Summary Financial Statement 2016

SKIPTON
BUILDING SOCIETY
For your life ahead

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This financial statement is a summary of information from the audited Annual Report and Accounts, the Directors' Report and Annual Business Statement, all of which are available now to members and depositors online at www.skipton.co.uk/financialresults or free of charge on demand at every office of Skipton Building Society from 31 March 2017.

Summary Directors' Report

2016 was a year of UK economic and political change; the country voted to leave the European Union, a new Prime Minister was appointed, and the Bank of England lowered Bank Base Rate to its lowest level in its 322 year history.

These national events created a higher level of economic uncertainty than in more normal times, but we are delighted to report that in 2016 the Society once again delivered another solid performance.

As the UK's fourth largest building society, 2016 saw us continue to build on the strong performance seen in recent years. Group gross residential mortgage lending in the year of £4.0bn was the highest in the Society's history, and our total assets rose to £19.0bn.

We also continued to grow our customer base, strengthen our capital position and deliver excellent customer service. Key highlights in 2016 included:

- A 22,316 increase in customers to 860,403;
- The mortgage book grew by £1.3bn to £15.5bn, a growth rate of 9.1% (2015: by £1.5bn, a growth rate of 11.9%);
- Savings balances grew by £1.3bn to £14.1bn, a growth rate of 10.0% (2015: by £1.4bn, a growth rate of 11.9%);
- Group total assets increased by 8.6% during the year to £19.0bn (2015: £17.5bn);
- Total Group profit before tax (PBT) increased by 15.0% to £168.9m (2015: £146.9m). This includes £15.7m profit recognised in 2016 in relation to the disposal of Homeloan Management Limited (HML) in 2014, £17.0m profit on disposal of part of the Group's shareholding in Zoopla Property Group Plc and a £10.6m impairment charge in relation to the Group's shareholding in Wynyard Group Limited;
- Underlying Group PBT (prior to Financial Services Compensation Scheme (FSCS) charges, gains and losses on the disposal of subsidiary, associate and equity share investments and impairment of subsidiary, associate and equity share investments) decreased by 1.2% to £151.5m (2015: £153.3m);
- Group net interest margin reduced to 1.16% (2015: 1.33%) and net interest income amounted to £212.4m (2015: £223.3m), a reduction of £10.9m (or 4.9%);
- Group administrative expenses increased by £34.7m or 7.5% to £499.1m (2015: £464.4m), of which £337.7m relates to the Connells estate agency group (2015: £289.0m);
- Loan loss provisions continued to reduce, resulting in a net credit of £0.3m, from an £8.4m charge in 2015;
- Charges for provisions and liabilities reduced to £10.9m from £11.8m, and included a levy of £2.1m payable to the FSCS (2015: £7.4m);
- The Society now reports its capital ratios using the Internal Ratings Based (IRB) approach and its Common Equity Tier 1 (CET 1) ratio at 31 December 2016 was 23.9%. Had the Society remained on the standardised approach, its CET 1 ratio as at 31 December 2016 would have been 17.3% (2015: 16.8%);
- The leverage ratio, calculated on an IRB basis, was strong at 5.9%, comfortably ahead of the regulator's expected minimum. On a standardised basis, the ratio would have been 6.3% and was 6.1% at 31 December 2015; and
- In May 2016, the ratings agency Fitch upgraded the Society's long term rating to A- (from BBB+) with a stable outlook and its short term rating was upgraded to F1 (from F2). In October 2016, Moody's maintained its long and short term rating of Baa2 and P-2 respectively but changed its outlook from stable to positive.

Unwavering focus on our members and our people

During 2016 Skipton introduced a range of measures to ensure we continue to meet the evolving needs of our members, including the integration of Skipton Financial Services (SFS) into the building society. SFS was set up in 1988 after identifying a growing customer need for high quality, face-to-face financial planning. Nearly 30 years on, and in an increasingly complex financial world, we are convinced this need is greater than ever. So in 2016 we integrated our financial advice subsidiary into the Society and in doing so will make it easier and more cost effective to meet our customers' changing needs. This enables us to offer a one-stop-shop for all financial planning matters through a seamless customer experience, without duplicating branding, digital and online investment.

In addition, in 2016 the Society also:

- Achieved a net customer satisfaction rating of 90% (2015: 88%);
- Saw 21% of customer complaints referred to the Financial Ombudsman Service changed in the customer's favour compared with an average of 45% for the financial services industry;
- Achieved in June 2016 an employee engagement level of 90% (June 2015: 90%), significantly ahead of industry norms; and
- Was listed, for the third year running, in *The Sunday Times* 100 Best Companies To Work For.

Good performance in the Mortgages and Savings division

The Mortgages and Savings division comprises the Society, which provides mortgages, savings, investments and pensions advice, two mortgage portfolios in run-off, and a mortgage and savings provider based in Guernsey. Highlights for the division include:

- PBT of £96.6m, compared to £103.1m in 2015, a reduction of £6.5m (or 6.3%);
- When expressed as a percentage of mean assets, the Group net interest margin decreased by 17bps to 1.16% from 1.33%. A low interest rate environment, increased competition in the mortgage market and a higher propensity for existing borrowers to switch to a new mortgage product contributed to this reduction in margin;

- In spite of strong balance sheet growth and continued investment in customer propositions, the division's administrative costs of £135.9m were £1.2m lower than the prior year, a 0.9% reduction;
- The cost income ratio of the Mortgages and Savings division was 57.3% (2015: 53.3%), whilst the management expense ratio of the division was 0.75% (2015: 0.83%);
- The Group remains primarily funded by retail savings, representing 89.59% of total funding (2015: 87.78%);
- In addition, the division also accepts deposits through its Guernsey based subsidiary, Skipton International Limited (SIL). Offshore deposits increased by 9.6% to £1.2bn from £1.1bn;
- SIL increased PBT by £1.5m (10.9%) to £15.2m from £13.7m;
- The Group's prudent approach to lending is demonstrated by the number of Group residential mortgages in arrears by three months or more. These represent only 0.73% of mortgage accounts (2015: 0.91%) and compares to an industry average of 1.00% (2015: 1.12%) of mortgages in arrears by more than three months (source: Council of Mortgage Lenders);
- The Society's three months or more arrears levels fell from 0.44% at 31 December 2015 to 0.38% at 31 December 2016. The quality of the SIL mortgage book remains excellent with nil cases in arrears by three months or more (2015: nil);
- The percentage of cases in Amber Homeloans and North Yorkshire Mortgages in arrears by three months or more at 31 December 2016 were 5.95% and 4.31% respectively (2015: 6.64% and 5.54%), a significant improvement. Both books are closed and in run-off;
- The average indexed loan-to-value of residential mortgages across the division reduced to 47.9% (2015: 48.5%);
- At 31 December 2016, the Society had drawn down £980m under the Government's Funding for Lending Scheme (2015: £880m) and £300m under the Term Funding Scheme (2015: £nil); and
- At 31 December 2016, liquidity amounted to 15.90% of shares, deposits and borrowings (2015: 16.95%).

Enabling our members to achieve their life ahead aspirations

The Society helped 23,666 homeowners (2015: 23,094) to purchase or remortgage their properties in 2016, including 4,327 first time buyers (2015: 3,847) and 1,292 (2015: 618) through participation in the Government's Help to Buy equity loan scheme.

This contributed to the Group mortgage book growing by £1.3bn to £15.5bn (2015: £14.2bn), an annual growth rate of 9.1% (2015: 11.9%). Our net residential UK mortgage lending accounted for 3.5% of the growth in the UK residential mortgage market, compared to our 1.1% share of UK residential mortgage balances (source: Bank of England statistics, December 2016). In addition to this, £588.0m of our gross lending in 2016 (14.8% of all lending in the year) was on buy-to-let mortgages (2015: £467.2m or 12.7%).

With regard to savings, our award-winning range of competitive savings products saw retail deposit balances grow by £1.3bn to £14.1bn, an annual growth rate of 10.0% (2015: 11.9%). The growth in the Society's savings balances accounted for 1.6% of the growth in the UK deposit savings market (2015: 2.1%), compared to our market share of savings balances of 1.0%. Our average savings rate paid across all of our accounts reduced by 0.19% during the 12 month period, but nevertheless averaged 1.50% during the year, compared to an average Bank Base Rate during the period of 0.40%. And this in turn saw the Society pay on average 0.58% higher interest than the market average for banks and building societies during the 11 month period to 30 November 2016 (11 months to 30 November 2015: 0.49%), being the latest available comparable market data (source: CACI Savings Market Database).

Robust performance from Estate Agency in a challenging market

In 2016, Connells delivered another strong set of results in a more difficult market with PBT of £73.4m (2015: £62.5m), an increase of 17.4%. This included a £17.0m profit on the part disposal of shares in Zoopla Property Group Plc (2015: £0.3m). Excluding these gains, PBT in 2016 amounted to £56.4m, a 9.3% reduction compared to 2015.

The UK housing market was adversely impacted around the date of the EU referendum but gradually improved in the second half of the year. Like-for-like second hand house sales (sold subject to contract), having been 12% higher in the first five months of 2016 compared to the same period in the previous year, were 8% lower in quarter 3 and 7% lower in quarter 4. The total number of properties (both second hand and new) that contracts were exchanged on during the whole of 2016 was 8% higher than in 2015 and was 1% higher on a like-for-like basis.

Income increased by 21% from lettings, by 18% from mortgage services and by 16% from surveys and valuations. Properties under management increased by 23%, mortgage sign ups increased by 10% and survey and valuation cases increased by 8% compared to 2015. At 31 December 2016, Connells operated 583 branches (2015: 542).

Other subsidiaries

Looking at our other subsidiaries, Skipton Business Finance recorded a PBT of £3.3m (2015: £3.2m). Jade Software Corporation, the provider of the Society's core database and software development language and 56.4% owned by Skipton, recorded a loss before tax of £0.4m (2015: loss of £1.3m). The Group owns 17.7% of Wynyard Group Limited, a provider of software development services that was spun out of Jade Software Corporation and floated on the New Zealand stock exchange in July 2013. In October 2016, Wynyard was placed into voluntary administration, and subsequently entered liquidation in February 2017. The Group recognised a loss of £15.0m during 2016 on Wynyard related activities, including a £10.6m impairment charge against the whole of its investment.

In 2014, the Group sold its 100% shareholding in Homeloan Management Limited, a provider of mortgage services, for £56.6m with a right to contingent consideration based on performance. Although the performance period has not yet ended, in 2016 the Group recognised £9.9m of contingent consideration (2015: £nil) based on the Directors' best estimate of an element of the consideration that can be reliably estimated at this stage. In addition, the Group's reported profits for 2016 have benefitted by £5.8m following expiry of the indemnity period relating to the disposal (2015: £nil). Both of these items are excluded from underlying PBT.

Giving something back to our communities

2016 saw us continue to play an active role in the communities where our colleagues live and work. Through our award winning Grassroots Giving community funding programme, in 2016 we gave 163 donations of £500 to small community groups voted for by the public, bringing the total donated since the scheme launched to £323,000 and colleagues from across the Society also raised over £76,000 for good causes right across the UK.

In 2016 the Society donated £150,000 to the Skipton Building Society Charitable Foundation, which enabled the Foundation to support registered charities involved in helping people of all ages, and we continued to support a number of key community partners, including the Great Yorkshire Show and Skipton Building Society Camerata.

Conclusion and outlook

2016 was another year of strong performance by the Society, with good growth in both mortgage and savings balances in excess of our market share.

Economic forecasters indicate that UK GDP growth in 2017 will be similar to that achieved in 2016, although inflation is expected to be higher, which will impact disposable income. There is no precedent for a country leaving the EU, which makes forecasting difficult. The Society conducts all of its trading activities within the UK but we are mindful of any potential secondary effects from parts of the wider economy that are impacted as a result of the EU referendum. The Society will continue with its naturally cautious approach and so its growth rate in 2017 is expected to moderate in comparison to recent years.

We are conscious of the continuing low interest rate environment and the impact it has on our savers, compounded during 2016 by a further reduction in Bank Base Rate to only 0.25%, and the introduction of the Government's Term Funding Scheme which has reduced banks and building societies' demand for retail funds. The rates payable to our savers are to a large extent driven by competitor pricing but the strong growth in the Society's retail balances relative to the market in 2016 once again demonstrates the attractiveness of our products. With Bank Base Rate remaining so low, and tax and pension reforms introducing more complexity, there is a need for financial advice and the Society is well placed to advise on the financial planning needs of its members for their life ahead. During 2017, the Society will launch a pensions decumulation advisory service.

The outlook for the Society remains healthy, although we remain vigilant to any uncertainties regarding the economy, new regulatory requirements to strengthen the resilience of the UK finance sector and changes in consumer behaviours. The Society remains extremely well placed to capitalise upon the opportunities that lie ahead as well as mitigate the risks that arise.

Group results for the year ended 31 December	**2016 £m**	2015 £m
Net interest receivable	**212.4**	223.3
Other income and charges	**450.4**	403.2
Profit / (loss) on disposal of subsidiary undertakings	**15.8**	(0.4)
Profit on part disposal of equity share investments	**17.0**	0.3
(Loss) / profit on full or part disposal of associate	**(0.9)**	1.1
Fair value (losses) / gains on financial instruments	**(3.7)**	4.0
Administrative expenses and provisions for liabilities	**(510.0)**	(476.2)
Impairment losses	**(12.1)**	(8.4)
Profit for the financial year before tax	**168.9**	146.9
Tax expense	**(39.1)**	(33.5)
Profit for the financial year	**129.8**	113.4
Non-controlling interests' share of losses	**0.3**	0.6
Profit for the financial year attributable to members	**130.1**	114.0

Underlying Group profit before tax for 2016 was £151.5m (2015: £153.3m) as follows:

	2016 £m	2015 £m
Total Group profit before tax	**168.9**	146.9
Less profit / add back loss on disposal of subsidiary undertakings	**(15.8)**	0.4
Less profit on full or part disposal of associate and equity share investments	**(16.1)**	(1.4)
Add back impairment of associate and equity share investments	**12.4**	-
Add back FSCS levy	**2.1**	7.4
Underlying Group profit before tax	**151.5**	153.3

Group financial position at 31 December	**2016 £m**	2015 £m
Assets		
Liquid assets	**2,677.4**	2,637.8
Residential mortgages	**15,340.4**	13,905.7
Commercial and other loans	**441.2**	457.5
Derivative financial instruments	**116.1**	95.1
Fixed and other assets	**444.6**	415.3
Total assets	**19,019.7**	17,511.4
Liabilities and reserves		
Shares	**14,152.5**	12,828.2
Borrowings	**2,682.7**	2,733.9
Derivative financial instruments	**412.3**	296.9
Other liabilities	**324.9**	302.8
Subordinated liabilities	**77.2**	78.5
Subscribed capital	**92.6**	93.5
Non-controlling interests	**(1.0)**	(1.6)
Reserves	**1,278.5**	1,179.2
Total liabilities and reserves	**19,019.7**	17,511.4

Group statement of movement in reserves	**2016 £m**	2015 £m
Reserves at 1 January	1,179.2	1,053.0
Net (expense) / income for the year not recognised in the Income Statement	(30.8)	12.2
Profit for the year	130.1	114.0
Reserves at 31 December	1,278.5	1,179.2

Summary of key financial ratios	**2016 %**	2015 %
Gross capital as a percentage of shares, deposits and borrowings	8.60	8.67
Liquid assets as a percentage of shares, deposits and borrowings	15.90	16.95
Group profit after tax for the year as a percentage of mean total assets	0.71	0.68
Group management expenses as a percentage of mean total assets	2.73	2.77
Society management expenses as a percentage of mean total assets	0.62	0.60

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 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 2015 and 2016 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 total assets during the year.

This Summary Financial Statement was approved by the Board of Directors on 28 February 2017 and was signed on its behalf by:

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

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

We have examined the Summary Financial Statement of Skipton Building Society ('the Society') for the year ended 31 December 2016 on pages 2 to 5.

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

Respective responsibilities of directors and auditor

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

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

Basis of opinion

Our examination of the Summary Financial Statement consisted primarily of:

- Agreeing the amounts and disclosures included in the Summary Financial Statement to the corresponding items within the full Annual Report and Accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016, including consideration of whether, in our opinion, the information in the Summary Financial Statement has been summarised in a manner which is not consistent with the full Annual Report and Accounts, the Annual Business Statement and Directors' Report of the Society for that year;
- Checking that the format and content of the Summary Financial Statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full Annual Report and Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016.

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

Opinion on Summary Financial Statement

On the basis of the work performed, in our opinion the Summary Financial Statement is consistent with the full Annual Report and Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

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

Chartered Accountants
Leeds
28 February 2017

Summary Directors' Remuneration Report

Annual statement 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 2016.

This report is a summary of the Directors' Remuneration Report set out in detail in the Society's Annual Report and Accounts which can be found on our website at skipton.co.uk/financialresults, or on request from the Group Secretary of the Society. The report explains on pages 9 and 10 how we put our Remuneration Policy into practice in 2016 and explains on page 10, how we intend to apply it for 2017.

The full report also includes details of the following:

- A summary of the Remuneration Policy for Executive and Non-Executive Directors. The Remuneration Policy, which was set out in detail in the 2015 Annual Report and Accounts, was approved at the AGM in April 2016. The policy remains unchanged for 2017;
- The remuneration principles which underpin the remuneration policy;
- The history of the Group Chief Executive's remuneration over the last eight years; and
- Further details of the Remuneration Committee and its advisers.

Details on how we pay the Society's 'Material Risk Takers' - those senior managers who have a material impact on the risk profile of the business - are included in the Pillar 3 disclosures which can be found together with the financial results at the above web address.

Remuneration policy for 2016

A reminder of the key elements of our 2016 policy for the Society's Executive Committee is set out below:

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

The new Remuneration Policy and the Annual Report on Remuneration were put to two advisory votes at our AGM in April 2016 and received majority votes in favour.

Remuneration in respect of 2016

In the context of increasing competition in the mortgage market and pressure on our net interest margin, the Society's performance has remained solid.

Statutory Group profit before tax (PBT) was £168.9m (2015: £146.9m) and the core Mortgages and Savings division PBT was £96.6m (2015: £103.1m). Despite the increased market and economic pressures, mortgage and savings balances have seen good growth (9.1% and 10.0% respectively) and the Common Equity Tier 1 (CET 1) ratio, as measured under IRB this year, was strong at 23.9% (2015: 16.8% under the standardised approach).

Key decisions taken

- Taking into account the market competition, economic factors, our acceptable risk profile and our continued solid performance, the Committee made awards under the Society's Single Variable Pay Arrangement (SVPA) scheme with respect to the 2016 outturn. The average award payable to the Executive Directors is 33.1% (2015: 36.4%) of base salary (as at 31 December 2016) out of a possible maximum 50% (2015: 50%). Other Executive Committee members also participating in the short term incentive scheme received an average award of 28.5% of base salary (2015: 30.8%) out of a possible maximum of 40%. The average award made to senior managers in the Senior Leadership Team incentive scheme is 21.6% (2015: 21.4%) of base salary.
- The annual incentive scheme for the remainder of our people in the Society resulted in an average payment of 5.0% (2015: 5.4%) of base salary for eligible, full year participants rated as 'achieving' or above.
- The three year performance cycle for the 2014/2016 Medium Term Incentive (MTI) scheme, put in place in January 2014, came to an end in December 2016. Having reviewed the cumulative performance to December 2016, the Committee made an overall award of 39.3% (of salary on commencement of the scheme), half of which is paid in 2017 followed by a quarter in 2018 and a quarter in 2019. Payments for the 2015/2017 performance period will be made, in the same proportions, in 2018, 2019 and 2020 subject to performance. As signalled in the 2015 Directors' Remuneration Report, a new MTI scheme was not put in place for 2016 to 2018 as the SVPA replaced the short and medium term schemes that were in place in 2015.
- From 2016, regulations mean that the Group Chief Executive and any other Material Risk Takers (as defined above) receiving more than certain earnings limits in the performance year will have their awards made partly in the form of 'instruments'. For listed organisations, this might typically be a share award but for the Society, as a mutual organisation, the instrument is a contingent cash award which is payable subject to the capital position of the Society. The instrument developed requires that, in addition to the required deferral period, the part of the award payable in instruments will be subject to a further six month retention period following vesting and all payments will be subject to write down if CET 1 capital falls below the agreed level. As this is a new requirement for the Society from 2016, the Remuneration Committee has overseen the development of the instrument and the rules around how it will work in practice.
- While the Remuneration Committee has always been focussed on managing risk in its remuneration schemes, we took the opportunity in 2016 to review and enhance our risk adjustment arrangements.

- In 2017, the Committee will continue its work in this area and will also consider how new regulations such as gender pay reporting and the UK Government's focus on executive pay might influence our remuneration policy and practices going forward.

Conclusion

On behalf of the Committee, I hope that this report will give you a clear view of how we have implemented the policy in 2016. The Committee recommends that members vote in favour of the 2016 Annual Remuneration Report at the forthcoming AGM.

Helen Stevenson
Chairman of the Remuneration Committee

28 February 2017

Annual Report on Remuneration in 2016

Executive Directors' remuneration

The total remuneration for Executive Directors in 2016 is set out in the table below:

2016 Audited	**Mr D J Cutter**	**Mr A P Bottomley[9]**	**Mr I M Cornelius**	**Mr R S D M Ndawula**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Salary	490	283	287	299	**1,359**
Benefits[1]	15	12	12	12	**51**
2016 annual performance award (SVPA)[2]	161	94	96	101	**452**
MTI (2014/2016)[3]	157	96	88	81	**422**
Other[4]	-	180	-	-	**180**
Pension[5]	98	42	29	30	**199**
Total remuneration in respect of performance periods ending in 2016	**921**	**707**	**512**	**523**	**2,663**
Total 2016 performance pay deferred[6]	(175)	(95)	(92)	(91)	**(453)**
Prior years' deferred performance pay now released[7]	85	-	21	-	**106**
Total paid in 2016 or payable in 2017[8]	**831**	**612**	**441**	**432**	**2,316**

2015 Audited	Mr D J Cutter	Mr I M Cornelius	Mr R S D M Ndawula[11]	Total
	£000	£000	£000	£000
Salary	418	244	221	883
Benefits	15	12	10	37
2015 annual performance award	149	91	93	333
Pension	84	21	19	124
Total remuneration in respect of performance period ending in 2015	666	368	343	1,377
Total 2015 performance pay deferred	(60)	-	-	(60)
Prior years' deferred performance pay now released	90	21	-	111
Total paid in 2015 or payable in 2016[10]	696	389	343	1,428

Notes

1. Benefits comprise the provision of a car or car allowance and private medical insurance contributions.
2. £96,747 (60%) of the 2016 SVPA award for Mr Cutter will be deferred for a period of seven years (2015: £59,718, deferred for three years). Half of the initial up-front award (i.e. 20% of the total) will be paid in March 2017 and the remaining half will be retained for a further six month period and paid subject to CET 1 capital remaining at or above the agreed level in September 2017.
3. The full outturn relating to the 2014/2016 MTI scheme (awarded in 2014) is included in this row. Only 50% of this award is paid in 2017 and the remaining portion is paid 25% in 2018 and 25% in 2019.

   No payments for the 2015/2017 MTI are included in the above figures, as payments will be based on performance in the stated periods and are not due to commence until 2018. A total of £219,567 has been accrued to 31 December 2016 in respect of the Executive Directors. This represents two thirds of the estimated payment for the 2015/2017 MTI based on current performance. The accrual is reviewed at the end of each qualifying year and is adjusted, as required, based on that year's performance.
4. £180,000 was paid to Mr Bottomley as a one-off award to compensate him for remuneration he forfeited on leaving his previous employer.
5. Mr Cutter's 2016 pension figure includes the additional value earned in the defined benefit scheme during 2016 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.
6. These are amounts which have vested in respect of the performance periods ending in December 2016 (from the 2016 SVPA scheme and 2014/2016 MTI scheme) which are due to be paid in future years in line with the scheme rules.
7. These are deferred amounts from the 2013 – 2015 STI schemes which are payable in 2017.
8. Total payable is salary, benefits, pension and other payments which have been paid in 2016 and payments from variable pay schemes to be made in 2017.
9. Mr Bottomley joined the Society and was appointed to the Board on 1 January 2016. For further details of Mr Bottomley's remuneration in 2016, please see the section in the full Directors' Remuneration Report 'Joining arrangements for Andrew Bottomley'.
10. Total payable includes salary, benefits and pension which were paid in 2015 and payments from variable pay schemes made in 2016.
11. Mr Ndawula was appointed as Group Finance Director on 23 February 2015.

Risk considerations

As part of approving incentive outcomes for 2016, the Committee reviewed a report from the Board Risk Committee outlining how the Society and Executive Directors had performed in relation to the risk objectives and appetites set for 2016, taking into account the context and impact of operational decisions. The Committee also considered the Board Risk and Audit Committees' views on whether there were any material issues to consider, e.g. a significant risk failing, regulatory breach or material error which may trigger malus or an adjustment to the outcome of the SVPA.

Having taken into consideration the information provided by each committee the Remuneration Committee decided that no adjustment to current year or deferred amounts of variable pay was required.

Comparison to the remuneration of other employees

As outlined in the full Directors' Remuneration Report, as part of the review of Executive remuneration in 2015, the Remuneration Committee agreed (with a vote in favour of our overall policy from 89.76% of members at the 2016 AGM) to increase base salaries by 15% with effect from 1 January 2016. This was to compensate the Executive Directors for the significant reduction in their variable pay opportunity and will mean that, in the longer term, the value of their on-target total remuneration should remain broadly the same as the levels projected under the STI and MTI schemes in operation in 2014 and 2015.

In the annual salary review in April 2016, the Group Chief Executive's base salary increased by 1.5%. This compares to an annual average pay review award in 2016 of 3.3% of base salary for other Society employees. The Society remuneration comparator relates to Society employees only as this is considered to be the most appropriate comparator to use due to the varying remuneration policies across the Group's subsidiaries.

Non-Executive Directors' remuneration

Non-Executive Directors' fees (excluding those of the Chairman) are reviewed annually by the Non-Executive Directors' Remuneration Committee, in line with the policy outlined earlier in the report. The Non-Executive Directors' Remuneration Committee makes recommendations concerning Non-Executive Directors' remuneration to the Board and in 2016 recommended that the basic Non-Executive Director fee and Deputy Chairman fee should be increased by £1,000 to £49,000 and £54,000 respectively with effect from 1 August 2016. The fees for chairing the Audit and Board Risk Committees were held at £13,000 per annum and the fee for the chair of the Remuneration Committee was similarly held at £11,000 per annum.

The Chairman's fees are reviewed and approved by the Remuneration Committee. Mr Ellis' fee was reviewed by the Remuneration Committee in 2015 and increased to £165,000 with effect from 1 August 2015. No change was made to the Chairman's fee in 2016.

Audited

		2016				2015			
	Notes	**Fees £000**	**Committee chair fees £000**	**Taxable benefits [1] £000**	**Total £000**	Fees £000	Committee chair fees £000	Taxable benefits [1] £000	Total £000
Mr M H Ellis (Chairman)		**165**	**-**	**5**	**170**	162	-	5	167
Mr G E Picken (Deputy Chairman)	2	**77**	**-**	**4**	**81**	72	-	4	76
Mrs C Black	3	**16**	**-**	**2**	**18**	47	-	4	51
Ms A J Burton	4	**32**	**-**	**1**	**33**	-	-	-	-
Ms M Cassoni	5	**48**	**13**	**5**	**66**	47	13	5	65
Mrs D P Cockrem	6	**48**	**-**	**7**	**55**	16	-	2	18
Mr R D East	7	**48**	**13**	**1**	**62**	47	13	1	61
Mr P R Hales	8	**-**	**-**	**-**	**-**	12	-	-	12
Mr M J Lund	9	**32**	**-**	**3**	**35**	-	-	-	-
Ms H C Stevenson	10	**48**	**7**	**4**	**59**	47	-	3	50
Mr P J S Thompson	11	**18**	**4**	**1**	**23**	52	10	2	64
		532	**37**	**33**	**602**	502	36	26	564

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 Mr Picken, who is also a Non-Executive Director of Connells, Connells' head office), including for attendance at Board and Committee meetings.
2. Mr Picken was appointed Deputy Chairman on 26 April 2016 and is also a Non-Executive Director of Connells Limited for which he receives an annual fee of £25,000 included in the table above.
3. Mrs Black retired from the Board on 25 April 2016.
4. Ms Burton was appointed to the Board on 3 May 2016.
5. Ms Cassoni is the Chairman of the Audit Committee.
6. Mrs Cockrem was appointed to the Board on 1 September 2015.
7. Mr East is the Chairman of the Board Risk Committee.
8. Mr Hales retired from the Board on 31 March 2015.
9. Mr Lund was appointed to the Board on 25 April 2016.
10. Ms Stevenson was appointed Chairman of the Remuneration Committee on 26 April 2016.
11. Mr Thompson retired from the Board on 25 April 2016.

Statement of implementation of Remuneration Policy in 2017

Given the extensive review of Executive remuneration in preparation for 2016, we anticipate that the implementation of our Remuneration Policy in 2017 will be unchanged from 2016.

The SVPA for 2017 will continue to be based on a balanced scorecard of financial and non-financial measures. The financial measures include Group profit, Mortgages and Savings division profit and efficiency measures. The efficiency measures in 2017 will include a new target for the cost income ratio in addition to the management expense ratio. These will be weighted 5% each.

The non-financial measures include customer growth and satisfaction scores, risk and governance and people measures. The weighting will continue to be 50% based on financial measures, 30% on non-financial measures and 20% on personal objectives which include an element for strategy development and implementation. The maximum opportunity will remain as 50% of base salary and 30% at target.

The Committee will continue to embed the new scheme and the updated risk adjustment policy, ensuring that remuneration decisions fully reflect the Society's position on risk and the scheme delivers the intended outcomes for our members. The Committee will also maintain close links with the Board Risk and Audit Committees to ensure full compliance with the new guidelines from the European Banking Authority (EBA) which are effective from January 2017.

On a broader level, the Society will continue to respond to regulatory changes introduced by the UK Government and will, for the first time in 2017, be reporting on the gender pay gap.

Similarly, as outlined in our Annual Statement, we will be monitoring progress of the Government's green paper on executive pay and corporate governance to see how we might need to adapt our remuneration policy and practices from 2017 onwards.

The Committee and its advisers

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

- Ensure that remuneration policies, principles and practices are appropriate to enable the business to attract, retain and reward people with the right skills, experience, knowledge and behaviours to support achievement of business goals and objectives;
- Maintain policies that are compliant with governing laws and regulations;
- Ensure that remuneration arrangements support and encourage desired behaviours and culture; and
- Ensure appropriate governance of remuneration practices across the Society and its subsidiary companies and exercise effective oversight of these.

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

Helen Stevenson
Chairman of the Remuneration Committee

28 February 2017

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