Skipton Building Society

Summary Financial Statement 2014

SKIPTON
BUILDING SOCIETY
For life ahead

304774NL

Summary Financial Statement 2014

This financial statement is a summary of information from the audited Annual Report and Accounts, which are available to members and depositors online at www.skipton.co.uk/financialresults or free of charge on demand at every office of Skipton Building Society.

Summary Directors' Report

It is pleasing to report an excellent performance. The Society has remained true to its mutual heritage, continuing to balance the needs of savers and borrowers.

Our vision is *Building a better Society*, and considerable progress was made during 2014 towards making this a reality:

- The Society continued to grow with a 31,276 increase in members, taking our membership to 794,739;
- We are helping more people to save their money and buy their own homes, with an 11.7% growth in savings balances and an 11.2% growth in mortgage balances;
- Total Group profit before tax (PBT) increased by 75% to £181.6m; and
- The Group Common Equity Tier 1 (CET 1) ratio increased to 16.2%.

However, it still remains a difficult environment for savers, with Bank Base Rate held at 0.5% for six years and the existence of the Funding for Lending Scheme creating a reduction in demand for retail savings from participating banks and building societies. Against this backdrop it is good to be able to report strong growth of more than 11% in both savings and mortgage balances, well in excess of market growth, reflecting our competitive pricing and service proposition. Strong underlying profits and a robust capital position give us the foundation to enhance our customer proposition as we seek to fulfil our vision of 'Building a better Society'.

During the year, our business model has been simplified with the disposal or closure of certain non-core subsidiaries allowing us to focus on our core mortgages and savings business and financial advice, whilst maintaining a significant presence in estate agency.

Unwavering focus on our members and our people

Over the last 12 months we have run an extensive programme of engagement with our members. Our members have told us this honest dialogue is important to them, and the results demonstrate that our personal touch means a great deal.

A significant achievement saw Skipton ranked 13th place out of 263 UK brands, and across many different industries, in the annual Nunwood Customer Experience Excellence survey. In the same survey, we were delighted to be named as the UK's third best financial services organisation for customer experience excellence, outshining some of the UK's top companies. This demonstrates we are definitely on the right track to provide our customers with a brilliant experience and putting them at the heart of the Society's strategy.

In addition to first-rate service, we've improved the customer experience in other ways. We launched a new Retirement Review service, enabling all new and existing customers to start planning their life ahead with support and advice at hand from our financial planning managers. 2014 saw us invest significantly in areas highlighted by our customers as most important to them. We grew our Skipton-based customer contact centre staffing levels by over 40% in response to increasing customer demand over the telephone and online. This means we can now talk to more people and spend longer talking to them, understanding their specific needs, and delivering an even better customer service.

We have also invested in refurbishing branches, enhancing the Society's digital capability and training, developing and inspiring our own people, at all levels of our business. As a result of the latter we're delighted to have been re-accredited as a Customer First organisation, the national standard for customer service. We've also been awarded the 'Gold Standard' by Investors in People, one of only two building societies in the UK to achieve this. In addition, we are delighted to have been successful in achieving top 100 status for the first time in 2014 in the 'Sunday Times Top 100 companies to work for' survey.

As a proud mutual we are working hard to make sure Skipton continues to be relevant to our members and therefore remains a successful modern mutual for the 21st century. The Society continues to invest across all channels so customers can easily interact through the channel of their choice. We strive to deliver excellent customer service and the Board would like to thank all our people for their commitment and engagement in making this happen throughout 2014. The Society achieved a record Employee Engagement level of 88%, significantly ahead of industry norms.

Enabling our members to achieve their home ownership, savings and 'life ahead' aspirations

During 2014 we continued to support our savings and borrowing members, with a suite of competitive and award winning accounts. From delivering on a promise to reward member loyalty with the introduction of a Loyalty Regular Saver account, to launching our Help to Buy Shared Equity new build mortgage, we continued to provide good value to our savers and borrowers.

Gross mortgage lending increased by 23% to £3.0bn, whilst our mortgage book grew by £1.3bn to £12.7bn, an annual growth rate of 11.2%. Our net mortgage lending accounted for 5.3% of the growth in the UK residential mortgage market, compared to our 0.9% share of UK residential mortgage balances. This meant we helped 19,512 homeowners to purchase or remortgage their properties, including 2,946 first time buyers, and 667 through participation in the Government's 'Help to Buy' equity loan scheme.

Our savings balances grew by £1.2bn to £11.4bn. The growth in Skipton's savings balances accounted for 2.3% of the growth in the UK deposit savings market, compared to Skipton's 0.9% share of UK deposits from households.

Market conditions continue to have an impact on savers, with the average savings rate paid across all our accounts reducing by 0.30% during the 12 month period. Nevertheless, rates averaged 1.94% during the year, compared to Bank Base Rate which remained at 0.5%. Skipton paid on average 0.53% higher interest than the market average for banks and building societies during the period for which data is currently available, being the 10 months to 31 October 2014 (Source: CACI Savings Market Database). Our savings rates were highlighted by 448 independent media best-buy table mentions over the year. We were also awarded 'Best National Building Society' for 2014 by What Mortgage?, 'Best Junior / Children's Savings Provider' by Personal Finance, 'Best Service from a Buy-To-Let Provider' by Business Moneyfacts and 'Best Lender for Discount Mortgages' by Moneywise Mortgage.

Strong financial performance

- Group total assets increased by 10.3% during the year to £16.0bn;
- Group PBT from continuing operations increased by 53% to £156.8m;
- 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 79% to £151.1m;
- A combination of strong retained profits, a reduction in capital requirements due to subsidiary disposals and maintenance of a prudent risk appetite for new lending, have all contributed to strengthening the Group CET 1 ratio, which increased to 16.2%;
- The Group's leverage ratio increased to 6.0%, well in excess of the expected regulatory minimum;
- In addition to reporting good growth in mortgage and savings balances (of 11.2% and 11.7% respectively) the core Mortgages and Savings division produced PBT of £98.4m, from £51.5m, an increase of £46.9m (or 91%) and was the major driver of the increase in overall Group profitability. This was due to interest earned on higher mortgage balances and lower funding costs, as well as a reduction in mortgage impairment losses by £8.4m;
- The Group net interest margin increased by £70.7m to £213.3m, equating to 1.40% of mean assets (2013: 1.01%);
- The cost income ratio of the Mortgages and Savings division was 44.5% (2013: 50.0%), whilst the management expense ratio of the division was 65bps (2013: 59bps), reflecting the investment we have made in our customer proposition, processes and our people;
- Our prudent approach to lending is demonstrated by the number of Group residential mortgages where the amount of arrears was more than 2.5% of the total outstanding balance. These were only 0.82% of mortgages (2013: 1.07%) and compared to the Council of Mortgage Lenders (CML) industry average of 1.05%;
- During the year, the Society completed its third securitisation transaction, raising £400m of funds, and at 31 December 2014 had drawn down £650m under the Government's Funding for Lending Scheme (2013: £460m); and
- The Society received an improved assessment of its financial strength with upgrades to our credit ratings by both Fitch and Moody's.

Subsidiary performance

- Connells, our Estate Agency division, increased PBT by 26% to £63.2m (2013: £50.2m). The 2014 figure includes a profit of £10.1m arising from the part disposal of shares on the flotation of Zoopla Property Group Plc;
- House sales (exchanges) by Connells in 2014 increased by 11% compared to 2013, on a like-for-like basis (excluding properties sold by Peter Alan which was acquired during the year), despite the market cooling in the second half of the year;
- Combined profits of £25.8m arose on the disposals of Homeloan Management, The Private Health Partnership and Torquil Clark. A further £12.4m profit arose from the deemed part disposal of shares in Wynyard Group Limited and part disposal of shares in Zoopla Property Group Plc. In 2013, profits on disposal of subsidiary undertakings amounted to £24.7m, and related to a deemed disposal of shares in Wynyard;
- Since 31 December 2014, the Group has agreed to sell Pearson Jones plc, with completion conditional upon regulatory approval and certain other conditions. In exchange for the sale of its 100% shareholding, the Group will receive an undisclosed sum. In 2014, Pearson Jones reported PBT of £1.9m (2013: £1.1m). There will be an immaterial profit on disposal which will be accounted for in 2015;
- Our Mortgage Services division, comprising Homeloan Management Limited and its subsidiaries, was sold in November 2014 and became a discontinued operation. Proceeds of sale amounted to £56.6m, generating a profit on disposal of £24.7m. Together with five months trading profits of £0.1m (2013: full year £0.9m), total profits for the division amounted to £24.8m (2013: £0.9m);
- Skipton Financial Services (SFS) recorded PBT of £0.2m (2013: £1.6m), where an increase of £2.5m in rebate of charges under its ongoing monitoring service proposition was offset by an increase in other income lines;
- PBT for Skipton Business Finance totalled £2.9m (2013: £2.7m);
- Jade Software Corporation recorded a loss of £(0.7)m (2013: underlying loss of £(4.0)m); and
- Our share of Wynyard losses was £(2.6)m (2013: £(2.6)m).

Conclusion and outlook

2014 was an outstanding year for Skipton Building Society. We have maintained good growth of both mortgage and savings members whilst further improving the financial strength of the Society. We remain committed to listening to our members to understand and deliver what is important to them and providing a service with a human touch.

We are acutely conscious of the impact of the low interest rate environment on savers but the Society's competitiveness is demonstrated by a strong growth in savings balances. The strength of the economic recovery, mortgage market and housing market all moderated towards the end of 2014 but very early indications in 2015 are that there has been a slight improvement in many of these areas since the year end. The Society anticipates a gradual but affordable reduction in its net interest margin in the short to medium term due to increased competition. Uncertainties will remain regarding the strength of the Eurozone, and if there is no clear mandate emanating from the UK General Election in May 2015. Skipton Building Society is well positioned to face such uncertainties, to react to the pension reform agenda and to serve its members well.

Group results for the year ended 31 December	2014 £m	2013 Restated (note 1) £m
Net interest receivable	213.3	142.6
Other income and charges	392.8	372.6
Profit on disposal of subsidiary undertakings	1.1	24.7
Profit on part disposal of equity share investments	10.1	-
Profit on part disposal of associate	2.3	-
Fair value (losses) / gains on financial instruments	(2.0)	3.9
Administrative expenses and provisions for liabilities	(444.2)	(418.4)
Impairment losses	(16.6)	(22.7)
Profit for the year before tax from continuing operations	156.8	102.7
Tax expense	(34.9)	(26.3)
Profit for the financial year from continuing operations	121.9	76.4
Profit after tax from discontinued operations	24.8	0.8
Profit for the financial year	146.7	77.2
Non-controlling interests' share of losses / (profits)	0.4	(1.1)
Profit for the financial year attributable to members	147.1	76.1

Total Group PBT for 2014 was £181.6m (2013: £103.6m) as follows:

	2014 £m	2013 Restated (note 1) £m
Profit before tax from continuing operations	156.8	102.7
Profit before tax from discontinued operations	0.1	0.9
Profit on disposal of discontinued operations	24.7	-
Total Group profit before tax	181.6	103.6

Underlying Group PBT from continuing operations for 2014 was £151.1m (2013: £84.6m) as follows:

	2014 £m	2013 Restated (note 1) £m
Total Group profit before tax	181.6	103.6
Less profit before tax from discontinued operations	(0.1)	(0.9)
Less profit on disposal of discontinued operations	(24.7)	-
Less profit on disposal of subsidiary undertakings	(1.1)	(24.7)
Less profit on part disposal of associate and equity share investments	(12.4)	-
Add back FSCS levy	7.8	6.6
Underlying Group profit before tax from continuing operations	151.1	84.6

Group financial position at 31 December	2014	2013 Restated (note 1)
	£m	£m
Assets		
Liquid assets	**2,594.1**	2,381.1
Residential mortgages	**12,357.1**	11,017.6
Commercial and other loans	**479.7**	499.3
Derivative financial instruments	**133.4**	148.8
Fixed and other assets	**417.4**	439.9
Total assets	**15,981.7**	14,486.7
Liabilities and Reserves		
Shares	**11,467.5**	10,260.1
Borrowings	**2,663.6**	2,531.8
Derivative financial instruments	**307.3**	287.6
Other liabilities	**279.1**	253.8
Subordinated liabilities	**98.0**	124.4
Subscribed capital	**94.3**	94.1
Non-controlling interests	**(0.7)**	2.9
Reserves	**1,072.6**	932.0
Total liabilities and reserves	**15,981.7**	14,486.7

Group statement of movement in reserves	2014	2013 Restated (note 1)
	£m	£m
Reserves at 1 January	**932.0**	838.5
Net (expense) / income for the year not recognised in the Income Statement	**(6.5)**	17.4
Profit for the year	**147.1**	76.1
Reserves at 31 December	**1,072.6**	932.0

This Summary Financial Statement was approved by the Board of Directors on 24 February 2015 and was signed on its behalf by:

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

Summary of key financial ratios	2014 %	2013 Restated (note 1) %
Gross capital as a percentage of shares, deposits and borrowings	**8.95**	9.02
Liquid assets as a percentage of shares, deposits and borrowings	**18.36**	18.61
Group profit after tax for the year as a percentage of mean total assets – continuing operations	**0.80**	0.54
Group management expenses as a percentage of mean total assets – continuing operations	**2.80**	2.83
Society management expenses as a percentage of mean total assets	**0.57**	0.50

Note 1:
During the period, the Group has applied the interpretations of IFRIC 21 *Levies*, which changes the date at which the provision for the Financial Services Compensation Scheme (FSCS) is recognised. Previously the Group recognised its share of the FSCS levy on 31 December of the year preceding the scheme year in question, however IFRIC 21 clarifies that, as the FSCS can only raise a levy within the scheme year in question, then the date that triggers recognition of the provision is 1 April of the scheme year itself.

If the above interpretations had been applied in 2013, provisions for liabilities would have been £1.1m lower and the tax expense £0.2m higher than previously stated at 31 December 2013. The 2013 comparatives included in this Summary Financial Statement have been restated accordingly.

The prior period figures have also been re-presented in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations*, to reflect the disposal of Homeloan Management Limited and its subsidiary companies, which became a discontinued operation during 2014.

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 2013 and 2014 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 bear to the average of the mean total assets during the year.

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 2014 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 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 Accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2014, 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 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 Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2014.

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 Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2014 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 Audit Plc, Statutory Auditor

Chartered Accountants
Leeds

24 February 2015

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, bonuses and benefits for the Directors for the year ended 31 December 2014.

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

- A summary of the Remuneration Policy for Executive and Non-Executive Directors. The Remuneration Policy, which was set out in detail in the 2013 Annual Report and Accounts, was approved at the AGM in April 2014. The policy remains unchanged for 2015;
- Details on how we pay the Society's 'Material Risk Takers' (referred to as 'Code Staff' in previous years) – 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 five years; and
- Details on the Remuneration Committee and its advisers.

The Annual Report on Remuneration on pages 9 to 10 explains how we put our Remuneration Policy into practice in 2014 and page 10 explains how we intend to apply it for 2015.

Key decisions taken in 2014

The strong performance that we saw in 2013 has continued into 2014, with total Group profit before tax (PBT) increasing to £181.6m (2013: £103.6m), the core Mortgages and Savings division PBT reaching £98.4m (2013: £51.5m) and CET 1 capital increasing to 16.2% (2013: 14.2%).

The Committee's key deliberations and decisions made during the year were:

- Within the context of strong performance in 2014 and taking into account our approach to risk management, the Committee made awards under the Society's annual bonus scheme. The average payment made to the Executive Directors (excluding Mr Twigg) was 47% and to the remaining senior managers in the Senior Leadership scheme was 29% of base salary. In 2014 we introduced an annual bonus scheme for all our people in the Society, having made a discretionary award in 2013. The average payment from this scheme was 5.25% of base salary.
- During 2014 we launched the new Medium Term Incentive scheme (MTI) signalled in our 2013 report. The 2014 MTI operates over a three year performance period ending 31 December 2016 and aligns reward to the achievement of sustainable profit, increased customer satisfaction and growth in customer numbers. Payments for the 2014 – 2016 performance period will not be made until 2017, 2018 and 2019. Half of the amount due will be paid in 2017, one quarter in 2018 and one quarter in 2019. We anticipate that the MTI will run on a rolling annual basis and plan to implement the same scheme in 2015. The limit on our short term and medium term performance pay is the same for each scheme and the overall limit does not exceed 100% of base salary.
- During the year, the Committee has considered the impact of new regulatory changes including the CRD IV regulations, which is an EU legislative package covering prudential rules for banks, building societies and investment firms. The Committee reviewed and agreed the Group companies within scope of the new regulations and approved the list of employees identified as Material Risk Takers (MRTs) in accordance with the European Banking Authority technical standards.
- The Committee has maintained oversight of Group bonus and incentive schemes, approving a Medium Term Incentive Plan (MTIP) for Skipton Financial Services Limited senior managers and approving bonus schemes for the management teams of subsidiaries which were divested in 2014, to ensure value was achieved for the Society through the sale processes.

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 ongoing Remuneration Policy. The Committee recommends that members vote in favour of the Directors' Remuneration Report at the forthcoming AGM.

Nimble Thompson
Chairman of the Remuneration Committee

24 February 2015

Annual Report on Remuneration in 2014

Executive Directors' remuneration

The total remuneration for Executive Directors in 2014 is set out in the table below:

2014 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	408	15	195	81	699	64
Mr I M Cornelius	236	12	111	19	378	21
Mr M R Fleet (note 4)	251	19	115	20	405	23
Mr R J Twigg (note 5)	76	14	46	15	151	27
	971	**60**	**467**	**135**	**1,633**	**135**

2013 Audited						
Mr D J Cutter	366	16	296	73	751	24
Mr I M Cornelius	215	12	158	17	402	-
Mr M R Fleet	235	65	170	19	489	-
Mr R J Twigg	280	12	206	56	554	-
	1,096	105	830	165	2,196	24

Notes:

1. Benefits comprise the provision of a car or car allowance, and private medical insurance contributions. Mr Twigg's 2014 benefits include £11,043 in relation to holiday pay on his transfer to Connells Limited in April 2014. Mr Fleet's 2013 benefits include £44,717 in relation to relocation costs.
2. £77,802 of the 2014 Short Term Incentive bonus has been deferred under the rules of the scheme (2013: £333,172). No amounts relating to the 2014/2016 MTI are included in the above figures as payments will be based on performance in 2014, 2015 and 2016 and are not due to be made until 2017, 2018 and 2019. For Mr Cutter and Mr Cornelius a total of £92,002 has been accrued for in 2014. This represents a third of the estimated payment 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 if the amount earned under the Incentive Scheme is more than 33% of his or her total remuneration.
4. Mr Fleet left the Society on 31 December 2014. In accordance with our Remuneration Policy, he will receive the Short Term Incentive for the performance year 2014 which he completed and to which he made a significant contribution. He will be paid in lieu for his contractual notice however he has agreed to forgo any remaining pay in lieu of notice in the event of commencing alternative employment within the 12 month notice period.
5. Mr Twigg resigned as a Director of the Society with effect from 7 April 2014 when he took up the role of Finance and Commercial Director at Connells Limited. The reported figures reflect his earnings to that date and a quarter of his annual bonus payment as an Executive Director.
6. Mr Ndawula was appointed as Group Finance Director on 23 February 2015. His remuneration is not disclosed in the table above as he was not a Director in 2014, but details will be included in respect of 2015 onwards.

Comparison to the remuneration of other employees

In January 2014, we introduced a Medium Term Incentive Scheme which reduced the Short Term Incentive (STI) available (from 85% to 50% for the Group Chief Executive and from 75% to 50% for the other Executive Directors with the exception of Mr Twigg who remained in the existing STI scheme) but which increased variable pay in the longer term, aligned with medium term sustainable performance. As part of this change in structure to remuneration, and to reflect external benchmarking, the Committee agreed, with effect from 1 January 2014 to increase the Group Chief Executive's base pay by 8.1%. His normal annual salary review increase in April 2014 resulted in a 2.5% increase in base salary. This compares to an average pay award of 3.9% in 2014 for all other Society employees. It should be noted that Society remuneration relates to Society employees only as this is considered to be the most sensible comparator due to the varying remuneration policies across the other Group subsidiaries.

The Group Chief Executive's total remuneration in 2014 has decreased due to the reduction in short term bonus opportunity (from 85% to 50% of base salary). In the longer term, this may increase again, depending on performance, but will be capped at 100% in any one performance year.

Non-Executive Directors' remuneration

Non-Executive Directors' fees (excluding those of the Chairman) 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 2014 recommended that the basic Non-Executive Director fee and the Deputy Chairman fee should be increased by £2,000 to £46,000 and £52,000 respectively with effect from 1 August 2014. The fees for chairing the Board Audit and Board Risk Committees were increased by £500 to £12,500 per annum. The fee for the chair of the Remuneration Committee was increased by £2,000 to £10,000 per annum to reflect the increasing complexity in the role. These fee increases were also effective from 1 August 2014.

The Chairman's fees are reviewed and approved by the Remuneration Committee. Mr Ellis' fee was set at £155,000 per annum when he joined the Board as Chairman on 24 May 2011. An increase to £160,000 per annum was approved by the Remuneration Committee in September 2014 with effect from 1 August 2014.

Audited	**2014**			2013		
	Fees	**Committee chairmanship fees**	**Total**	Fees	Committee chairmanship fees	Total
	£000	**£000**	**£000**	£000	£000	£000
Mr M H Ellis (Chairman)	**157**	**-**	**157**	155	-	155
Mr P J S Thompson (Deputy Chairman) (note 1)	**51**	**9**	**60**	45	3	48
Mr C N Hutton (note 2)	**-**	**-**	**-**	28	2	30
Mrs C Black (note 3)	**45**	**-**	**45**	36	-	36
Ms M Cassoni (note 4)	**45**	**12**	**57**	43	10	53
Mr R D East (note 5)	**45**	**-**	**45**	43	-	43
Mr P R Hales (note 6)	**45**	**12**	**57**	43	10	53
Mr G E Picken (note 7)	**70**	**-**	**70**	52	-	52
Ms H C Stevenson (note 8)	**45**	**-**	**45**	36	-	36
	503	**33**	**536**	481	25	506

Notes:

1. Mr Thompson was appointed Deputy Chairman and Chairman of the Remuneration Committee on 31 July 2013.
2. Mr Hutton retired as a Director, Deputy Chairman and Chairman of the Remuneration Committee on 30 July 2013.
3. Mrs Black was appointed as a Director on 1 March 2013.
4. Ms Cassoni is the Chairman of the Audit Committee.
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 will retire from the Board on 31 March 2015. Mr Hales will join the Board of SFS for the remainder of 2015, subject to regulatory approval.
7. Mr Picken was appointed as a Director of Connells Limited on 19 June 2013, for which he receives an annual fee of £25,000 included in the table above.
8. Ms Stevenson was appointed as a Director on 1 March 2013.

Statement of implementation of Remuneration Policy in 2015

We anticipate that the implementation of our Remuneration Policy in 2015 will be unchanged from 2014 with regard to the variable pay schemes in operation and our approach to reviewing base pay.

However, subject to meeting our corporate plan expectations in 2015, the Group's average total assets over the last three years will exceed £15bn. This means that, in 2016, we will need to comply with additional requirements in the governance of remuneration as set out by the Prudential Regulation and Financial Conduct Authorities (PRA and FCA). This is a significant change which will require a close review of our existing remuneration policies and schemes to meet evolving regulatory requirements.

In reviewing our remuneration policies and variable pay schemes for Executive Directors and other senior colleagues, we will take into account member interests, market practice and our existing remuneration principles including the need to attract and retain key talent within the organisation.

The Committee and its advisers

The Remuneration Committee is responsible for determining, on behalf of the Board, the Remuneration Policy, reviewing its adequacy, effectiveness and compliance with regulatory requirements.

The terms of reference of the Remuneration Committee and the Remuneration Principles it sets out for Group companies are available, on request, from the Secretary or online at www.skipton.co.uk. More details on the Committee and its advisers are included in the Directors' Remuneration Report in the Annual Report and Accounts.

Nimble Thompson
Chairman of the Remuneration Committee

24 February 2015

For more information

Visit your branch

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