Minutes

MINUTES OF THE 169th ANNUAL GENERAL MEETING OF SKIPTON BUILDING SOCIETY HELD AT THE PRINCIPAL OFFICE, THE BAILEY, SKIPTON ON MONDAY 25 APRIL 2022 AT 5:30PM

The Society Chair, Robert East, was in the Chair. The meeting was attended by the Board and the Secretary together with 48 eligible members of the Society. Approximately 180 members watched the meeting via live streaming.

CHAIR'S OPENING REMARKS

The Chair introduced himself and welcomed members to the meeting, both in the room and via the live streaming of the event, explaining that he was joined by the Board and the proposed new Chair, Gwyn Burr.

He was pleased that the relaxation of Covid restrictions had allowed members to be invited back to the AGM in person this year and advised the Secretary had confirmed that the meeting was quorate. He then briefly outlined the agenda for the evening and explained that members' questions could be raised either in the room or submitted via the live stream platform.

NOTICE OF MEETING

Taken as read.

CHAIR'S ADDRESS

The Chair then gave the following address:

2020 and 2021 will be forever sadly associated with the Covid-19 pandemic. Sadly, this year will also be associated with the invasion of Ukraine by Russia and the humanitarian impact this has had. It will also reshape how we think about security, energy security and global trade. I express my deep sympathy to all those affected by Covid and my gratitude to all those that have led efforts to enable us to fight back against the terrible disease and my pride in the team here for how they have responded and continued to provide services to members. I also express our support for the Ukrainian people and am pleased that the Skipton Group and its people have supported them financially through significant donations, fund-raising and other efforts.

Our purpose is to help more people have homes, save for their life ahead and support their long-term financial well-being. In 2021, we remained focused on our purpose and investing in opportunities which will most benefit members in the future. We are also sharpening our focus on issues which you told us are important to you. This includes helping first time buyers, financing the acceleration of greener UK homes to reduce their impact on climate change and providing financial advice more broadly to members.

As outlined in our Annual Report to you, Skipton performed exceptionally well in 2021 across the range of measures that we consider including profit where a record performance of £272m was achieved. All our businesses performed well helped by the stronger than expected economy and housing market. The latter was particularly positive for our estate agency business Connells, which is now integrating Countrywide, the estate agency business it acquired in March 2021. This strong profit performance is important as it enables us to help more members, pay interest rates above the average paid by the market and invest in the business as well as take opportunities and respond to challenges of the pandemic, the effects of unwinding Government support, increasing inflation, and the raising of interest rates to respond to this, and the war in Ukraine, resulting sanctions on Russia and consequent impact on energy availability and geo politics, and reaching net zero. We are very focused on how we respond to the impact of climate change and in this context have for the first time this year published a Responsible Business Report *which covers our progress and targets for environmental, social and governance issues. David will talk in more detail about how we have delivered for members and are investing in the future later in this meeting.*

We have recently announced a number of board changes. I will step down as Chair after 10 years on the Board, including five years as Chair which was extended for one year due to the pandemic. It has been my privilege to work at Skipton for the last 10 years and I thank you as members for allowing me to do so. Skipton is a business that touches the lives of many and does so in a way that is empathetic and caring with an absolute focus on getting it right for our customers. This focus is born from a unique culture created over many years but particularly the last decade as Skipton has transformed itself following the global financial crisis to become the Skipton we know today. This has been delivered by the many talented colleagues that I have been privileged to work with, including the Executive team led by David Cutter. I pay tribute to them all.

I am delighted to welcome Gwyn Burr as my successor. Gwyn brings wide ranging executive experience in marketing and customer service from director-level positions she's held at Asda and Sainsbury's and financial services experience at Principality Building Society, Sainsbury's Bank PLC and the Financial Ombudsman Service. She is also the first woman to Chair Skipton in its 169-year history and lives in Yorkshire close to Skipton. She combines a straightforward and thoughtful approach with a focus on delivering excellent customer service and leading people in a way that engages and enables them to deliver for customers. Values that very much align with those of the Society.

Amanda Burton is also stepping down as a non-executive director of the Board. We have been lucky to be able to rely on her thoughtful insights and challenges across a range of issues and I am grateful to her for her support and wise counsel over the six years she has been on the Board.

We announced earlier this year that David Cutter, our Group Chief Executive, and the Board had agreed that he would step down at this AGM. David has made an outstanding contribution as Group Chief Executive for the last 13 years and during his 28-year career with the Society. He has led the Society out of the challenges of the global financial crisis, through Covid and the transformative acquisition of Countrywide Plc by Connells to the robust financial health we enjoy today. The growth in membership, savings balances and mortgage lending through his tenure show his focus and dedication to serving and delivering for our members. On behalf of the board and colleagues past and present and the membership, David, thank you for your contribution and dedication to the Society. I am pleased to say that Ian Cornelius, our Commercial and Strategy Director, who is here today, has been appointed as Interim CEO until we conclude our assessments of internal and external candidates for the role.

In summary, Skipton performed exceptionally well in 2021. Its financial strength, diversified portfolio of businesses, and focus on colleague engagement and member satisfaction create a strong platform for the opportunities and challenges that lie ahead. We will remain focused on supporting members and investing to deliver for you in the future alongside maintaining the financial strength of Skipton and keeping our colleagues and customers safe. We thank you for the trust you have placed in us during 2021 and look forward to continuing to earn this support in 2022 and beyond.

The Chair then asked the Chair Elect, Gwyn Burr to introduce herself.

Mrs Burr said she was pleased to meet members and colleagues and went on to explain her background in retail and financial services, including ASDA and Sainsburys, Principality Building Society, Sainsbury's Bank plc and the Financial Ombudsman Service. She was delighted to take up her role as Chair; she lived locally and had attended university and worked in Yorkshire. She and her family had been members of the Society for many years and she felt it had a fantastic culture, relevant business model and was looking forward to navigating it into the future.

The Chair then invited the Group Chief Executive, David Cutter, to report on performance in 2021 and Mr Cutter gave the following address:.

GROUP CHIEF EXECUTIVE'S ADDRESS

Good evening Ladies & Gentlemen. It is great to see you in person.

My final duty is to report on the performance of your Society during 2021, a second consecutive year where operational demands were impacted by Covid, particularly at the very start of, and end of, the year. Our priority remained to follow Government guidelines, looking after our customers and colleagues here and in our 88 Covid-secure branch locations. Technology again played an important role in maintaining high levels of service, via video (using Skipton Link), our app, webchat, or branches supporting Skipton Direct with telephone traffic. Our net customer satisfaction score increased during the year by 1% to 86%.

Investment in enhanced digital capability continued to be a particular area of focus, with data and analytics being used to improve the efficiency and effectiveness of our mortgage and risk evaluation processes, improving capacity whilst enhancing the customer experience. Online personalisation is now used to tailor the customer experience and make our customers' journeys more relevant.

Skipton's Mortgage Product Finder went live, making it easier for customers to provide the information they need to apply for a mortgage directly. A 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.

Last year, the Society advanced just over 30,000 mortgages, lending in excess of £5bn (a record), including almost 8,000 mortgages to first time buyers (also a record).

Mortgage arrears continue to be very low, at almost a quarter of the industry average, with a reduction of almost 20%, to only 372 UK residential cases in arrears by more than three months. Skipton International's mortgage portfolio of £1.7bn remains of the highest quality, with only one such case in arrears at the year end.

On the savings side, the Society grew its balances by over £1bn to £19.8bn. Despite the prevailing low interest rate environment, Skipton paid an average savings rate of 0.65% to its savers, being 0.37% above the market average. In aggregate, this equates to an extra £70m in our customers' pockets compared to market averages.

We launched a regular saver account, paying 3.5%, only available to existing members, opening over 44,000 such accounts.

Membership levels increased by over 2% to 1,082,000.

At a financial level, the Society is in a very strong position, with capital and liquidity well in excess of minimum regulatory requirements.

Group profit before tax increased by £153m to a record £272m, with underlying profits increasing by £109m to £233m.

The Mortgages and Savings division increased underlying profits by £98m to £165m, and the Estate Agency division by £24m to £79m.

Profits in the Mortgages & Savings division benefitted in two main areas – a widening of the Net Interest Rate Margin (which at a Group level increased by 14bps from 0.89% to 1.03%); and a credit of £13m against loan impairment provisions, having incurred a charge of £25m in 2020. This reversal was principally as a result of updates to the economic outlook in light of the improving Covid situation.

Last year's interest rate spread benefitted from higher margins on mortgage applications in late 2020 which flowed through into 2021, but as the year progressed, mortgage rates across the industry gradually reduced due to increasing competition.

Savings rates in the market reduced slightly during the year as the market remained awash with surplus liquidity arising from UK savings accrued during the pandemic. Commentators estimate that an extra £200bn is held in current accounts and savings accounts, as consumers saved more and spent less. This, together with a net £80bn drawn by banks and building societies prior to closure of the Bank of England's main funding scheme to support shocks in the market in recent years, means that demand for retail funds remains low, and hence savings rates remain depressed.

Costs remained tightly controlled. The Mortgage & Savings division's management expenses ratio increased by a fraction, as investment spend delayed during the height of the pandemic was incurred in 2021.

I stood here over ten years ago and described savers as "the forgotten victims of the Global Financial Crisis", and the position only seems to have been exacerbated in recent times, as governments and central banks around the World have responded to the challenges of a global pandemic with near-zero interest rates, being 0.1% in the UK until Bank Base Rate was increased in December, and twice since. Although money markets are predicting further increases in Base Rate, the surplus liquidity held by banks will continue to drive strong competition in the mortgage market, meaning that increases in rates payable to savers may not be as much.

This is happening at a time of rises in the cost of living and tax increases, but the Society is well placed to advise customers on how best to save and invest for the future.

At Skipton Building Society, we need to respond to such external dynamics and the competitive mortgage market we operate in, from which we earn interest to pay savers. Our success or otherwise should be judged over the longer term relative to the market, and as mentioned, last year your Society paid its savers, on average, 0.38% above the rest of the market average for banks and building societies.

For over two decades the Society has countered the competitive threat to margins by diversifying its income stream, most notably into estate agency by owning Connells.

March last year saw an expansion of this strategy by supporting Connells' acquisition of Countrywide plc, creating the UK's largest estate agency by far. Connells now trades under 81 brands from 1,250 branches, and there are now over 17,000 employees in the Skipton Group.

Timing of the acquisition was excellent in the midst of one of the strongest housing markets in a generation.

On a like-for-like basis, property exchanges were up 50% and conveyancing transaction up 56%.

In 2021, the enlarged Connells group exchanged contracts on almost 107,000 properties; placed £35bn of mortgages into the market; had 123,000 lettings properties under management at the year-end; and handled 750,000 survey and valuations. However, shortage of stock remains an industry issue.

Connells reported an EBITDA of £181m, up £100m on the prior year.

Its pre-tax profit almost doubled to £111m, benefitting by £27m from gains on selling two businesses (the TM Group and Fixflo) but incurred £52m of amortisation charges in relation to Countrywide's intangible assets recognised on acquisition, which will not be repeated in the medium term.

The Society lent Connells £253m to carry out the acquisition and, within ten months, Connells had repaid £125m and paid dividends to the Society of £60m. A fantastic performance.

Activity in the housing market has returned to more normal levels year-to-date. We remain confident that the earnings from Connells will continue to benefit the Society, and hence its members, in the short, medium and long term.

Elsewhere, the Society is making good progress with its environmental ambitions, as outlined in our Group Responsible Business Report, and last year donated £575,000 to charities and community groups across the UK.

In summary, the Society had another highly successful year and is in a very strong financial position. Its diversified business model and compelling customer propositions means it is well placed to continue to deliver for its members during these uncertain times.

Before I hand over to the Chairman for Q&As, I would like to thank colleagues throughout the Group who have supported me during my 22 years on the Board. None of the Society's successes would have been possible without the skill and commitment provided by so many people. Be they in branches, here at Head Office, or in the subsidiaries, they have achieved so much on behalf of our members.

My first AGM in 2000 was during the Carpetbagging era, and thank goodness your Society remained a mutual, acting on behalf of its members. None of the ten building societies that did convert to become a bank survived or maintained their independence.

My timing as Group Chief Executive has been poor. It started in the midst of a global financial crisis and ended with a two-year global pandemic. In between times, Bank Base Rate averaged only 46bps.

But I've been fortunate to work so long for a business that has a strong purpose and a great culture. One that is focussed on trying to provide a great customer experience and a great colleague experience, always trying to 'Build a Better Society'.

It's been an honour to serve our members, and a pleasure to work with so many great colleagues over the years, and I wish the Society every success in the future.

MEMBERS' QUESTIONS

The Chair thanked Mr Cutter and confirmed that they would be taking any members' questions received from the live stream, or in the room, and responding to questions already raised by members ahead of the AGM.

The Chair then answered a members' question raised ahead of the meeting about savings rates and whether they might be increasing soon, as follows:

As a building society, it is money from our savers that supports our borrowers in owning their own homes. This is the fundamental way that we operate – our savers enabling home ownership, and together this creates a financially strong business. It also creates a sustainable business, with Skipton celebrating its 170th birthday next year. We are proud that we are do not answer to shareholders so rather than needing to maximise profits at all costs, we make decisions based on the long-term best interest of all our members.

In doing this, we keep our savings rates under constant review. We know that when setting our interest rates, we must balance maintaining good value for both our savers and our borrowers. In 2021 Skipton paid an average savings rate of 0.65% to savers, which was 0.37% above the market average. In aggregate, this equates to an extra £70m in our members pockets compared to market averages. Since then, the Bank of England has raised bank base rate, and I'm pleased to say that we've increased the rates on the majority of our variable savings products.

And, in response to another question raised ahead of the meeting the Chair advised:

I know for many of our members getting in touch with us, the topic of executive pay is something they feel strongly about. Pay is set by a Remuneration Committee and is benchmarked against the marketplace to ensure it is appropriate in comparison to our peers and competitors, and is sufficient to attract and retain people with the skill and capability needed to run a complex and diversified business like the Skipton Group.

The 2021 remuneration of executive directors reflects the record performance of the Skipton Group last year, which saw a 129% increase in pre-tax profits from the previous year together with unprecedented growth of the Group following the acquisition of Countrywide by our subsidiary Connells. This acquisition significantly increased both the size and complexity of the Skipton Group which now employs over 17,700 people. Our Group Chief Executive, David, played a central role leading this acquisition and setting the Group up for an encouraging future. His remuneration reflects this achievement.

The Chair then invited members present either in the room or via the live stream to raise any questions they had which were relevant to the business of the meeting.

A member noted the Countrywide acquisition and Mr Cutter's increase in salary and asked if there had been any above inflation increases awarded at Connells. Also, that the Society appeared to be 'top heavy'. Mr Cutter advised there had been increases at Connells, which were incentivised to generate value. The Chair added that remuneration was looked at very carefully to ensure the best talent could be retained, and these decisions were regularly reviewed to ensure they remained appropriate, considering the size and performance of the Group.

The Chair advised an online question had been raised on why the Society, as a Mutual, did not pay interest rates in excess of the challenger banks. He explained rates were kept under regular review and there was a fine balance of savings and mortgage rates, with a need to ensure the right amount of savings balances were attracted to support the Society's mortgage lending requirements. Mr Cutter added that building societies weren't able to raise share capital like the banks, so needed to retain sufficient profits in their reserves; challenger banks had smaller balance sheets so were able to pay high rates on those accounts, but it would be interesting to see how many of these were successful in the long term.

The Chair advised a comment had been received on ESG and diversity, asking how the Board had made assumptions of members' views. He explained research was regularly undertaken with members to understand their views. Building societies were very focussed on their purpose and would like first time buyers to have the opportunity to get onto the property ladder. There was more detail available in the Society's Responsible Business Report [*Note: available online in the Annual Report and Accounts 2021 at skipton.co.uk/about-us/financial-results*]. Diversity of gender, thought and ethnicity was very important; he was pleased the Society had appointed its first female Chair and noted diversity of thought led to better decisions being made.

A member thanked Mr Cutter for works undertaken at the Preston branch and asked if branches would also be updated inside. Mr Cutter advised all Society premises were compliant with legislation and there was a rolling refurbishment internal programme. Andrew Bottomley, Customer Director, added that typically 8-10 branches were refurbished per year; there had been some Covid-related delays to the programme but work was ongoing to catch up.

The member observed that some Connells branches were not up to the same standard and so objected to executive bonuses being paid. The Chair said Mr Cornelius, Interim Group Chief Executive, would pick up the matter with Connells.

The same member noted profits from the Rightmove disposal had been retained by the Society Group, and also referred to the historic additional interest payment to Society members made at the time of the sale of Dealwise, querying if that profit share should not have been repeated. The Chair advised the Rightmove shares had been exited at an appropriate valuation at that time and the proceeds used to further invest in the business.

A member had asked what impact the declining value of Sterling against the US$ might have on savings interest rates. Mr Cutter believed there would be very little impact, unless there was a run on Sterling – if the market became awash with capital then there would not be as much demand for retail savings balances.

A member expressed a 'big thank you' to the Board who had done a fantastic job and queried why Mr Cutter was standing down. He thanked David for 28 years of hard work, with 13 years as Chief Executive and said he had done a fantastic job, and transformed the whole Society. The Chair agreed that enormous credit needed to be given to Mr Cutter and the whole team, and appreciated the member's sentiments; he was pleased there was a strong management team in place to take the business forward.

A member raised the issue of a trust provided by an unregulated company which had been introduced by another building society to his mother and which was now uncontactable, advising he was trying to take legal action and that there were a significant number of people affected. He would like the Society to assist him with this unfortunate situation. The Chair asked the member to speak to Mr Cornelius after the meeting.

A member had asked about the Society's commitments to the Paris 2015 accord and questioned whether it was time for the Society to adapt its business model. The Chair noted this was a multi-faceted issue and there was a need to work through the issues for both the building society and society generally, but it was not yet possible to anticipate how the business model would be affected, although this would continue to be an area of focus.

A member queried the inclusion of derivative financial instruments in the Society's assets and liabilities, as he believed these could be risky investments. Mr Ndawula, Group Finance Director, explained that derivatives enabled smoothing of interest income and costs and were managed daily to reduce risk to the Society, rather than increase risk.

A member joining by live stream asked whether there was a particular customer group the Society hoped to provide more services to. The Chair responded that the Society offered services to all, although acknowledged that certain types of customer might be more attracted by the services on offer.

A member asked why members hadn't been told the Secretary would be retiring later in the year and expressed his appreciation to him. The Chair thanked the member for his kind words and confirmed the Secretary, John Gibson, would be retiring in July. The Board appreciate his wise counsel and thanked the member for recognising this.

A member expressed his thanks to Carole at Bridlington branch for her help in registering his attendance for the AGM, although he had been surprised when his call had been diverted to the branch. The Chair thanked the member for his comments and explained that when call volumes into the Skipton based contact centre were very high, some calls were diverted to Society branches where there was capacity for them to take these.

In response to a further question, Mr Cutter explained that an increasing net interest rate margin wasn't a benefit to members, and that interest rates were largely driven by the market.

A member queried whether the Society would look to find synergies with its estate agency business and also to innovate products such as allowing customers to part-rent and part-buy. The Chair advised the Society had had an estate agency subsidiary for 25 years and that the management styles were different, but synergies were worked on. A shared ownership mortgage had been launched by the Society some time ago.

The Chair thanked all members for their questions.

Minutes

PUTTING THE RESOLUTIONS

The Chairman then advised that the Board recommended that members voted in favour of all the resolutions.

He read each of the Resolutions and asked members to record their votes for each one on their voting papers. He then asked the Society's internal auditors to collect the completed voting forms and confirmed that the scrutineers would then count those votes.

Once the voting forms had been collected, the Chairman declared the business of the meeting concluded. He advised that the final results would be displayed on the screens in around 15 minutes time and confirmed that the preliminary results from the 59,979 votes already cast by proxy, of which 36.9% had been submitted online, were as follows:

		For	Against	Withheld
Resolution 1	To receive the Annual Report & Accounts	58,986	537	455
Resolution 2	To re-appoint Ernst & Young LLP as auditors	57,077	2,126	766
Resolution 3	To approve the Directors' Remuneration Report (other than the section headed 'Directors' Remuneration Policy') for the year ended 31 December 2021	53,233	5,415	1,322
Resolution 4	To approve the Directors' Remuneration Policy (as contained in the Directors' Remuneration Report for the year ended 31 December 2021	52,819	5,698	1,457
Resolution 5.1	To elect Gwyneth Victoria Burr	57,026	1,875	1,077
Resolution 5.2	To re-elect Andrew Paul Bottomley	56,720	2,171	1,087
Resolution 5.3	To re-elect John Richard Coates	56,760	2,115	1,099
Resolution 5.4	To re-elect Ian Michael Cornelius	56,546	2,330	1,102
Resolution 5.5	To re-elect Denis Arthur Hall	56,568	2,267	1,144
Resolution 5.6	To re-elect Heather Louise Jackson	56,878	2,108	988
Resolution 5.7	To re-elect Mark Joseph Lund	56,391	2,452	1,131
Resolution 5.8	To re-elect Philip Wynford Moore	56,766	2,067	1,146
Resolution 5.9	To re-elect Robert Samuel Duncan Mugenyi Ndawula	56,823	2,107	1,042
Resolution 5.10	To re-elect Helen Claire Stephenson	56,752	2,259	962
Special Resolution 6	To consider and, if thought fit, to pass the following resolution as a Special Resolution: That the Rules of the Society be amended in the manner	56,193	2,010	1,774

	specified in the document produced to the meeting and initialled by the Chair for the purposes of identification			

The Chair noted the results demonstrated that an overwhelming majority of members were supportive of the Board and its current business strategy for success.

The final results would be displayed in around 15 minutes time and on the website and in branches from the following day.

He thanked members for attending and welcomed any feedback on the experience.

After approximately 15 minutes, the Chairman announced to the meeting that the final results were on display on the video screens, which were as follows, and declared the meeting closed:

		For (%)	Against	Withheld
Resolution 1	To receive the Annual Report & Accounts	59,008 (99.10%)	537	455
Resolution 2	To re-appoint Ernst & Young LLP as auditors	57,096 (96.41%)	2,128	767
Resolution 3	To approve the Directors' Remuneration Report (other than the section headed 'Directors' Remuneration Policy') for the year ended 31 December 2021	53,251 (90.77%)	5,417	1,324
Resolution 4	To approve the Directors' Remuneration Policy (as contained in the Directors' Remuneration Report for the year ended 31 December 2021	52,836 (90.26%)	5,700	1,460
Resolution 5.1	To elect Gwyneth Victoria Burr	57,047 (96.82%)	1,875	1,078
Resolution 5.2	To re-elect Andrew Paul Bottomley	56,742 (96.31%)	2,171	1,087
Resolution 5.3	To re-elect John Richard Coates	56,782 (96.41%)	2,115	1,099
Resolution 5.4	To re-elect Ian Michael Cornelius	56,568 (96.04%)	2,330	1,102
Resolution 5.5	To re-elect Denis Arthur Hall	56,589 (96.15%)	2,268	1,144
Resolution 5.6	To re-elect Heather Louise Jackson	56,900 (96.43%)	2,108	988
Resolution 5.7	To re-elect Mark Joseph Lund	56,413 (95.83%)	2,452	1,131
Resolution 5.8	To re-elect Philip Wynford Moore	56,788 (96.49%)	2,067	1,146
Resolution 5.9	To re-elect Robert Samuel Duncan Mugenyi Ndawula	56,845 (96.43%)	2,107	1,042
Resolution 5.10	To re-elect Helen Claire Stephenson	56,774 (96.17%)	2,259	962

Special Resolution 6	To consider and, if thought fit, to pass the following resolution as a Special Resolution: That the Rules of the Society be amended in the manner specified in the document produced to the meeting and initialled by the Chair for the purposes of identification	56,213 (96.55%)	2,011	1,775