Skipton Building Society

Summary Financial Statement 2015

SKIPTON
BUILDING SOCIETY
For life ahead

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Summary Financial Statement 2015

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 now to members and depositors online at www.skipton.co.uk/financialresults or free of charge on demand at every office of Skipton Building Society from 31 March 2016.

Summary Directors' Report

It is pleasing to report another year of strong performance. In 2015, we enabled more people to save for their future and buy their own home than we ever have before. At the same time, we continued to strengthen our financial position.

Our commitment to providing a first-rate experience for our members is, as always, paramount to us. They are at the heart of everything we do. This forms an integral part of our overall ethos of 'Building a better Society'. Here's how we've put these words into action during 2015:

- Customer numbers continued to grow and increased by 43,348 to 838,087;
- We were declared the UK's top building society for customer experience in the KPMG Nunwood Customer Experience Excellence survey and seventh best out of 272 UK brands;
- Our mortgage book increased by £1.5bn to £14.2bn, representing an 11.9% growth in mortgage balances. We helped 23,094 homeowners purchase or remortgage their properties, including 3,847 first time buyers;
- We saw a £1.4bn growth in savings balances (a growth rate of 11.9%) as we continued to offer a suite of competitive and award-winning products;
- Total Group profit before tax (PBT) amounted to £146.9m (2014: £180.6m). The sale of subsidiaries, associates and equity investments generated a combined profit of £1.0m (2014: £38.2m);
- Underlying Group PBT from continuing operations (prior to Financial Services Compensation Scheme (FSCS) charges, gains on the disposal of subsidiary, associate and equity share investments and profits from discontinued operations) increased by 2.1% to £153.3m (2014: £150.1m);
- Group administrative expenses increased by 8.6% to £464.4m (2014: £427.7m), partly due to increased activity and partly due to increased investment across all areas of the business to help ensure we deliver a sustainable performance over the long term;
- The Group Common Equity Tier 1 (CET 1) ratio increased to 16.80% from 16.09%;
- The leverage ratio remained strong at 6.1%, comfortably ahead of the Regulator's expected minimum; and
- Skipton was upgraded by both Fitch and Moody's credit ratings agencies during the year.

We are particularly pleased that despite the Bank Base Rate being held at 0.5% for over six years, and the effect of the Funding for Lending Scheme on demand for retail savings, our savings balances have grown well in excess of overall growth in the market. We also saw excellent growth in our mortgage book. This is testament to our competitive pricing and service proposition and is the third successive year of excellent growth, during which time savings balances have increased by 36.0% and mortgage balances by 35.8%.

Our strong underlying profits and robust capital position provide a firm foundation for realising our ongoing ambition of 'Building a better Society'. Looking forward, we will continue to invest back into the business to ensure we continue to serve our members for their lives ahead.

Putting people first

Over the last 12 months, we've continued to engage with our members to understand their needs and deliver what's important to them. We work hard to create a customer-focused culture and in 2015 have invested heavily in our Delivering Service Excellence programme, an initiative for our entire workforce ensuring we keep members at the forefront of everything we do.

We're extremely proud that our efforts to provide the very best in customer experience have, once again, been acknowledged in high-profile consumer research.

Skipton Building Society was named the seventh best UK brand (2014: 13th) for customer experience across many different industries in the most recent KPMG Nunwood Customer Experience Excellence survey. As well as leaping into the prestigious top ten, alongside brands like John Lewis and Amazon, we were named the UK's top building society for customer experience.

Our people are an integral part of our continued success. We recognise that investing in them has a positive impact on both the customer experience and employee engagement. In 2015, our employee engagement level stood at 90%, higher than 2014 and significantly ahead of industry norms, and for the first time ever Skipton was listed in *The Sunday Times* 100 Best Companies to Work For.

We're investing across all channels so customers can easily interact through the channel of their choice.

Helping our members save for the future and plan for life ahead

Supporting our members at key life stages with good value products and a first-rate service with the human touch remained our key focus throughout 2015.

During the year, we continued to provide competitive, innovative and award-winning products and services to our savers. We launched a base rate tracker savings account and we added to our loyalty range by offering preferential ISA rates to qualifying members.

During 2015 we launched retiresavvy.co.uk – a unique online community and information hub that brings together people with an interest in retirement to share their knowledge, ideas and experiences. By December 2015, we had reached 10,000 users per month.

Our subsidiary Skipton Financial Services Limited (SFS) launched a pensions accumulation and pension switching service which is designed to help people navigate their way through the pension reforms and better prepare for life ahead.

Despite the early part of 2015 seeing net savings outflows, due to the market distortion created by National Savings & Investments' pensioner bonds, strong growth resumed throughout the remainder of the year, culminating in the highest level of savings balances ever held by the Society. Our range of competitive savings products saw members' deposit balances grow by £1.4bn to £12.8bn, an annual growth rate of 11.9%. The growth in Skipton's savings balances accounted for 2.1% of the growth in the UK deposit savings market (source: Bank of England statistics, December 2015), compared to our market share of savings balances of 1.0%. Skipton was the UK's fourth largest ISA provider in terms of transfers-in activity during April and May 2015.

Market conditions continue to have an impact on savers. The average savings rate paid across all our accounts reduced by 0.25% during the 12 month period. Despite the Bank Base Rate remaining at 0.5%, Skipton's rates averaged 1.69% during the year. Skipton paid, on average, 0.48% higher interest than the market average for banks and building societies during the 10 month period to 31 October 2015 (the latest available comparable data – source: CACI Savings Market Database). In addition, our savings rates received 461 independent media best buy table mentions over the year.

Helping our members buy their own homes

Our gross mortgage lending increased by 23.3% to £3.7bn and our mortgage book grew by £1.5bn to £14.2bn, an annual growth rate of 11.9%. As such, net mortgage lending accounted for 6.4% of the growth in the UK residential mortgage market (source: Bank of England statistics, December 2015). Skipton's share of UK residential mortgage balances stood at 1.0%.

The Society helped 23,094 homeowners to purchase or remortgage their properties, including 3,847 first time buyers, and 618 via the Government's 'Help to Buy' equity loan scheme. The rental market remained strong and £467m of the Group's gross lending was on buy-to-let mortgages.

In recognition of the growing new-build market, we launched a suite of bespoke mortgage products specifically for this type of property and invested heavily in our operational support teams.

Our prudent approach to lending is demonstrated by the relatively low number of Group residential mortgages with arrears. As at 31 December 2015, only 0.91% (2014: 1.20%) of accounts were three months or more in arrears, compared to the Council of Mortgage Lenders' (CML) industry average of 1.12% (2014: 1.30%) of mortgages in arrears by more than three months.

A strong financial Group performance

- Group total assets increased by 9.7% during the year to £17.5bn (2014: 10.3% to £16.0bn);
- Group net interest margin reduced to 1.33% (2014: 1.40%);
- Total Group PBT amounted to £146.9m (2014: £180.6m);
- Underlying Group PBT from continuing operations increased by 2.1% to £153.3m (2014: £150.1m);
- Included in underlying Group PBT is a £15.9m (2014: £5.4m) charge for a long term incentive scheme for senior management of Connells Limited. Excluding this charge gives an adjusted underlying Group PBT of £169.2m, up 8.8% on the prior year (2014: £155.5m);
- The charge to loan loss provisions reduced by £4.9m to £8.4m from £13.3m;
- The charge to provisions for liabilities reduced by £5.7m to £11.8m from £17.5m, and included a levy of £7.4m payable to the FSCS (2014: £7.8m); and
- In June 2015, two credit ratings agencies upgraded the Society's long term ratings: Fitch to BBB+ with a stable outlook from BBB, and Moody's to Baa2 with a stable outlook from Baa3. Both upgrades followed an upgrade by each rating agency within the previous nine months.

We are disappointed that the Society's retained profits for 2016 onwards will be impacted by the introduction of an 8% corporation tax surcharge on banking companies. If this surcharge had applied in 2015 the cost to us would have been £5.5m, which could have reduced our appetite to lend. The collateral damage of this tax raising initiative, mainly aimed at banks, fails to recognise the distinctive legal form, business model, and reduced risk of failure implicit in building societies.

Excellent results from the Mortgages and Savings division

- In addition to reporting strong growth in mortgage and savings balances the Mortgages and Savings division produced PBT of £104.8m, up from £98.4m in 2014, an increase of £6.4m (or 6.5%);
- Group net interest income (98% of which is derived from this division) increased by £10.0m (or 4.7%) to £223.3m from £213.3m;
- The division's profits were impacted by a 14.2% increase in administrative costs to £111.3m as we invested more in our customer proposition, risk management frameworks, processes and people;
- The cost income ratio of the Mortgages and Savings division was 48.0% (2014: 44.5%), whilst the management expense ratio of the division was 67bps (2014: 65bps);
- The Group remains primarily funded by retail savings, representing 87.8% of total funding (2014: 85.9%);
- In addition, the division also accepts deposits through its Guernsey based subsidiary, Skipton International Limited (SIL). Offshore deposits increased by 20.2% to £1.08bn from £0.90bn;
- SIL increased PBT by £1.5m (12.3%) to £13.7m from £12.2m;
- The percentage of cases in Amber Homeloans and North Yorkshire Mortgages where the arrears balances were three or more months in arrears at 31 December 2015 were 6.64% and 5.54% respectively (2014: 8.13% and 6.45%), a significant improvement on reducing closed books;

- The Society's three months or more arrears levels fell from 0.52% at 31 December 2014 to 0.44% at 31 December 2015. The quality of the SIL mortgage book remains excellent with nil cases where the arrears balance was three months or more in arrears (2014: nil);
- The average indexed loan-to-value of residential mortgages across the division reduced to 48.5% (2014: 50.3%);
- At 31 December 2015, the Society had drawn down £880m under the Government's Funding for Lending Scheme (2014: £650m); and
- At 31 December 2015, liquidity amounted to 17.0% of shares, deposits and borrowings (2014: 18.4%).

Improved performance and a growing presence in Estate Agency

- Connells, our estate agency division, delivered a good set of results in 2015 with profits before tax of £62.5m. This is compared to a total profit of £62.2m in 2014 which included a £10.1m profit from the part disposal of shares on the flotation of Zoopla (the 2015 results include a profit of £0.3m arising from the sale of shares). Excluding these gains, Connells' pre-tax profits increased by 19.4% year-on-year;
- Connells continued to invest heavily in the business for the benefit of future years with £11.8m capital expenditure on branch refurbishment and other business investment, as well as £9.2m on business acquisitions including the 18-branch Gascoigne Halman operating in South Manchester and Cheshire and the addition of online estate agency Hatched – Connells' venture into online estate agency;
- House sales (exchanges) by Connells increased by 1% compared to 2014 (excluding properties sold by Gascoigne Halman) and the business enters 2016 with a significantly stronger pipeline than it did in 2015;
- Income from lettings increased by 26% and income from mortgage services increased by 30% compared with the prior year. Mortgage Services reported a record year, with mortgage sign ups increasing by 23% over 2014. Connells Survey and Valuation also had a record year, with its pre-tax profits more than doubling in the year; and
- At 31 December 2015, Connells operated 542 branches.

Results from remaining subsidiaries

- SFS recorded a loss before tax of £(1.7)m (2014: PBT of £0.2m), which included restructuring costs of £1.3m;
- The provision of financial advice remains integral to the delivery of our 'For Life Ahead' customer proposition. In January 2016, the Society announced that, subject to regulatory approval, the assets and business of SFS will be hived up into Skipton Building Society, to form one stronger organisation that is better aligned to meet the needs of our customers;
- Skipton Business Finance Limited recorded a PBT of £3.2m (2014: £2.9m);
- Jade Software Corporation Limited recorded a loss before tax of £(1.3)m (2014: loss of £(0.7)m);
- Our share of Wynyard Group losses was £(2.3)m (2014: £(2.6)m), and our shareholding reduced from 21.7% to 17.8% following share issues in the year to which the Group did not subscribe;
- In May, Skipton completed the sale of its entire shareholding in Pearson Jones plc resulting in a loss on disposal of £(0.8)m; and
- £0.7m of deferred cash consideration was received in 2015 following the disposal of subsidiary undertakings in prior years.

Giving something back to our communities

Our vision to 'Build a better Society' encapsulates our mutual heritage and our wider role to be a positive part of the communities in which we operate. In 2015, we played an active role in supporting our communities in a number of different ways. Through our Grassroots Giving appeal, we gave 162 donations of £500 to community groups voted for by the public, in line with our founding ethos of 'helping people to help themselves'. We continued to support a number of key community partners, including the Great Yorkshire Show and Skipton Building Society Camerata. And we donated £150,000 to the Skipton Building Society Charitable Foundation, which enabled the Foundation to support registered charities, involved in helping people of all ages.

Conclusion and outlook

2015 saw another strong performance by the Society, with further good growth in mortgages and savings well in excess of our market share of balances. The investment made in our people in recent years and their focus on customers culminated during the year in external recognition and a ranking of seventh for customer experience excellence out of 272 UK brands.

The outlook for the UK economy does not cause us undue concern, but its connectivity to a global economy where growth is moderating and volatility is experienced in many markets means that we remain cautious. We anticipate the gradual reduction in our net interest margin witnessed over the last 18 months will continue, due to competitors having an increased appetite for growth and the unwinding of the Funding for Lending Scheme in the medium term.

Continuing house price growth outstripping wage inflation remains a major barrier to potential first time buyers, in some regions more than others.

We are conscious of the continuing low interest rate environment and the impact that it has on our savers, but the good value that we offer relative to the market is demonstrated by our very strong savings growth over the past three years.

2016 will see some positive taxation changes for savers and we anticipate a shift in customer behaviour following the introduction of the Personal Savings Allowance in April. ISAs may play a less important part in savings decisions than in previous years. And with the increased flexibility around ISAs, some customers may start to treat them more as transactional accounts rather than longer term savings.

There will certainly be more complexity for savers to digest and members may need more help in making decisions about their money, including investments and pensions, particularly in light of the Government's pension reform agenda. Our established 'My Review' service is well positioned to provide invaluable support to our members who may need advice and guidance.

The outlook for the Society remains healthy, although we remain vigilant to factors which may impact its performance, most noticeably the economy, new regulatory requirements, and changes in consumer behaviour, in particular their desire to engage with the Society through the channel of their choice, and for it to be easy to access, easy to understand, and easy to use. It has been another strong year for the Society and we remain extremely well placed to capitalise upon the opportunities that lie ahead as well as mitigate the risks that arise in an uncertain world.

Group results for the year ended 31 December	**2015** **£m**	2014 Restated (note 1) £m
Net interest receivable	223.3	213.3
Other income and charges	403.2	392.8
(Loss) / profit on disposal of subsidiary undertakings	(0.4)	1.1
Profit on part disposal of equity share investments	0.3	10.1
Profit on part disposal of associate	1.1	2.3
Fair value gains / (losses) on financial instruments	4.0	(2.0)
Administrative expenses and provisions for liabilities	(476.2)	(445.2)
Impairment losses	(8.4)	(16.6)
Profit for the year before tax from continuing operations	146.9	155.8
Tax expense	(33.5)	(34.9)
Profit for the financial year from continuing operations	113.4	120.9
Profit after tax from discontinued operation	-	24.8
Profit for the financial year	113.4	145.7
Non-controlling interests' share of losses	0.6	0.4
Profit for the financial year attributable to members	114.0	146.1

Total Group PBT for 2015 was £146.9m (2014: £180.6m) as follows:

	2015 **£m**	2014 Restated (note 1) £m
Profit before tax from continuing operations	146.9	155.8
Profit before tax from discontinued operations	-	0.1
Profit on disposal of discontinued operations	-	24.7
Total Group profit before tax	146.9	180.6

Underlying Group PBT from continuing operations for 2015 was £153.3m (2014: £150.1m) as follows:

	2015 **£m**	2014 Restated (note 1) £m
Total Group profit before tax	146.9	180.6
Less profit before tax from discontinued operations	-	(0.1)
Less profit on disposal of discontinued operations	-	(24.7)
Add back loss / less profit on disposal of subsidiary undertakings	0.4	(1.1)
Less profit on part disposal of associate and equity share investments	(1.4)	(12.4)
Add back FSCS levy	7.4	7.8
Underlying Group profit before tax from continuing operations	153.3	150.1

Group financial position at 31 December	2015 £m	2014 Restated (note 1) £m
Assets		
Liquid assets	2,637.8	2,594.1
Residential mortgages	13,905.7	12,357.1
Commercial and other loans	457.5	479.7
Derivative financial instruments	95.1	133.4
Fixed and other assets	415.3	397.8
Total assets	17,511.4	15,962.1
Liabilities and reserves		
Shares	12,828.2	11,467.5
Borrowings	2,733.9	2,663.6
Derivative financial instruments	296.9	307.3
Other liabilities	302.8	279.1
Subordinated liabilities	78.5	98.0
Subscribed capital	93.5	94.3
Non-controlling interests	(1.6)	(0.7)
Reserves	1,179.2	1,053.0
Total liabilities and reserves	17,511.4	15,962.1

Group statement of movement in reserves	2015 £m	2014 Restated (note 1) £m
Reserves at 1 January	1,053.0	913.4
Net income / (expense) for the year not recognised in the Income Statement	12.2	(6.5)
Profit for the year	114.0	146.1
Reserves at 31 December	1,179.2	1,053.0

Summary of key financial ratios	2015 %	2014 Restated (note 1) %
Gross capital as a percentage of shares, deposits and borrowings	8.67	8.81
Liquid assets as a percentage of shares, deposits and borrowings	16.95	18.36
Group profit after tax for the year as a percentage of mean total assets	0.68	0.79
Group management expenses as a percentage of mean total assets	2.77	2.81
Society management expenses as a percentage of mean total assets	0.60	0.57

Note 1:

During the year the Group's accounting policy relating to dividends paid to non-controlling shareholders of subsidiary undertakings was revised, to more accurately represent the economic substance of these transactions. Previously dividends paid to non-controlling shareholders were accounted for as a reduction to related put option liabilities. Under the revised accounting policy, these dividends are expensed through the Income Statement.

If the above policy had been applied in 2014, administrative expenses would have been £1.0m higher than previously stated at 31 December 2014 and intangible assets and general reserves would have been £19.6m lower than previously stated at 31 December 2014. The 2014 comparatives included in this Summary Financial Statement have been restated accordingly.

Definitions

Gross capital represents the general reserve together with the available-for-sale reserve, cash flow hedging reserve, translation reserve, subordinated liabilities, subscribed capital and non-controlling interests as shown in 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 from continuing operations 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 2014 and 2015 as shown in 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 from continuing operations bear to the average of the total assets during the year.

This Summary Financial Statement was approved by the Board of Directors on 23 February 2016 and was signed on its behalf by:

M H Ellis **Chairman**
D J Cutter **Group Chief Executive**
R S D M Ndawula **Group Finance Director**

Independent auditor's statement to the members and depositors of Skipton Building Society

We have examined the Summary Financial Statement of Skipton Building Society ('the Society') for the year ended 31 December 2015 on pages 2 to 6.

This auditor's statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our 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 such a 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 as a body and the Society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the Summary Financial Statement, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Report and Accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Basis of opinion

Our examination of the Summary Financial Statement consisted primarily of:

- Agreeing the amounts and disclosures included in the Summary Financial Statement to the corresponding items within the full Annual Report and Accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2015, including consideration of whether, in our opinion, the information in the Summary Financial Statement has been summarised in a manner which is not consistent with the full Annual Report and Accounts, the Annual Business Statement and Directors' Report of the Society for that year;
- Checking that the format and content of the Summary Financial Statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full Annual Report and Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2015.

Our report on the Society's full Annual Accounts describes the basis of our opinions on those Annual Accounts, the Annual Business Statement and Directors' Report.

Opinion on Summary Financial Statement

On the basis of the work performed, in our opinion the Summary Financial Statement is consistent with the full Annual Report and Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2015 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Jonathan Holt (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Leeds
23 February 2016

Summary Directors' Remuneration Report

Introduction from the Chairman of the Remuneration Committee

This report summarises the Remuneration Committee's report which sets out details of the pay, incentive payments and benefits for the Directors for the year ended 31 December 2015.

This report is a summary of the full report set out in our Annual Report and Accounts which can be found on our website at skipton.co.uk/financialresults, or on request from the Group Secretary of the Society. The full report contains more details including:

- The remuneration principles which underpin the policy presented to you in this summary report;
- Details on how we pay the Society's 'Material Risk Takers' – those senior managers who have a material impact on the risk profile of the business;
- The history of the Group Chief Executive's remuneration over the last seven years; and
- Details on the Remuneration Committee and its advisers.

This summary report is presented in two sections:

- The Remuneration Policy part of the report on pages 10 to 13 explains how we plan to pay the Directors in 2016.
- The Annual Report on Remuneration part of the report on pages 14 to 15 explains how we put our existing policy into practice in 2015.

Revised remuneration policy for 2016

During 2015 we have been preparing for a change in the way the Remuneration Code will apply to the Society going forward. The Prudential Regulation Authority (PRA) takes into account a firm's size, internal organisation and the nature, scope and complexity of its activities when determining the code rules which are applicable. The considerable success of the Society in recent years and the consequent steady growth in our total assets means that additional requirements will apply to remuneration awarded in respect of 2016 onwards. This, together with updated regulation brought into effect by the PRA in June 2015, means that we have had to review our remuneration policy for Executive Directors.

Our review concluded that there were many features of our existing arrangements which have worked well, such as the balance of performance measures and the inclusion of team based Key Performance Indicators (KPIs). We have, wherever possible, sought to retain these features. We also concluded that the revised regulatory requirements would make retaining our existing separate short term and medium term incentive arrangements too complicated and would diminish their effectiveness as an incentive.

The key features of our proposed new policy are as follows:

- Replacement of the separate short term and medium term incentive arrangements with a single variable pay arrangement;
- The long term focus of the existing arrangements will be maintained by a requirement that at least 50% of any variable pay awarded will be deferred and will vest pro-rata over a period of five years (unless a greater proportion or a longer deferral period is required by regulation);
- Deferred payments will be 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 sustained;
- We will rebalance remuneration between fixed and variable pay by reducing the overall variable pay opportunity for Executive Directors from 100% of salary to 50% of salary whilst at the same time increasing base salaries by around 15%. The overall impact of this change for Executive Directors is that the net present value of on-target remuneration is broadly the same, but the maximum opportunity is significantly reduced in the longer term.

Remuneration in respect of 2015

Performance in 2015 built on the strong foundations set in previous years in the context of increasing competition for both mortgages and savings. The underlying Group profit before tax (PBT) was £153.3m (2014: £150.1m), the core Mortgages and Savings division PBT reached £104.8m (2014: £98.4m) and the Common Equity Tier 1 (CET 1) ratio increased to 16.80% (2014: 16.09%).

Key decisions taken in 2015

- Within the context of good performance in 2015 and taking into account our approach to risk management, the Committee made awards under the Society's short term incentive scheme. The average award payable to the Executive Directors is 36.4% of base salary (as at 31 December 2015) out of a possible maximum 50% and to the senior managers in the Senior Leadership Incentive scheme is 22.8% of base salary. In 2014 we introduced an annual incentive scheme for the remainder of our people in the Society, the average payment for which is 5.4% of base salary for 2015.
- In 2015 we again awarded to Executive Directors and other members of the Executive Committee a Medium Term Incentive scheme (MTI) of up to 50% of salary which will operate over a three year performance period ending 31 December 2017. The MTI rewards the achievement of sustainable profit, increased customer satisfaction and growth in customer numbers. Payments for the 2015/2017 performance period will be made in 2018, 2019 and 2020 subject to performance. Half of the amount due will be paid in 2018, one quarter in 2019 and one quarter in 2020. Due to the change of policy referred to earlier in this report, the 2014/2016 and 2015/2017 MTI schemes will continue to run until the end of their respective performance periods but a new MTI scheme will not be commenced for 2016 to 2018.

In the 2014 Directors' Remuneration Report we stated our intention to review the Committee's advisers. Our requirement for a full service provision on remuneration and related matters, combined with in-depth knowledge of current and proposed regulation, was met convincingly by PwC who are independent of the Society and were appointed as the Committee's advisers in February 2015.

Conclusion

On behalf of the Committee, I trust you will find this summary report useful and informative and look forward to your feedback on our new Remuneration Policy. The Committee recommends that members vote in favour of the Directors' Remuneration Policy and the 2015 Annual Remuneration Report at the forthcoming AGM.

Nimble Thompson
Chairman of the Remuneration Committee
23 February 2016

Directors' Remuneration Policy effective from 2016

Remuneration Policy for Executive Directors

The Board's policy is designed to ensure that Executive Directors' remuneration reflects performance and enables the Group to attract, retain and motivate a sufficient number of high calibre individuals to lead and direct the organisation and deliver sustainable business performance for our members.

The table below shows in more detail the elements of remuneration for Executive Directors, the reasons for their inclusion and the way they operate with effect from 1 January 2016.

Element How element supports our strategy	Operation	Maximum potential value	Performance conditions and assessment
Base salary • Supports the recruitment and retention of Executive Directors, reflecting their individual roles, skills and contribution.	Base salary reflects the size of the role and responsibilities, individual performance (assessed annually) and the skills and experience of the individual. 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.	Increases to base salary are determined annually by the Committee taking into account: • Individual performance; • The scope of the role; • Pay levels in comparable organisations; and • Pay increases elsewhere within the Group.	None applicable, although we do take account of individual performance when considering base pay increases.
Pension • Supports recruitment and retention of Executive Directors at a cost that can be controlled by the Society.	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.	The maximum is 20% of base salary. Mr Cutter receives 20% of base salary and the other Executive Directors between 10% and 15% of base salary.	None applicable.
Benefits • To attract, retain and provide security for Executive Directors; and • Provides a competitive level of benefits to assist Executive Directors to carry out their roles effectively.	A number of benefits are provided to Executive Directors, including a car or car allowance, private medical insurance, life insurance and disability benefits. The Committee reviews benefits from time to time and may make changes, for example, to reflect market practice or the needs of the business.	The Society bears the cost of providing benefits, which may vary from year to year.	None applicable.
Single Variable Pay Arrangement (SVPA) (from 2016) • 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 • Encourages the right behaviours in respect of sustainable performance that supports the achievement of strategic goals.	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 20%). Targets are set and assessed against these criteria each year relative to the Society's strategic aims. 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 five years and is normally paid in cash subject to performance adjustment. A greater proportion of the incentive may be deferred and a longer deferral period applied, if this is required by regulation. Current regulations also require that for those whose total remuneration exceeds £500,000 or whose variable pay (for the relevant performance year) exceeds 33% of total remuneration (de minimis threshold), 50% of the SVPA will be delivered in the form of an 'instrument' which will be subject to a further holding period (currently six 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	The maximum incentive which may be earned for any year by the SVPA is 50% of base salary. 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 varying levels of pay-out for performance between threshold and maximum. On-target performance generally attracts an incentive of 60% of the maximum.	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: • Group profit; • Mortgages and Savings division profit; • Efficiency measures; • Customers (growth and satisfaction); • Risk and governance; • People; • Personal objectives (includes an element for strategy development and implementation). Performance against the measures is reviewed and approved by the Remuneration Committee. The weightings attached to the types of measure and the individual weightings attached to

Element How element supports our strategy	Operation	Maximum potential value	Performance conditions and assessment
SVPA (continued) (from 2016)	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) and the payment instrument may be amended in response to changes in regulation. 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.		each individual measure may vary from year to year as determined by the Committee.
Medium Term Incentive (MTI) 2014 and 2015 schemes – to be discontinued in 2016 • Encourages the right behaviours in respect of long term, sustainable performance that supports the achievement of strategic goals; and • Provides a balance between long and short term rewards in the overall remuneration package for those Senior Executives eligible to participate.	Payments are based on performance (as determined by performance against agreed corporate plan targets) over rolling three year cycles. The corporate plan targets for each three year performance period are reviewed and agreed by the Board annually. The performance for each three year cycle is based on cumulative performance against the annual targets for the three year cycle. Payments are made over three years so that: • 50% of the incentive earned is paid immediately following completion of the three year performance period; • 25% is deferred for one year; and • 25% is deferred for two years. The Committee may reduce or withdraw the payment of a deferred amount in certain circumstances and has the power to reduce or cancel payments due under the MTI if it believes in extreme circumstances that 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.	The MTI will be discontinued in 2016. The current MTI schemes for 2014/2016 and 2015/2017 will continue until completion of the performance period and will be paid as per scheme rules. The maximum incentive which may be earned for any year from the MTI scheme is 50% of salary. For each performance measure, the Committee determines a threshold, target and maximum level of performance. No MTI is payable for performance below the threshold level, with varying levels of pay-out for performance between threshold and maximum. On-target performance generally attracts an MTI of 60% of the maximum.	50% of the award is based on Group profit and 50% of the award is based on customer measures. The measures are assessed independently. Any payment from the MTI is subject to reduction, up to and including the whole payment, based on CET 1 capital levels at the end of each three year cycle. Any payment from the MTI is subject to satisfactory individual performance.

Notes to the table

Base salary

In light of the additional regulatory requirements relating to remuneration for the Society in 2016, a review has been carried out as to the most appropriate structure for remuneration. As a consequence, a change to the ratio between fixed and variable pay has been made which reduces the overall remuneration opportunity for each Executive, reduces the maximum variable pay to 50% and increases fixed pay by an average of 15% as explained in the section 'Statement of implementation of Remuneration Policy in 2016'.

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 financial year to which they relate.

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 2016 are outlined in the 'Statement of implementation of Remuneration Policy in 2016' section of the full report.

Changes from remuneration arrangements operated in 2015

There will be no new MTI scheme in 2016. The MTI and Short Term Incentive (STI) schemes will be replaced by the SVPA. The SVPA is a new arrangement, designed to re-balance the total reward packages for our Executive Team and to reward the achievement of sustainable performance in line with member interests over a number of years. The scheme will commence in 2016, with the first payments (based on performance in the year ending 31 December 2016) commencing from 2017. These payments are subject to the new deferral arrangements set out in the table. Payments from the 2014/2016 and 2015/2017 MTI schemes will continue to be made (subject to performance and risk adjustment) together with any deferred incentive payments from prior performance year STI schemes.

Deferral periods required by regulation

From 2016, current regulations mean that the Group Chief Executive will, in normal circumstances, have 40% of his incentive payment paid in year one (20% in quarter one and 20% subject to a six month retention period). 60% of the incentive will be paid pro-rata in years four to eight following the incentive award, subject to a six month retention period for 50% of payments in each year. For other Executive Directors above de minimis, a longer deferral period may also be required by the regulations.

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 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 and MTI schemes

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. This might include, for example, amending the deferral arrangements to comply with changing regulation.

Remuneration policy for 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 takes into account fees paid by comparable financial services organisations.
Additional fees	Additional fees are payable for additional responsibilities such as committee chairmanship 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 between home and Skipton Head Office, including for attendance at Board and committee meetings, are reimbursed.

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

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 being given up and will take into account regulatory requirements, performance conditions and timing of payments.

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. 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 rules of the SVPA scheme and the MTI scheme[1] 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 and until the outstanding MTI cycles are completed, the Society will continue to pay any payment due to an eligible leaver 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 an SVPA award in respect of a partially completed performance year. Such an award would usually 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.

[1] The rules of the MTI scheme remain unchanged from our 2014 policy and include redundancy in the eligible leaver criteria in addition to those set out for the SVPA above.

Statement of implementation of Remuneration Policy in 2016

From 2016, as detailed in the policy section of this report, we will be introducing a new Single Variable Pay Arrangement (SVPA). In reviewing our remuneration policies and variable pay schemes for Executive Directors and other senior colleagues, we have taken into account member interests, market practice, the enhanced regulatory requirements for 2016 and our existing remuneration principles, including the need to attract and retain key talent within the organisation.

The new SVPA will retain many of the design elements from the existing STI and MTI schemes, including an enhanced balanced scorecard of financial and non-financial measures. The financial measures include Group profit, Mortgages and Savings division profit and its management expense ratio. The non-financial measures include customer growth and satisfaction scores, risk and governance, and people measures. For 2016, the weighting will be 50% based on financial, 30% on non-financial measures and 20% on personal objectives which include an element for strategy development and implementation.

In order to retain the longer term focus of the scheme, performance will be assessed against annual targets but will be subject to a sustainability assessment one year after the initial award has been made. The Remuneration Committee has the discretion, subject to agreed criteria, to reduce the overall award by up to 25%.

For Executive Directors (except the Group Chief Executive), 50% of the award will be paid in cash in 2017 and the remaining 50% will be deferred and paid pro-rata in 2018 to 2022 (unless a greater proportion, a longer deferral period or a retention period is required by regulations). For the Group Chief Executive, 20% of his 2016 award will be paid in cash in 2017 and 20% will be retained for a further six months subject to write down if the CET 1 ratio falls below an agreed level. The remaining 60% is deferred for three to seven years and is paid pro-rata in 2020 to 2024, again subject to the write down condition and a six month retention period for 50% of payments in each year.

The deferred payments for all participants are subject to the sustainability assessment and normal risk adjustment at the discretion of the Remuneration Committee.

The SVPA will reduce the overall maximum variable pay opportunity, from 100% to 50% of base salary. The target for all Executive Directors is 30% of base salary.

As part of the review of Executive remuneration, due to the significant reduction in variable pay opportunity, the Remuneration Committee proposes to increase base pay by 15% and implement retrospectively from 1 January 2016. The increase in base pay will mean that, in the longer term, the value of on-target total remuneration for the Executive Directors will remain broadly the same as the levels projected under the current STI and MTI schemes.

Annual Report on Remuneration in 2015

Executive Directors' remuneration

The total remuneration for Executive Directors in 2015 is set out in the table below:

2015 Audited	Salary	Benefits[(1)]	Current year annual performance pay[(2)]	Pension	Total	Prior years' deferred performance pay now released[(3)]
	£000	£000	£000	£000	£000	£000
Mr D J Cutter (note 4)	418	15	149	84	**666**	90
Mr I M Cornelius	244	12	91	21	**368**	21
Mr R S D M Ndawula (note 5)	221	10	93	19	**343**	-
	883	**37**	**333**	**124**	**1,377**	**111**

2014 Audited						
Mr D J Cutter	408	15	195	81	699	64
Mr I M Cornelius	236	12	111	19	378	21
Mr M R Fleet (note 6)	251	19	115	20	405	23
Mr R J Twigg (note 6)	76	14	46	15	151	27
	971	60	467	135	1,633	135

Notes:

1. Benefits comprise the provision of a car or car allowance and private medical insurance contributions.
2. £59,718 of the 2015 Short Term Incentive for Mr Cutter has been deferred under the rules of the scheme (2014: £77,802). No amounts relating to the 2014/2016 or 2015/2017 MTI are included in the above figures, as payments will be based on performance in the stated periods and are not due to commence until 2017. For Messrs Cutter, Cornelius and Ndawula, a total of £314,877 has been accrued to 31 December 2015. This represents two thirds of the estimated payment for the 2014/2016 scheme and one third of the estimated payment for the 2015/2017 scheme based on current performance. The accrual will be reviewed at the end of each qualifying year and adjusted, as required, based on that year's performance.
3. The Incentive Scheme rules include the requirement to defer over three years a portion of the amount earned by any individual if the total amount earned by that individual is greater than £500,000, or the amount earned under the Incentive Scheme is more than 33% of his or her total remuneration.
4. Mr Cutter's 2015 pension figure includes the additional value earned in the defined benefit scheme during 2015 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.
5. Mr Ndawula was appointed as Group Finance Director on 23 February 2015.
6. Mr Fleet resigned on 31 December 2014 and Mr Twigg transferred to Connells Limited on 7 April 2014.

Non-Executive Directors' remuneration

Non-Executive Directors' fees (excluding those of the Chairman) 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 and in 2015 recommended that the basic Non-Executive Director fee and Deputy Chairman fee should be increased by £2,000 and £1,000 to £48,000 and £53,000 respectively with effect from 1 August 2015. The fees for chairing the Audit and Board Risk Committees were increased by £500 to £13,000 per annum. The fee for the chair of the Remuneration Committee was increased by £1,000 to £11,000 per annum to reflect the increasing complexity in the role. These fee increases were also effective from 1 August 2015.

The Chairman's fees are reviewed and approved by the Remuneration Committee. Mr Ellis' fee was agreed as £160,000 from 1 August 2014 and when reviewed by the Remuneration Committee in 2015 was increased to £165,000 with effect from 1 August 2015.

Audited

	Notes	2015 Fees £000	2015 Committee chair fees £000	2015 Taxable benefits (1) £000	2015 Total £000	2014 Fees £000	2014 Committee chair fees £000	2014 Taxable benefits (1) £000	2014 Total £000
Mr M H Ellis (Chairman)		162	-	5	167	157	-	4	161
Mr P J S Thompson (Deputy Chairman)	2	52	10	2	64	51	9	2	62
Mrs C Black		47	-	4	51	45	-	3	48
Ms M Cassoni	3	47	13	5	65	45	12	6	63
Mrs D P Cockrem	4	16	-	2	18	-	-	-	-
Mr R D East	5	47	13	1	61	45	-	1	46
Mr P R Hales	6	12	-	-	12	45	12	1	58
Mr G E Picken	7	72	-	4	76	70	-	4	74
Ms H C Stevenson		47	-	3	50	45	-	4	49
		502	36	26	564	503	33	25	561

Notes:

1. In line with the requirements for UK listed companies, we have, this year, opted to disclose the taxable benefits paid to our Non-Executive Directors. The taxable benefits shown in the table above relate to the reimbursement of travel and subsistence expenses between home and Skipton Head Office, including attendance at Board and committee meetings.
2. Mr Thompson is Deputy Chairman and Chairman of the Remuneration Committee.
3. Ms Cassoni is the Chairman of the Audit Committee.
4. Mrs Cockrem was appointed to the Board on 1 September 2015.
5. Mr East was appointed as Chairman of the Board Risk Committee on 1 January 2015.
6. Mr Hales stepped down as the Chairman of the Board Risk Committee on 31 December 2014 and retired from the Board on 31 March 2015. Mr Hales joined the Board of SFS and received fees of £37,548 (2014: £nil) for being a member of that Board, which is not included in the above table as he is no longer a Director of the Society.
7. Mr Picken is also a Non-Executive Director of Connells Limited for which he receives an annual fee of £25,000 included in the table above.

The Committee and its advisers

The purpose of the Remuneration Committee is to determine, on behalf of the Board, the Remuneration Policy and to:

- 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;
- Maintain policies which are compliant with governing laws and regulations;
- Ensure that remuneration arrangements support and encourage desired behaviours and culture; and
- Ensure appropriate governance of remuneration practices across the Society and its subsidiary companies and exercise effective oversight of these.

The full terms of reference of the Remuneration Committee and the remuneration principles are available, on request, from the Group Secretary. The terms of reference are also available online at www.skipton.co.uk.

Nimble Thompson
Chairman of the Remuneration Committee
23 February 2016

For more information

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