AGM 2021

Summary Financial Statement 2020

SKIPTON BUILDING SOCIETY
Since 1853

This financial statement is a summary of information from the audited Annual Report and Accounts, the Directors' Report and Annual Business Statement, all of which are available to members and depositors online at **skipton.co.uk/financialresults** from 16 March 2021 or on request from 26 March 2021 by emailing **annualaccountsrequest@skipton.co.uk**, or by arrangement from Skipton branches.

Summary Directors' Report

Without a doubt 2020 was one of the most challenging years we have ever faced. Our fundamental priority remains of looking after our members and people, ensuring their safety and well-being, and being there for them when they need us, wherever they need us.

We are incredibly proud that our people, all of whom were impacted by COVID-19 just like everyone else across the UK, adapted and responded positively by continuing to serve our customers throughout such unprecedented times.

As a 168-year-old mutual, Skipton's values are firmly rooted in helping people have a home and save for the future. We will always make decisions based on the long term best interests of the business and our members, not shareholders. Over the years this consistent approach has seen us successfully navigate through the good times, and the difficult times. And COVID-19 brought this purpose to the fore.

The COVID-19 pandemic has delivered one of the biggest shocks to the UK and global economy in several generations. The pandemic affected every part of the Group's operations, with lockdown measures applied in the UK, Guernsey and New Zealand. Connells, our Estate Agency division, was required to close its entire network of almost 600 estate agency branches for two months and all of its surveyors were prohibited from carrying out physical valuations during this time. However, by ensuring the continuation of all services to members throughout the year and the dedication and agility of its colleagues, Skipton continued to provide excellent customer service with net customer satisfaction of 85% (2019: 86%), as well as providing stability and a secure place for its members' savings due to its continued strong capital and liquidity position and the resilience of Skipton's business model. Skipton's mortgage and savings balances increased by 8.6% and 7.7% respectively.

Performance highlights in 2020 include:

- Continued growth in membership, with member numbers increasing by 14,844 to 1,061,138 (31 December 2019: 1,046,294);
- Group gross mortgage lending was £4.5bn (2019: £4.9bn), with mortgage balances growing by 8.6% since the end of 2019 (2019: 10.3%);
- Society savings balances grew by 7.7% (2019: 7.6%) to £18.7bn by the end of 2020;
- Group total assets increased by 10.9% during the year to £28.3bn (2019: £25.5bn);
- The Group net interest margin was 0.89% (2019: 0.98%). The decrease seen was driven by the two Bank Base Rate cuts announced in March 2020 and a competitive mortgage and savings market early in the year. Margins in the second half of the year were marginally higher than the first half as competition in the savings market reduced and demand for mortgages increased, reflecting a stronger housing market;
- Total profit before tax (PBT) was £118.8m (2019: £153.2m). The decrease in total Group profits was primarily due to the reduction in underlying profits (see below);
- In a challenging environment, the Group recorded underlying PBT (as defined on page 6) of £124.0m (2019: £155.2m). Profits have been impacted in the short term by the increase in the Group's loan impairment charges to £25.7m (2019: £0.5m) arising from an expected worsening of the economic outlook. In line with accounting standards, loan impairment charges are booked upfront before they are incurred. However, the nature of the pandemic, its impact on customers and businesses, and the actions taken by the Government to support the economy, make it extremely difficult to forecast loan impairments and therefore requires a significant level of estimates and judgement, based on limited observable data at the reporting date;
- Administrative expenses across the Group decreased by £47.7m (8.6%) to £506.3m (2019: £554.0m) largely due to a reduction in expenses in the Estate Agency division that saw closure of all branches for two months of the year;
- Although likely not at the peak of this severe economic cycle, the Group's arrears position continues to be well below the industry average. The Group's UK residential mortgages in arrears by three months or more represent only 0.29% of mortgage accounts (31 December 2019: 0.25%), which compares to an industry average of 0.83% (2019: 0.72%) of residential mortgages in arrears by more than three months. We are providing support to customers who have been financially affected by COVID-19 and mortgage payment deferrals granted in this respect may suppress the impact of the pandemic on arrears in the short term;
- The Liquidity Coverage Ratio was 194% (2019: 207%), well above both the regulatory limit of 100% and the internal limit set by the Board throughout the period;
- The Society's Common Equity Tier 1 (CET 1) ratio at 31 December 2020 remained strong at 39.7% (2019: 39.1%). An expected deterioration in the economy in 2021 means we expect the CET 1 ratio to reduce during 2021. However, we expect to remain well above our regulatory minimum capital requirements; and
- The leverage ratio was 5.7% (2019: 6.0%), well above the Regulator's expected minimum.

Absolute Customer Focus

The coronavirus pandemic has had a profound impact on our customers in unprecedented ways and our priority and response to these exceptional circumstances has been to ensure the safety of, and provision of support for, members, customers and colleagues. We have continued to maintain a UK-wide branch presence to allow members to carry out essential transactions. We continued to offer outstanding customer service to our members in 2020, as demonstrated through our net customer satisfaction score of 85% (2019: 86%).

We adapted to changing customer behaviours driven by the pandemic, utilising existing digital capabilities to continue to provide an empathetic, human touch when face-to-face interactions in branch were restricted. This included a fourfold increase in the use of Skipton Link (our video conferencing system) for account opening and financial advice appointments, a 72% increase in webchat usage, and a 66% increase in social media interactions, providing support for customers and brokers. This provided our customers with choice of how and when they wanted to interact with Skipton.

For savers, the Society paid an average savings rate of 0.97% in the 11 months to 30 November 2020 (2019 full year: 1.29%), which was on average 0.38% above the industry average for banks and building societies during the latest period for which comparable data is available (2019 full year: 0.54% higher) (source: CACI Current Account & Savings Database Stock). While this has been a difficult time for savers, Skipton has proven a safe and stable place for members' money.

Brilliant People

It is testament to the first-rate efforts of our people, all of whom have been impacted like everybody else across the country in so many different ways, that we have been able to quickly adapt and respond to continue to serve our customers well throughout these unprecedented times.

The Society aims to deliver an outstanding colleague experience and our overall colleague engagement increased to 90% (2019: 89%). We have supported colleagues throughout the pandemic with working from home provisions for those that are able to, flexible working to allow for childcare and other commitments, and ensuring the highest levels of safety in all working practices.

We have been an Investors in People accredited organisation for over 25 years and in 2020 the Society retained its Investors in People Platinum standard which it has now held for four years, the highest accolade that can be achieved against this standard.

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

Powered by digital technology and data

We continued to improve the digital experience for members across mortgages, savings and financial advice in 2020. Investment in enhanced digital capability continues to be a particular area of focus to support and drive improvements to the customer experience.

At 31 December 2020 we had 47% of our online customers registered for the Skipton app, with over 188,000 registrations since the launch of the app in July 2019. We have achieved record customer satisfaction scores in digital channels at 81%. This includes work throughout 2020 to provide the human touch in our digital interactions.

Financial Strength

Strong performance in the Mortgages and Savings division

The Mortgages and Savings division reported an underlying PBT of £67.3m (2019: £103.9m). The fall in profits is predominantly due to loan impairment charges in the division of £25.2m (2019: £0.3m) as a consequence of the worsening economic outlook arising from COVID-19 and the Government restrictions imposed on households and businesses to help mitigate health impacts of the pandemic. The division reported statutory PBT of £64.6m, compared to £100.8m in 2019.

Skipton International Limited continues to make a strong contribution to the division's profits, with PBT of £19.9m (2019: £21.2m).

Financial advice income levels were impacted by more limited opportunities to generate new business during COVID-19 restrictions especially due to a reduction in branch transactions and interactions. Nevertheless, through the use of remote technology, servicing and interaction with existing financial advice customers was maintained.

The division's management expense ratio was 0.60% (2019: 0.65%) and the cost income ratio was 63.3% (2019: 60.2%). Carefully managing costs has been a priority but costs have increased overall as safety measures and home-working provisions were introduced.

Robust performance from estate agency in a difficult market

The Estate Agency division recorded underlying profits of £55.1m (2019: £50.1m). Following a buoyant start to the year, Connells navigated unprecedented terrain as it closed its branches to the public on 23 March for two months, in line with Government guidelines, to help efforts in preventing the spread of coronavirus.

With virtually no transactional business during lockdown, the number of properties that Connells exchanged contracts on during the year was 16% lower than in 2019 and total income fell by 11% to £378.6m (2019 re-presented: £427.7m). Connells moved effectively to home working and took swift and decisive action to manage its cost base and liquidity position; it utilised the Government's Coronavirus Job Retention Scheme ('CJRS') and placed 78% (at the peak) of its colleagues on furlough. Connells' executive team communicated with those employees on furlough and is proud to have protected their incomes by continuing to pay 100% of basic pay from March to July and any commissions due during this time to those not required to work, above the minimum 80% (up to £2,500 per month) set by the Government. The Connells executive team also voluntarily withdrew from their 2020 bonus scheme. The total benefit received by Connells from elements of government support, including the CJRS, business rates relief and retail premises grants totalled £25.7m. No other parts of the Skipton Group received direct government support in relation to the pandemic.

The Connells group saw a positive recovery on the initial reopening of the housing market in May. Activity levels improved considerably, helped by the stamp duty holiday announced by the Government. Despite various local and national restrictions being imposed by the Government during the second half of the year, top line results remained ahead of the prior year during this period. Connells have worked with their customers to help them, particularly with re-mortgaging and the total value of lending generated for UK mortgage providers during 2020 increased to £10.9bn (2019: £10.7bn). The Connells group remains focused on helping more customers to buy homes or reduce their mortgage outgoings by providing them with a good experience and outcome.

In December, Connells reached an agreement with the Countrywide plc board and its major shareholders to acquire Countrywide. The combination of the two businesses is an exciting opportunity to extend Connells' presence across the UK and the enlarged scale of the Society's estate agency operations should deliver enhanced returns for the Society, and hence its members, over the medium and longer term. However, financial results in 2021 will be impacted by one-off costs associated with the combination of the two businesses.

Other Subsidiaries

Skipton Business Finance (SBF), a provider of debt factoring and invoice discounting to small and medium-sized enterprises, recorded a PBT of £3.6m (2019: £4.0m). Its loan impairment charges in the period were £0.5m reflecting the challenges being faced by clients as a result of COVID-19 (2019: £0.2m). Through SBF, business clients were helped by enabling the use of various Government-backed financing schemes.

Jade Software Corporation (a software solutions provider based in New Zealand that specialises in digital solutions and large IT enterprise solutions, as well as being the provider of the Society's core database and software development language) broke even in the year (2019: broke even).

Conclusion and outlook

The COVID-19 pandemic continues to cause significant social and economic disruption, and although the UK Government has taken extraordinary steps to support people, public services and businesses, the impact on the general population is colossal and will be felt for many more years to come. While it is too early to predict how the UK will recover from such disruption, the encouraging rollout of vaccines should result in an improvement in consumer and business confidence.

We welcome the fact that the UK Government agreed a Brexit deal with the EU at the end of 2020. Unlike some industries, the Society is not directly impacted by the trading relationship between the UK and EU, however, we are interested in any potential secondary or tertiary impacts on the housing, mortgage and savings markets.

The outlook for the Society is positive but will be dependent upon the performance of the UK economy as the pandemic evolves, vaccines are rolled out and the Government takes measures to protect public health and support the economy. The Society's strong financial position, diversified business model, and compelling customer propositions means it is well placed to continue to deliver for its members during these uncertain times.

Group results for the year ended 31 December	2020 £m	2019 Re-presented* £m
Net interest receivable	**237.9**	238.1
Other income and charges	**418.5**	473.9
Fair value losses	**(2.9)**	(2.2)
Profit on disposal of subsidiary undertakings	**0.8**	1.1
Administrative expenses and provisions	**(506.1)**	(556.9)
Impairment losses	**(29.4)**	(0.8)
Profit for the year before taxation	**118.8**	153.2
Taxation	**(21.8)**	(30.8)
Profit for the financial year attributable to members	**97.0**	122.4

* Certain fees and commissions receivable that were previously presented gross of associated clawback provisions have been re-presented on a net basis. This is considered to more fairly reflect the substance of the arrangements and the comparative figures in the Income Statement have been re-presented accordingly. This results in a £15.2m decrease in 'Other income and charges' and a corresponding £15.2m decrease in the 'Administrative expenses and provisions' charge. There is no impact on profits overall and no impact on reserves.

Underlying Group profit before tax for 2020 was £124.0m (2019: £155.2m) as follows:

	2020 £m	2019 £m
Total Group profit before tax	**118.8**	153.2
Add back fair value losses in relation to the equity release portfolio	**2.7**	3.4
Less profit on disposal of subsidiary undertakings	**(0.8)**	(1.1)
Add back impairment of goodwill	**2.0**	-
Add back impairment of joint ventures	**1.5**	-
Less fair value gains on share warrants and equity share investments	**(0.2)**	-
Less FSCS credit	**-**	(0.3)
Underlying Group profit before tax	**124.0**	155.2

Group financial position at 31 December	2020 £m	2019 £m
Assets		
Liquid assets	**5,467.5**	4,522.6
Residential mortgages	**21,509.2**	19,672.0
Commercial and other loans	**357.1**	395.1
Equity release portfolio	**433.8**	410.0
Derivative financial instruments	**64.1**	38.5
Fixed and other assets	**431.7**	451.2
Total assets	**28,263.4**	25,489.4
Liabilities		
Shares	**18,709.4**	17,364.1
Borrowings	**6,732.0**	5,797.8
Derivative financial instruments	**445.9**	361.1
Other liabilities	**279.1**	292.6
Subordinated liabilities and subscribed capital	**391.3**	41.6
Reserves	**1,705.7**	1,632.2
Total liabilities	**28,263.4**	25,489.4

Group statement of movement in reserves

	2020 £m	2019 £m
Reserves at 1 January	**1,632.2**	1,516.6
Net expense for the year not recognised in the Income Statement	**(23.5)**	(6.8)
Profit for the year	**97.0**	122.4
Reserves at 31 December	**1,705.7**	1,632.2

Summary of key financial ratios

	2020 %	2019 %
Gross capital as a percentage of shares and borrowings	**8.24**	7.23
Liquid assets as a percentage of shares and borrowings	**21.49**	19.53
Group profit after tax for the year as a percentage of mean total assets	**0.36**	0.50
Group management expenses as a percentage of mean total assets	**1.88**	2.28
Society management expenses as a percentage of mean total assets	**0.59**	0.65

Definitions

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

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

Group profit after tax for the year as a percentage of mean total assets measures the proportion that the Group's profit after tax for the year bears to the average of the Group's total assets during the year. Mean total assets are calculated as the average of the closing total asset balances as at 31 December 2019 and 2020 as shown within the Group Statement of Financial Position. A reasonable level of profit is required each year to maintain the gross capital ratio at a suitable level to protect investors' funds.

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

This Summary Financial Statement was approved by the Board of Directors on 23 February 2021 and was signed on its behalf by:

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

Statement of the Auditors to the Members and Depositors of Skipton Building Society

We have examined the Summary Financial Statement of Skipton Building Society for the year ended 31 December 2020 which comprises the 'Summary Directors' Report' on pages 2 to 7, and the 'Summary Directors' Remuneration Report' on pages 9 to 16.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Summary Financial Statement, in accordance with the Building Societies Act 1986, which includes information extracted from the Annual Report and Accounts and the audited part of the Directors' Remuneration Report of Skipton Building Society for the year ended 31 December 2020.

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

Basis for Opinion

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

Opinion

In our opinion the Summary Financial Statement is consistent with the full annual financial statements and the Directors' Remuneration Report of Skipton Building Society for the year ended 31 December 2020 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made thereunder.

Use of Our Report

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

Ernst & Young LLP
Registered Auditors
Leeds

23 February 2021

Summary Directors' Remuneration Report

Annual Statement from the Chair of the Remuneration Committee

I am pleased to share the Directors' Remuneration Report on behalf of the Remuneration Committee, which sets out the details of pay, incentives and benefits for the Skipton Building Society Directors for the year ended 31 December 2020 and the following year.

The full report, in the Society's Annual Report and Accounts, can be found on our website at skipton.co.uk/financialresults from 16 March 2021 or on request from the Group Secretary of the Society. The full report contains more information including:

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

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

- This annual statement.
- The Annual Report on Remuneration in 2020 which explains how we put our existing policy into practice in 2020.
- How we intend to apply our Remuneration Policy in 2021.

The Remuneration Committee 2020

2020 has been an unprecedented year with the onset of COVID-19, which has produced a unique set of challenges, including the consideration of executive reward. The Committee has had to adapt to changing priorities throughout 2020 and below are details of the key areas of focus during the year.

- When the pandemic resulted in a nationwide lockdown, the Society had to quickly adapt and implement the Government guidelines and show flexibility to the changing environment. At the forefront of our decision making was the well-being of our colleagues and a continuity of service to our customers. Despite the challenges, employee engagement remained strong.
- Our Executive team responded early in the pandemic, in April 2020, by making the decision to voluntarily withdraw from the 2020 bonus scheme. This felt the right thing to do in the face of uncertain times ahead for the Society, our members and colleagues. The Skipton Executive would not benefit from the scheme in 2020 due to these extraordinary times, irrespective of the Group's performance at the end of the year. Despite the difficult circumstances, a high level of performance has been displayed by our Executive Committee throughout 2020. The total amount forfeited by the Executive Directors and the other members of the Executive Committee was approximately £750,000.
- The planned pay awards for the Executive Committee which were awarded prior to the pandemic were subsequently deferred from April 2020 and applied in October 2020 with no backdating. Pay awards were lower for the Executive Directors with total pay increases at 1.7% on average compared to the other members of the Executive Committee who were awarded 4.7% on average, the senior leaders who were awarded 2.3% on average and the all other colleagues pay rise of 2.5%. The average award for the other Executive Committee members included pay adjustments for two members of the team to address internal relativities and benchmarking.
- Bonuses have been awarded to the colleague population below the Executive team. This is in recognition of colleagues who have gone above and beyond in 2020 to deliver on our key objectives showing flexibility, strength and a common desire to do the best we can for our members.
- At the end of 2019, Skipton colleagues overwhelmingly voted Mental Health UK as our charity partner for the next three years. In recognition of the challenging times faced by many parts of the Society, Skipton Building Society, its Board and colleagues personally

donated £200,000 to support the work of its charity partner. The donation included Skipton's Chair and Non-Executive Directors donating 20% of their net fees for three months, together with personal contributions from Skipton's Executive Committee and colleagues across the UK.

- The COVID-19 pandemic had delivered a major upset to the UK and global economy. However, Skipton continues to stand firm for its members and customers due to our strong capital and liquidity position and the dedication and agility of our colleagues.
- The Committee maintained close oversight of the gender pay gap reporting and progress against the Women in Finance targets. The Society has begun to mature its approach to building greater diversity at all levels, with stronger inclusive practices.
- The Committee reviewed the regulatory changes which came into effect on 31 December 2020. All necessary policy and procedural changes have been approved, ready for implementation in 2021.

Remuneration Policy

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

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

The key elements of the Society's Executive Directors' Remuneration Policy are set out below:

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

As outlined above in the section on the Remuneration Committee 2020, no payments will be made against the SVPA scheme with respect to 2020 performance.

Remuneration in respect of 2020

The corporate plan is set to help towards our overall vision to 'Build a better Society'. The Society is focusing on four key priorities in order to deliver our long term ambitions. Whilst all 2020 SVPA awards were waived by the Executive in 2020 given the COVID-19 context, the team nevertheless have been assessed on progress towards these important strategic areas.

Absolute Customer Focus
Our strategy is based upon an understanding of our customers. Continuous research and feedback gives us insight to always refine and improve the products and services we offer. In 2020 Society membership grew by 14,844 to take our total membership base to 1,061,138. Our net customer satisfaction was 85%.

Brilliant People
Our strategy is to create an environment where our colleagues can be themselves, deliver their best and achieve their full potential. Employee engagement saw an increase in 2020 to 90%.

Powered by digital technology and data
Our strategy seeks to make the best use of technology and data to enhance the customer journey. The COVID-19 pandemic has emphasised the need to offer customers a choice as to how they engage with the Society from face-to-face, telephone, social media, web chat or online. A new metric measured in 2020 shows that 47% of our online customers registered for the Skipton app.

Financial Strength
Our strategy ensures that we are able to deliver on our purpose in the future and for generations to come.

Group profit before tax in 2020 was £118.8m (2019: £153.2m) and underlying profit before tax was £124.0m (2019: £155.2m). Profits have been impacted in the short term by a worsening of the economic outlook arising from the effects of the COVID-19 outbreak.

The core Mortgages and Savings division profit before tax for 2020 was £64.6m (2019: £100.8m), with underlying profit before tax for the division being £67.3m (2019: £103.9m). The fall in underlying profit can be attributed to increases in the Group's loan impairment charges arising from an expected worsening of the economic outlook.

The Committee made no awards under the Society's SVPA in respect of the 2020 performance year. The average variable pay awards made are set out in the table below:

	2020 award	2019 award	Maximum achievable
Executive Directors	-	39.2%	50.0%
Other Executive Committee members	-	31.5%	40.0%
Senior leaders	18.0%	22.7%	From 15% to 50%
Other colleagues	4.9%	7.9%	10% (2019: 15%)

Notes

1. The calculations for average bonus awards are based on full year participation.
2. The senior leaders bonus scheme provides the opportunity of a maximum bonus of either 15, 25% or 50% as determined by the size of the role.

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

Conclusion

On behalf of the Committee, I hope this report gives you a clear view of how we have implemented the policy in 2020. The Committee recommends that members vote in favour of the 2020 Annual Remuneration Report at the forthcoming AGM.

Helen Stevenson
Chair of the Remuneration Committee
23 February 2021

Annual Report on Remuneration in 2020

Executive Directors' remuneration

The total remuneration for Executive Directors in 2020 and 2019 is set out in the tables below:

2020 Audited	Mr D J Cutter £000	Mr A P Bottomley £000	Mr I M Cornelius £000	Mr R S D M Ndawula £000	Total £000
Salary	526	303	309	337	**1,475**
Benefits(1)	15	12	12	12	**51**
Pension(2)	105	46	31	34	**216**
Total fixed remuneration	**646**	**361**	**352**	**383**	**1,742**
2020 annual performance award (SVPA)(3)	-	-	-	-	**-**
Total remuneration in respect of performance periods ending in 2020	**646**	**361**	**352**	**383**	**1,742**

2019 Audited	Mr D J Cutter £000	Mr A P Bottomley £000	Mr I M Cornelius £000	Mr R S D M Ndawula £000	Total £000
Salary	521	301	306	332	**1,460**
Benefits	15	12	12	12	**51**
Pension	104	45	31	33	**213**
Total fixed remuneration	**640**	**358**	**349**	**377**	**1,724**
2019 annual performance award (SVPA)	205	119	120	132	**576**
Total remuneration in respect of performance periods ending in 2019	**845**	**477**	**469**	**509**	**2,300**

Notes

1. Benefits comprise the provision of a car or car allowance and private medical insurance contributions.
2. Mr Cutter's 2020 pension figure includes the additional value earned in the defined benefit scheme during 2020 and a non-consolidated allowance paid in lieu of contributions. For the other Executive Directors, the figure relates to contributions to the defined contribution pension scheme and/or a non-consolidated cash allowance.
3. Typically the SVPA award is subject to deferral arrangements. However, no bonus payments were made in respect of 2020 in light of the COVID-19 pandemic. In 2019, £122,782 (60%) of the SVPA award for Mr Cutter and £79,024 (60%) for Mr Ndawula was deferred in equal amounts for between three to seven years. Half of the initial up-front award (i.e. 20% of the total) was paid in March 2020 and the remaining half was retained for a further 12 months. A deferred payment which was due to be paid to Mr Cutter in September 2020 was deferred for payment in 2021 due to COVID-19. 50% of the 2019 awards for Mr Bottomley and Mr Cornelius were deferred for between one and five years in line with the SVPA scheme rules.

In 2020, no payments were made to past Directors or for loss of office.

Risk considerations

In order to ensure that rewards are based on sustainable performance, set in a multi-year period, the Remuneration Committee conducts a 'sustainable performance assessment' for senior schemes (SVPA and Senior Leaders), one year after the original performance year. The review also considers feedback from the Board Risk and Board Audit Committees provided as part of the annual risk assessment process. The sustainability review conducted in February 2021 for the 2019 SVPA and Senior Leaders schemes demonstrated that 2019 performance levels had been maintained in 2020. The Committee concluded, therefore, that no adjustment to the 2019 award was required.

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

The Remuneration Committee, after consultation with the Board Audit and Risk Committees and consideration of performance against risk appetites, did not make any risk adjustment for 2020.

How does executive remuneration for 2020 align with the wider workforce?

	Salary	Bonus
Executive Directors	Pay increases awarded in April 2020 were postponed to October 2020. The average pay increase was 1.7%.	No bonus awarded for 2020 performance year.
Other Executive Committee members	Pay increases awarded in April 2020 were postponed to October 2020. The average pay increase was 4.7%.	No bonus awarded for 2020 performance year.
Senior leaders	Pay increases were awarded in April 2020. The average pay increase was 2.3%.	Bonuses were awarded for the 2020 performance year. The average award was 18.0%.
All other colleagues	Pay increases were awarded in April 2020. The average pay increase was 2.5%.	Bonuses were awarded for the 2020 performance year. The average award was 4.9%.

Note

1. The salary increase figure for other Executive Committee members includes an element to address market position for a number of individuals.

Non-Executive Directors' remuneration

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

In 2020 the Non-Executive Directors voluntarily decided to donate 20% of their net fees for three months. The donation went to the Society's chosen charity Mental Health UK.

No changes were made to the Non-Executive Directors' fees in 2020. Details are shown below:

	2020 £	2019 £
Non-Executive Directors	**52,100**	52,100
Audit Committee, Risk Committee and Remuneration Committee Chairs	**14,600**	14,600
Deputy Chair	**6,200**	6,200
Connells Non-Executive Director	**34,700**	34,700

Audited		**2020**				2019			
		Fees	**Committee chair fees**	**Taxable benefits**[1]	**Total**	Fees	Committee chair fees	Taxable Benefits [1]	Total
	Note	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000
Mr R D East (Chair)		**165**	**-**	**1**	**166**	158	-	6	164
Mr M J Lund (Deputy Chair)		**58**	**-**	**1**	**59**	58	-	5	63
Miss A J Burton	2	**78**	**-**	**-**	**78**	81	-	3	84
Ms M Cassoni	3	**-**	**-**	**-**	**-**	17	5	2	24
Mr J R Coates	4	**52**	**15**	**-**	**67**	51	10	1	62
Mrs D P Cockrem	5	**49**	**-**	**-**	**49**	51	-	3	54
Mr D A Hall	6	**52**	**15**	**1**	**68**	51	14	4	69
Ms H L Jackson		**52**	**-**	**-**	**52**	51	-	2	53
Ms H C Stevenson	7	**52**	**15**	**1**	**68**	51	13	3	67
		558	**45**	**4**	**607**	569	42	29	640

Notes

1. The taxable benefits shown in the table above relate to the reimbursement of travel and subsistence expenses between home and Skipton head office (and for Miss Burton, who is also a Non-Executive Director of Connells, Connells' head office), including for attendance at Board and Committee meetings.
2. Miss Burton is also a Non–Executive Director of Connells Limited for which she receives an annual fee of £34,700 (increased from £26,500 with effect from 1 August 2019 to reflect the fact that she now chairs Connells' remuneration committee), included pro-rata in the table above. Following the closure of the housing market, Miss Burton sacrificed this fee for three months between April 2020 and June 2020.
3. Ms Cassoni was the Chair of the Board Audit Committee until 29 April 2019 when she retired from the Board.
4. Mr Coates was appointed Chair of the Board Audit Committee on 30 April 2019.
5. With effect from 1 July 2019, Mrs Cockrem waived her basic fee and it is now paid to her employer organisation, which is wholly owned by a charitable trust, and compensates them for the time she spends as a Skipton Non-Executive Director.
6. Mr Hall is Chair of the Board Risk Committee.
7. Ms Stevenson is the Chair of the Remuneration Committee.

Statement of implementation of Remuneration Policy in 2021

The SVPA for 2021 will continue to be based on a balanced scorecard of financial and non-financial measures, as outlined in our policy section. The construct of the 2021 scheme remains unaltered from 2020.

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

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

The measures and weightings in 2021 are set out in the table below:

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

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

The deferral arrangements operating in 2020 will continue to apply in 2021 and Directors' salaries will be reviewed on 1 April 2021 as they are for all colleagues in the Society.

The Committee

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

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

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

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

Statement of voting at the 2020 AGM

At the 2020 AGM the Directors' Remuneration Report was subject to an advisory vote of members, the results of which were as follows:

		Votes	
	For	Against	Withheld
2019 remuneration report	**54,045 (91.1%)**	**5,296 (8.9%)**	**1,227**

Helen Stevenson
Chair of the Remuneration Committee
23 February 2021

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