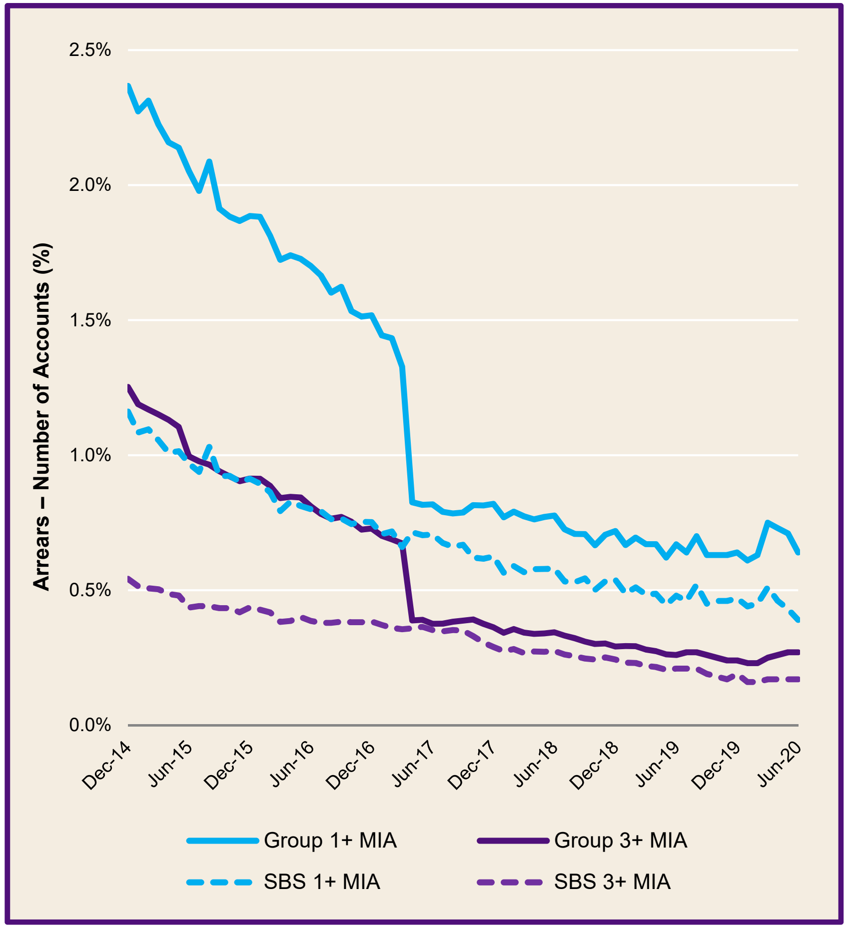
- The percentage of mortgage accounts in arrears by three months or more within Amber and NYM are 3.68% and 2.06% respectively (HY 2019: 2.21% and 1.40% respectively; FY 2019: 2.24% and 1.81% respectively). Both books are closed to new business and have been in run-off since 2008

- The quality of our mortgage assets has been maintained through the application of prudent lending policy (see **appendix 3**)

- The commercial lending portfolio, which has been closed to new business since 2008, stands at £229.2m (or 1% of the total mortgage assets) at HY 2020 (HY 2019: £253.5m; FY 2019: £236.7m) with an average loan size of £248k. Arrears levels within our commercial lending portfolio remain low, however there was a charge to the Income Statement in the period of £7.1m for the impairment allowance on this portfolio (HY June 2019: £0.6m credit; FY 2019: £0.2m credit), driven by the change in forward-looking economic assumptions impacting the IFRS 9 loan impairment models

- The quality of the Skipton International Limited book remains good with only 2 cases in arrears by three months or more (HY 2019: 1)

Group Arrears

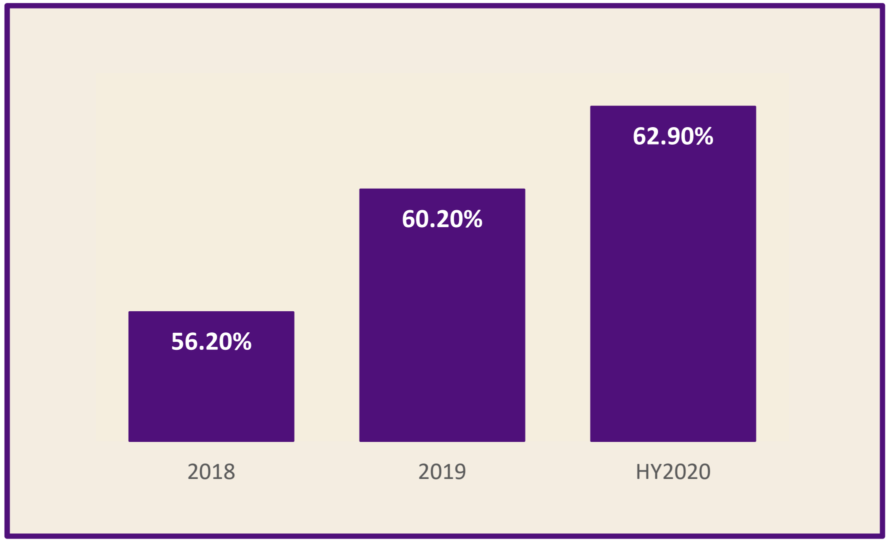


*Source: UK Finance industry arrears as at 31 March 2020

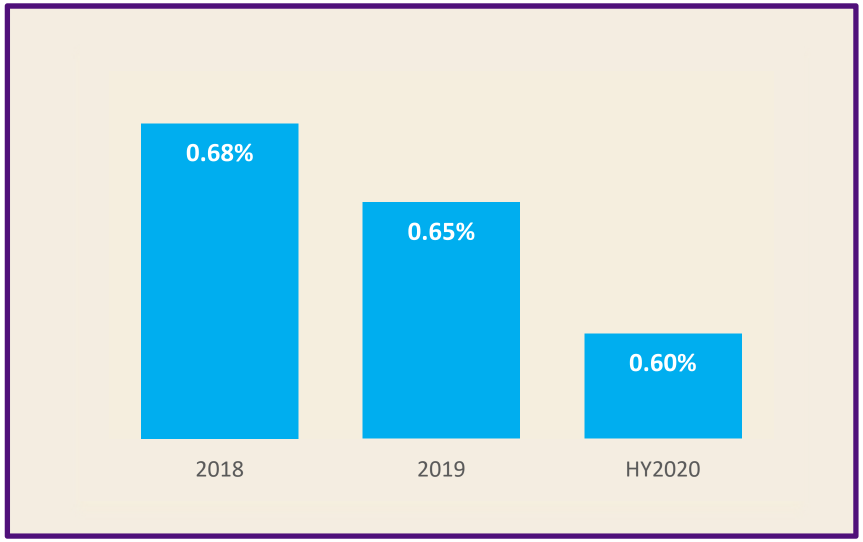
Cost analysis

- Precautionary steps in carefully managing costs has been a priority and despite increased costs as safety measures and home-working provisions were introduced, costs are broadly flat in the period at £76.4m (six months ended 30 June 2019: £75.9m)
- Despite flat costs, the cost income ratio for the M&S division has increased to 62.9% mainly due to the decrease seen in net interest income
- Cost income ratios have increased across the peer group over the past two years, driven by pressures on margin
- The management expense ratio has improved as we continue to focus on efficiencies. This has been achieved whilst continuing to invest in the future of the Society and enhancing our member offering. In 2019 we invested heavily in renewing our financial advice customer proposition to provide a tailored service, making financial advice more accessible to more of our customers

Cost Income Ratio* (%)



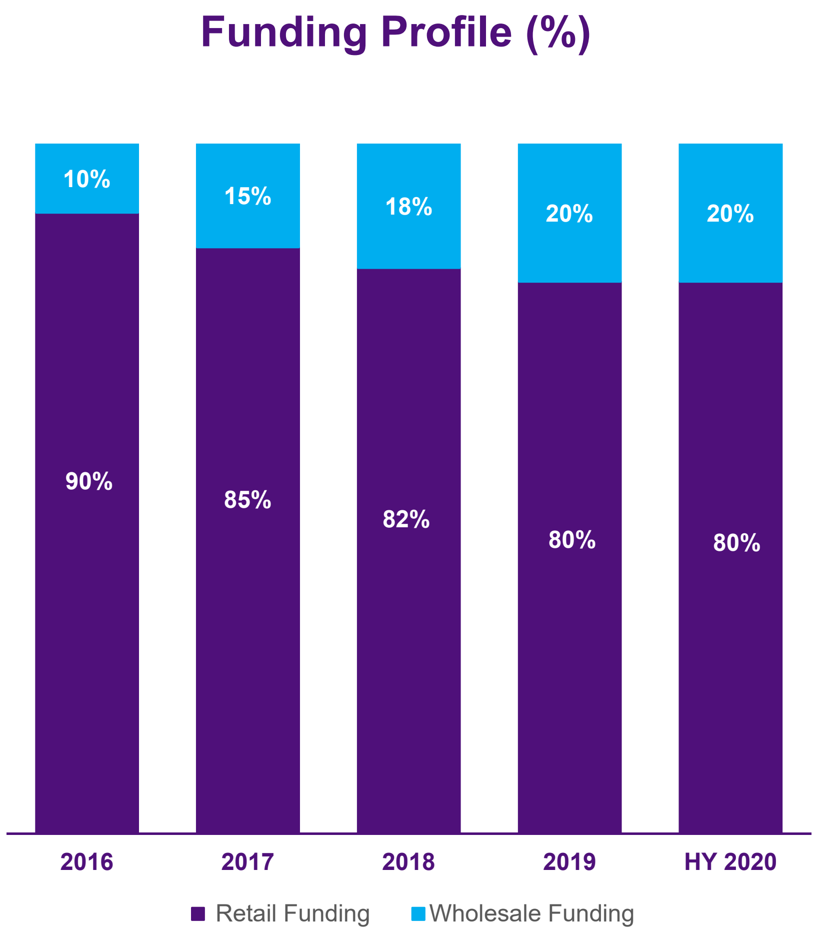
Management expenses over mean total assets (%)



“Strong focus on costs whilst continuing to invest in our services to our customers”

*Source: Skipton Building Society *M&S division only.*

Funding



- The Group's wholesale funding ratio increased to 20.3% (HY 2019: 18.9%), this growth is in line with our balance sheet strategy
- Our savings balances increased to £17.6bn compared with £17.4bn at FY 2019 (HY 2019: £16.7bn)
- The Government's Term Funding Scheme (TFS) was closed to new lending in February 2018. In February 2020, the Society repaid £400m of funding, as at HY 2020 the Society had £1,250m of TFS outstanding (HY 2019: £1,650m)
- The Society has been accepted as a participant in the new Term Funding Scheme with additional incentives for SMEs (TFSME) but had not made any drawings by HY 2020
- The Society's wholesale funding strategy is to develop a more diversified funding base across a range of maturities and instrument type
- As a result, in February 2020 the Society returned to the securitisation markets for the first time in four years with the Darrowby 5 transaction placing £500m of Class A notes and retaining £100m of the AAA rated bonds for collateral purposes

Estate agency

Estate Agency – Connells Group

- 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.
- COVID-19 has presented an unforeseen challenging environment for Connells, which saw all of its UK branches close for two months in line with Government guidelines to help efforts in preventing the spread of coronavirus. This has undoubtedly impacted profits, with virtually no transactional business during lockdown. Consequently the Connells group reported a PBT of £17.2m (HY 2019: £26.2m)
- Connells 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 almost 5,300 (76%) of its colleagues on furlough, the majority of whom have now returned to work.
- Connells supported its people during the furlough period by paying them 100% of basic pay throughout March to July, well above the Government's support of 80%.
- In total Connells received £18.1m of CJRS support from the Government in the period, benefited £1.3m from business rates relief and received £0.8m from the Retail Cash Grant Scheme. The Connells group also deferred £11.5m of its May 2020 VAT liability.

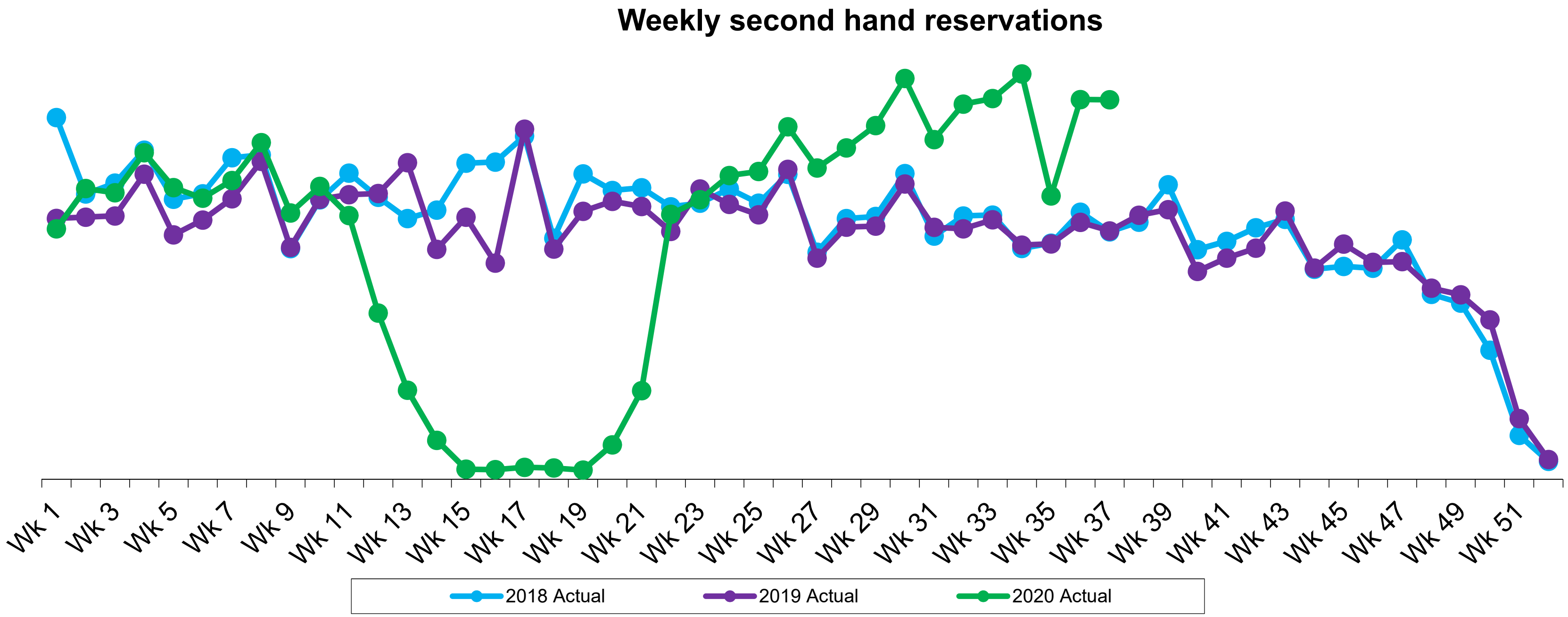
"Connells will continue to generate strong profits and provides a dividend stream to the Society"

Source: Skipton Building Society

Estate Agency – Connells Group

Positive future outlook

- Despite the closure of the branches for two months the business will generate strong profits in 2020 but we recognise H2 2021 could be challenging (i.e. post the stamp duty holiday) but the same executive team that successfully steered the business through the 2008/2009 Financial crisis are still there and they will tightly manage costs to off set any reduction in income
- The Connells group has seen early signs of a positive recovery since the reopening of the housing market in May. Compared with the same period last year, the month of July has seen a higher volume of second hand reservations than that experienced in 2019 and 2018, it is not yet clear whether this will be sustained or whether it is just due to pent up demand
- Compared with the same period last year, trading in July shows new applicant registrations and mortgage appointments up 37% and 56% respectively, and sales agreed up by 33%. Homeowners continue to show a desire to re-enter the market, with market appraisal activity up by 23% and new instructions increasing by 25%. The Stamp Duty Land Tax holiday will provide further impetus to the market
- 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



Summary Performance

- **Strong** CET 1 capital and leverage ratios of **37.5%** and **6.0%** respectively
- Maintained **excellent asset quality** with low arrears levels
- The mortgage book **grew** by £0.9bn to £21.0bn, a **growth rate of 4.7%** with tighter credit risk controls.
- The Society quickly **supported** 15% of mortgage customers by arranging mortgage payment deferrals. **97%** of mortgage customers that choose not to extend their deferral period beyond June 2020 **paid the full monthly amount due on their mortgage in July**
- In February 2020 the Society **returned to the securitisation markets** for the first time in four years with the Darrowby 5 transaction placing £500m of Class A notes and retaining £100m of the AAA rated bonds for collateral purposes
- The **Liquidity Coverage Ratio** was **173%** and the liquidity ratio (as a percentage of shares and deposit liabilities) was **16.9%**

"Presented strong financials and balance sheet growth whilst focusing on the safety of our members and colleagues"

The Proposed Transaction

Proposed Transaction – Summary of Key Terms

▪ **Issuer**	**Skipton Building Society (the "Issuer")**
▪ Offering	Senior Non-Preferred Notes (the "Notes")
▪ Issue Format	Reg S, Bearer, NGN
▪ Issuer Rating	Baa1 (Moody's) / A- (Fitch)
▪ Expected Issue Rating	Baa2 (Moody's) / A- (Fitch)
▪ Ranking	Junior to Senior Claims, pari passu with any other Senior Non-Preferred Claims; and in priority to all other Subordinated Claims
▪ Waiver of Set-off	No Noteholder or couponholder may exercise, claim or plead any right of set-off, compensation or retention
▪ Redemption at Maturity	At par
▪ Loss Absorption Disqualification Event Redemption: Full or Partial Exclusion	Applicable – as set out in Condition 7(f) in the Base Prospectus
▪ Loss Absorption Disqualification Event Redemption Price	100.00%
▪ Redemption for Tax Reasons	Applicable – as set out in Condition 7(b) in the Base Prospectus
▪ Redemption Notice Periods	Minimum period 15 days, maximum period 30 days
▪ Gross up of Principal	Not applicable
▪ Use of Proceeds	General corporate purposes including contributing to the Issuer's Minimum Requirement for own funds and Eligible Liabilities requirements
▪ Denominations	£100,000 and integral multiples of £1,000 in excess thereof
▪ Substitution and Variation	Applicable – as set out in Condition 7(k) in the Base Prospectus
▪ Documentation	Skipton Building Society £2,000,000,000 Euro Medium Term Note Programme Base Prospectus dated 11 September 2020 (the "Base Prospectus")
▪ Governing Law	English Law
▪ Listing	Official List of the London Stock Exchange
▪ Restricted Events of Default	Applicable – as set out in Condition 10(b) of the Base Prospectus
▪ Clearing	Euroclear and Clearstream, Luxembourg
▪ Joint Lead Managers	Barclays, Lloyds, NatWest Markets and UBS Investment Bank
▪ Advertisement	The Base Prospectus and the Final Terms (when published) will be available at: https://www.skipton.co.uk/investorrelations/wholesalefundingprogrammes/emtnprogrammes

"To help us to meet our goal of helping more people into homes through prudent and controlled lending growth"

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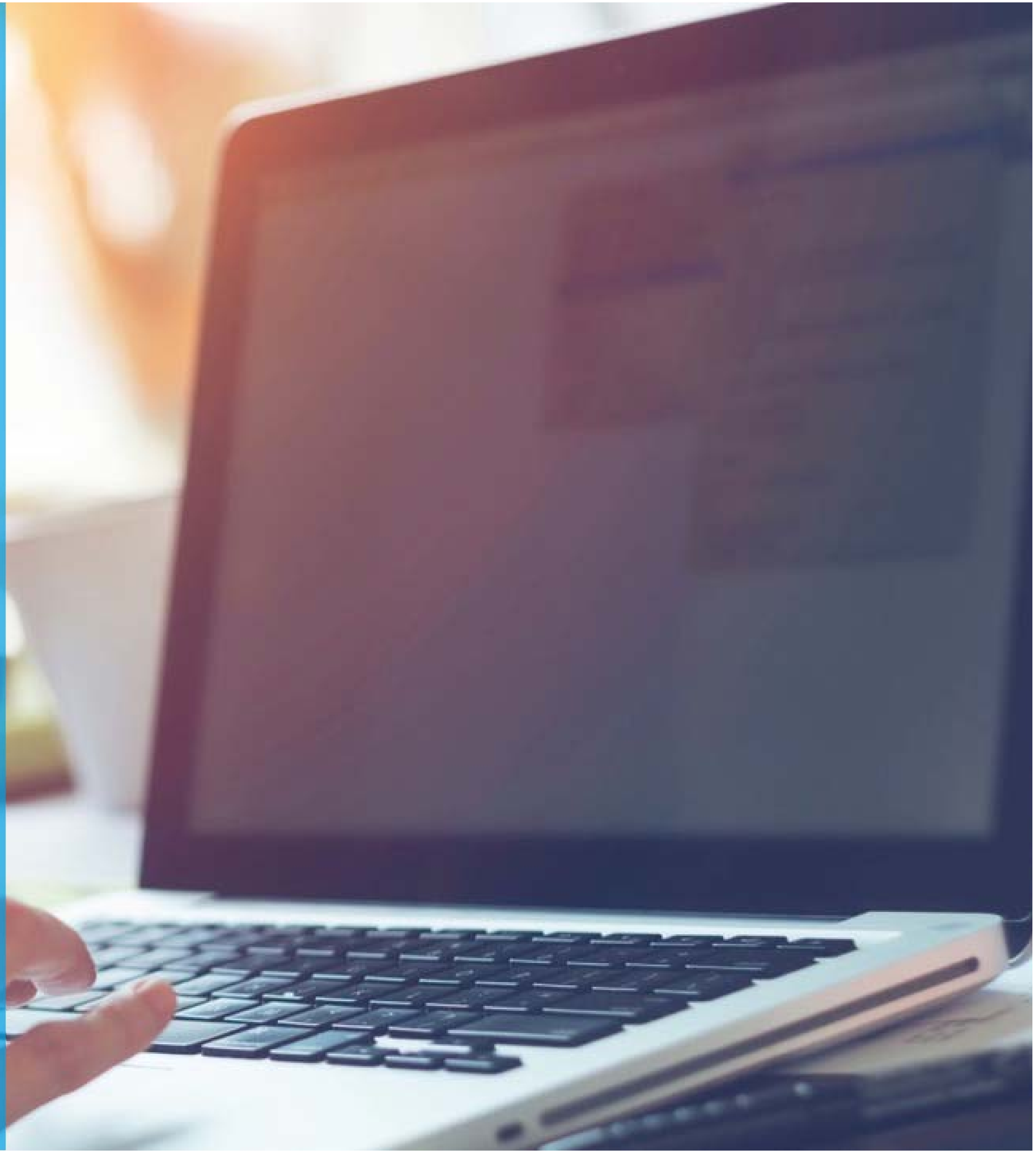
Useful links

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

Appendix



SKIPTON
BUILDING SOCIETY
Since 1853

1. Underlying Group PBT

	HY 2019 £m	**HY 2020 £m**
Total Group profit before tax	67.0	**34.4**
Less profit on disposal of subsidiary undertakings	(0.6)	**(0.5)**
Add back fair value losses in relation to the equity release portfolio	12.5	**10.4**
Add back fair value losses on share warrants	-	**0.6**
Add back impairment of goodwill and joint ventures	-	**3.0**
Less FSCS levy	-	**-**
Underlying Group profit before tax	78.9	**47.9**

Underlying Group Profit before tax by division	HY 2019 £m	**HY 2020 £m**
Mortgages and Savings	51.5	**26.0**
Estate Agency	26.2	**20.8**
Investment Portfolio	1.7	**1.2**
Sundry incl. inter-divisional adjustments[1]	(0.5)	**(0.1)**
Underlying Group profit before tax	78.9	**47.9**

[1] Sundry including inter-divisional adjustments relates primarily to the elimination of inter-divisional trading and the cost of the Connells management incentive scheme, which in HY 2020 was a credit of £0.4m (HY 2019: credit of £0.1m).

2. Forward looking economic assumptions

Economic variables (annual rate)	As at 30 June 2020					
	Scenario	2020	2021	2022	2023	2024
Bank of England base rate (%) (note 1)	Upside	0.1	0.3	0.5	0.8	1.0
	Base	0.1	0.1	0.1	0.1	0.1
	Downside	0.1	0.0	0.0	0.1	0.1
Unemployment (%) (note 1)	Upside	6.5	5.0	4.6	4.5	4.5
	Base	8.0	8.7	8.0	7.0	6.0
	Downside	8.5	11.5	10.8	9.0	7.2
House price inflation (UK) (%) (note 2)	Upside	0.0	6.1	4.1	4.2	4.2
	Base	(4.9)	0.5	5.3	4.1	4.1
	Downside	(5.9)	(14.9)	8.0	5.6	5.0
Commercial property price growth (%) (note 2)	Upside	0.0	0.0	2.0	2.0	2.0
	Base	(6.6)	(6.0)	0.0	0.0	0.0
	Downside	(15.3)	(12.0)	0.0	0.0	0.0

Notes

1.The Bank of England base rates and unemployment rates are the position at 31 December each year.

2. House price inflation and commercial property price growth are the annual growth rate in each year. In addition to house price inflation, the Group'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.

- The relative weightings assigned to each scenario have also been revised during the period taking into account the severity of the scenarios which have been significantly updated to reflect the impacts of the COVID-19 pandemic and the level of uncertainty over the economic outlook, both domestic and global

- The Group's scenario weightings as at 30 June 2020 were 60% for the base case, 5% for the upside scenario and 35% for the downside scenario (30 June 2019: base case 55%, upside scenario 15%, downside scenario 30%; 31 December 2019: base case 50%, upside scenario 10%, downside scenario 40%)

3. 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%.

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