Summary Financial STATEMENT 2017

SKIPTON
BUILDING SOCIETY
For your life ahead

Summary Financial STATEMENT 2017

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 www.skipton.co.uk/financialresults from 19 March 2018 or free of charge on demand at every office of Skipton Building Society from 3 April 2018.

Summary Directors' Report

2017 will be remembered for an unexpected General Election, resulting in a hung Parliament, and the first rise in Bank Base Rate for over ten years. The competitive environment intensified, impacting net interest margins, with pressures from established players and new entrants alike. And political and economic uncertainties impacted buyer sentiment causing the housing market to become more subdued in the second half of the year.

It is against this backdrop that it is pleasing to report a very strong performance by Skipton Building Society when measured against a multitude of metrics, including a 7% increase in membership numbers to almost 920,000, record customer satisfaction scores, the highest volume of gross lending in our history, record Group profits (at both a statutory and underlying level), one of the strongest CET 1 capital ratios in the industry, and the opening of over 50,000 cash Lifetime ISAs, being the only such provider in the marketplace.

Performance highlights in 2017 include:

- The Society continued to grow with a 58,657 (6.8%) increase in members to 919,060;
- Group profit before tax (PBT) increased by 18.5% to £200.1m (2016: £168.9m);
- Underlying Group PBT (prior to Financial Services Compensation Scheme (FSCS) charges, gains and losses on the disposal of Group undertakings, impairment of Group undertakings and losses on sale of mortgage assets) increased by 9.4% to £165.7m (2016: £151.5m);
- The Group disposed of a £220m portfolio of non-performing or recently non-performing loans. This initiative reduced risk weighted assets (a risk measure) by £463m and resulted in a £15.0m loss on disposal;
- As a consequence, the number of Group residential mortgages in arrears by three months or more has more than halved during the year to only 0.36% of mortgage accounts (2016: 0.73%), and compares to an industry average of 0.82% of residential mortgages in arrears by more than three months (source: Council of Mortgage Lenders (CML), December 2017);
- The Group also disposed of its remaining equity investment shareholding in ZPG Plc resulting in a £38.5m gain (2016: £17.0m);
- The disposal of Homeloan Management Limited to Computershare by the Group in 2014 included a right to contingent consideration based on future performance. As a consequence a further profit of £15.9m was recognised in 2017, which takes the total profit from the sale to £56.3m;
- Group gross mortgage lending increased by 12.8% to £4.5bn (2016: £4.0bn);
- Mortgage balances grew by £1.3bn to £16.8bn, a growth rate of 8.3% (2016: by £1.3bn, a growth rate of 9.1%);
- Savings balances grew by £0.9bn to £15.0bn, a growth rate of 6.2% (2016: by £1.3bn to £14.1bn, a growth rate of 10.0%);
- In June, the Society raised £350m of unsecured wholesale funding for a five year term, its first such issuance since the global financial crisis, broadening the Society's funding base and lengthening its funding maturity;
- Group total assets increased by 10.5% during the year to £21.0bn (2016: £19.0bn);
- Funds under management as part of our financial advice offering increased by 9.7% to £3.4bn (2016: £3.1bn);
- The Group net interest margin reduced to 1.10% (2016: 1.18% (restated)), whilst net interest income increased to £220.6m (2016: £215.6m (restated)), an increase of £5.0m (or 2.3%);
- Group administrative expenses increased by £24.0m or 4.8% to £523.1m (2016: £499.1m), of which £345.5m relates to the Connells estate agency group (2016: £337.7m);
- Loan impairment provisions on residential mortgages (excluding the equity release portfolio) continued to reduce, resulting in a net credit of £1.3m (2016: a credit of £2.7m). The credit in respect of the Society's equity release book was £1.8m (2016: £3.8m charge);
- Charges for provisions and liabilities were £16.3m (2016: £10.9m) and included a levy of £1.2m payable to the FSCS (2016: £2.1m). A charge of £11.4m (2016: £5.7m) was recognised for commission clawbacks in the Connells group, the increase largely as a result of an increase in the volume of business written during the year. Charges of £5.7m were recognised for customer compensation provisions (2016: £2.9m). This relates predominantly to provisions for potential claims on payment protection insurance and potential future redress payable following an evaluation during 2017 of some historical terms and conditions for a small number of mortgages, mainly within our specialist mortgage lenders Amber Homeloans and North Yorkshire Mortgages, which have been closed to new business since 2008;
- The Common Equity Tier 1 (CET 1) ratio at 31 December 2017 was 33.2% (2016: 23.9%), benefiting from retained profits generated during the year and a reduction in capital requirements as a result of the disposal of the £220m portfolio of non-performing or recently non-performing loans;
- The leverage ratio was strong at 6.1% (2016: 5.9%), comfortably ahead of the regulator's expected minimum of 3%; and
- The robustness of the business was recognised by global credit rating agency Moody's, who upgraded the Society for the third time in four years.

2017 was another year of strong performance for Skipton Building Society, and further demonstrated that our 164-year-old core purpose of delivering consistent value to our members is still as relevant today as it was when we were founded.

Unwavering focus on our members and our people

In 2017 we enabled more people to save for their future and finance their own home than we ever have before. During the year the Society:

- Was the first, and to date only, financial services provider to launch a cash Lifetime ISA, enabling 50,590 people (as at 31 December 2017) to invest in their future by saving for their first home or for their life ahead;
- Increased our place in the independent 2017 Customer Experience Excellence survey, which rose from 33rd to 7th. This was out of 295 leading UK brands and the Society was named the UK's top building society for customer experience;
- Was again included in *The Sunday Times* Top 100 Companies to Work For;
- Achieved a net customer satisfaction rating of 92% (2016: 90%);
- Saw 14% of customer complaints referred to the Financial Ombudsman Service, during the first six months of 2017, changed in the customer's favour compared with an average of 36% for the financial services industry for the same period, being the latest available comparable market data; and
- Launched a retirement decumulation service to help customers make the most of their pensions, savings and investments as they progress through their retirement journey.

On 27 February 2018, the Society agreed heads of terms for a merger with Holmesdale Building Society. The merger is subject to approval by the members of Holmesdale Building Society and confirmation by the Prudential Regulation Authority. If approval and confirmation is received, the merger is expected to become effective through the transfer of all of the Holmesdale Building Society's engagements to Skipton on 1 October 2018.

Enabling our members to achieve home ownership and save for their life ahead aspirations

The Society was the first financial services provider to launch a cash Lifetime ISA, helping over 50,000 people from its launch in June to save for their first home or longer term financial needs. The Society helped 25,979 homeowners (2016: 23,666) to purchase or remortgage their properties, including 4,540 first time buyers (2016: 4,327) and 1,498 (2016: 1,292) through participation in the Government's Help to Buy equity loan scheme.

This contributed to the Group mortgage book growing by £1.3bn to £16.8bn, a growth rate of 8.3% (2016: by £1.3bn, a growth rate of 9.1%). The Group's net residential UK mortgage lending accounted for 3.0% of the growth in the UK residential mortgage market (2016: 3.5%), compared to our 1.1% share of UK residential mortgage balances (source: Bank of England statistics, December 2017). £824.1m, or 18.4%, of the Group's gross lending during the year was on buy-to-let mortgages (2016: £588.0m or 14.8%).

Our award-winning range of competitive savings products saw retail deposit balances grow by £0.9bn to £15.0bn, an annual growth rate of 6.2% (2016: 10.0%). The growth in the Society's savings balances accounted for 1.9% (2016: 1.6%) of the growth in the UK deposit savings market, compared to our market share of savings balances of 1.0% (source: Bank of England statistics, December 2017). The average savings rate paid across all of our accounts reduced by 0.28% during the 12 month period, but nevertheless averaged 1.21% during the year, compared to an average Bank Base Rate during the year of 0.29% (source: internal monitoring). The Society paid on average 0.52% higher interest than the market average for banks and building societies during 2017 (2016: 0.55%) (source: CACI Savings Market Database for the 12 months to 31 December 2017). None of the Society's savings products currently pay less than Bank Base Rate of 0.50%.

Good performance in the Mortgages and Savings division

The Mortgages and Savings division is at the heart of the Group and is principally the Society, which provides mortgages, savings, investments and pension advice. It also includes two mortgage portfolios in run-off, and a mortgage and savings provider based in Guernsey. Highlights for the division include:

- The division produced a PBT of £89.1m, compared to £96.6m in 2016, a reduction of £7.5m (or 7.8%), predominantly as a result of the £15.0m loss on disposal of non-performing or recently non-performing loans as outlined above;
- The division reported an underlying PBT of £105.3m, up from £98.7m in 2016, an increase of 6.7%;
- When expressed as a percentage of mean assets, the Group net interest margin decreased by 8bps to 1.10% from 1.18% (restated), a reflection of a more competitive mortgage market and the impact of the ongoing low Bank Base Rate environment on our increasing asset base;
- The division's administrative costs increased by 4.4% to £141.9m from £135.9m in 2016 as the Society continues to invest in various areas of the business to meet customers' expectations and support growth;
- The cost income ratio of the division was 57.1% (2016: 57.3%), whilst the management expense ratio of the division was 0.72% (2016: 0.75%);
- The Society remains primarily funded by retail savings, which represented 84.6% of total funding (2016: 89.6%);
- The division also accepts deposits through its Guernsey based subsidiary, Skipton International Limited (SIL). Offshore deposits increased by 17.2% to £1.4bn from £1.2bn at 31 December 2016;
- SIL increased PBT by £2.8m (18.4%) to £18.0m from £15.2m in 2016;
- 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 0.36% of mortgage accounts (2016: 0.73%), the reduction benefiting from the £220m portfolio disposal of non-performing or recently non-performing loans, and compares to an industry average of 0.82% of mortgages in arrears by more than three months (source: CML industry arrears data, December 2017);
- The Society's three months or more arrears levels fell to 0.29% at 31 December 2017 (2016: 0.38%). The quality of the SIL mortgage book remains very strong with only one account in arrears by three months or more (31 December 2016: nil);
- The percentage of cases in Amber Homeloans and North Yorkshire Mortgages in arrears by three months or more were 2.51% and 0.78% respectively (2016: 5.95% and 4.31%), a significant reduction predominantly due to the aforementioned portfolio disposal. Both books are closed to new business and have been in run-off since 2008;
- The average indexed loan-to-value of residential mortgages across the division at 31 December 2017 was 47.2% (2016: 47.9%);
- The Society drew down £1.1bn of funding under the Government's Term Funding Scheme (TFS) during the year (2016: £0.3bn) and at the end of the year had drawn a total of £1.4bn under the scheme (2016: £0.3bn). In addition the Society repaid the outstanding funding from the Government's Funding for Lending Scheme (FLS). The amount outstanding at the end of 2016 was £1.0bn;
- During the year, the Society repaid and cancelled £50.0m of its Permanent Interest Bearing Shares (PIBS) and £75.4m of its subordinated debt on their respective maturity or call dates;
- At 31 December 2017, liquidity amounted to 18.65% of shares, deposits and borrowings (2016: 15.90%); and
- In April 2017, global ratings agency Moody's upgraded the Society's long term rating to Baa1 (stable outlook) from Baa2 (positive outlook) and affirmed its short term rating of P-2. This reflects the Society's strong financial position.

Robust performance from estate agency

Connells, our estate agency division, reported profits of £104.2m (2016: £73.4m). This includes a gain of £38.5m (2016: £17.0m) on the disposal of its remaining shareholding in ZPG Plc. Underlying PBT increased by 13.7% to £64.9m (2016: £57.1m).

The housing market became more subdued after the summer months and this resulted in a decrease in Connells' house sales during the year of 4% (2016: increase of 8%); however lettings income increased by 9% (2016: 21%), mortgage services income increased by 13% (2016: 18%) and surveys and valuations income increased by 5% (2016: 16%), demonstrating the good spread of revenue generating activities carried out by the Connells group.

Despite the decrease in house sales, which was representative of the market as a whole, Connells continued to increase its share of the UK residential property sales market, marketing 6% of properties available for sale in the UK in 2017 (source: Rightmove property listing statistics for the period 1 January 2017 to 31 December 2017).

Other subsidiaries

Skipton Business Finance recorded a PBT of £3.5m (2016: £3.3m). Jade Software Corporation (JSC), the provider of the Society's core database and software development language, recorded a PBT of £1.2m (2016: loss of £0.4m). On 30 June 2017, the Society increased its shareholding in JSC from 56.4% to 99.9%. At the same time, the Group disposed of a small group of companies held by JSC, Jade Logistics Holding Company and its subsidiary undertakings, resulting in a loss on disposal of £4.9m, £0.3m of which is included in the above reported profits of JSC. The disposal of this subsidiary allows JSC to focus on further strengthening its core solutions business.

Giving something back to our communities

2017 saw us continue to play an active role in the communities where our colleagues live and work. In January 2017, the Society selected the Alzheimer's Society and Alzheimer Scotland as its charity partner for 2017 and 2018, which was subsequently extended to the end of 2019. As part of this partnership Skipton colleagues went through training to become 'dementia friends', helping them to better understand those living with dementia; and as a result, all of Skipton's branches now have a 'dementia friend' in them. In 2017, along with our members, we've raised over £88,000 for Alzheimer's Society and Alzheimer Scotland.

Through our award winning Grassroots Giving community funding programme, in 2017 we gave 164 donations of £500 to small community groups voted for by the public, bringing the total donated since the scheme launched to £405,000. The Society also 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 Skipton Building Society Camerata.

Delivering through our people

A key factor in the Society's strong performance seen during the period and the ongoing high satisfaction of our customers is our people. The Society is focused on ensuring its people are highly engaged and motivated to deliver a great experience for our customers both now and in the future. In June 2017, the Society achieved an employee engagement score of 88% (2016: 90%), well above financial services industry norms.

In 2017, the Society achieved Investors in People Platinum standard and is the only UK building society to hold this highest level of the accreditation. Holding Platinum standard puts Skipton in the top 0.5% of the accredited organisations in the UK, and for the fourth year in a row the Society was included in *The Sunday Times* Top 100 Companies to Work For.

Conclusion and outlook

2017 was another year of strong performance by the Society, with decent growth in both mortgage and savings balances, in excess of our market share.

Economic forecasters indicate that UK GDP growth in 2018 will not be dissimilar to that achieved in 2017, that inflation will moderate but Bank Base Rate will steadily rise, whilst the continued shortage of housing stock should underpin house prices. However, the progress with and conclusion to the Brexit negotiations are likely to dominate the political agenda and impact on consumer sentiment. Although the Society does not trade with Europe, and therefore has no direct exposure to any changes to the UK's trading relationships, it is interested in any secondary impacts of Brexit that may adversely affect the levels of employment, interest rates, house prices and consumer confidence which, coupled with the industry needing to repay over £100bn under the Term Funding Scheme, makes forecasting the Society's performance in the medium to longer term more difficult than normal.

However, although pricing of mortgages at the start of the new year continues to be very competitive, the Society is in a strong position and well placed to capitalise on opportunities that lie ahead as well as manage any risks that may arise.

Group results for the year ended 31 December

	2017 **£m**	2016 Restated* £m
Net interest receivable	**220.6**	215.6
Other income and charges	**477.8**	447.2
Loss on disposal of mortgage assets	**(15.0)**	-
Profit on disposal of subsidiary undertakings	**11.3**	15.8
Profit on full or part disposal of equity share investments	**38.5**	17.0
Profit on disposal of joint ventures	**0.9**	-
Loss on disposal of associate	**-**	(0.9)
Fair value gains / (losses)	**1.5**	(3.7)
Administrative expenses and provisions	**(539.4)**	(510.0)
Impairment credit / (losses)	**3.9**	(12.1)
Profit for the year before taxation	**200.1**	168.9
Taxation	**(41.9)**	(39.1)
Profit for the financial year	**158.2**	129.8
Non-controlling interests	**-**	0.3
Profit for the financial year attributable to members	**158.2**	130.1

* The comparative figures have been restated due to a change in accounting policy relating to the netting of gains on and costs arising from the sale of treasury assets. The gain or loss on disposal of treasury assets was previously presented separately (in 'Other income and charges') to the associated cost of unwinding the hedging instrument in relation to these assets on disposal, which was recognised through 'Net interest receivable'. The gain or loss on disposal and the cost of unwinding the hedging instrument on disposal are now presented on a net basis in the Income Statement in 'Other income and charges' and so the prior period has been restated accordingly, resulting in a £3.2m increase in 'Net interest receivable' and a £3.2m reduction in 'Other income and charges'. The restatement has not resulted in any change to profit before tax.

Underlying Group profit before tax for 2017 was £165.7m (2016: £151.5m) as follows:

	2017 **£m**	2016 £m
Total Group profit before tax	**200.1**	168.9
Less profit on disposal of subsidiary undertakings	**(11.3)**	(15.8)
Less profit on full or part disposal of other Group undertakings	**(39.4)**	(16.1)
Add back loss on disposal of mortgage assets	**15.0**	-
Add back impairment of associate and equity share investments	**0.1**	12.4
Add back FSCS levy	**1.2**	2.1
Underlying Group profit before tax	**165.7**	151.5

Group financial position at 31 December

	2017 £m	2016 £m
Assets		
Liquid assets	**3,533.3**	2,677.4
Residential mortgages	**16,545.9**	15,340.4
Commercial and other loans	**426.8**	441.2
Derivatives	**94.2**	116.1
Fixed and other assets	**423.4**	444.6
Total assets	**21,023.6**	19,019.7
Liabilities		
Shares	**14,985.8**	14,152.5
Borrowings	**3,954.7**	2,682.7
Derivatives	**318.5**	412.3
Other liabilities	**318.2**	324.9
Subscribed capital and subordinated liabilities	**41.6**	169.8
Non-controlling interests	**-**	(1.0)
Reserves	**1,404.8**	1,278.5
Total liabilities	**21,023.6**	19,019.7

Group statement of movement in reserves

	2017 £m	2016 £m
Reserves at 1 January	**1,278.5**	1,179.2
Net expense for the year not recognised in the Income Statement	**(24.2)**	(30.8)
Acquisition of non-controlling interests without change in control	**(7.7)**	-
Profit for the year	**158.2**	130.1
Reserves at 31 December	**1,404.8**	1,278.5

Summary of key financial ratios

	2017 %	2016 %
Gross capital as a percentage of shares and borrowings	**7.64**	8.60
Liquid assets as a percentage of shares and borrowings	**18.65**	15.90
Group profit after tax for the year as a percentage of mean total assets	**0.79**	0.71
Group management expenses as a percentage of mean total assets	**2.61**	2.73
Society management expenses as a percentage of mean total assets	**0.71**	0.62

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 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 2016 and 2017 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 27 February 2018 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**

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

Opinion

We have examined the Summary Financial Statement of Skipton Building Society ('the Society') for the year ended 31 December 2017 set out on pages 2 to 8.

On the basis of the work performed, as described below, in our opinion the Summary Financial Statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2017 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

Our examination of the Summary Financial Statement consisted primarily of:

- Agreeing the amounts and disclosures included in the Summary Financial Statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2017, including consideration of whether, in our opinion, the information in the Summary Financial Statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for that year;
- Checking that the format and content of the Summary Financial Statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2017.

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.

Directors' responsibilities

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

Auditor's responsibilities

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

The purpose of our work and to whom we owe our responsibilities

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.

Jonathan Holt (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Leeds
27 February 2018

Summary Directors' Remuneration Report

Annual statement from the Chairman of the Remuneration Committee

This section summarises the Remuneration Committee's report, setting out details of the pay, incentive payments and benefits for the Directors for the year ended 31 December 2017.

The full Directors' Remuneration Report in the Society's Annual Report and Accounts can be found on our website at skipton.co.uk/financialresults from 19 March 2018 or on request from the Group Secretary of the Society. The report explains on pages 12 to 14 how we put our remuneration policy into practice in 2017 and explains on pages 14 and 15, how we intend to apply it in 2018.

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 nine years; and
- 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

The remuneration policy, approved at the AGM in April 2016, remains unchanged. In developing our approach to remuneration, we consider a broader context for total reward than the financial numbers; with consideration of mutuality, strong culture and respectful work life balance. Our approach is therefore to take into account but not to match other organisations and to maintain a 'feels fair' approach to remuneration.

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

As a reminder, the key elements of our policy for the Society's Executive Directors are set out below:

- 2017 was the second year of operation for the Single Variable Pay Arrangement (SVPA) (a single variable pay scheme replacing the previous short term incentive (STI) and medium term incentive (MTI) arrangements). The final performance period for the 2015 – 2017 MTI scheme concluded in December 2017 and no further MTI awards will be made;
- 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 and which align with the corporate plan;
- The long term focus of the scheme is 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 three to seven years (as required by regulation); and
- 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 sustained.

The Annual Report on Remuneration was put to an advisory vote at our AGM in April 2017 and received majority votes in favour. Details of the votes are included in the final section of this report ('Statement of voting at the 2017 AGM').

Remuneration in respect of 2017

The Society's performance has remained strong, with membership numbers increasing by 58,657 (to 919,060), an increase in Group profit before tax of 18.5% (to £200.1m) and an increase in underlying profit before tax of 9.4% (to £165.7m). This is despite the context of increasing competition in the mortgage market and pressure on our net interest margin.

The core Mortgages and Savings division profit before tax was £89.1m (2016: £96.6m). The division has seen a reduction in profit of £7.5m, predominantly as a result of the loss on disposal of non-performing or recently non-performing loans. This initiative, to reduce risk, resulted in a £15.0m loss on disposal. However, this has benefitted the Common Equity Tier 1 (CET 1) ratio which was at 33.2% at 31 December 2017 (2016: 23.9%).

Despite the increased market and economic pressures, the launch of our cash LISA and our range of competitive mortgage and savings products has resulted in good growth for our mortgage and savings balances (growth of £1.3bn or 8.3% and £0.9bn or 6.2% respectively).

As outlined in our Summary Directors' Report, our strong performance in 2017 has meant that we were able to pay, on average, 0.52% higher interest than the market average for banks and building societies during 2017 (source: CACI Savings Market Database for the 12 months to 31 December 2017).

Key decisions taken

- Taking into account the market competition, economic factors, our acceptable risk profile and our continued strong performance, the Committee made awards under the Society's SVPA with respect to the 2017 outturn. The average award payable to the Executive Directors is 46.6% (2016: 33.1%) of base salary (as at 31 December 2017) out of a possible maximum 50% (2016: 50%). Other Executive Committee members also participating in the SVPA received an average award of 36.3% of base salary (2016: 28.5%) out of a possible maximum of 40%. The average award made to senior managers who were full year participants in the Senior Leadership Team (SLT) incentive scheme is 28.3% (2016: 21.6%) of base salary. The maximum opportunity for SLT members in the scheme ranges from 25% to 50%.
- The annual incentive scheme for the remainder of our people in the Society resulted in an average payment of 7.7% (2016: 5.0%) of base salary for eligible, full year participants rated as 'achieving' or above. The maximum award from this scheme in 2017 was 15%.
- The three year performance cycle for the 2015/2017 Medium Term Incentive (MTI) scheme, put in place in January 2015, came to an end in December 2017. Having reviewed the cumulative performance to December 2017, the Committee made an overall award of 39.7% (of salary on commencement of the scheme), half of which is paid in 2018 followed by a quarter in 2019 and a quarter in 2020. The MTI and 2015 short term incentive (STI) were replaced by the SVPA in 2016 which, combined with an adjustment to basic salaries in January 2016, was designed to achieve a cost neutral position at on target earnings over the long term.
- The Remuneration Committee continues to focus on managing risk in its remuneration schemes including risk adjustment arrangements. In 2018, the Committee will continue its work in this area and will also consider how new regulations may influence our remuneration policy and practices going forward. These include changes to secondary legislation on corporate governance and executive pay, the Financial Reporting Council's consultation on the UK Corporate Governance Code ('the Code') and other industry best practice guidance on companies' approaches to wider stakeholders.

Conclusion

On behalf of the Committee, I hope that this report gives you a clear view of how we have implemented the policy in 2017. The Committee recommends that members vote in favour of the 2017 Annual Remuneration Report at the forthcoming AGM.

Helen Stevenson
Chairman of the Remuneration Committee
27 February 2018

Annual Report on Remuneration in 2017

Executive Directors' remuneration

The total remuneration for Executive Directors in 2017 is set out in the table below:

2017 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	500	287	292	312	**1,391**
Benefits(1)	15	12	12	12	**51**
2017 annual performance award (SVPA)(2)	234	133	137	148	**652**
MTI (2015/2017)(3)	163	97	95	99	**454**
Pension(4)	100	43	29	31	**203**
Total remuneration in respect of performance periods ending in 2017	**1,012**	**572**	**565**	**602**	**2,751**
Total 2017 performance pay deferred(5)	(222)	(115)	(116)	(139)	**(592)**
Prior years' deferred performance pay now released(6)	85	33	32	30	**180**
Total paid in 2017 or payable in 2018(7)	**875**	**490**	**481**	**493**	**2,339**

2016 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	490	283	287	299	1,359
Benefits	15	12	12	12	51
2016 annual performance award (SVPA)	161	94	96	101	452
MTI (2014/2016)	157	96	88	81	422
Other(8)	-	180	-	-	180
Pension	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	(175)	(95)	(92)	(91)	(453)
Prior years' deferred performance pay now released	85	-	21	-	106
Total paid in 2016 or payable in 2017	831	612	441	432	2,316

Notes

1. Benefits comprise the provision of a car or car allowance and private medical insurance contributions.
2. £140,227 (60%) of the 2017 SVPA award for Mr Cutter (2016: £96,747) will be deferred in equal amounts for between three and seven years. Half of the initial up-front award (i.e. 20% of the total) will be paid in March 2018 and the remaining half will be retained for a further twelve month period and paid subject to CET 1 capital remaining at or above the agreed level in March 2019. £88,949 (60%) of Mr Ndawula's SVPA award will also be deferred on the same basis as Mr Cutter's (2016: £50,381 deferred for between one and five years). 50% of the awards for Mr Bottomley and Mr Cornelius will be deferred for between one and five years, in line with the scheme rules.
3. The full outturn relating to the 2015/2017 MTI scheme (awarded in 2015) is included in this row. 50% of this award is paid in 2018 and the remaining portion is paid 25% in 2019 and 25% in 2020.
4. Mr Cutter's 2017 pension figure includes the additional value earned in the defined benefit scheme during 2017 and a non-consolidated allowance paid in lieu of contributions. For the other Executive Directors, the figure relates to contributions to the defined contribution pension scheme and/or a non-consolidated cash allowance.
5. These are amounts which have vested in respect of the performance periods ending in December 2017 (from the 2017 SVPA scheme and 2015/2017 MTI scheme) which are due to be paid in future years in line with the scheme rules.
6. These are deferred amounts from STI schemes from 2014 onwards plus deferred payments from the 2014/2016 MTI scheme which are payable in 2018.
7. Total payable is salary, benefits, pension and other payments which have been paid in 2017 and variable pay from 2017 (and from prior years) which is payable in 2018.
8. In 2016, on joining the Society, Mr Bottomley was awarded £180,000 in one-off awards to compensate him for remuneration he forfeited on leaving his previous employer.

In 2017, no payments were made to past Directors for loss of office.

Risk considerations

As part of approving incentive outcomes for 2017, 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 2017, 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 was satisfied that, given there were no significant risk events in 2017 and that performance remained within risk appetite, no adjustment to remuneration was required.

Comparison to the remuneration of other employees in 2017

Comparison of average base salary increases awarded in the annual pay review

The Group Chief Executive's base salary increased in April 2017 by 2.0% (1.5% in April 2016). This compares to an annual average pay review award in April 2017 of 3.2% of base salary for all other Society employees below Executive level (3.3% in April 2016). 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.

Comparison of variable pay awarded in 2017

The Chief Executive's award under the Society's SVPA scheme in respect of 2017 represented 46.6% of his base salary (2016: 32.8%). This compares to the average amount awarded to the Executive Directors of 46.6% (2016: 33.1%) and other Executive Committee members of 36.3% (2016: 28.5%). The average amount awarded to the Senior Leadership Team was 28.3% (2016: 21.6%) and to the remainder of our people in the Society was 7.7% (2016: 5.0%).

Non-Executive Directors' Remuneration

Non-Executive Directors' fees (excluding those of the Chairman) are reviewed annually by the Non-Executive Directors' Remuneration Committee. The Non-Executive Directors' Remuneration Committee makes recommendations concerning Non-Executive Directors' remuneration to the Board and in 2017 recommended that the basic Non-Executive Director fee and Deputy Chairman fee should be increased by £1,000 to £50,000 and by £2,000 to £56,000 respectively with effect from 1 August 2017. The Deputy Chairman Fee increase includes a £1,000 role increase and a £1,000 Non-Executive Director increase. The Deputy Chairman is a Non-Executive Director of Connells Limited for which he receives an annual fee of £26,000 (2016: £25,000) included in the table below.

The fees for chairing the Audit and Board Risk Committees were increased by £1,000 to £14,000 per annum and the fee for the chair of the Remuneration Committee was similarly increased by £1,000 to £12,000 per annum with effect from 1 August 2017.

The Chairman's fees are reviewed and approved by the Remuneration Committee. Mr East's fee was set at £150,000 from his appointment as Chairman on 24 April 2017.

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	Note	2017 Fees £000	2017 Committee chair fees £000	2017 Taxable Benefits (1) £000	2017 Total £000	2016 Fees £000	2016 Committee chair fees £000	2016 Taxable Benefits (1) £000	2016 Total £000
Mr R D East (Chairman)	2	118	4	6	**128**	48	13	1	62
Mr G E Picken (Deputy Chairman)	3	81	-	3	**84**	77	-	4	81
Mrs C Black	4	-	-	-	**-**	16	-	2	18
Ms A J Burton	5	49	-	3	**52**	32	-	1	33
Ms M Cassoni	6	49	13	4	**66**	48	13	5	66
Mr J R Coates	7	38	-	-	**38**	-	-	-	-
Mrs D P Cockrem		49	-	6	**55**	48	-	7	55
Mr M H Ellis (former Chairman)	8	52	-	2	**54**	165	-	5	170
Mr D A Hall	9	38	5	3	**46**	-	-	-	-
Mr M J Lund	10	49	-	5	**54**	32	-	3	35
Ms H C Stevenson	11	49	11	4	**64**	48	7	4	59
Mr P J S Thompson	12	-	-	-	**-**	18	4	1	23
		572	**33**	**36**	**641**	532	37	33	602

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 East was appointed Chairman on 24 April 2017 and was also the Chairman of the Board Risk Committee until he stepped down on 31 August 2017 following appointment as Chairman of the Board.
3. Mr Picken is also a Non-Executive Director of Connells Limited for which he receives an annual fee of £26,000 (2016: £25,000) included in the table above.
4. Mrs Black retired from the Board on 25 April 2016.
5. Ms Burton was appointed to the Board on 3 May 2016.
6. Ms Cassoni is the Chairman of the Audit Committee.
7. Mr Coates was appointed to the Board on 27 March 2017.
8. Mr Ellis retired from the Board on 24 April 2017.
9. Mr Hall was appointed to the Board on 27 March 2017 and appointed Chairman of the Board Risk Committee on 1 September 2017.
10. Mr Lund was appointed to the Board on 25 April 2016.
11. Ms Stevenson was appointed Chairman of the Remuneration Committee on 26 April 2016.
12. Mr Thompson retired from the Board on 25 April 2016.

Statement of implementation of Remuneration Policy in 2018

The SVPA for 2018 will continue to be based on a balanced scorecard of financial and non-financial measures, as currently outlined in the 2017 policy. The measures and weightings in 2018 are set out in the table below:

Financial measures	Weighting	Team KPIs (non-financial measures)	Weighting	Objectives	Weighting
Group profit	10%	Net customer growth	5%	Personal objectives	20%
Mortgages and Savings division profit	30%	Net customer satisfaction	5%	Strategic team objectives	10%
Mortgages and savings division cost income ratio	10%	Risk and governance	5%		
		People	5%		
Total weighting	**50%**		**20%**		**30%**

The 30% weighting for personal and strategic team objectives is intended to give a greater focus on strategy in 2018. For participants in the Risk, Audit or Compliance areas of the business, the combined personal and strategic objectives will have a 50% weighting, with a 30% weighting on financial measures.

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

The deferral arrangements operated in 2017 will continue to apply in 2018 and Directors' salaries will be reviewed on 1 April 2018 as they are for all colleagues in the Society.

On a broader level, the Society will be actively planning for the introduction in January 2019 of the Financial Reporting Council's revised UK Corporate Governance Code ('the Code') and the broader remit that this will bring, The Committee will also continue its involvement in addressing the gender pay gap and its involvement in the broader diversity aims of the Society.

The Committee

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.

Statement of voting at the 2017 AGM

At the 2017 AGM the Directors' Remuneration Report was subject to an advisory vote of members, the results of which were as follows:

Vote	For	Votes Against	Withheld
2016 remuneration report	60,723 (89.06%)	7,460 (10.94%)	1,607

Helen Stevenson
Chairman of the Remuneration Committee
28 February 2018

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