Skipton Building Society

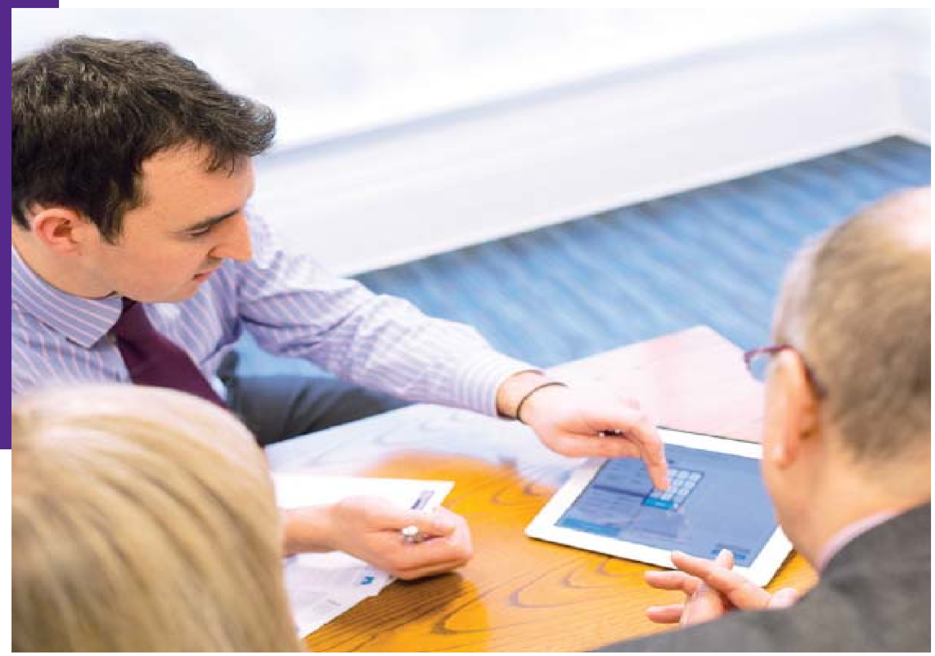
Investor Presentation

June 2015

SKIPTON
BUILDING SOCIETY
For life ahead

Contents

Overview



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Group Overview

- The Society is the 4th largest building society in the UK.
- Group total assets of £16.0bn in 2014.
- 95 branches across the UK from Plymouth to Aberdeen.
- Committed to mutuality – the Society's heritage over its 162 year history continues to provide us with the focus on supporting our members, generating sufficient profit to maintain a strong balance sheet and take longer term decisions to invest in the future development of the business.
- Over the past two years we have disposed of six, and closed one subsidiary that are no longer strategically important to the Group.
- The Society has a number of remaining subsidiaries/non-member businesses that deliver strong returns.
- In June 2015, both Moody's & Fitch upgraded the Society to Baa2 and BBB+ respectively, with a stable outlook.

Ultimate parent, member owned

SKIPTON BUILDING SOCIETY

Subsidiary, non member business

SKIPTON FINANCIAL SERVICES – PLANNING TOMORROW TOGETHER	Strategically important to our customer proposition
SKIPTON INTERNATIONAL LIMITED; Connells; SKIPTON BUSINESS FINANCE	The businesses deliver very strong return on capital employed
amber homeloans; NYM north yorkshire mortgages	Residential mortgage books in run-off
jade™	Defensive move, core IT platform

Peer Group Comparison 2014

	Skipton	Yorkshire	Coventry	Leeds	Principality
Group Profit Before Tax (£m)	**181.6**	188.2	201.8	87.9	64.2
Growth in Group Profit Before Tax	**75.0%**	-5.6%	52.8%	36.9%	123.7%
Profit After Tax/Mean Assets[1]	**0.80%**	0.41%	0.53%	0.60%	0.58%
NIM	**1.40%**	1.52%	1.15%	1.58%	1.87%
Cost Income Ratio[2]	**44.5%**	59.0%	36.2%	33.0%	46.1%
Total Group Assets (£bn)	**16.0**	37.6	31.3	12.1	7.3
CET1 Ratio	**16.2%**	13.8%	25.4%[3]	15.6%	18.2%[3]
Leverage Ratio	**6.0%**	4.8%	3.9%	5.6%	5.0%
Net Savings Growth	**11.7%**	3.5%	9.8%	6.6%	0.7%
Net Lending Growth	**11.2%**	8.3%	11.8%	11.5%	3.6%
Market Share of Net Residential Lending	**5.3%**	11.5%	12.5%	4.7%	0.9%

Source: Skipton Building Society and Building Society Report and Accounts.
[1] On a continuing basis.
[2] Coventry Cost Income ratio has been calculated using 2014 Report & Accounts. Skipton Cost Income ratio is based on M&S division only.
[3] Internal Ratings Based Approach.

Our Vision… Building a Better Society

“to provide a secure home for our customers’ savings, which allows the Society to lend to borrowers and support home ownership”.

Our Customers	2014 performance
Ensure we are attracting and retaining members	Increased membership by **31k** to **795k**
Help more members save for their future	**£1.2bn** increase in savings balances (annual growth rate of 11.7%)
Enabling homeownership through prudent and controlled lending	**£3.0bn** gross mortgage advances
	£1.3bn net mortgage growth (annual growth rate of 11.2%)

Our Proposition	2014 performance
Put the customer at the heart of our business	**88%** net customer satisfaction
	Reached **third** highest financial services provider for customer experience*
Ensure we are treating customers fairly	Only **16%** of complaints changed by FOS
Offering highly competitive mortgage and savings products	**804** ‘best-buy’ mentions

* *Source: Nunwood*

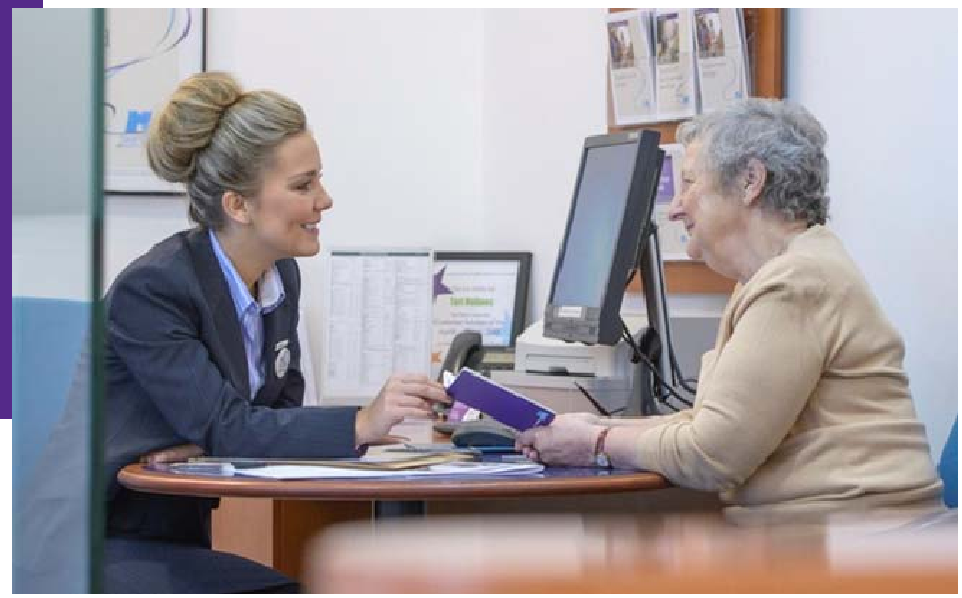
Our Vision… Building a Better Society

Our People	2014 performance
To ensure our people are passionate, loyal and committed	**88%** employee engagement
	Awarded **Gold** status by Investors in People
	58th in the 'Times Top 100 best companies to work for'

Our Financial Strength	2014 performance
Generate the necessary capital to enable the business to develop	**£181.6m** Group PBT
Strong earnings from our Mortgages & Savings (M&S) division	**1.40%** Net Interest Margin
Maintain a manageable cost base to ensure the business is cost efficient whilst investing for the future	**44.5%** M&S cost income ratio
	0.65% M&S management expense ratio
Continually manage and monitor our arrears and credit risk management	Arrears (3+ months) **1.31%**
Hold a cost-effective, prudent mix of liquidity within our liquidity risk appetite and regulatory requirements	Core liquidity buffer **59%** of liquidity balance
Hold sufficient levels of overall liquidity	**18.4%** of Shares, Deposits & Borrowings
Fund the majority of our mortgages through retail savings, in line with our customer proposition	**85.9%** of Group retail funded
Ensure the Group remains financially strong by having a strong capital base	**16.2%** CET1 ratio*
	6.0% leverage ratio*

** Fully loaded, CRD IV basis.*

Financial Results



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2014 Financial Highlights

2014 saw a new peak in membership, record profits and a further strengthening of our capital position.

Highlights include:

- **Group underlying PBT increased** by 79% to £151.1m (2013: £84.6m)* and the M&S division also increased underlying PBT from continuing operations to £105.7m (2013: £57.7m).
- **Group total assets increased** by 10.3% to 16.0bn.
- **Group NIM increased** to 1.40% (2013: 1.01%).
- **CET1 Ratio increased** to 16.23% (2013: 14.24%).
- **Leverage ratio amongst the best in the sector** at 6.0% (2013: 5.6%).
- **Group savings balances increased** by £1.2bn to £11.4bn (2013: £10.2bn), an annual growth rate of 11.7% (2013: 8.8%).
- **Group mortgage balances grew** by £1.3bn to £12.7bn (2013: £11.4bn), an annual growth rate of 11.2% (2013: 9.2%), without changing our credit risk appetite.
- **Improved Group asset quality** with arrears (accounts 3+ months) falling to 1.31% (2013: 1.73%); Society only residential arrears were 0.57% (2013: 0.67%).
- **Average indexed LTV of residential mortgages fell** to 50.3% (2013: 52.9%).
- **Liquidity maintained at a prudent level** of 18.4% (2013: 18.6%).
- **Loan impairment provisions reduced** to £13.3m (2013: £21.5m).

** 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). See Appendix for 2010-2014 Underlying Group PBT from continuing operations.*

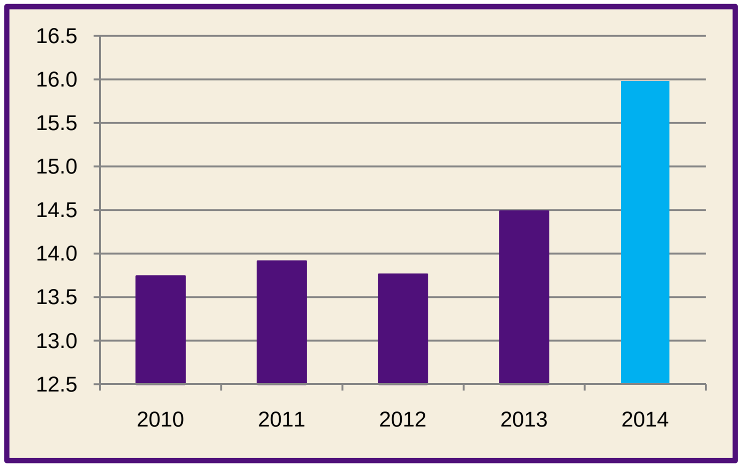
Group Balance Sheet

- Group Total Assets increased by 10.3% to £16.0bn (2013: £14.5bn).
- Group CET1 ratio of 16.2% (2013: 14.2%).
- Leverage ratio of 6.0% (2013: 5.6%).

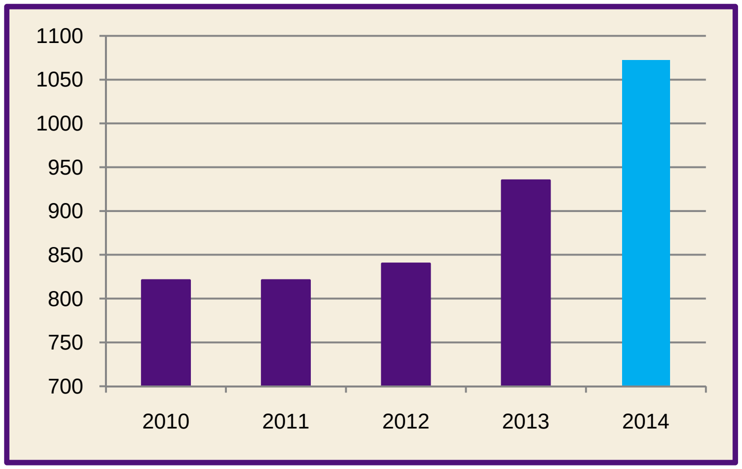
	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Assets					
Liquid Assets	3,380	3,021	2,532	2,381	2,594
Mortgages	9,815	10,253	10,594	11,517	12,837
Other Assets	545	636	634	589	551
Total Assets	**13,740**	**13,910**	**13,760**	**14,487**	**15,982**
Liabilities & Reserves					
Shares	9,389	9,280	9,462	10,260	11,468
Wholesale Funding*	2,771	2,905	2,536	2,532	2,664
Other Liabilities	442	581	602	541	586
Subscribed Capital and Subordinated Debt	317	323	320	219	192
Reserves	821	821	840	935	1,072
Total Liabilities & Reserves	**13,740**	**13,910**	**13,760**	**14,487**	**15,982**

Source: Skipton Building Society Annual Report & Accounts 2010-2014.
** Including Skipton International Limited.*

Total Group Assets (£bn)



Reserves (£m)



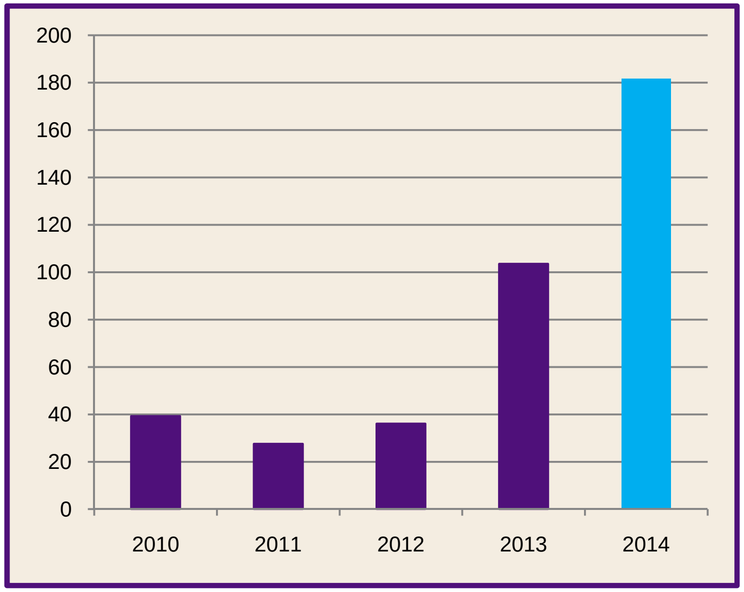
Group Income Statement

- Group Profit Before Tax increased by £78.0m to £181.6m (2013: £103.6m).
- Net Interest Margin increased to 1.40% from 1.01%.
- Mortgages & Savings division pre tax profits of £98.4m (2013: £51.5m).

	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Net Interest Income	54.9	71.2	84.2	142.6	213.3
Total Income	372.2	386.8	432.1	543.8	617.6
Admin Expenses	(321.4)	(317.7)	(352.8)	(399.4)	(426.7)
Impairment & Provisions	(11.6)	(38.4)	(44.0)	(41.7)	(34.1)
Profit from Continuing Operations	39.2	30.7	35.3	102.7	156.8
Profit from Discontinued Operations	0.1	(3.1)	0.8	0.9	24.8
Statutory PBT	**39.3**	**27.6**	**36.1**	**103.6**	**181.6**

Source: Skipton Building Society Annual Report & Accounts 2010-2014.

Group Profit Before Tax (£m)



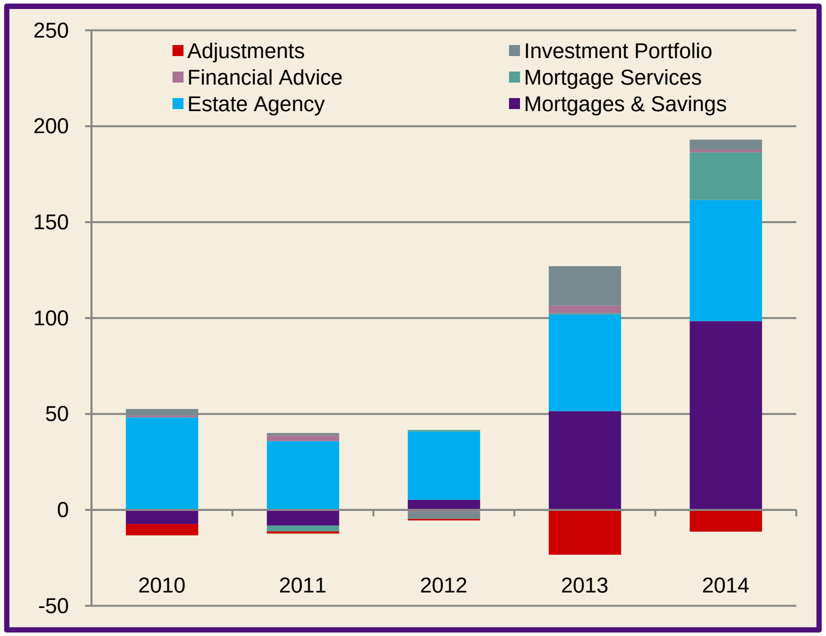
See Appendix for 2010-2014 Underlying Group PBT from continuing operations.

Group PBT by Division

- Underlying Group PBT from continuing operations was £151.1m (2013: £84.6m).[1]
- Mortgages & Savings performance relative to the Group has improved significantly, accounting for 70% of Group pre tax underlying profits from continuing operations in 2014.

	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Mortgages & Savings	(7.4)	(8.1)	5.2	51.5	98.4
Estate Agency	48.1	35.8	35.6	50.2	63.2
Mortgage Services (discontinued operation in 2014)	0.1	(3.1)	0.8	0.9	24.8
Financial Advice	1.0	2.9	(0.9)	3.9	1.4
Investment Portfolio	3.4	1.3	(3.9)	20.5	5.2
Sundry including interdivisional adjustments[2]	(5.9)	(1.2)	(0.7)	(23.4)	(11.4)
Profit Before Tax	**39.3**	**27.6**	**36.1**	**103.6**	**181.6**

Split of PBT by Division (£m)

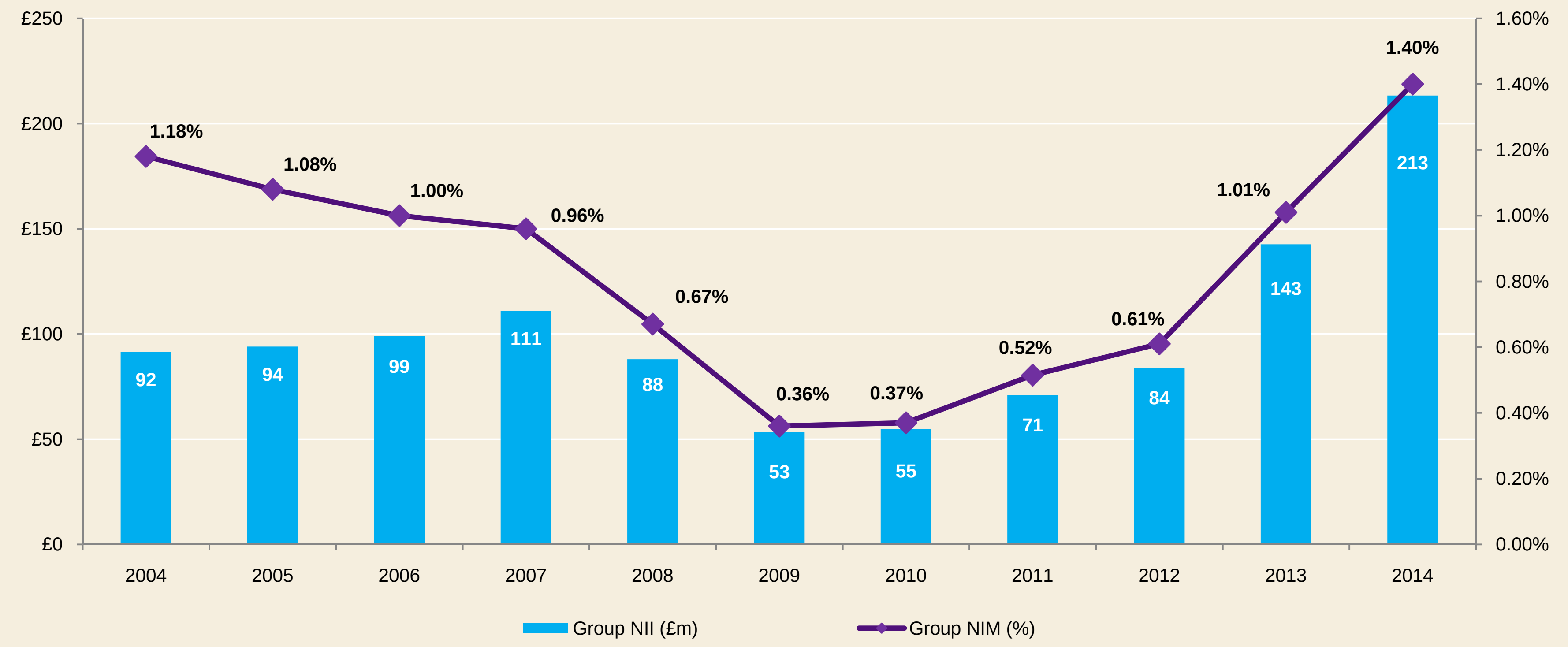


Source: Skipton Building Society Annual Report & Accounts 2010-2014.

[1] See Appendix for 2010-2014 Underlying Group PBT from continuing operations.
[2] Sundry, including inter-divisional adjustments relate primarily to the elimination of intra-divisional trading, the write down of goodwill arising on consolidation relating to subsidiary investments and the cost of the Connells management incentive scheme.

Group Net Interest Margin

Group Net Interest Margin Recovery



Source: Skipton Building Society Annual Report & Accounts 2004-2014.

- Our financial strength has increased over 2013 and 2014, with a rise in profits within the core M&S division.
- 2014 saw Group NIM rise to its highest level since 1997, through strong prudent lending and the benefit of low retail funding costs.

Prudent Provisioning & Lower Losses

	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Impairment losses on loans and advances	14.8	30.0	12.3	21.5	13.3
Impairment losses on debt securities and equity share investments	0.1	-	4.0	1.2	3.3
Total impairment losses	**14.9**	**30.0**	**16.3**	**22.7**	**16.6**

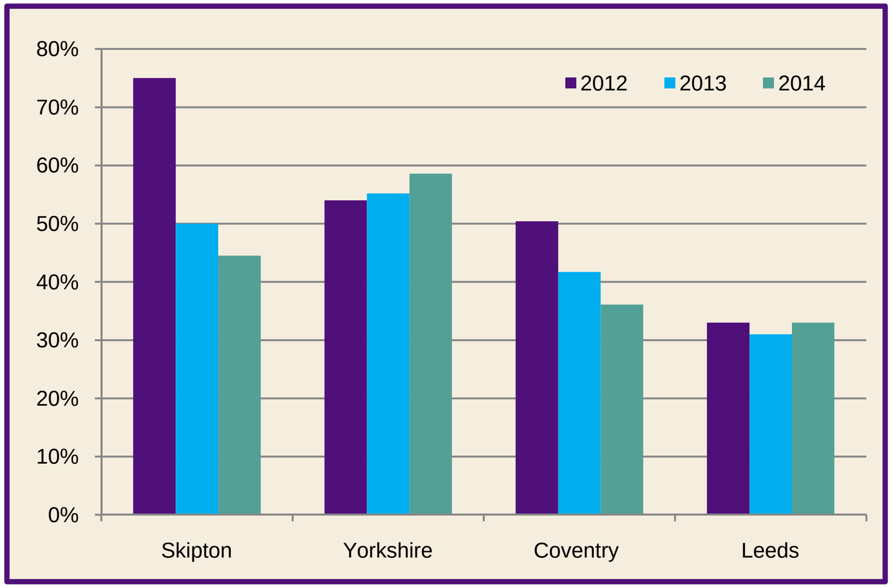
	2010* £m	2011* £m	2012* £m	2013* £m	2014 £m
Financial Services Compensation Scheme	(3.4)	0.4	6.8	6.6	7.8
Provision for the costs of surplus properties	1.7	0.1	2.3	0.9	-
Commission clawbacks / rebates^	-	(0.2)	6.2	5.4	3.9
Survey and valuation claims^	-	6.1	8.4	3.1	5.0
Customer compensation^	-	2.1	3.7	1.7	0.2
Other provisions^	(1.6)	(0.1)	0.3	1.3	0.6
Total provisions charge	**(3.3)**	**8.4**	**27.7**	**19.0**	**17.5**

Source: Skipton Building Society Annual Report & Accounts 2010-2014.
** Restated for a change to the FSCS provision due to IFRIC 21 Levies.*
^ Note that no split of other provisions is available for 2010.

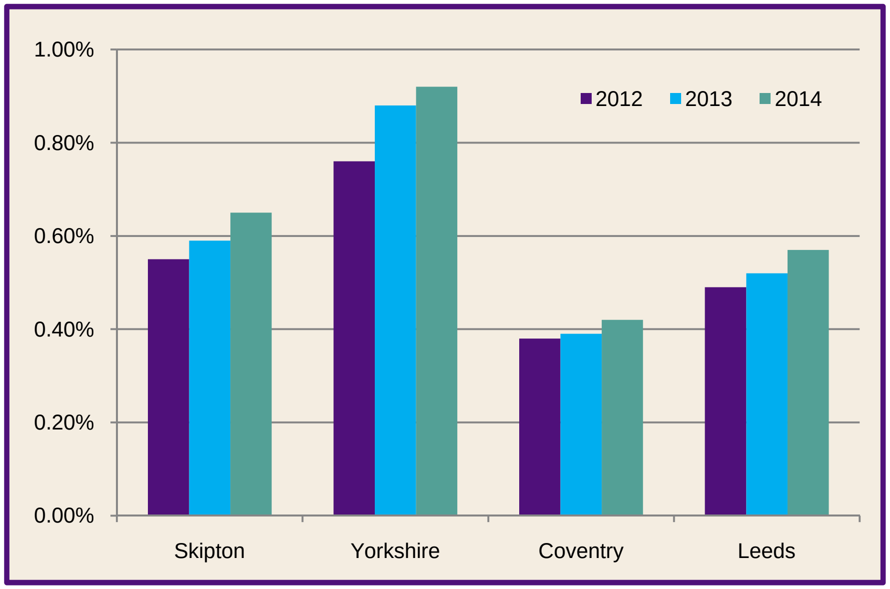
- The Group's impairment charge on loans and advances in 2014 was £13.3m, a fall of £8.2m on 2013, driven by a fall in the number and value of mortgages in arrears across all three portfolios – Society, Amber Homeloans and North Yorkshire Mortgages.
- £5.7m was charged against our equity release portfolio (which is closed to new business) in 2014 compared to £8.3m in 2013, following a revision to our long term assumptions of house prices and RPI.
- Commercial impairment was £3.1m (2013: £5.5m), again due to an improvement in arrears levels.
- 2014 other provisions totalled £17.5m, £1.5m below 2013 due mainly to a fall in customer compensation provisions within the financial advice division.

Cost Control vs. Peer Group

Cost Income Ratio (Skipton*)



Management Expense Ratio (Skipton*)

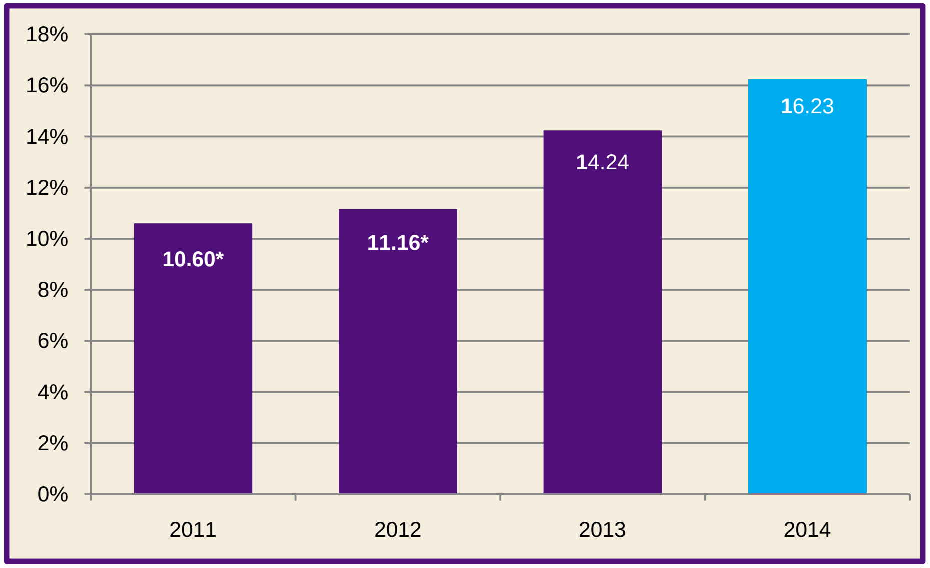


Source: Skipton Building Society and Building Society Report and Accounts.
Coventry Cost Income ratio has been calculated using 2014 Report & Accounts.
** Skipton ratios are based on M&S division only.*

- On a like-for-like basis the cost income ratio for the M&S division has reduced to 44.5% as NIM has continued to improve.
- The 2014 management expense ratio for the M&S division has increased to 0.65%. The increase in our management expense ratio over recent years reflects investment in delivering our strategic priorities, for example enhancing our digital capabilities.
- The Group cost income ratio and management expense ratio reduced to 70.7% and 2.80% respectively in 2014. This is higher than our peers due to the structure of our Group, in particular and our ownership of a highly profitable yet cost intensive estate agency business which is unique in the building society sector.

Skipton Group's Capital Strength

Group CET1 Ratio (%)



Source: Skipton Building Society Report & Accounts 2011-2014.
**2011 & 2012 are Core Tier 1 ratios at a full group level of consolidation.*

2014 saw a further strengthening of the Society's capital position in the Prudential Group on a fully loaded CRD IV basis:

- CET1 ratio 16.23%.
- Total Capital ratio 16.99%.
- Over the year, Group capital increased by £142.5m to £990.4m.
- The fully loaded leverage ratio increased to 6.0% (2013: 5.6%) by matching mortgage growth with profit generation.
- £10m subordinated notes were bought back in September 2014.
- The Society currently has £90m of PIBS and £95m of Subordinated Debt outstanding.

Mortgage Business

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New Mortgage Lending

2014 Highlights

Gross mortgage lending increased by **23%** to **£3.0bn**.
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.
19,512 homeowners helped to purchase or remortgage their properties.
2,946 first time buyers, 667 through participation in the Government's Help to Buy equity loan scheme.
Average Indexed LTV for Society new lending was **73.6%**.
95% of lending comes through our intermediary partners.

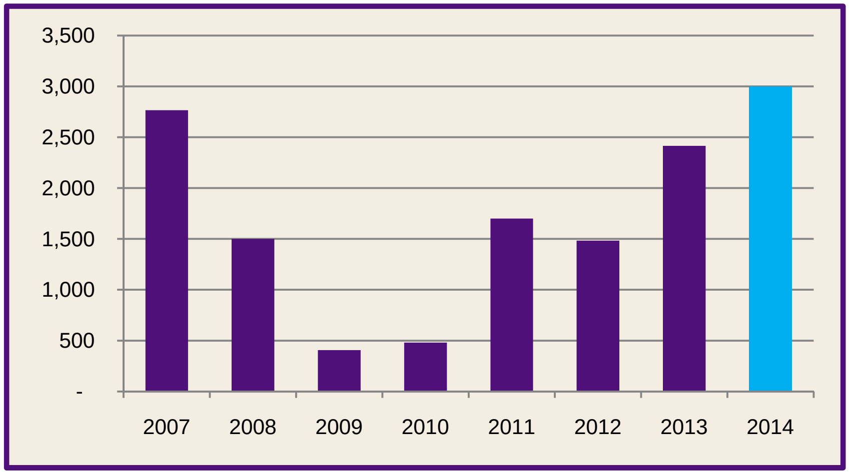
Risk Appetite

Society lends in the **prime residential** UK mortgage market, including **buy-to-let**.
Skipton International Ltd lends in the **Channel Islands** mortgage markets and to UK expatriates purchasing buy-to-let properties in the UK.
Maximum loan size **£1m*** (First time buyer and interest only £500k).
Maximum LTV on BTL **75%**.
Maximum LTV on residential lending **90%**.
Loan to income maximum reduced to **4.75 times** in Q1 2015.

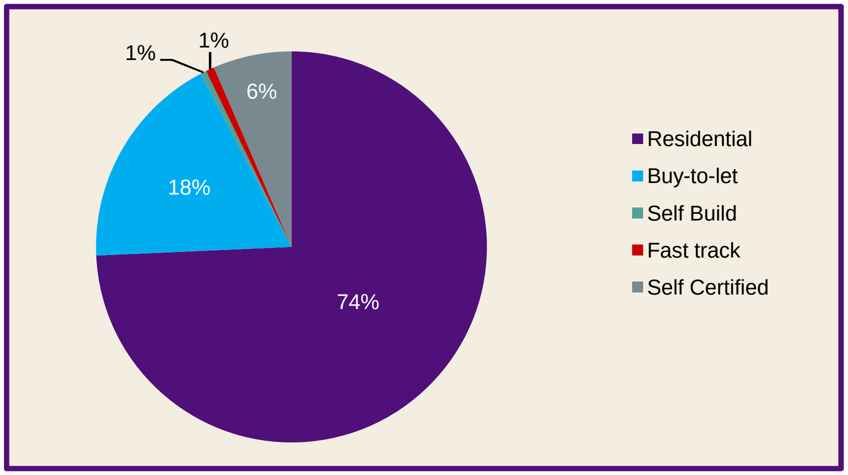
** Greater than £1m requires senior management/Board approval*

Key Lending Indicators

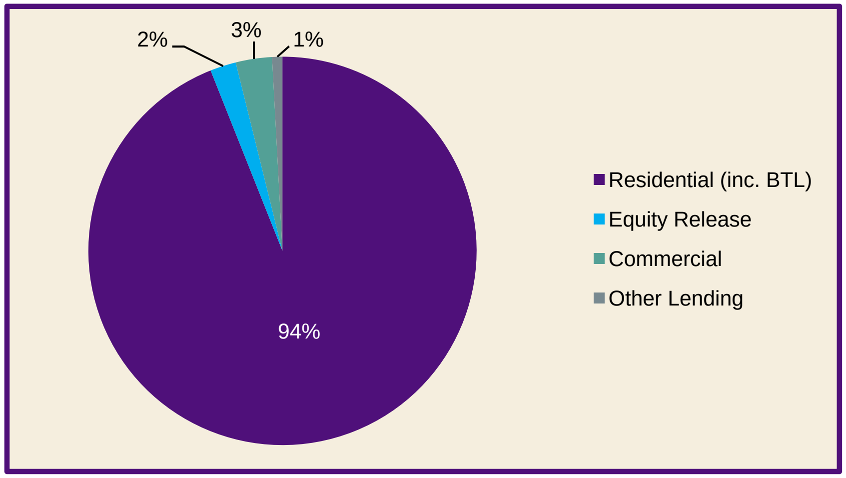
Group Gross Mortgage Lending (£m)



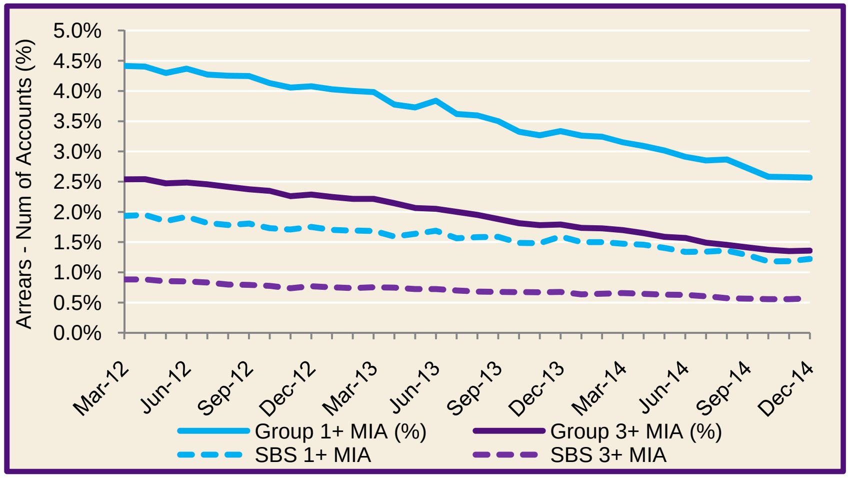
Group Loans and Advances by Product Type



Group Loans and Advances by Lending Type



Group Arrears (months in arrears)

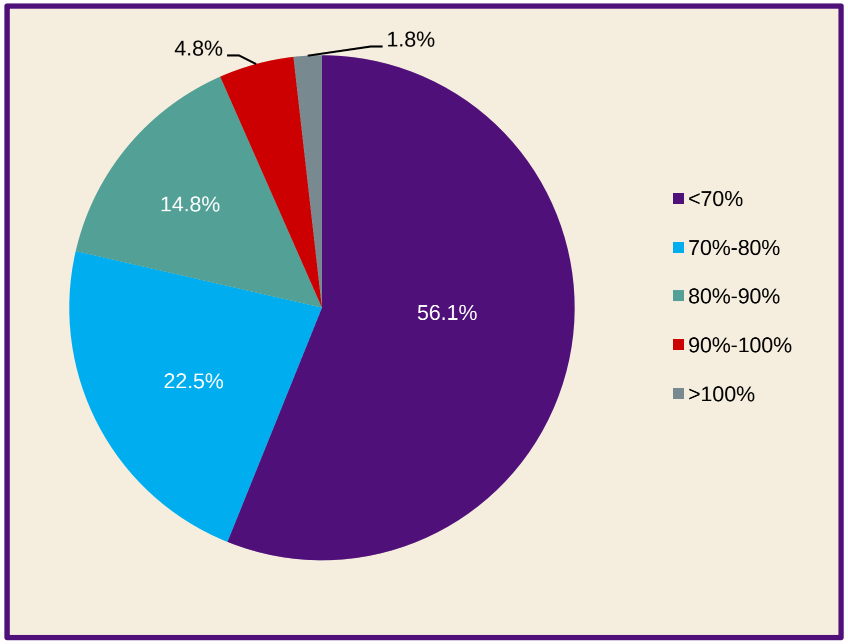


Source: Skipton Building Society Report & Accounts 2007-2014.

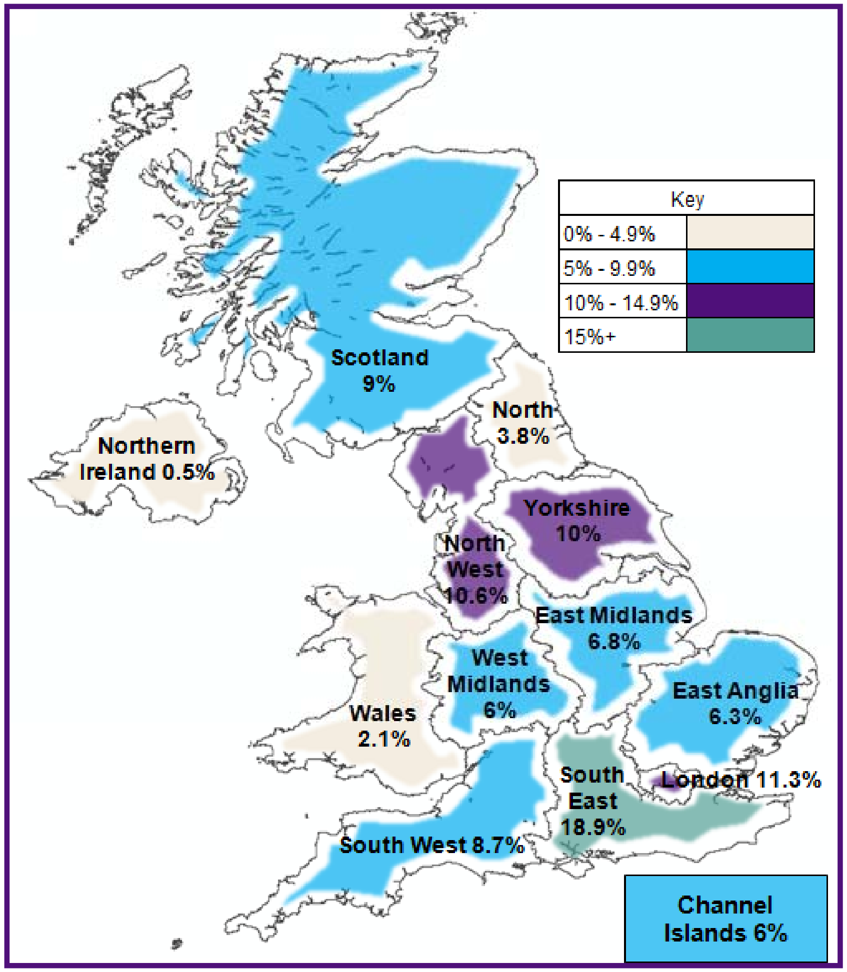
Residential Portfolio

- Broad geographic spread of lending, reflects nationwide branch franchise and national reach of intermediary lending.
- No specific concentration across product type or loan-to-value.

Indexed LTV on Residential Loan Portfolio*



Geographical Well Diversified Portfolio*

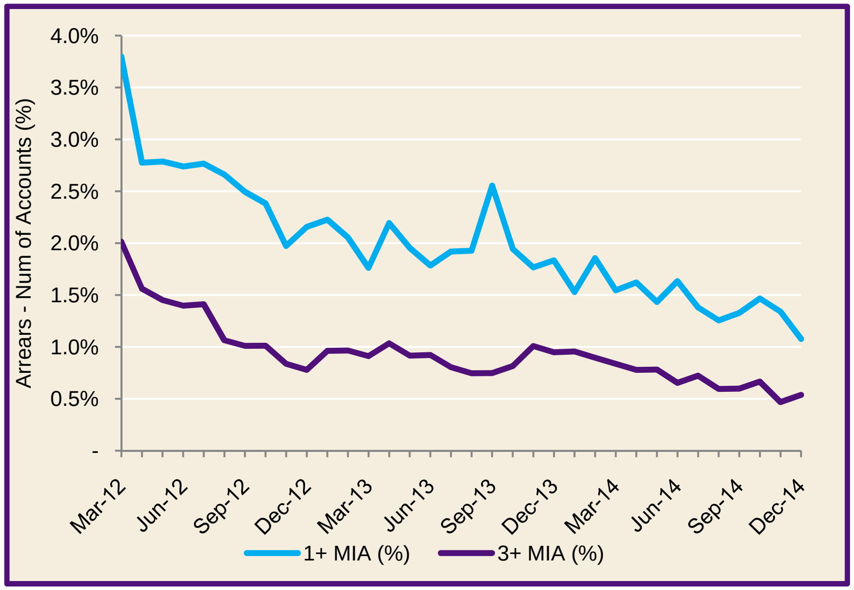


Source: Skipton Building Society Report & Accounts
** Group lending excluding Commercial*

Commercial Portfolio

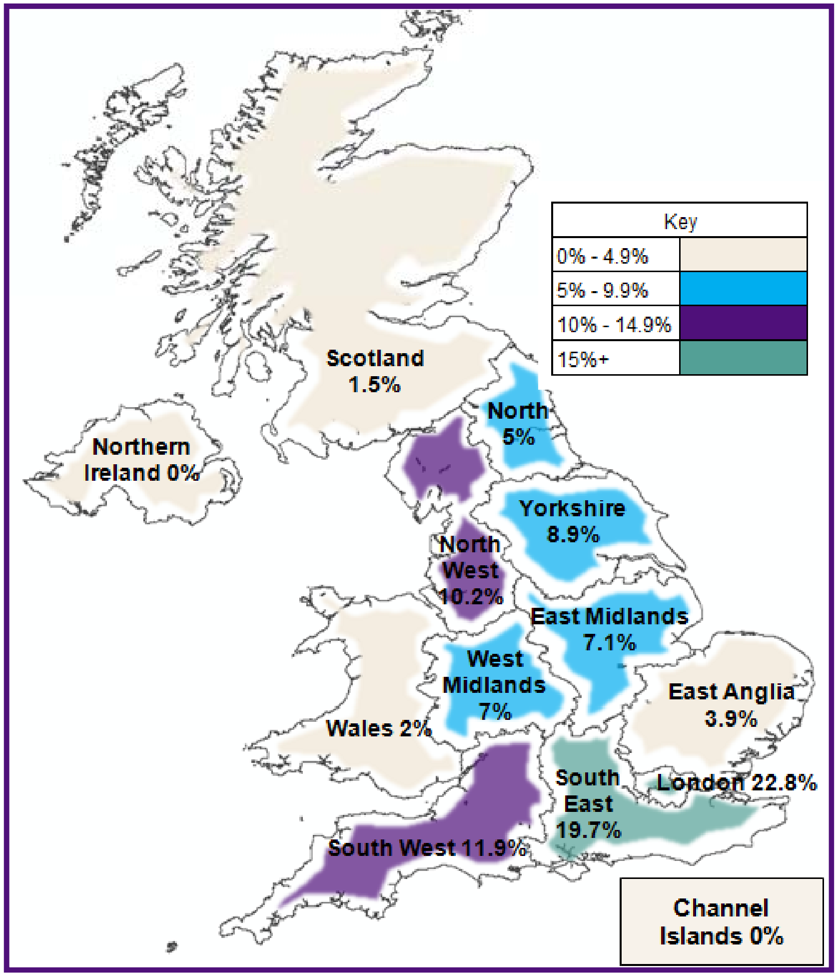
- No new lending since November 2008.
- The portfolio continues to perform well with a total book size of £382.1m (2013: £409.8m) and number of loans at 1,486 (2013: 1,583).
- Largest class is commercial investment property (74% of portfolio) with the remainder of the portfolio owner occupied.
- Low concentration with only 1 loan with a balance greater than £5m (£6.5m balance).
- Just 8 cases (0.54%) were 3+ months in arrears at December 2014 (2013: 16).

Commercial Arrears (months in arrears)



Source: Skipton Building Society Report & Accounts

Geographical Well Diversified Portfolio



Liquidity & Funding

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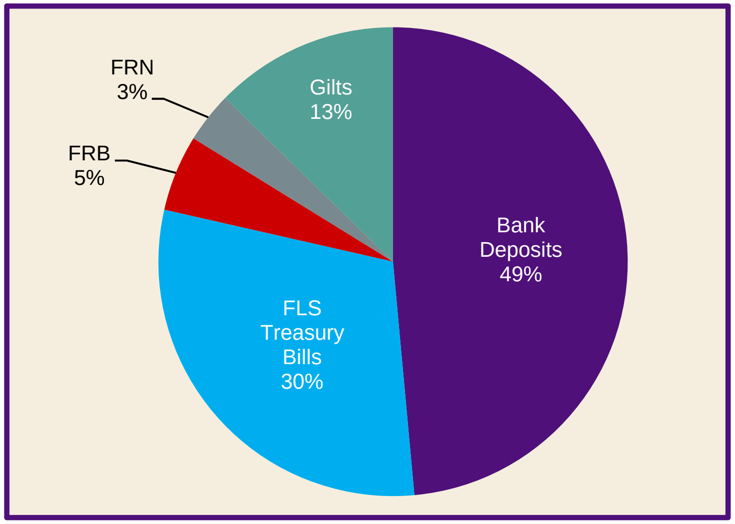
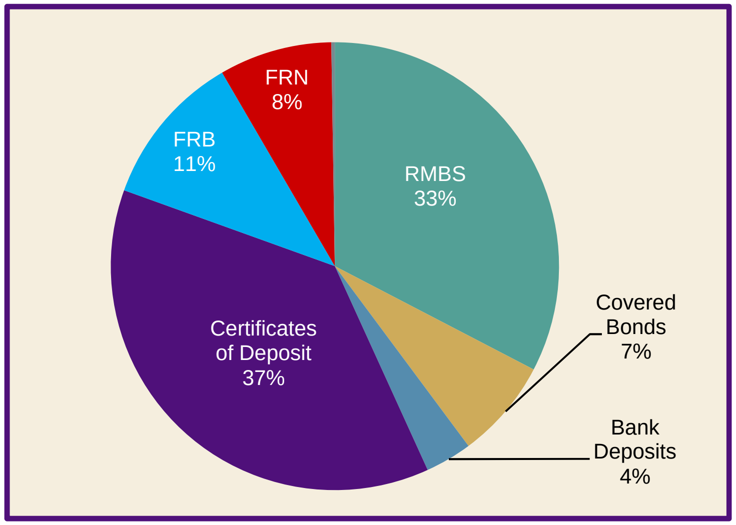
Liquidity

- We hold sufficient liquidity to meet all our internal and external regulatory minimum levels of liquidity and new Liquidity Coverage Ratio requirements.
- As at 31 December 2014, liquidity as a percentage of SDL's stood at 18.4%.
- We maintain a diverse mix of high quality Buffer and Non-Buffer assets, liquidity tested regularly with various counterparties and instruments.
- Substantially reduced risk and no longer hold any CMBS or Non-Prime RMBS.
- Contingent liquidity pre-positioned with Bank of England in form of mortgage assets.

Buffer Liquidity (£2,165m)



Non-Buffer Liquidity (£628m)

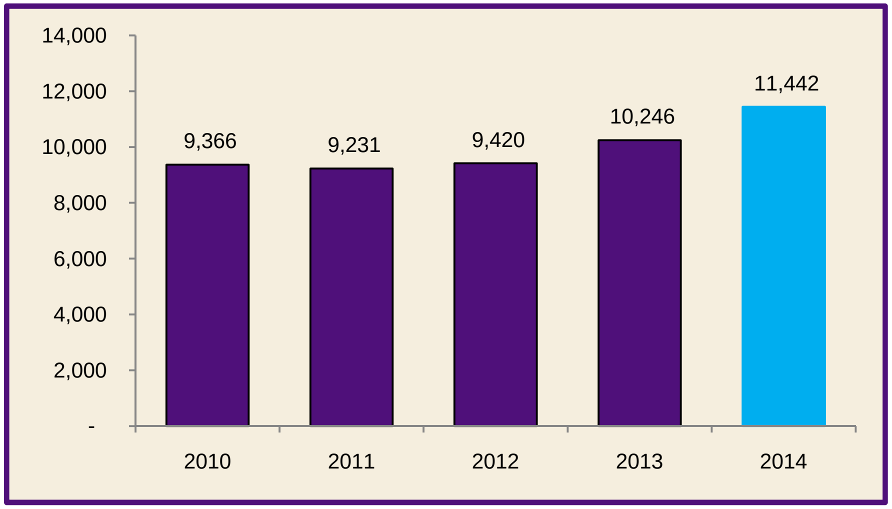


Source: Skipton Building Society Annual Report & Accounts 2014 ; using Face Values as at 31 December 2014

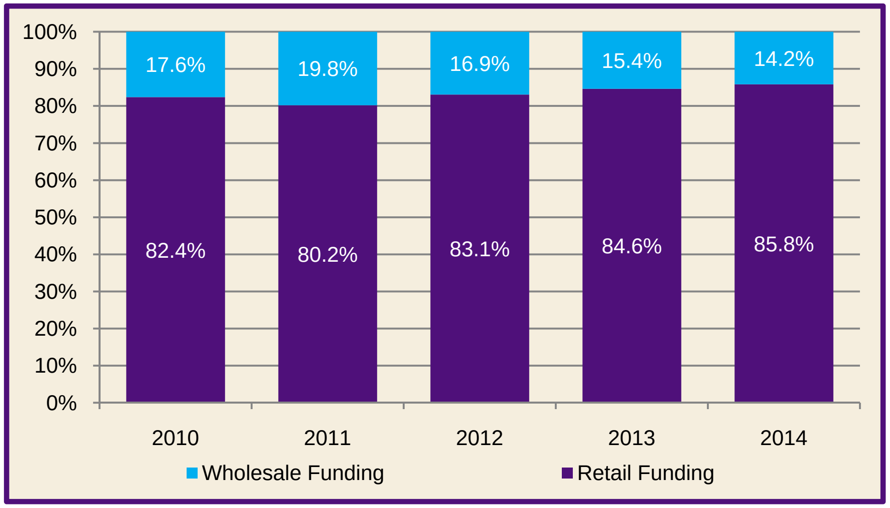
Retail Funding

- In 2014, Group retail funding increased to 86%.
- Retail savings balances up 11.7%.
- Launched a number of savings products to reward our loyal members.
- Extended the duration of our retail book, taking advantage of longer term funding at cheaper rates.

Member Savings Balances (£m)



Funding Profile (%)



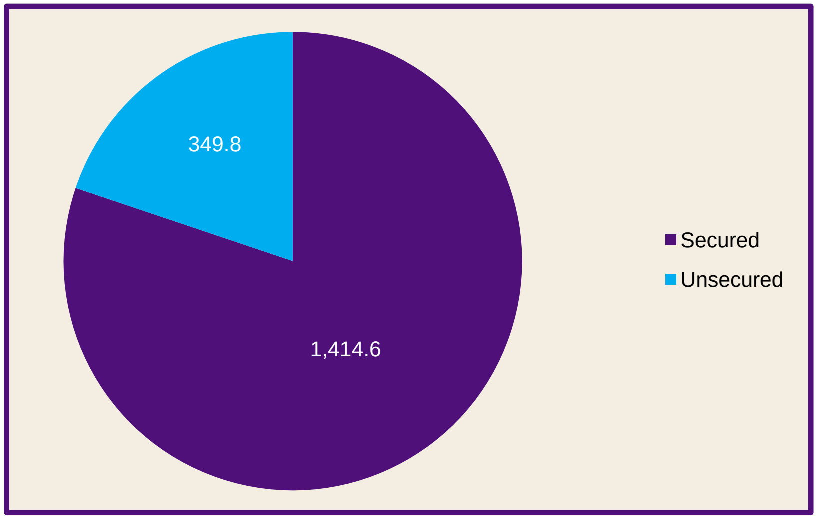
Average Duration of Fixed Rate Savings Balances (yrs)

Source: Skipton Building Society Annual Report & Accounts 2010-2014

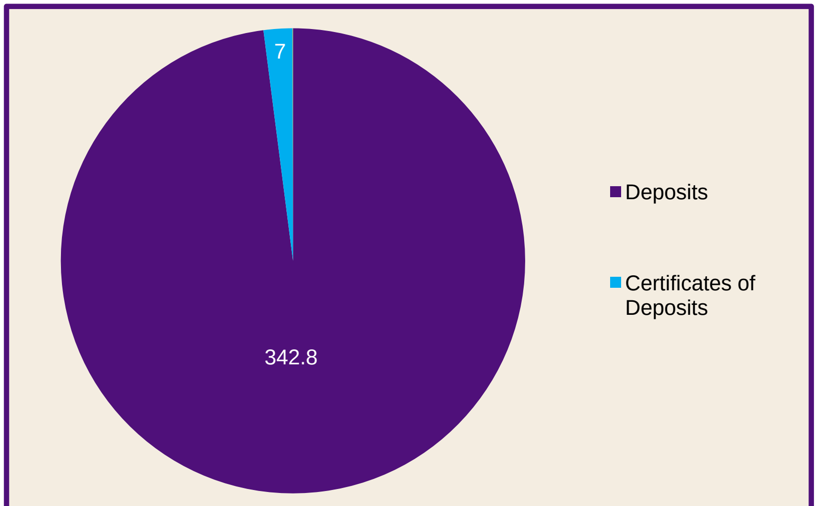
Wholesale Funding

- Successfully completed three RMBS transactions, using prime Society mortgages under the "Darrowby" programme.
- Accessed the FLS, £855m drawn as at March 2015.
- The Society plans a steady repayment of FLS and there are no significant wholesale funding maturities.
- Strategic desire to diversify our wholesale funding and return to the senior unsecured market, having updated our EMTN programme in April 2015.

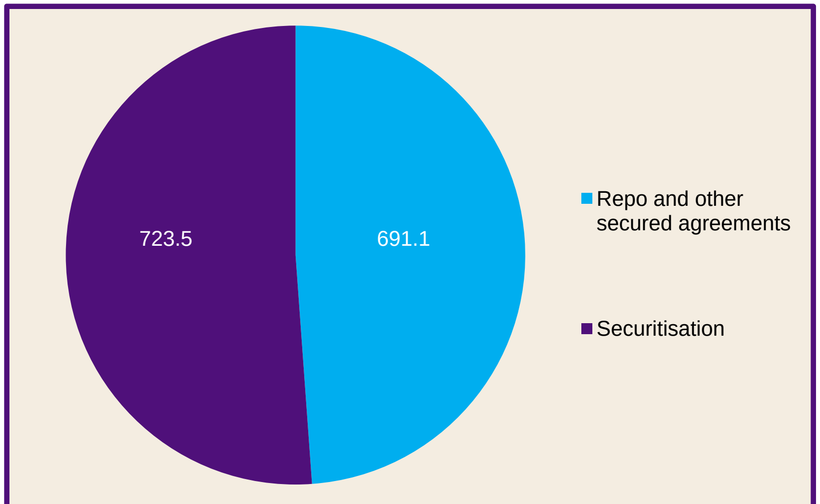
Wholesale Funding (£m)



Unsecured Funding (£m)



Secured Funding (£m)



Source: Skipton Building Society Annual Report & Accounts

Connells Group

Connells Group – Overview

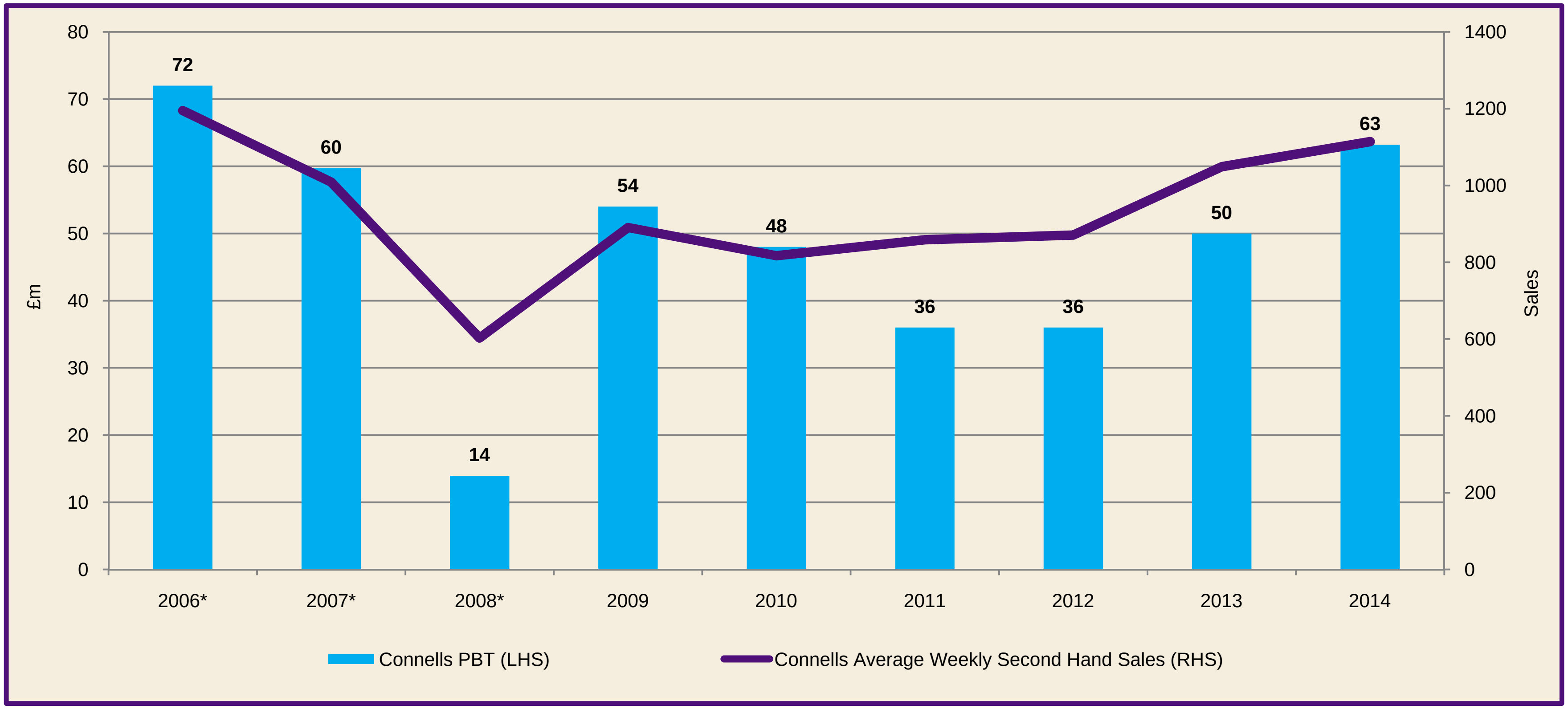
	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Core Estate Agency	37.4	30.9	31.7	39.1	42.7
Survey & Valuation	3.1	(1.5)	(2.2)	1.7	5.9
Asset Management	6.9	6.2	6.9	6.0	4.2
Other	0.8	0.2	(0.8)	3.4	10.4
Total	**48.1**	**35.8**	**35.6**	**50.2**	**63.2**

Source: Connells Limited Annual Report & Accounts 2010-2014.

- Connells is one of the UK's largest estate agencies with a branch network of 520.
- Its core business is selling houses however it also sells related financial services products (mortgages, insurance, protection etc), has a survey and valuation operation, a lettings operation and an asset management business.
- Second hand house sales in 2014 increased by 11% despite the market cooling in the second half of the year.
- Income from survey and valuation increased by 26%; from lettings increased by 26%; and from financial services increased by 2% in 2014.
- Asset management is a natural hedge to the remainder of the business and will naturally see profits fall slightly as the market improves, but still remain a meaningful contributor to the Connells group.
- Connells has held an investment in Zoopla since 2012. 2014 results include £10.1m arising from the part disposal of Zoopla shares.
- In July 2014 Connells acquired Peter Alan, Estate Agent based in Wales.
- Connells has a history of identifying new trends and approaches, from early adoption of cross-selling (mortgages, conveyancing etc.) to being involved from the start with Rightmove.

Connells Group – Profitability

Connells PBT Through The Crisis vs. Average Weekly Second Hand Sales



*Source: Connells Limited, *Excludes profits on sale of Rightmove (2006: £16m; 2007: £36m; 2008: £22m)*

- Throughout the crisis Connells remained profitable (in comparison to its immediate peers) despite H2 2008 recording an all time low of 527 average sales per week. Annual profit for the year was £14m.
- This was achieved through early strict cost cutting regimes, proving the business can sustainably support and benefit the wider Group even in a severe housing market downturn. The business has detailed knowledge and understanding of business volume break-even points for the Connells Group as a whole and its Estate Agency operations.

Summary

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Summary

- In 2014 the Society achieved:
  - A peak in membership;
  - Record underlying Group profits;
  - Strong capital position;
  - One of the highest leverage ratios in the sector;
  - Double digit growth in both mortgages and savings without changing our prudent credit risk appetite; and
  - Continued improvements in asset quality.
- Upgraded this month by Moody’s and Fitch (second upgrade by both agencies in the last nine months).
- Strategic ambition to diversify wholesale funding, building on established presence in the RMBS market.
- £2 billion EMTN programme updated.

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Useful links

Main Website:-	skipton.co.uk
Investor Presentation:-	skipton.co.uk/investorrelations
Financial Results:-	skipton.co.uk/about-us/financial-results
Funding Programmes:-	skipton.co.uk/investorrelations/wholesalefundingprogrammes

Appendix

For life ahead

Lending Policy

In order to be accepted for a mortgage the customer has to pass each of the following:

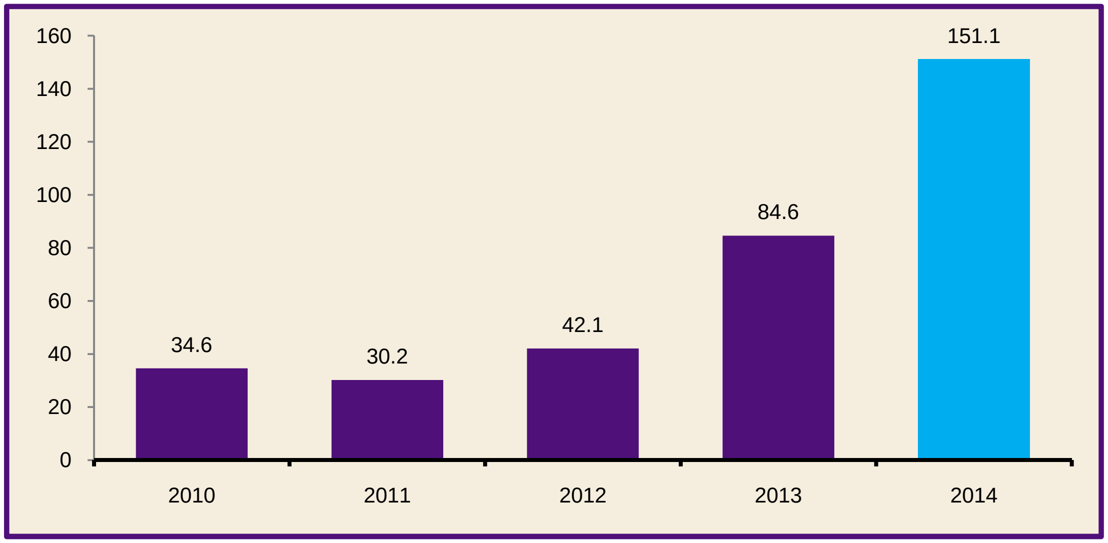
1) Application scorecard
2) Affordability Assessment:
    a) For residential lending, evidence is required of acceptable income (100% of basic / guaranteed income and 50% of variable income)
    b) For Buy-to-Let, rental income must cover the mortgage payment by 125% of the stressed interest rate (6%). Any background buy-to-let properties are also stressed at this rate.
3) Lending policy:

	Criteria	Lending Policy
Residential Lending Policy	Maximum loan size (non-First Time Buyers)	£500k (at 90% LTV) £500-£750K (at 80% LTV) £750 – £1m (at 75% LTV) - Loans greater than £1m require senior management / Board approval
	Maximum loan size (First Time Buyers)	£500k
	Maximum loan size (Interest Only)	£500k
	Maximum Loan to Value (LTV)	Capital & Interest: 90% Interest only: 70% Where there is an element of debt consolidation the LTV is limited to a maximum of 75%
	Interest Only	Not available to First Time Buyers Affordability assessment calculated on a Capital &Interest repayment basis Acceptable repayment strategies are limited to 'Equity in another property in the UK', 'UK shares and bonds held as investment' and 'Cash savings in a UK deposit account'
	Lending into retirement	Evidenced pension income is assessed if the borrower will be 70 or over, or the planned retirement age is before, the end of the mortgage term Maximum age: 75
	Contract variation	The following post completion changes are considered to have a material impact on affordability and therefore an affordability assessment is conducted in all cases: - term extension - changing from interest only to repayment (and vice versa) - addition or removal of customer - consent to let - product switches (depending on circumstances)
Buy-to-Let Lending Policy	Maximum loan size	£750k
	Maximum LTV	75%
	Minimum Income	£20k per annum
	Portfolio Size	A maximum of 5 properties with the Society and a maximum portfolio size of 10 properties (£1.5m portfolio size)

Underlying Group PBT from Continuing Operations

	2014 £m
Total Group profit before tax	181.6
Less profit before tax from discontinued operation	(0.1)
Less profit on disposal of discontinued operation	(24.7)
Less profit on disposal of subsidiary undertakings	(1.1)
Less profit on part disposal of associate and equity share investments	(12.4)
Add back FSCS levy	7.8
Underlying Group profit before tax from continuing operations	**151.1**

Underlying Profit Before Tax from Continuing Operations (£m)



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