Summary Financial Statement

2019

SKIPTON
BUILDING SOCIETY
Since 1853

Summary Financial Statement

2019

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 2020 or on request from 30 March 2020 by emailing **annualaccountsrequest@skipton.co.uk**, or by arrangement from Skipton branches.

Summary Directors' Report

In the face of a challenging operating environment, Skipton has continued to deliver first class service and value to its members. We have continued to invest in our business for the benefit of our current and future members, we have launched an app for our customers, which saw 100,000 registrations during the year, and we have made some major changes to our financial advice offering, making it more personal, affordable and straightforward and hence accessible and relevant to more people.

Since 1853, our purpose has been to help more people into homes and save for their future. Our strong capital position and diversified business has enabled us to continue to successfully and sustainably deliver for our members today and we are well positioned to do so in the future.

The Society has delivered a solid and balanced performance in the year which has seen us increase our membership, and increase our mortgage and savings balances at rates above our natural market share, despite a subdued housing market and highly competitive mortgage market.

Performance highlights in 2019 include:

- Continued membership growth, with member numbers increasing by 35,868 to 1,046,294 (31 December 2018: 1,010,426);
- Group gross mortgage lending was up 13.1% to £4.9bn (2018: £4.3bn), with mortgage balances growing by 10.3% since the end of 2018 (2018: 10.0%);
- Society savings balances grew by 7.6% (2018: 7.7%) to £17.4bn by the end of 2019;
- Group total assets increased by 9.9% during the year to £25.5bn (2018: £23.2bn);
- The Group net interest margin was 0.98% (2018: 1.09%); the expected decrease is a reflection of the previously signalled intense competition in the mortgage market;
- Total profit before tax (PBT) was £153.2m (2018 restated: £188.7m). The decrease in total Group profits was due to the reduction in underlying profits (see below) but also includes fair value losses of £3.4m (2018: fair value gains of £1.0m) relating to the Society's legacy equity release portfolio which was acquired on merger with Scarborough Building Society in 2009 and has a balance at the end of 2019 of £410.0m (2018: £410.9m). The fair value losses are driven by changes in market expectations of long term interest rates, inflation and house price growth;
- Despite the challenging environment, the Group recorded underlying profits before tax (as defined on page 6) of £155.2m (2018 restated: £186.6m). The Mortgages and Savings division reported an underlying PBT of £103.9m (2018 restated: £113.2m). Although the Group has seen a £3.1m fall in its net interest income due to the pressures outlined above, it is important that we continue to invest in our proposition and service to our members and customers – this resulted in costs in the Mortgages and Savings division increasing by £7.9m. The Group also incurred a charge of £1.8m (2018: £4.2m credit), which is held centrally, in relation to the long term management incentive scheme in place for senior managers within the Group's Estate Agency division. The Estate Agency division recorded underlying profits of £50.1m, being £9.6m below the prior year primarily due to the subdued UK property market;
- Group administrative expenses increased by £17.5m (or 3.3%) to £554.0m, with the investments referred to above made by the Mortgages and Savings division and the charge for the management incentive scheme being a key driver of this increase. Connells' administrative expenses decreased by 0.4% from £374.8m to £373.4m;
- The Group loan impairment charge on residential and commercial mortgages was £0.3m (2018: £2.3m);
- The Society's capital base remained strong with its Common Equity Tier 1 (CET 1) ratio at 31 December 2019 at 39.1% (2018: 32.8%) and the leverage ratio at 6.0% (2018: 6.1%). Following changes in the Society's IRB approach in 2019 risk weighted assets (RWAs) have decreased, resulting in the increase seen in the CET 1 ratio. The key driver for the decrease in RWAs is a refinement to the Society's IRB Loss Given Default Model, resulting in an improved estimation technique for predicting house price deflation in an economic downturn; and
- The Liquidity Coverage Ratio was 207% (2018: 203%) and the liquidity ratio (as a percentage of shares and deposit liabilities) was 19.5% (2018: 19.9%).

Unwavering focus on our members

We are continually working to ensure our customers have the best experience during any interaction with the Society. Our people are committed to putting the customer first and providing excellent service. As a result we have continued to invest in our member offering, with the mobile app launched in the year, alongside webchat, telephony and other digital technology making it easier for our members to do business with us. We have also invested in new services enabled by a new IT platform for our financial advice business, enabling us to make financial advice services available to more members as we help them save for their life ahead and support their long term financial well-being.

For savers, the Society paid an average savings rate of 1.29% during the year (2018: 1.29%), which was on average 0.54% higher than the rest of market average for banks and building societies during 2019 (2018: 0.59% higher) (source: CACI Current Account & Savings Database Stock for the 12 months to 31 December 2019).

We have continued to refurbish our branch network to meet the changing needs of our customers and invest in developing the skills of our people so they can deliver the best possible service and value. In 2019, having changed our approach to capturing customer responses, the Society achieved a net customer satisfaction rating of 86% (2018: 94%).

Delivering through our people

A fundamental part of the Society's solid and balanced performance seen during the period and the ongoing high satisfaction of our customers is our people. The Society is focused on ensuring its people are highly engaged and motivated to deliver a great experience for our customers both now and in the future. In June 2019, the Society achieved an employee engagement score of 89% (2018: 89%), well above financial services industry norms.

We have been an Investors in People accredited organisation for over 25 years and in 2019 the Society retained its Investors in People Platinum standard for the second year running, the highest accolade that can be achieved against this standard.

We are proud that for the sixth year running we have been named as one of the Sunday Times Best Companies to Work For and were placed 8th in The Sunday Times 25 Best Big Companies list.

Enabling our members to achieve home ownership and save for their life ahead aspirations

In 2019 we continued to enable more people to save for their future and finance their own home. We are proud of our award-winning achievements in 2019 that demonstrate our commitment to this; we were named 'Best Remortgage Provider' and highly commended in the category of 'Best Building Society Mortgage Provider' by Moneyfacts and we were named 'Best National Building Society' by What Mortgage? for the sixth year running, an incredible achievement.

The Society helped 29,727 homeowners (2018: 26,734) to purchase or remortgage their properties, including 5,923 first time buyers (2018: 5,516) and 7,878 (2018: 7,350) buy-to-let borrowers. The Group's net residential UK mortgage lending accounted for 4.0% of the growth in the UK residential mortgage market (2018: 4.0%), compared to our 1.3% share of UK residential mortgage balances (source: Bank of England statistics, December 2019).

We have seen continued success in 2019 in attracting LISA customers to the Society, bringing the total number of LISA customers to 158,850 (2018: 129,707) and total balances to £876.5m (2018: £602.4m). Our LISA customers benefited from Government bonuses of £89.0m paid during the year. LISA fits perfectly with our purpose as a building society, helping customers aged 18 to 39 to save to own their own home or for their future needs in retirement. In order to further help first-time buyers the Society extended its participation in the shared ownership market in the year, to include 95% loan-to-value mortgages.

The growth in the Society's savings balances in the year accounted for 1.9% of the growth in the UK deposit savings market (2018: 2.5%), compared to our market share of savings balances of 1.1% (source: Bank of England statistics, December 2019).

Strong performance in the Mortgages and Savings division

The Mortgages and Savings division reported an underlying PBT of £103.9m, down from £113.2m in 2018 as the Society continued to invest in its strategic priorities, and was impacted by intense competition in the mortgage market, placing increased pressures on the net interest margin. The division reported statutory PBT of £100.8m, compared to £114.8m in 2018, reflecting the reduction in underlying profits together with fair value losses of £3.4m (2018: fair value gains of £1.0m) in relation to the equity release portfolio.

As a result of the aforementioned margin pressures, when expressed as a percentage of mean assets, the Group net interest margin (which is almost entirely generated from the Mortgages and Savings division) was 0.98% (2018: 1.09%). In view of a declining net interest margin, careful management of costs is a key strategic priority, however investments continue to be made for the long term benefit of members, including developing online services, continuing to invest in branches, delivering a mobile app and a revised financial advice proposition. The cost income ratio of the division was 60.2% (2018: 56.2%), whilst the management expense ratio of the division was 0.65% (2018: 0.68%).

Good performance from estate agency in a difficult market

In a subdued UK property market, Connells, our Estate Agency division, continued to perform well, delivering reported and underlying profits before tax of £50.1m (2018: £56.9m reported; £59.7m underlying).

The volume of UK housing transactions fell again in 2019 and consequently the number of house sales (exchanges) arranged by Connells in the period fell by 7%. However, the Connells group maintained its focus on winning new instructions and produced a creditable performance during the year. The land and new homes, lettings, mortgage services, conveyancing and survey and valuations divisions within Connells all contributed well in the period, further demonstrating the benefits of Connells' diversified business model.

Other subsidiaries

Skipton Business Finance, a provider of debt factoring and invoice discounting to small and medium-sized enterprises, recorded a PBT of £4.0m (2018: £3.8m); Jade Software Corporation, the provider of the Society's core database and software development language, and provider of digital business solutions to a number of other clients, broke even in the year (2018: £3.8m profit).

Conclusion and outlook

In a challenging operating environment, with intense competition and ultra-low interest rates, these results are solid and reflective of a balanced performance. We have continued to increase our membership and increase our mortgage and savings balances at rates above our natural market share, whilst remaining relevant to new and existing customers and offering them great experiences with Skipton.

After stagnation and political impasses following the Brexit referendum, the UK left the EU on 31 January 2020, however negotiations over future arrangements will shortly commence and are likely to mean significant uncertainty for the foreseeable future. Whilst the economic environment remains uncertain we start in a good place to face the coming years, with high customer satisfaction levels, leading employee engagement scores and being well-capitalised.

As we continue to grow it is essential for us to become more efficient to counteract the impact of a declining net interest margin whilst remaining relevant, customer focused and people orientated. We remain passionate about the opportunity to 'Build a better Society' and we firmly believe that our long term focus of helping people to plan for their life ahead is resonating with our members.

The intense competition in the UK residential mortgage market is expected to continue. We recognise that this environment also makes it really tough for our savers and we will continue to support them as much as possible.

We anticipate the factors influencing interest margins to continue in 2020 and, whilst we are responding to these in a number of ways, we expect to see reduced profitability. The Society does however remain in a strong position, with strong capital and liquidity ratios, healthy and sustainable growth seen in mortgage and savings balances and strong underlying profitability, further strengthened by subsidiary earnings. We remain vigilant regarding potential economic headwinds and we are well placed to manage the risks that we may face and to capitalise upon any opportunities that may arise for the benefit of our members.

Group results for the year ended 31 December	2019 £m	2018* Restated^ £m
Net interest receivable	**238.1**	241.2
Other income and charges	**489.1**	493.3
Fair value (losses) / gains	**(2.2)**	2.7
Profit on disposal of subsidiary undertakings	**1.1**	3.3
Administrative expenses and provisions	**(572.1)**	(548.5)
Impairment losses	**(0.8)**	(3.3)
Profit for the year before taxation	**153.2**	188.7
Taxation	**(30.8)**	(40.7)
Profit for the financial year attributable to members	**122.4**	148.0

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated.

^ The comparative figures have been restated following a review of the presentation of certain lines of revenue within the Connells group resulting in an increase in 2018 of £15.5m to both 'Other income and charges' and 'Administrative expenses'; there is no impact on profits nor on opening reserves for either of the comparative periods. The 2018 comparative figures have also been restated to reflect a change in the recognition of the fair value of hedged items on entering a hedge relationship, which is now amortised over the life of the hedge, resulting in a £0.5m increase in the 'Fair value (losses) / gains' line and a £0.1m increase to the tax charge in the 'Taxation' line.

Underlying Group profit before tax for 2019 was £155.2m (2018 restated: £186.6m) as follows:

	2019 £m	2018 Restated £m
Total Group profit before tax	**153.2**	188.7
Add back / less fair value losses / (gains) in relation to the equity release portfolio	**3.4**	(1.0)
Less profit on disposal of subsidiary undertakings	**(1.1)**	(3.3)
Add back impairment of goodwill	**-**	2.5
Add back fair value losses on equity share investments	**-**	0.3
Less FSCS credit	**(0.3)**	(0.6)
Underlying Group profit before tax	**155.2**	186.6

Group financial position at 31 December	2019 £m	2018* Restated^ £m
Assets		
Liquid assets	**4,522.6**	4,201.5
Residential mortgages	**19,672.0**	17,701.3
Commercial and other loans	**395.1**	419.6
Equity release portfolio	**410.0**	410.9
Derivative financial instruments	**38.5**	72.3
Fixed and other assets	**451.2**	386.3
Total assets	**25,489.4**	23,191.9
Liabilities		
Shares	**17,364.1**	16,113.5
Borrowings	**5,797.8**	4,988.8
Derivative financial instruments	**361.1**	279.4
Other liabilities	**292.6**	252.0
Subscribed capital	**41.6**	41.6
Reserves	**1,632.2**	1,516.6
Total liabilities	**25,489.4**	23,191.9

* The Group has adopted IFRS 16 with effect from 1 January 2019 using the modified retrospective method. Under this method comparative information for prior periods is not restated.

^ The comparative figures for deferred tax assets and deferred tax liabilities have been restated to, where appropriate, present deferred tax on a net basis. This has resulted in a decrease to both 'fixed and other assets' and 'other liabilities' (2018: £4.3m) with corresponding decreases to total assets and total liabilities for each comparative period. In addition, the comparative figures for 'residential mortgages' (£8.0m decrease), 'fixed and other assets' (£0.2m decrease), 'borrowings' (£0.1m increase), 'other liabilities' (£0.1m decrease) and 'reserves' (£8.2m decrease) have been restated to reflect a change in approach to the recognition of the fair value of hedged items on entering a hedge relationship, which is now amortised over the life of the hedge.

Group statement of movement in reserves

	2019 £m	2018 Restated £m
Reserves at 1 January (restated)	**1,516.6**	1,356.4
Net expense for the year not recognised in the Income Statement	**(6.8)**	(3.3)
Profit for the year	**122.4**	148.0
Transfer of engagements	**-**	15.5
Reserves at 31 December	**1,632.2**	1,516.6

Summary of key financial ratios

	2019 %	2018 %
Gross capital as a percentage of shares and borrowings	**7.23**	7.38
Liquid assets as a percentage of shares and borrowings	**19.53**	19.91
Group profit after tax for the year as a percentage of mean total assets	**0.50**	0.67
Group management expenses as a percentage of mean total assets	**2.28**	2.43
Society management expenses as a percentage of mean total assets	**0.65**	0.67

Definitions

Gross capital represents the general reserve together with the fair value reserve, cash flow hedging reserve, cost of hedging reserve, translation reserve 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 2018 and 2019 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 25 February 2020 and was signed on its behalf by:

R D East	**Chairman**
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 2019 which comprises the 'Summary Directors' Report', on pages 2 to 7, and the 'Summary Directors' Remuneration Report' on pages 9 to 16.

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 audited part of the Directors' Remuneration Report of Skipton Building Society for the year ended 31 December 2019.

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 for 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 audited part of the Directors' Remuneration Report describes the basis of our opinion on those financial statements and the audited 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 2019 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

25 February 2020

Summary Directors' Remuneration Report

Annual Statement from the Chair of the Remuneration Committee

I am pleased to share this summary of the Directors' Remuneration Report on behalf of the Remuneration Committee, which sets out the details of pay, incentive payments and benefits for the Directors for the year ended 31 December 2019.

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 2020 or on request from the Group Secretary of the Society. The full report contains more information including:

- A summary of the Remuneration Policy for Executive and Non-Executive Directors. The Remuneration Policy, which was set out in detail in the 2018 Annual Report and Accounts, was put to an advisory vote and approved at the AGM in April 2019;
- The remuneration principles which underpin the Remuneration Policy;
- The history of the Group Chief Executive's remuneration over the last ten years;
- Details of the ratio between the Chief Executive's pay and the median, lower and upper quartile pay for Society employees; and
- More details on the Remuneration Committee and its advisers.

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 Annual Report on Remuneration in 2019 which explains how we put our existing policy into practice in 2019.
- How we intend to apply our Remuneration Policy in 2020.

Remuneration Policy

We recognise that remuneration needs to be clearly aligned to our vision of 'Building a better Society'. Our policies, principles and practices for all our colleagues are therefore designed to enable the business to attract, retain and reward people with the right skills, experience, knowledge and behaviours to support the achievement of business goals and objectives within a positive cultural environment, for the benefit of our members.

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.

We intend to be competitive with the market on fixed pay (including pensions and other benefits) but some way below total compensation opportunity for businesses which have a greater emphasis on performance related pay within their remuneration arrangements.

The key elements of the Society's Executive Directors policy and its implementation in 2019 are set out below:

- A Single Variable Pay Arrangement (SVPA) has been in place for Executive Directors and other members of the executive team since 2016. Payments from the legacy 2015-2017 Medium Term Incentive scheme were phased and will conclude in 2020.
- The SVPA, which has a maximum opportunity of 50% of base salary, is made up of a balanced scorecard of measures which are targeted and assessed annually and align with the corporate plan and are within agreed Board risk appetites.
- There is a 30% weighting for personal and strategic team objectives which is designed to give a continued focus on the achievement of longer term strategic objectives. For 2019 there is a small re-balancing with the weighting for strategic objectives increased from 10% to 15% and for personal objectives reduced from 20% to 15%.
- The long term focus of the scheme is further maintained by a requirement that at least 50% (or more if required by regulation) of any variable pay awarded from the scheme is deferred and will vest over a period of either five years or three to seven years (as required by regulation).
- In addition to normal malus and clawback arrangements, these deferred payments are subject to a sustainability assessment one year after award and can be reduced if the Committee determines that the performance which generated the award has not been materially sustained in line with Board expectations.

Remuneration Committee

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

The structures within the current Directors' Remuneration Policy have remained stable during 2019 with no significant changes. The Committee has been engaged in a number of important projects considering the broader issues of remuneration in the Society.

- The Society has adopted and implemented, as far as is practicable, the remuneration requirements of the Financial Reporting Council's (FRC) revised UK Corporate Governance Code ('the Code') from 1 January 2019. Many of the Code's requirements were already long established practice in the Society.
- The Society has included the reporting of the CEO pay ratio for 2019 in line with the Department of Business, Enterprise and Industrial Strategy (BEIS) amendments to Directors' Remuneration Reporting Regulations (for listed companies).
- An evaluation of the effectiveness of the Remuneration Committee had substantially positive results.
- Both the Senior Leadership Team (SLT) and the SVPA schemes were reviewed during the year. The Committee reviewed and amended the structure of the two schemes with a view to closer alignment.
- The Society's stance on fair pay is at the heart of the employment relationship. Discussions with the Executive Committee and colleagues showed strong alignment with a priority focus on minimum standard of living, pay for performance, equal opportunity and competitive market forces. Becoming a 'Living Wage Employer' in 2019 cemented our on-going commitment to a fair level of reward for all. The Society has developed Fair Pay Principles which will underpin our reward strategy going forward.
- The Committee has maintained a close interest in our gender pay reporting and gender workstream activities. The Society is proud to have signed up to the Women in Finance Charter in March 2019 and initiatives to improve gender pay and bonus gaps and key considerations for the Society can be found in a separate gender pay report on our website, skipton.co.uk/about-us/our-people

Remuneration in respect of 2019

The Society's medium term objectives are built around four pillars and progress is measured using a number of key performance indicators aligned to the four pillars. For the purposes of the SVPA, targets for the balanced scorecard of measures were set at the beginning of 2019, taking into account the market competition, economic factors and our acceptable risk profile:

- **Our Customers** – in 2019, Society membership numbers grew by 35,868 to take our total membership base to 1,046,294. The cash Lifetime ISA (LISA) continued to be a key driver in the growth in new customers to the Society.
- **Our People** – employee engagement remained strong with a score of 89% when measured in June 2019 which compares very favourably to the Financial Services industry norm of around 80%.
- **Our Proposition** – in 2019 our net customer satisfaction score was 86% demonstrating delivery of quality products and services to our customers. The Society continues to benchmark well against our peers and ranked very positively in the 2019 KPMG Nunwood Customer Experience Excellence survey.
- **Our Financial Strength** – as described below, the financial performance of the Society was strong during 2019 as we grew both mortgage and savings balances within our risk appetite and invested further in the future of the Society, all while reducing our management expense ratio and upholding strong capital ratios and healthy levels of liquidity.

Group profit before tax in 2019 was £153.2m (2018 restated: £188.7m) and underlying profit before tax was £155.2m (2018 restated: £186.6m). The planned decrease reflects a challenging trading environment and the significant investment made in our strategic priorities in 2019. Political and economic uncertainty also resulted in lower levels of activity within the housing market.

The core Mortgages and Savings division profit before tax for 2019 was £100.8m (2018 restated: £114.8m), with underlying profit before tax for the division being £103.9m (2018 restated: £113.2m). The division performed well in an increasingly uncertain market despite continuing margin pressures as a result of increased competition in the mortgage market.

The Committee made awards under the Society's SVPA with respect to the 2019 outturn against the pre-set targets, taking into account any need for risk adjustment. The average variable pay awards, as a percentage of salary, are set out in the table below:

	2019 award	2018 award	Maximum achievable
Executive Directors	39.2%	45.5%	50.0%
Other Executive Committee members	31.5%	35.8%	40.0%
Senior Leadership Team	22.7%	29.0%	From 25% to 50%
Other colleagues	7.9%	7.7%	15%

The Committee approved a salary increase of 2.25% for the Group Chief Executive and an average increase of 2.6% for the other three Executive Directors. This was lower than the increase applied in the Society as a whole of 2.8%.

Conclusion

On behalf of the Committee, I hope this report gives you a clear view of how we have implemented the policy in 2019. The Committee recommends that members vote in favour of the 2019 Annual Remuneration Report at the forthcoming AGM.

Helen Stevenson
Chair of the Remuneration Committee
25 February 2020

Annual Report on Remuneration in 2019

Executive Directors' remuneration

The total remuneration for Executive Directors in 2019 and 2018 is set out in the tables below:

2019 Audited	Mr D J Cutter £000	Mr A P Bottomley £000	Mr I M Cornelius £000	Mr R S D M Ndawula £000	Total £000
Salary	521	301	306	332	**1,460**
Benefits[1]	15	12	12	12	**51**
Pension[2]	104	45	31	33	**213**
Total fixed remuneration	**640**	**358**	**349**	**377**	**1,724**
2019 annual performance award (SVPA)[3]	205	119	120	132	**576**
Total remuneration in respect of performance periods ending in 2019	**845**	**477**	**469**	**509**	**2,300**
Total 2019 performance pay deferred[4]	(123)	(60)	(60)	(79)	**(322)**
Prior years' deferred performance pay now released[5]	107	60	60	65	**292**
Total paid in 2019 or payable in 2020[6]	**829**	**477**	**469**	**495**	**2,270**

2018 Audited	Mr D J Cutter £000	Mr A P Bottomley £000	Mr I M Cornelius £000	Mr R S D M Ndawula £000	Total £000
Salary	510	294	299	322	**1,425**
Benefits	15	12	12	12	**51**
Pension	102	44	30	30	**206**
Total fixed remuneration	**627**	**350**	**341**	**364**	**1,682**
2018 annual performance award (SVPA)	234	135	136	148	**653**
Total remuneration in respect of performance periods ending in 2018	**861**	**485**	**477**	**512**	**2,335**
Total 2018 performance pay deferred	(140)	(67)	(68)	(89)	**(364)**
Prior years' deferred performance pay now released	147	71	69	85	**372**
Total paid in 2018 or payable in 2019	**868**	**489**	**478**	**508**	**2,343**

Notes

1. Benefits comprise the provision of a car or car allowance and private medical insurance contributions.
2. Mr Cutter's 2019 pension figure includes the additional value earned in the defined benefit scheme during 2019 which was £nil (2018: £nil) 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. £122,782 (60%) of the 2019 SVPA award for Mr Cutter (2018: £140,130) will be deferred in equal amounts for between three to seven years. Half of the initial up-front award (i.e. 20% of the total) will be paid in March 2020 and the remaining half will be retained for a further twelve month period and paid subject to CET 1 capital remaining at or above the agreed level in March 2021. £79,024 (60%) of Mr Ndawula's 2019 SVPA award will also be deferred on the same basis as Mr Cutter's (2018: £88,805). 50% of the 2019 awards for Mr Bottomley and Mr Cornelius will be deferred for between one and five years in line with the SVPA scheme rules. The 2019 annual performance award is the total variable remuneration for 2019.
4. These are amounts which have vested in respect of the performance period ending in December 2019 (from the 2019 SVPA scheme) which are due to be paid in future years in line with the scheme rules.
5. These are deferred amounts from STI schemes from 2016 onwards plus deferred payments from the 2015/2017 MTI schemes which are payable in 2020.
6. Total payable is salary, benefits, pension and other payments which have been paid in 2019 and variable pay from 2019 (and from prior years) which is payable in 2020.

In 2019, 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 SLT), one year after the original performance year. The review also takes into account feedback from the Board Risk and Board Audit Committees provided as part of the annual risk assessment process. The sustainability review conducted in February 2020 for the 2018 SVPA and SLT schemes demonstrated that 2018 performance levels had been either maintained, or for the majority of measures, exceeded in 2019. The Committee concluded, therefore, that no adjustment to the 2018 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, decided that no risk adjustment was deemed necessary for 2019.

Comparison to the base salary increases and annual bonus awards of other employees in 2019

The Group Chief Executive's base salary increased in April 2019 by 2.25% (2.0% in April 2018). This compares to an annual average pay review award in April 2019 of 2.8% of base salary for all other Society employees below Executive level (3.2% in April 2018). The Society remuneration comparator relates to Society employees only as this is considered to be the most appropriate comparator to use due to the varying remuneration policies across the Group's subsidiaries. The salary increase figure for other Executive Committee members includes an element to address market position for a number of Executive Committee members.

The Chief Executive's award under the Society's SVPA scheme in respect of 2019 represented 39.1% of his base salary (2018: 45.6%). This compares to the average amount awarded to the other Executive Directors of 39.3% (2018: 45.4%) and other Executive Committee members of 31.5% (2018: 35.8%). The average amount awarded to the Senior Leadership Team was 22.7% (2018: 29.0%) and to the remainder of our people in the Society was 7.9% (2018: 7.7%).

Non-Executive Directors' remuneration

Non-Executive Directors' fees (excluding those of the Chair) are reviewed annually by the Non-Executive Directors' Remuneration Committee. The Non-Executive Directors' Remuneration Committee makes recommendations concerning Non-Executive Directors' remuneration to the Board and in 2019 recommended that the basic Non-Executive Director fee should be increased by 2.25% (rounded down to the nearest £100) effective 1 August 2019. The following changes were approved:

	2019 £	2018 £
Non-Executive Directors	**52,100**	51,000
Audit Committee and Risk Committee Chairs	**14,600**	14,300
Remuneration Committee Chair	**14,600**	12,200
Deputy Chair	**6,200**	6,100
Connells Non-Executive Director	**34,700**	26,500

The disparity between the fees for the Chairs of the Audit and Risk Committees and the Chair of the Remuneration Committee were reviewed and it was agreed to increase the Remuneration Committee Chair fee to align with Audit and Risk.

The Chair's fee is reviewed and approved by the Remuneration Committee. Mr East's fee was increased by 7.8% to £165,000 (2018: £153,000) which reflects his performance in the role, the time commitment he provides to Skipton and also takes into account external benchmarking.

Miss Burton is a non-executive director of Connells Limited and now chairs their remuneration committee, in recognition of which her annual fee was increased from £26,500 to £34,700 from 1 August 2019.

Audited		**2019**				2018			
		Fees	**Committee chair fees**	**Taxable benefits**[1]	**Total**	Fees	Committee chair fees	Taxable Benefits [1]	Total
	Note	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000
Mr R D East (Chair)		**158**	**-**	**6**	**164**	152	-	6	158
Mr M J Lund (Deputy Chair)	2	**58**	**-**	**5**	**63**	54	-	4	58
Miss A J Burton	3	**81**	**-**	**3**	**84**	68	-	3	71
Ms M Cassoni	4	**17**	**5**	**2**	**24**	50	14	6	70
Mr J R Coates	5	**51**	**10**	**1**	**62**	50	-	2	52
Mrs D P Cockrem	6	**51**	**-**	**3**	**54**	50	-	6	56
Mr D A Hall	7	**51**	**14**	**4**	**69**	50	14	3	67
Ms H L Jackson	8	**51**	**-**	**2**	**53**	10	-	-	10
Mr G E Picken	9	**-**	**-**	**-**	**-**	25	-	2	27
Ms H C Stevenson	10	**51**	**13**	**3**	**67**	50	12	4	66
		569	**42**	**29**	**640**	559	40	36	635

Notes

1. 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 Miss Burton, who is also a Non-Executive Directors of Connells, Connells' head office), including for attendance at Board and Committee meetings.
2. Mr Lund was appointed as Deputy Chair on 24 April 2018.
3. Miss Burton was appointed as a Non–Executive Director of Connells Limited on 1 May 2018 for which she receives an annual fee of £34,700 (increased from £26,500 with effect from 1 August 2019 to reflect the fact that she now chairs Connells' remuneration committee), included pro-rata in the table above.
4. Ms Cassoni was the Chair of the Board Audit Committee until 29 April 2019 when she retired from the Board.
5. Mr Coates was appointed Chair of the Board Audit Committee on 30 April 2019.
6. With effect from 1 July 2019, Mrs Cockrem waived her basic fee and it is now paid by her employer organisation, which is wholly owned by a charitable trust, and compensates them for the time she spends as a Skipton Non-Executive Director.
7. Mr Hall is Chair of the Board Risk Committee.
8. Ms Jackson was appointed to the Board on 24 October 2018.
9. Mr Picken (former Deputy Chair) retired from the Society Board on 23 April 2018. He was a Non-Executive Director of Connells Limited between January 2018 and April 2018, for which he received an annual fee of £26,000, included pro-rata in the table above.
10. Ms Stevenson is the Chair of the Remuneration Committee.

Statement of implementation of Remuneration Policy in 2020

The base salaries of our Executive Directors were reviewed in April 2019 and adjusted accordingly.

The SVPA for 2020 will continue to be based on a balanced scorecard of financial and non-financial measures. 2020 sees the addition of members' savings and mortgages balances to the financial measures, reflecting the importance of the Society's strategy of achieving growth in a market environment of low interest rates and narrow margins.

The 30% weighting for personal and strategic team objectives is designed to give a continued focus on the achievement of longer term strategic objectives. The team objectives for the Executive Directors cover four key areas:

- Change
- Organisational design and capability
- Financial advice
- Cost efficiency

The measures and weightings in 2020 are set out in the table below:

Financial measures	Weighting	Team KPIs (non-financial measures)	Weighting	Objectives	Weighting
Group profit	8%	Net member / customer growth	5%	Personal objectives	15%
Mortgages and Savings division profit	24%	Net customer satisfaction	5%	Team objectives	15%
Mortgages and Savings division cost income ratio	8%	Employee opinion survey overall score	5%		
Year-end mortgage balances	4%	Audit actions	2%		
Year-end savings balances	4%	Compliance actions	2%		
		Women in Finance Charter – gender mix	3%		
Total weighting	**48%**		**22%**		**30%**

The maximum opportunity will remain as 50% of base salary and will be 30% of base salary at target.

The deferral arrangements operating in 2019 will continue to apply in 2020 and Directors' salaries will be reviewed on 1 April 2020 as they are for all colleagues in the Society.

The Committee

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

Ms H C Stevenson	Non-Executive Director (Chair of the Committee)
Miss A J Burton	Non-Executive Director
Ms H L Jackson	Non-Executive Director
Mr M J Lund	Non-Executive Director

The purpose of the Remuneration Committee is:

- To determine, on behalf of the Board, the Remuneration Policy;
- Maintain policies that are compliant with governing laws and regulations;
- Ensure that remuneration arrangements support and encourage desired behaviours and culture;
- Ensure appropriate governance of remuneration practices across the Society and its subsidiary companies and exercise effective oversight of these; and
- Ensure that renumeration 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: skipton.co.uk/about-us/governance/board-committees

Statement of voting at the 2019 AGM

At the 2019 AGM the Directors' Remuneration Report was subject to an advisory vote of members, the results of which were as follows:

	Votes		
	For	**Against**	**Withheld**
2019 remuneration policy	59,252 (90.2%)	6,444 (9.8%)	1,495
2018 remuneration report	59,633 (90.8%)	6,072 (9.2%)	1,482

Helen Stevenson
Chair of the Remuneration Committee
25 February 2020

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.