

SKIPTON
BUILDING SOCIETY



AGM
2022



Summary financial statement

This financial statement is a summary of information from the audited Annual Report and Accounts, the Directors' Report and Annual Business Statement, all of which are available to members and depositors online at skipton.co.uk/financialresults from 18 March 2022 or on request from 31 March 2022 by emailing annualaccountsrequest@skipton.co.uk, or by arrangement from Skipton branches.

Summary Directors' Report

It is incredibly pleasing to report record profits. These results are testament to the strength of the Skipton Group business model, high colleague engagement, a strong culture, and our ability to move at pace in spotting and seizing opportunities for the benefit of our customers and our purpose-driven organisation. Coupled with this has been growing economic confidence, together with an incredibly hot housing market during late 2020 into 2021.

The Society, whose membership rose to 1,082,997, has seen Group profit before tax (PBT) increase by 129% to £271.8m (2020: £118.8m), and underlying Group PBT increase from £124.0m to £233.4m. This has been driven by an improving economy and the continued success of Skipton's Group strategy, delivering on mortgage and savings customers' needs, whilst growing its membership, meaning more members experience the excellent service we provide. The Mortgages and Savings division reported underlying PBT of £165.3m (2020: £67.3m) and the Estate Agency division reported underlying PBT of £78.9m (2020: £55.1m).

The results present a significant improvement from 12 months ago, when despite reporting good profits, our results were a clear indication of the challenging times the UK faced in the midst of a global pandemic. As a building society, our consistency in always making decisions based on the long-term best interests of the business and our members, not shareholders, has seen us successfully prepare for and navigate those challenges. And it's exciting that we can utilise these profits to invest in activities that align to our ambitions and further

strengthen experiences for both customers and our colleagues.

Performance highlights in 2021 include:

In the year that the Society marked 25 years of owning its estate agency business, Connells completed the acquisition of Countrywide plc, creating the UK's largest estate agency by far. The combined Connells group delivered dividends totalling £60.0m to the Society, improving its financial strength further, and during 2021 has already repaid £124.8m of the £253.0m which was loaned to Connells as part of the acquisition of Countrywide.

The strong housing market, supported by low interest rates and competitive mortgage products, boosted by Stamp Duty Land Tax (SDLT) relief, has driven increased sales across the enlarged Connells group, and led to record mortgage completions by the Society in excess of £5bn, including record lending to first time buyers. This robust performance has seen Skipton achieve a mortgage portfolio of over £23bn and lending that accounts for 2.0% of the growth in the UK residential mortgage market compared to the Society's 1.4% share of UK residential mortgage balances (Source: Bank of England statistics, 'Lending secured on dwellings' for the 12 months to 31 December 2021). Other key highlights include:

- We provided 30,282 mortgages in the year, including 7,893 to first time buyers;
- Mortgage arrears continue to be low, at almost a quarter of the industry average (0.83% - Source: UK Finance industry arrears data (residential mortgages in arrears by more than three months) as at 31 December 2021), with only 0.22% of residential mortgages in arrears by three months or more; and

- Connells PBT increased by £59.5m to £111.3m, with the business seeing property exchanges 175% higher than 2020 (50% higher on a like-for-like basis excluding exchanges recorded by Countrywide) and buyer registrations up 38% on 2020 on a like-for-like basis. However, shortage of stock remains an industry issue.

The Society grew its savings balances by over £1bn to £19.8bn, while continuing to pay savers well ahead of market average rates. Despite the prevailing low interest rate environment, in the year Skipton paid an average savings rate of 0.65% to savers, 0.37% above the market average (Source: CACI Current Account & Savings Database, Stock). In aggregate, this equates to an extra £70m in our customers' pockets compared to market averages. And as one of the UK's largest provider of cash Lifetime ISAs, with over 156,000 customers and total balances of over £1bn, Skipton's LISA customers also received over £76m in government bonuses towards their first homes or retirement. Other savings results include:

- The growth in the Society's savings balances accounted for 0.9% of the growth in the UK deposit savings market, compared to Skipton's 1.0% market share of savings balances (Source: Bank of England statistics, 'UK deposits from households' for the 12 months to 31 December 2021); and
- Skipton's exclusive member regular saver account, paying 3.5%, was taken up by over 44,000 members.

Skipton's people remain its greatest asset, with highly engaged colleagues (85% colleague engagement) driving the year's record performance. Skipton has maintained its Investors in People platinum status accreditation, the highest accolade that can be achieved, since 2017. The Society's position as an employer of choice was strengthened further in 2021 too when the Society became the highest ranked financial services provider in the UK's Best Big Companies To Work For list.

The challenges faced since March 2020 have only strengthened the Society's resolve to build a better Society; one that is more sustainable – socially, financially, and environmentally and to continue to support members in the ways they expect and need. 2021 highlights include:

- The Society achieved carbon neutrality for its scope 1, scope 2 and for all of its grey fleet, business air and rail journey scope 3 emissions, together with diverting 99% of its waste from landfill;

- The Society donated £575,000 to charities and community groups across the UK; and
- Skipton was awarded the Disability Smart Customer Service Award by Communication Access UK, together with exceeding the 77% accessibility benchmark set by the Business Disability Forum.



Absolute Customer Focus

In this rapidly changing world, it's really important Skipton is able to continue to support its members in the ways they expect and need. The Society continued to maintain essential services to support its growing membership throughout the year, be it face-to-face in one of its 88 COVID-secure branch locations, or through video using Skipton Link or by telephone using Skipton Direct or branches. This has helped grow our member numbers at 31 December 2021 to 1,082,997 (31 December 2020: 1,061,138).

Despite the challenging circumstances, Skipton is proud to have maintained extremely high customer satisfaction throughout 2021, as demonstrated through its net customer satisfaction score of 86% (31 December 2020: 85%). We're proud to have won two awards at the 2021 What Mortgage Awards: Best National Building Society and Best Intermediary Lender; as we continually strive to provide a high level of service to our customers and brokers, and it's fantastic to be recognised by consumers for both. We've won the Personal Finance Awards - Best Overall Mortgage Lender and Your Mortgage Awards - Best Building Society, too.



Brilliant People

The Society has followed the Government's social distancing guidelines throughout the pandemic, providing a safe and collaborative working environment and supporting colleagues with working from home provisions for those that are able to, flexible working to allow for suitable hours of work, and ensuring the highest levels of safety in all working practices.

The Society aims to deliver an outstanding colleague experience as demonstrated by our overall colleague engagement score of 85% when last measured in September 2021 (2020: 90%), despite the upheavals of the pandemic. Throughout 2021 the Society has held regular 'Pulse' surveys, whereby colleagues have been

asked their opinions, in particular about wellbeing and new ways of working. This all helps to make the Society a great place to work.

The Society received recognition as the UK's 7th best big company to work for in 2021, as part of the UK's Best Big Companies To Work For list. In addition, in March Skipton was awarded a 3-star accreditation from Best Companies for its levels of employee engagement, being the first time the Society has ever achieved this.



Powered by digital technology and data

The Society continued to improve the digital experience for members across mortgages, savings and financial advice in the year. Investment in enhanced digital capability continues to be a particular area of focus with data and analytics having been used to improve the efficiency and effectiveness of our mortgage and risk evaluation process, improving capacity whilst enhancing the customer experience. Skipton has achieved a digital customer satisfaction score of 85% which is testament to the work undertaken over the last 18-24 months to continuously develop and enhance the digital customer experience.

We're always looking for opportunities to learn about our customers' needs, and this has never been more important at a time when their lives and plans are being changed by the world around them. It's essential for us to know how their lives are impacted so we can meet their current and future expectations. We're using personalisation to tailor the customer experience online and make our customers' journeys more relevant. Skipton's Mortgage Product Finder went live in 2021, more easily giving customers the information they need to apply for a mortgage directly, and Skipton's new customer appointment booking system 'Click to Schedule' also went live online, allowing customers to book appointments direct with one of Skipton's mortgage advisers via our video service Skipton Link.



Financial Strength

Strong performance in the Mortgages and Savings division

The Mortgages and Savings division reported an underlying PBT (as defined on page 6) of

£165.3m (2020: £67.3m). 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 in light of the improving COVID-19 situation. Statutory PBT for the Mortgages and Savings division was £170.8m, compared to £64.6m in 2020. Skipton International Limited (SIL) continues to make a strong contribution to the division's profits, with PBT of £25.5m (2020: £19.9m) and mortgages and savings balances of £1.7bn and £2.1bn respectively (2020: £1.6bn and £1.9bn respectively).

The Group's arrears position improved during the year and continues to be well below the industry average. The Group's UK residential mortgages in arrears by three months or more totalled 372 cases representing only 0.22% of mortgage accounts (2020: 456 cases, representing 0.29% of mortgage accounts), which compares to an industry average of 0.83% (2020: 0.91%) (Source: UK Finance industry arrears data (residential mortgages in arrears by more than three months) as at 31 December 2021). The quality of the SIL mortgage book remains good, with only one case in arrears by three months or more (2020: one case).

Net interest margin was 1.03% (2020: 0.89%). Margins on mortgage applications in late 2020 were significantly stronger than at the start of 2020, hence the mortgage pipeline at the start of 2021 was comparatively stronger than the prior period. However, mortgage rates across the industry gradually reduced throughout the year due to increasing competition. Savings rates in the market reduced slightly during the period as the market remained awash with surplus liquidity arising from UK savings accrued during the pandemic.

Exceptionally strong performance from enlarged Estate Agency business

Connells completed the acquisition of Countrywide plc on 8 March 2021, acquiring the entire issued share capital of Countrywide for total consideration of £131.8m, and created the UK's largest estate agency measured by both market share and number of branches. At 31 December 2021, Connells trade under 81 brands from 1,179 (2020: 581) estate agency branches. The acquisition has complemented the Connells group's existing services, enhanced its value proposition for customers and benefitted consumers as a whole.

The UK housing market remained strong during the majority of 2021 with transaction volumes reaching levels not seen for many years. Whilst various local and national restrictions continued to be imposed periodically throughout the year, the housing market remained open throughout and the Connells group was able to continue trading and take advantage of the buoyant conditions.

PBT in the enlarged Estate Agency division increased to £111.3m (2020: £51.8m). Connells' PBT benefitted from £26.9m fair value gains on two businesses (recognised in the 'Fair value gains on step-acquisition of Group undertakings' line in the Income Statement), 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; together with a further £5.5m of fair value gains on share warrants and other investments.

The annual results also include amortisation charges totalling £52.4m in relation to Countrywide's intangibles recognised on acquisition, which will not be repeated in the medium term. Underlying profits of the Connells group were £78.9m (2020: £55.1m). The Group's policy is not to adjust for the aforementioned amortisation charges when calculating underlying profits, however the fair value gain on investment in TM Group (UK) Limited and Vibrant Energy Matters Limited, and other fair value gains on equity share investments and share warrants, are excluded when arriving at underlying profits.

Other Subsidiaries

Skipton Business Finance (SBF), a provider of debt factoring and invoice discounting to small and medium-sized enterprises, recorded a PBT of £5.4m (2020: £3.6m). Throughout the pandemic SBF has offered its customers the Government backed Coronavirus Business Interruption Loan Scheme (CBILS), Bounce Back Loan Scheme (BBLs) and Recovery Loan Scheme (RLS) facilities to help support both new and existing clients during these difficult and unprecedented times. Alongside their business as usual facilities, these Government backed schemes have allowed SBF to provide much needed cash flow support to multiple clients across numerous sectors during periods of increased restrictions and economic uncertainty. Whilst exploitation of such schemes has been widely publicised, to

date, SBF is not aware of any fraudulent activity in obtaining such loans.

Jade Software Corporation (a software solutions provider based in New Zealand that specialises in digital solutions and large IT enterprise solutions, as well as being the provider of the Society's core database and software development language) broke even in the year (2020: broke even).

Conclusion and outlook

2021 was a remarkable year for Skipton as all of our people continued to support our customers at the moments that matter, regardless of what the ongoing pandemic threw at everyone. And while the UK adjusts to a post-pandemic future, with new social norms and consumer behaviours, our purpose remains the same - helping people have a home, save for their life ahead, and supporting their long-term financial wellbeing. Money markets are predicting further increases in bank base rate, but strong competition in the mortgage market is expected to remain, putting pressure on interest margins. And while late 2020 / early 2021 saw such strong housing market activity, supported by low interest rates and competitive mortgage products, it remains difficult for first time buyers to get on the housing ladder. The housing market will likely moderate during 2022, and with Skipton's end-to-end view of this market, thanks to the Society owning the UK's largest estate agency network, it plans to do more to help people to get the keys to their first home.

The Society understands its customers' concerns over rising costs of living, potential tax increases, together with uncertainty over how best to save for their and their family's future. Skipton is well placed to respond to these challenges, by investing in the services it offers, how it offers them, and in its diverse and talented workforce - where providing the human touch to navigate such complexities matters to so many.

The Society anticipates the current strong competition in the mortgage market to continue for the foreseeable future due to the major lenders holding very high levels of liquidity. At the time of writing, the Society is also alert to the increasing geopolitical uncertainty created by the events in Ukraine. However, Skipton's financial strength, diversified portfolio of businesses, and focus on exceptional customer and colleague experiences puts it in a strong position to navigate the opportunities and challenges that lie ahead.

Group results for the year ended 31 December

	2021	2020
	£m	£m
Net interest receivable	296.7	237.9
Other income and charges	1,050.0	418.5
Fair value gains / (losses)	37.1	(2.9)
Profit on disposal of subsidiary undertakings	0.5	0.8
Administrative expenses and provisions	(1,124.7)	(506.1)
Impairment credits / (losses)	12.2	(29.4)
Profit for the year before taxation	271.8	118.8
Taxation	(55.9)	(21.8)
Non-controlling interests	(0.1)	-
Profit for the financial year attributable to members	215.8	97.0

Underlying Group profit before tax for 2021 was £233.4m (2020: £124.0m) as follows:

	2021	2020
	£m	£m
Total Group profit before tax	271.8	118.8
Less / add back fair value (gains) / losses in relation to the equity release portfolio	(5.5)	2.7
Less profit on disposal of subsidiary undertakings	(0.5)	(0.8)
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)	-
Underlying Group profit before tax	233.4	124.0

Group financial position at 31 December

	2021	2020
	£m	£m
Assets		
Liquid assets	5,095.5	5,467.5
Residential mortgages	22,662.3	21,509.2
Commercial and other loans	363.7	357.1
Equity release portfolio	406.6	433.8
Derivative financial instruments	227.9	64.1
Fixed and other assets	712.0	431.7
Total assets	29,468.0	28,263.4
Liabilities		
Shares	19,759.8	18,709.4
Borrowings	6,670.7	6,732.0
Derivative financial instruments	292.1	445.9
Other liabilities	403.1	279.1
Subordinated liabilities and subscribed capital	377.9	391.3
Reserves	1,964.0	1,705.7
Non-controlling interests	0.4	-
Total liabilities and equity	29,468.0	28,263.4

Group statement of movement in reserves

	2021	2020
	£m	£m
Reserves at 1 January	1,705.7	1,632.2
Net income / (expense) for the year not recognised in the Income Statement	42.5	(23.5)
Profit for the year	215.8	97.0
Reserves at 31 December	1,964.0	1,705.7

Summary of key financial ratios

	2021	2020
	%	%
Gross capital as a percentage of shares and borrowings	8.86	8.24
Liquid assets as a percentage of shares and borrowings	19.28	21.49
Group profit after tax for the year as a percentage of mean total assets	0.75	0.36
Group management expenses as a percentage of mean total assets	3.90	1.88
Society management expenses as a percentage of mean total assets	0.60	0.59

Definitions

Gross capital represents the general reserve together with the fair value reserve, cash flow hedging reserve, cost of hedging reserve, translation reserve, subordinated liabilities and subscribed capital as shown within the Group Statement of Financial Position. The gross capital ratio measures the proportion which the Group's gross capital bears to the Group's liabilities to holders of shares, depositors and other providers of funds, that is, its investors.

Liquid assets represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities. Liquid assets are generally readily realisable, enabling the Group to meet its general liabilities during the year.

Group profit after tax for the year as a percentage of mean total assets measures the proportion that the Group's profit after tax for the year bears to the average of the Group's total assets during the year. Mean total assets are calculated as the average of the closing total asset balances as at 31 December 2020 and 2021 as shown within the Group Statement of Financial Position. A reasonable level of profit is required each year to maintain the gross capital ratio at a suitable level to protect investors' funds.

The management expense ratios measure the proportion that the administrative expenses bear to the average of the total assets during the year.

This Summary Financial Statement was approved by the Board of Directors on 17 March 2022 and was signed on its behalf by:

R D East	Chair
D J Cutter	Group Chief Executive
R S D M Ndawula	Group Finance Director

Statement of the Auditors to the members and depositors of Skipton Building Society

We have examined the Summary Financial Statement of Skipton Building Society for the year ended 31 December 2021 which comprises the 'Summary Directors' Report' on pages 2 to 7, and the 'Summary Directors' Remuneration Report' on pages 9 to 20.

Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the Summary Financial Statement, in accordance with the Building Societies Act 1986, which includes information extracted from the Annual Report and Accounts and the auditable part of the Directors' Remuneration Report of Skipton Building Society for the year ended 31 December 2021.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full annual financial statements, and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and the regulations made thereunder.

Basis of opinion

Our examination involved agreeing the balances disclosed in the Summary Financial Statement to the Annual Report and Accounts. Our audit report on the Society's Annual Report and Accounts and the auditable part of the Directors' Remuneration Report describes the basis of our opinion on those financial statements and the auditable part of that report.

Opinion

In our opinion the Summary Financial Statement is consistent with the full annual financial statements and the Directors' Remuneration Report of Skipton Building Society for the year ended 31 December 2021 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made thereunder.

Use of our report

This statement is made solely to the Society's members and depositors of Skipton Building Society, as a body, in accordance with Section 76 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members and depositors as a body, for our audit work, for this statement, or for the opinions we have formed.

Ernst & Young LLP
Registered Auditors
Leeds

17 March 2022

Summary Directors' Remuneration Report

Annual Statement from the Chair of the Remuneration Committee

I am pleased to share this summary Directors' Remuneration Report on behalf of the Remuneration Committee, which sets out the details of pay, incentives and benefits for the Skipton Building Society Directors for the year ended 31 December 2021 and the following year.

We constantly strive to maintain the highest standards of governance in relation to Directors' remuneration and to provide meaningful information to our members. We have therefore set out this Summary in three key sections:

- This annual statement;
- The Directors' Remuneration policy, which has been updated for 2022 to include regulatory and minor operational changes, as well as clarity on the exercise of Remuneration Committee discretion. Regulation requires shareholders (or in our case, members) to vote on policy every three years; and
- The Annual Report on Remuneration in 2021 which explains how we put our existing policy into practice in 2021, and how we intend to apply our Remuneration Policy in 2022.

The full report, in the Society's Annual Report and Accounts, can be found on our website at skipton.co.uk/financialresults from 18 March 2022 or on request from the Group Secretary of the Society. The full report contains more information on the remuneration principles, Group Chief Executive's remuneration and detailed information on the Remuneration Committee.

The Remuneration Committee's review of 2021

2021 saw unprecedented growth for the Skipton Group with the acquisition of Countrywide plc by our subsidiary Connells Ltd, expanding the Group from employing 9,458 colleagues to 16,400. This acquisition significantly increased the complexity of the Group and the accountabilities of both our Chair and Group Chief Executive. The Group Chief Executive led this transformative acquisition which sets the Group up for an exciting future.

At the same time, 2021 saw low unemployment alongside the highest demand for people we have ever seen, thereby increasing salary inflation in the market.

The step change in the size of the Group and the challenging external market led the Remuneration Committee to focus on the following key areas during the year.

- Pay awards for the Executive Committee were awarded in April 2021. The Connells group completed the acquisition of Countrywide in March 2021 and the substantial increase in scale and complexity of this division influenced the pay recommendations and led to us making a number of one-off salary adjustments. David Cutter's 17% increase reflected his increased accountability and responsibility as Group Chief Executive of the enlarged Group. Bobby Ndawula, Group Finance Director and Ian Cornelius, Commercial and Strategy Director, also received 5% increases to recognise their expanded Group responsibilities. On average the four Executive Directors were awarded 8.6%, the other members of the Executive Committee were awarded 2.4%, Senior Leaders 1.9% and all other colleagues 2.6%.
- The Committee reviewed and agreed a proposal that from 1 April 2021 David Cutter would receive a reduced pension contribution of 10% of base salary (a reduction from 20%). This aligns David Cutter's maximum employer contribution to that received by the wider workforce through the employee Retirement Savings Plan.
- The Committee reviewed the fees paid to the Chair of Skipton Building Society. Robert East, who will remain in tenure until the AGM in 2022, received an increase to £190,000 per annum (£165,000 per annum in 2020) effective from 1 April 2021. This was awarded to recognise the growth in the Skipton Group and the fact that the Chair fee sat low against all benchmarks. To ensure that Skipton can attract and retain a high performing Chair for our Board, and to pay a fee that reflects a fair benchmark against peers and comparator groups, a fee of £205,000 per annum was approved for the incoming Chair in 2022.
- Each year we review the design and focus of our annual bonus schemes to ensure that they drive the culture and behaviours we want to promote and reward appropriately. 2021 has been no exception with changes being made to both the quantum and the design of the Society's All Colleague Bonus scheme. In order to improve

our competitive pay position and ensure we can attract and retain talent, significant investment has been made into the scheme doubling the on-target opportunity that can be achieved by colleagues in 2021. The average all colleague award for 2021 was 10.3% (2020: 4.9%).

- Our reward philosophy was examined to help identify the bonus design principles underpinning the schemes. By simplifying and having a common structure between the Senior and all colleague schemes, we have provided a much clearer message for all colleagues. The 2021 bonus is based on how the Society has performed against a small number of strategic financial and customer goals that align to the Corporate Plan, together with individual performance.
- Diversity and Inclusion has remained a key topic for 2021. The Society has been a member of the Women in Finance Charter since 2019 and in 2021 achieved its target of 37% female representation at the Senior Leadership level. This is a good achievement and we will maintain our focus on this key area until there is no longer under-representation of women in our senior leadership.
- The Society seeks to offer an overall reward package that is competitive and both attracts new and retains existing colleagues. The buoyant market has meant that it has been a challenge to recruit and retain talent across the industry. Looking forward to 2022, a decision has been taken to make a significant investment in base pay and address all colleagues that are currently below benchmark for their role. In addition, for 2022, the colleague pay review date has been moved from 1 April 2022 to 1 January 2022. We believe these actions will help us to face into the current challenges and have a positive impact on colleagues and the Society.
- The annual pay review was considered for the Group Chief Executive. The Committee approved a salary increase of 3% and this will be effective from 1 April 2022.
- Focus has been given to exploring emerging trends around the role of ESG (Environmental, Social and Governance) in executive compensation. ESG measures will be reflected in the Corporate Strategy and these will flow through to the variable pay schemes in 2022.
- Our Group Chief Executive, David Cutter, is stepping down at the April AGM and we have started the search for a new Group Chief Executive to lead the Group into the next phase of its evolution.

Leaving arrangements for the Group Chief Executive

- In agreement with the board, as noted above, the Group Chief Executive will step down with effect from the Society's AGM in April 2022. The Committee has determined that he will receive his salary and contractual benefits in respect of his notice period, together with discretionary payments relating to loss of statutory rights, legal and pension advice, and accrued but untaken leave. These will total £880,647 of which £87,000 will be deferred in line with the Society's usual deferral arrangements.
- He will retain his entitlement to existing deferred bonuses which will continue to be released in the usual way. He will not be eligible for any bonus in respect of 2022.

Remuneration Policy

In line with the regulatory requirements for listed companies, we choose to put our policy to a member vote at least every three years. The Directors' Remuneration Policy was put to an advisory vote and approved at the AGM in April 2019 and has been updated and amended in line with regulation. The Policy is included in this report and will be put to an advisory vote at our AGM in April 2022.

We recognise that Executive Director remuneration must be clearly aligned to our vision of 'Building a better Society'. Variable pay incentive schemes for senior executives in the Society are designed to reward performance across a balanced scorecard of measures including people engagement, customer satisfaction and achievement of strategic goals as well as financial outturns and risk management.

SVPA in respect of 2021

The Society's progress against its key priorities has been positive as set out in the Summary Directors' Report on pages 2 to 7.

Incentive Outcome for 2021

- At the end of the year, the Committee reviewed the annual performance under the SVPA for all the Executive Directors and Executive Committee members. The incentive outcomes for 2021 reflect the performance in terms of financial and non-financial contributions including personal and strategic objectives.
- The Committee reflected on the outcomes under the SVPA scheme, and whether they

fully captured the transformative impact of the Countrywide acquisition and the contribution of the Group Chief Executive to the success of this transaction. The Committee made the decision to exercise its discretion by awarding the Group Chief Executive 100% of salary under the Society's SVPA scheme, subject to normal deferral arrangements.

The outcomes for the other Executive Directors were between 42.5% and 43.1% of salary out of a maximum of 50% of salary, reflecting the strong performance of the Society over the year. The other Executive Committee members received on average 41.9% of salary.

The average variable pay awards made are set out in the table below:

	Award		Maximum achievable	
	2021	2020	2021	2020
Group Chief Executive	100%	-	50%	50%
Executive Directors	42.9%	-	50%	50%
Other Executive Committee members	41.9%	-	50%	50%
Senior leaders	20.8%	18.2%	From 25% to 50%	From 25% to 50%
Other colleagues	10.3%	4.9%	14%	10%

Notes

1. The calculations for average bonus awards are based on full year participation.
2. The Committee made the decision to exercise its discretion by awarding the Group Chief Executive 100% of salary under the Society's 2021 SVPA scheme, subject to normal deferral arrangements.
3. The senior leaders bonus scheme provides the opportunity of a maximum bonus of either 25% or 50% as determined by the size of the role.
4. The Executive Directors and other Executive Committee members voluntarily withdrew from any 2020 SVPA award and therefore no awards are shown.

The Remuneration Committee continues to focus on managing risk in its remuneration schemes including risk adjustment arrangements.

Conclusion

On behalf of the Committee, I hope this report gives you a clear view of how we have implemented the policy in 2021. The Committee recommends that members vote in favour of the 2021 Annual Remuneration Report and the Directors' Remuneration Policy at the forthcoming AGM.

Helen Stevenson
Chair of the Remuneration Committee

17 March 2022



Directors' Remuneration Policy

Overview of Remuneration Policy for Executive Directors in the Society

The table below shows the key elements of remuneration for Executive Directors and the reasons for their inclusion.

Element - How element supports our strategy	Operation	Maximum potential value	Performance conditions and assessment
Base salary <ul style="list-style-type: none"> Supports the recruitment and retention of Executive Directors, reflecting their individual roles, skills and contribution. 	<p>Base salary reflects the size of the role and responsibilities, individual performance (assessed annually) and the skills and experience of the individual.</p> <p>In setting appropriate salary levels, the Committee takes into account data for similar positions in comparable organisations. The data is independently commissioned and the Society aims to position Executive Directors competitively within this reference group.</p> <p>When appointing an acting or interim Executive Director, the Committee may decide to pay a temporary allowance (as opposed to a permanent uplift to salary). The amount will be agreed by the Committee and may be included for the purposes of calculating benefits, pensions and the annual incentive award.</p>	<p>Increases to base salary are determined annually by the Committee taking into account:</p> <ul style="list-style-type: none"> Individual performance; The scope of the role; Pay levels in comparable organisations; and Pay increases elsewhere within the Group. 	<p>None applicable, although we do take account of individual performance when considering base pay increases.</p>
Pension <ul style="list-style-type: none"> Supports recruitment and retention of Executive Directors at a cost that can be controlled by the Society. 	<p>Generally, the Society contributes to a defined contribution pension scheme for the Executive Directors. The contribution can instead be paid in cash (which is excluded from incentive calculations) if the Executive Director is likely to be affected by the limits for tax-approved pension saving.</p> <p>All new appointments to executive roles will fully align to the pension arrangements available to all other colleagues. There are a small number of historical arrangements in place for our current executive team which are closed for future accrual.</p>	<p>The maximum is 15% of base salary.</p> <p>With one exception, the Executive Directors are below the maximum available to all other colleagues.</p> <p>New Executive Directors will be 10% maximum of base salary.</p>	<p>None applicable.</p>
Benefits <ul style="list-style-type: none"> To attract, retain and provide security for Executive Directors; and Provide a competitive level of benefits to assist Executive Directors to carry out their roles effectively. 	<p>A number of benefits are provided to Executive Directors, including a car or car allowance, private medical insurance, life insurance and disability benefits.</p> <p>The Committee reviews benefits from time to time and may make changes, for example, to reflect market practice or the needs of the business.</p>	<p>The Society bears the cost of providing benefits, which may vary from year to year.</p>	<p>None applicable.</p>
Single Variable Pay Arrangement (SVPA) <ul style="list-style-type: none"> Supports the attraction and retention of Executive Directors. Supports the development of a high-performance culture. Rewards performance within the context of achieving corporate goals and objectives as set out in the corporate plan; and 	<p>A combination of financial and non-financial measures and targets are set with a weighting which will not exceed 50% of the total incentive opportunity for financial measures and which will not exceed 60% for non-financial measures. The latter includes personal objectives (normally up to 15%).</p> <p>Targets are set and assessed against these criteria each year relative to the Society's strategic aims.</p> <p>50% of earned incentive is normally paid in cash shortly after performance has been assessed. The remaining 50% of earned incentive is deferred over a period of one to</p>	<p>The maximum incentive which may be earned for any year by the SVPA is 50% of base salary.</p> <p>For each performance measure, the Committee determines a threshold, target and maximum level of performance. No incentive is payable for performance below the threshold level, with</p>	<p>The performance measures attached to the SVPA will be determined by the Committee from year to year, but might typically include (but are not limited to) any of the following:</p> <ul style="list-style-type: none"> Group profit (adjusted); Mortgages and Savings division profit (adjusted);

Element - How element supports our strategy	Operation	Maximum potential value	Performance conditions and assessment
<p>Single Variable Pay Arrangement (SVPA) (continued)</p> <ul style="list-style-type: none"> Encourages the right behaviours in respect of sustainable performance that supports the achievement of strategic goals. 	<p>five years, or four to seven years if required by regulation, and is normally paid in cash subject to performance adjustment.</p> <p>Current regulations also require that for those who are an Executive Director or whose variable remuneration exceeds £500,000, 60% of the SVPA will be deferred and 50% of the initial up-front award will be delivered in the form of an 'instrument' which will be subject to a further holding period (currently 12 months). The instrument will be subject to a write down if the CET 1 ratio falls below a prescribed level. An element of the performance assessment will be made over a period of more than one financial year to meet regulatory requirements and to maintain a longer-term perspective in the scheme. This will be achieved by the Remuneration Committee making a sustainability assessment one year after the award of the incentive. Up to 25% of the incentive originally awarded can be reduced or cancelled as a result of this assessment. The percentage of deferred incentive, the deferral period (one to five years or four to seven years) and the payment instrument may be amended in response to changes in regulation.</p> <p>The Committee may reduce or withdraw the payment of a deferred amount in certain circumstances and has the power to reduce, cancel or recover payments under the SVPA if it believes there are circumstances where the payments are not appropriate, for example due to failure to maintain certain capital levels, evidence of systemic conduct risk, or evidence of significant control failures or weaknesses.</p>	<p>varying levels of pay-out for performance between threshold and maximum. On-target performance generally attracts an incentive of 60% of the maximum.</p>	<ul style="list-style-type: none"> Efficiency measures; Customers (growth and satisfaction); Risk and governance; People; Personal objectives (includes an element for strategy development and implementation). <p>Performance against the measures is reviewed and approved by the Remuneration Committee.</p> <p>The weightings attached to the types of measure and the individual weightings attached to each individual measure may vary from year to year as determined by the Committee.</p>

Notes to the table

Performance measures

The performance conditions attached to the SVPA scheme have been selected as they support the sustainable success of the Society. The Committee believes that the use of a range of financial and non-financial measures provides a balanced assessment of the overall performance of the Society.

The Committee considers the targets attached to the SVPA to be commercially sensitive and will not therefore disclose these at the beginning of the financial years to which they relate. The Committee will, however, disclose the weightings that will be attached to each SVPA performance measure at the beginning of the relevant financial year.

A summary of performance against the targets will be disclosed following the end of the relevant financial year. In setting the target and maximum payments, the Committee considers both the market position and the risk appetite of the Society and sets these levels accordingly. The weightings for 2022 are outlined in the 'Statement of implementation of Remuneration Policy in 2022' section of this report.

Remuneration for other employees

All employees of the Society receive a base salary and benefits consistent with market practice and are eligible to participate in the Society's pension plan and in the incentive arrangements relevant to their role.

Members of the Executive Committee and other selected senior managers may be eligible to participate in the SVPA on the same terms as the Executive Directors, subject to the discretion of the Group Chief Executive and the Committee. The award size for these individuals may be lower than for the Executive Directors.

A variable pay arrangement for all employees (excluding those in the SVPA) is in place, so that everyone employed by the Society will have the opportunity to share in the Society's success. The key measures for the scheme are aligned with those that apply for senior management.

Committee's discretion in relation to the SVPA

As noted above, the Committee has the discretion to reduce, defer or recover payments under the SVPA in accordance with the Society's Policy on Malus and Clawback. Malus refers to the reduction or withdrawal of deferred awards and clawback is the repayment of amounts already paid. The Committee also has the discretion to cease or amend the operation of either arrangement where this is necessary to ensure the arrangements continue to meet the Committee's overriding remuneration principles and risk criteria. This might include, for example, amending the deferral arrangements to comply with changing regulation.

Each element of remuneration is defined in the table below

Element	Approach to determination
Base Salary	Base Salary reviewed annually
Pension and benefits	Pension contributions or pensions allowance plus taxable benefits
Incentive	Single Variable Pay Arrangement at on-target and maximum payment levels

Policy on remuneration of Non-Executive Directors

The table below sets out the elements of Non-Executive Directors' remuneration and the policy on how each element is determined.

Element	Approach to determination
Base fees	Reviewed annually based on time commitment and responsibility required for Board and Board committee meetings. Review considers fees paid by comparable financial services organisations.
Additional fees	Additional fees are payable for additional responsibilities such as committee chairing or other duties.
Other items	Non-Executive Directors are not eligible to participate in any form of performance pay plans and do not receive pensions or other benefits. Travel and subsistence expenses, including between home and Skipton offices, are reimbursed.

The Remuneration Committee determines the Chair's fee while the fees of the other Non-Executive Directors are determined by the Non-Executive Remuneration Committee and approved by the Board.

Approach to recruitment remuneration

Overall, the Committee aims to recruit Executive Directors using remuneration packages that are market-competitive and as consistent as possible with the existing remuneration structure. In doing so, the Committee seeks to pay no more than necessary to attract talented individuals to join the Society. Newly recruited Executive Directors are eligible to receive the same remuneration elements as existing Executive Directors, as set out in the policy table above, namely:

- Base salary – set at an appropriate level taking into account the experience and quality of the candidate;
- Pension and benefits – in line with our standard policy; and
- Single Variable Pay Arrangement – in line with our standard policy.

The Committee does not expect to make additional recruitment arrangements (such as signing on bonuses) as standard practice but may (subject to regulation), from time to time, be required to do so in order to secure the appointment of the right candidate.

In addition to ongoing remuneration arrangements, the Society may, where necessary, make replacement awards to 'buy-out' any remuneration awards or opportunities that an incoming Executive Director has forfeited in order to join the Society. Where this is necessary, the Committee will ensure that the overall value does not exceed the value of remuneration being given up and will take into account regulatory requirements, performance conditions and timing of payments.

The Remuneration Committee may, where necessary, agree to the payment of relocation allowances and meet similar costs for new Executive Directors. The Committee will act to ensure that any such allowances and payments are not excessive.

Newly appointed Non-Executive Directors will receive fees in line with the policy outlined above.

Directors' service contracts and notice periods

The Executive Directors are employed on rolling service contracts which can be terminated by either the Society or the Director giving one year's

notice. The Group Chief Executive's employment will terminate at the Society's 2022 AGM in April. For the other Executive Directors, unless notice to terminate is given by either party, the contracts continue automatically. Non-Executive Directors do not have service contracts.

Policy on termination payments

The Committee's overarching aim is to treat departing Executive Directors fairly, taking into account the circumstances of their departure, but always taking care to ensure that the interests of members are considered and that there are no rewards for failure.

Executive Directors are entitled to be paid their base salary and contractual benefits (including pension contributions) during the notice period. The Society has the discretion to pay these as a lump sum benefit in lieu of notice. The Committee has the discretion to make further payments that it deems reasonable in the circumstances, for example including payment relating to loss of statutory rights, professional advice, and any accrued but untaken leave.

The Rules of the SVPA scheme set out the treatment of awards for individuals who cease to be an employee or Director of the Society.

In the following circumstances an individual will be eligible for a payment under the SVPA scheme:

- Normal retirement
- Death
- Injury or disability; or
- Any other circumstances which the Committee may in its discretion determine.

In exercising discretion on eligibility for payment of annual or deferred amounts, the Committee will consider the circumstances surrounding the departure.

For the SVPA, the Society will continue to pay any payment due in respect of a completed performance year. Deferred awards for completed performance periods and for part completed performance periods will be paid on the due date, except in the event of death, when the Committee may exercise its discretion and pay the deferred amount due immediately.

Eligible leavers (as set out above) will be considered for a bonus in respect of a partially completed performance year. Such an award would be pro-rated to take account of the service completed during the year. The award would be paid at the usual time, after the end of the performance year, taking account of the

outcome of any performance conditions. Any deferred element of the SVPA scheme for eligible leavers will continue to be paid on the usual payment dates.

Consideration of remuneration for individuals elsewhere in the Society

The Committee is responsible for setting the remuneration of the Executive Directors and approves the policy for senior managers who have a material impact on the Society's risk profile (Material Risk Takers). In addition, the Committee reviews recommendations from the Group Chief Executive for approval of the remuneration for other key executives.

The Committee does not currently consult employees on remuneration policy for Directors but it does take into consideration remuneration arrangements for the wider population in the Society when determining executive remuneration. As part of adopting, on a voluntary basis, the FRC Corporate Governance Code for listed companies, the Society has designated, since January 2019, a Non-Executive Director with a particular focus on engagement with employees as a further step to ensure that their views are reflected in Board discussions and decision making.

Consideration of member views

The Committee has, for a number of years, invited members to vote (on an advisory basis) on the Remuneration Policy and annual Remuneration Report and takes member feedback into account when determining policy and outcomes.

Annual Report on Remuneration in 2021

Executive Directors' Remuneration

The total remuneration for Executive Directors in 2021 and 2020 is set out in the tables below:

2021 Audited	David Cutter	Andrew Bottomley	Ian Cornelius	Bobby Ndawula	Total
	£000	£000	£000	£000	£000
Salary	599	310	325	356	1,590
Benefits ⁽¹⁾	15	12	12	12	51
Pension ⁽²⁾	73	47	32	36	188
Total fixed remuneration	687	369	369	404	1,829
2021 annual performance award (SVPA) ⁽³⁾	622	133	141	155	1,051
Total remuneration in respect of performance periods ending in 2021	1,309	502	510	559	2,880

2020 Audited	David Cutter	Andrew Bottomley	Ian Cornelius	Bobby Ndawula	Total
	£000	£000	£000	£000	£000
Salary	526	303	309	337	1,475
Benefits	15	12	12	12	51
Pension	105	46	31	34	216
Total fixed remuneration	646	361	352	383	1,742
2020 annual performance award (SVPA)	-	-	-	-	-
Total remuneration in respect of performance periods ending in 2020	646	361	352	383	1,742

Notes

1. Benefits comprise the provision of a car or car allowance and private medical insurance contributions.
2. David Cutter's 2021 pension figure includes the additional value earned in the defined benefit scheme during 2021 and a non-consolidated allowance paid in lieu of contributions. For the other Executive Directors, the figure relates to contributions to the defined contribution pension scheme and/or a non-consolidated cash allowance
3. The SVPA award is subject to the deferral arrangements. No bonus payments were made in respect of 2020 in light of the COVID-19 pandemic.

In 2021, no payments were made to past Directors or for loss of office.

Risk considerations

In order to ensure that rewards are based on sustainable performance, set in a multi-year period, the Remuneration Committee conducts a 'sustainable performance assessment' for senior schemes (SVPA and Senior Leaders), one year after the original performance year. The review also considers feedback from the Board Risk and Board Audit Committees provided as part of the annual risk assessment process. The sustainability review conducted in February 2022 for the 2020 SVPA and Senior Leaders schemes demonstrated that 2020 performance levels had been maintained in 2021. Whilst no payments were made from the SVPA scheme for 2020, consideration was given for the Senior Leaders schemes and the Committee concluded that no adjustment to the 2020 award was required.

The Society has a Risk Adjustment Policy which sets out its approach to ex-ante and post risk adjustment, malus and clawback. Where the Remuneration Committee determines that risk adjustment is required, payments due from the scheme and deferred payments (if applicable) may be postponed, reduced or cancelled for some, or all, participants. In certain circumstances, the business may need to apply clawback arrangements and require repayment of an appropriate amount of variable pay relating to the event which has occurred.

The Remuneration Committee, after consultation with the Board Audit and Risk Committees and consideration of performance against risk appetites, did not make any risk adjustment for 2021.

How does executive remuneration for 2021 align with the wider workforce?

	Salary Average pay increase	Bonus Average award
Group Chief Executive ⁽¹⁾	17.0%	100%
Executive Directors ⁽²⁾	3.9%	42.9%
Other Executive Committee members	2.4%	41.9%
Senior leaders	1.9%	20.8%
All other colleagues	2.6%	10.3%

Note

1. David Cutter's 17% increase reflected his increased accountability and responsibility for the enlarged Group. The increase was effective 1 April 2021.
2. The salary increase figure for Executive Directors includes an element to address the size and complexity of their Group role.

Non-Executive Directors' remuneration

Non-Executive Directors' fees (excluding those of the Chair) are reviewed annually by the Non-Executive Directors' Remuneration Committee, in line with the policy outlined earlier in the report. The Non-Executive Directors' Remuneration Committee makes recommendations concerning Non-Executive Directors' remuneration to the Board.

The Committee reviewed the fees paid to the Chair of Skipton Building Society. Robert East, who will remain in tenure until the AGM in 2022 received an increase to £190,000 (£165,000 in 2020) effective 1 April 2021. This was awarded to recognise the growth in the SBS Group and the fact that the Chair fee sat low against all benchmarks. To ensure that Skipton can attract and retain a high performing Chair for our Board and to pay a fee that reflects a fair benchmark against peers and comparator groups a fee of £205,000 was approved for the incoming Chair in 2022.

Following benchmarking in 2021 the following increases were applied, effective 1 April 2021:

	2021	2020
	£	£
Non-Executive Directors	54,700	52,100
Audit Committee, Risk Committee and Remuneration Committee Chairs	15,300	14,600
Deputy Chair	7,200	6,200
Connells Non-Executive Director	35,000	34,700

Audited	Note	2021				2020			
		Fees	Committee chair fees	Taxable benefits ⁽¹⁾	Total	Fees	Committee chair fees	Taxable Benefits ⁽¹⁾	Total
		£000	£000	£000	£000	£000	£000	£000	£000
Robert East (Chair)		184	-	1	185	165	-	1	166
Mark Lund (Deputy Chair)	2	90	-	-	90	58	-	1	59
Amanda Burton	3	95	-	-	95	78	-	-	78
Richard Coates	4	54	15	-	69	52	15	-	67
Denise Cockrem	5	13	-	-	13	49	-	-	49
Denis Hall	6	54	15	1	70	52	15	1	68
Heather Jackson		54	-	-	54	52	-	-	52
Philip Moore	7	54	-	-	54	-	-	-	-
Helen Stevenson	8	54	15	-	69	52	15	1	68
		652	45	2	699	558	45	4	607

Notes

- The taxable benefits shown in the table above relate to the reimbursement of travel and subsistence expenses between home and Skipton head office (and for Amanda Burton and Mark Lund, who are also Non-Executive Director of Connells, Connells' head office), including for attendance at Board and Committee meetings.
- Mark Lund became a Non-Executive Director of Connells Limited effective from 1 March 2021, for which he receives an annual fee of £35,000 included pro-rata in the table above.
- Amanda Burton is also a Non-Executive Director of Connells Limited for which she receives an annual fee of £35,000 (to 1 March 2021: £34,700), included pro-rata in the table above. From 1 March 2021 to 30 November 2021, Amanda was also appointed as Chair of the Connells Remuneration Committee for which she received an annual fee of £7,600, which is also included pro-rata in the table above.
- Denise Cockrem retired from the Board on 26 April 2021.
- Richard Coates is Chair of the Audit Committee.
- Denis Hall is Chair of the Board Risk Committee.
- Philip Moore was appointed to the Board as a Non-Executive Director effective from 1 February 2021.
- Helen Stevenson is the Chair of the Remuneration Committee.

Statement of implementation of Remuneration Policy in 2022

The SVPA scheme has been reviewed for 2022 and some changes have been made to simplify the design and to align, where appropriate, to the other Senior and All Colleague annual incentive schemes. The SVPA is designed as a discretionary variable incentive scheme and supports the attraction and retention of high-quality employees and the development of a high-performance culture. Participation in the scheme relating to any financial year shall be at the discretion of the Remuneration Committee.

The 2022 SVPA will have five groups of measures; Financial; Customer Growth; ESG; strategic team objectives; and personal objectives. The weighting differential shown is to recognise the responsibilities the Group Chief Executive holds for the Skipton Group of Companies. The measures and weightings for 2022 are set out in the table below:

Measure	Group Chief Executive Weighting	Weighting (excluding Group Chief Executive)
Financials (42% Weighting)		
Group PBT	32%	12%
Mortgages and Savings division PBT	-	20%
Mortgages and Savings cost income ratio	10%	10%
Customer Growth (20% Weighting)		
Mortgage year end balances	5%	5%
Savings year end balances	5%	5%
Financial Advice direct income	5%	5%
Net customer satisfaction	5%	5%
ESG (10% Weighting)		
Colleague engagement	5%	5%
Women in Finance Charter	2%	2%
Environmental measure	3%	3%
Strategic team objectives		
	14%	14%
Personal objectives		
	14%	14%

The Committee

The Committee comprises four Non-Executive Directors. The members of the Remuneration Committee during the period were:

Helen Stevenson	Non-Executive Director (Chair of the Committee)
Amanda Burton	Non-Executive Director
Heather Jackson	Non-Executive Director
Mark Lund	Non-Executive Director

The purpose of the Remuneration Committee is:	
To determine, on behalf of the Board, the Remuneration Policy	Ensure that remuneration arrangements support and encourage desired behaviours and culture
Maintain policies that are compliant with governing laws and regulations	Ensure appropriate governance of remuneration practices across the Society and its subsidiary companies and exercise effective oversight of these
Ensure that remuneration policies, principles and practices are appropriate to enable the business to attract, retain and reward people with the right skills, experience, knowledge and behaviours to support achievement of business goals and objectives	

The full terms of reference of the Remuneration Committee and the remuneration principles are available on request from the Secretary. The terms of reference are also available online at: www.skipton.co.uk/about-us/governance/board-committees

Statement of voting at the 2021 AGM

At the 2021 AGM the Directors' Remuneration Report was subject to an advisory vote of members, the results of which were as follows:

Vote	For	Votes Against	Withheld
2020 remuneration report	58,082 (92.4%)	4,787 (7.6%)	1,235

Helen Stevenson
Chair of the Remuneration Committee

17 March 2022

We can provide documents in large print, Braille, audio cassette or CD if you need them. Please speak to a member of our team on 0345 850 1733 to find out more.

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