Summary Financial Statement

2018

SKIPTON BUILDING SOCIETY

Since 1853

Summary Financial Statement 2018

This financial statement is a summary of information from the audited Annual Report and Accounts, the Directors' Report and Annual Business Statement, all of which are available to members and depositors online at **skipton.co.uk/financialresults** from 18 March 2019 or free of charge on demand at every office of Skipton Building Society from 3 April 2019.

Summary Directors' Report

The political scene in 2018 was dominated by Brexit, in particular the UK's negotiations over the withdrawal agreement with the EU, and the reactions to it within Parliament. Britain's high streets went through a continued period of change, with big name closures and the UK Bank Base Rate saw its second rise in the last 10 years. Job growth however, has remained strong thus far, with employment at record levels and wage growth rising above inflation.

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. 2018 was another year of pleasing performance in many ways. Underlying Group profits before tax increased by 12.3% to £186.1m, with statutory profits reducing by 5.9% to £188.2m, whilst we maintained a strong Common Equity Tier 1 ratio of 32.9% and grew our membership to over one million members.

On 1 October 2018, the Society merged with Holmesdale Building Society, welcoming almost 7,000 new members to Skipton.

Performance highlights in 2018 include:

- The Society continued to grow with a 91,366 (9.9%) increase in members to 1,010,426;
- The growth in members was driven by the success of the Society's Cash Lifetime ISA, the first such product launched by any provider in response to the Government's savings initiative, which attracted 85,948 new members during the year;
- Total balances held by Cash LISA customers were £602.4m at the end of 2018 (2017: £74.9m), and these customers benefitted from £116.1m of government bonuses paid during the year;
- Group profit before tax (PBT) was £188.2m, 5.9% below 2017 (£200.1m);
- However underlying Group PBT increased by 12.3% to £186.1m (2017: £165.7m);
- Group gross mortgage lending was £4.3bn (2017: £4.5bn), the reduction being a reflection of the intensity of competition within the mortgage market, together with the impact of more stringent customer affordability criteria the Society introduced towards the end of 2017;
- Mortgage balances grew by £1.6bn to £18.2bn, a growth rate of 10.0% (2017: by £1.3bn, a growth rate of 8.3%), including £139m of balances arising on the merger with Holmesdale Building Society;
- The number of Group residential mortgages in arrears by three months or more has reduced to 0.29% (2017: 0.36%). Excluding non-UK lending, the number of Group residential mortgages in arrears by three months or more has reduced to 0.30% (2017: 0.37%) and compares to an industry average of 0.79% of UK residential mortgages in arrears by more than three months (source: UK Finance (previously CML), December 2018);
- Savings balances grew by £1.1bn to £16.1bn, a growth rate of 7.7% (2017: by £0.9bn to £15.0bn, a growth rate of 6.2%), including £122m of balances arising on the merger with Holmesdale Building Society;
- In April, the Society raised £400m of funding over a five-year term through a Sterling covered bond transaction. In October it issued its first Euro denominated covered bond, which raised €500m of five-year funding;
- Group total assets increased by 10.4% during the year to £23.2bn (2017: 10.5% to £21.0bn);
- The Group net interest margin remained relatively stable at 1.09% (2017: 1.10%), whilst net interest income increased to £241.2m (2017: £220.6m), an increase of £20.6m (or 9.3%);
- Group administrative expenses decreased by £2.1m or 0.4% to £521.0m (2017: increase of £24.0m or 4.8% to £523.1m);
- The loan impairment charge on residential and commercial mortgages was £2.3m; the impairment methodology changed on 1 January 2018 following the implementation of a new accounting standard (IFRS 9). For the year ended 31 December 2017 loan impairment was calculated under the previous accounting standard, IAS 39, and on residential and commercial loans was a credit of £2.4m;
- The Common Equity Tier 1 (CET 1) ratio at 31 December 2018 was 32.9% on a transitional basis (2017: 33.2%);
- The leverage ratio was 6.2% on an end-point basis (2017: 6.1%), comfortably ahead of the regulator's expected minimum of 3%; and
- The Liquidity Coverage Ratio was 203% (2017: 179%).

Unwavering focus on our members

We are continually working hard to ensure our customers have the best experience during any interaction with the Society to ensure they achieve their dream of having their own home or saving for their future. Our colleagues are committed to putting the customer first and providing excellent service. As a result we have continued to invest in our member offering and, through Skipton Link, we are now one of the few high street financial services providers to offer full mortgage and financial advice video appointments from branch, head office or home.

For savers, the Society paid an average savings rate of 1.29% during the year (2017: 1.21%), which was on average 0.59% higher than the market average for banks and building societies during 2018 (2017: 0.52% higher) (source: CACI Current Account & Savings Database for the 12 months to 31 December 2018).

We have also continued to refurbish our branches and continued to invest in developing the skills of our colleagues, with every branch colleague now fully competent in identifying financial advice needs. In 2018, the Society achieved a net customer satisfaction rating of 94% (2017: 92%).

One of the achievements that we are most proud of over the past 12 months is Skipton's success at the prestigious UK Customer Experience Awards 2018, winning gold in three categories, which included the 'Best customers at the heart of everything' award. This category showcases organisations in all sectors who ensure that, at every step of the way, customers are at the forefront of their thinking.

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 2018, the Society achieved an employee engagement score of 89% (2017: 88%), well above financial services industry norms.

The Society retained its Investors in People Platinum standard which is the highest level of the accreditation with only 2% of accredited organisations in the UK achieving this as at 1 February 2019.

Also, for the fifth year in a row, the Society was included in *The Sunday Times* Top 100 Companies to Work For.

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

In 2018 we continued to enable more people to save for their future and finance their own home. We are proud of our award-winning achievements in 2018 that demonstrate our commitment to this; we became a Which? 'Recommended' provider for both savings and mortgages (one of only two firms to do so) and we were named 'Best National Building Society' by What Mortgage? for the fifth year running, a tremendous achievement.

The Society helped 26,734 homeowners (2017: 25,979) to purchase or remortgage their properties, including 5,516 first time buyers (2017: 4,540) and 1,036 (2017: 1,498) through participation in the Government's Help to Buy equity loan scheme. The Group's net residential UK mortgage lending accounted for 4.0% of the growth in the UK residential mortgage market (2017: 3.0%), compared to our 1.2% share of UK residential mortgage balances (source: Bank of England statistics, December 2018).

The Society entered the shared ownership market during the year, whilst in July 2018 it re-entered the 95% loan-to-value market, giving more people, including first time buyers, the opportunity to step onto the housing ladder sooner than they may have expected. £949.8m, or 21.9%, of the Group's gross lending during the year was on buy-to-let mortgages (2017: £824.1m or 18.4%).

The growth in the Society's savings balances in the year accounted for 2.5% of the growth in the UK deposit savings market (2017: 1.9%), compared to our market share of savings balances of 1.1% (source: Bank of England statistics, December 2018).

Strong 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 £114.3m, compared to £89.1m in 2017, an increase of £25.2m (or 28.3%), predominantly as a result of the £15.0m loss on disposal of non-performing or recently non-performing loans recorded in 2017;
- The division reported an underlying PBT of £112.7m, up from £105.3m in 2017, an increase of 7.0%;
- When expressed as a percentage of mean assets, the Group net interest margin (which is almost entirely generated from the Mortgages and Savings division) remained relatively stable at 1.09% (2017: 1.10%), whilst net interest income for the division increased by £19.2m, which is a key driver of the increase in PBT in the division;
- The division's administrative costs increased by 4.8% to £148.7m from £141.9m in 2017 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 56.3% (2017: 57.1%), whilst the management expense ratio of the division was 0.68% (2017: 0.72%);
- The Society remains primarily funded by retail savings, which represented 81.6% of total funding (2017: 84.6%);
- The division also accepts deposits through its Guernsey-based subsidiary, Skipton International Limited (SIL). Offshore deposits increased by 9.9% to £1.5bn from £1.4bn at 31 December 2017;
- SIL increased PBT by £2.1m (11.7%) to £20.1m from £18.0m in 2017;
- 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 0.29% of mortgage accounts (2017: 0.36%);
- The Society's three months or more arrears levels fell further to 0.24% at 31 December 2018 (2017: 0.29%). The quality of the SIL mortgage book remains very strong with only one account in arrears by three months or more (31 December 2017: one);
- The percentage of cases in Amber Homeloans and North Yorkshire Mortgages in arrears by

three months or more were 1.92% and 1.08% respectively (2017: 2.51% and 0.78%). 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 2018 (calculated on a valuation weighted basis) was 46.1% (2017: 47.2%);
- The Society drew down £1,000m of funding under the Government's Term Funding Scheme during the year (2017: £1,100m) and at the end of the year had an amount outstanding of £1,850m (2017: £1,400m) having also repaid £550m during the period; and
- At 31 December 2018, the Liquidity Coverage Ratio was 203% (2017: 179%).

Good performance from estate agency in a difficult market

Connells, our estate agency division, reported profits of £56.9m (2017: £65.7m excluding a gain on the disposal of shares in ZPG Plc). Underlying PBT was £59.7m (2017: £64.9m), reflecting a robust performance in a continuing difficult UK housing market.

The volume of housing transactions in the UK fell again in 2018 and consequently the number of house sales arranged by Connells fell by 7% during the year (2017: fall of 4%). However, lettings income increased by 5% (2017: 9%), financial services income by 10% (2017: 13%) and survey and valuation income by 2% (2017: 5%), reflecting the diverse revenue generating activities carried out by the Connells group.

At 31 December 2018, Connells operated 586 branches (2017: 591). Connells continues to seek to grow its business, both organically and through acquisitions, and during 2018 made four further modest acquisitions of estate agency and lettings businesses, each of which will complement and add to Connells' proposition. Connells has also continued to invest in its financial services proposition and increased the number of mortgages it arranged by 9% year-on-year, generating £10.6bn worth of lending for UK mortgage providers.

Other subsidiaries

Skipton Business Finance, a provider of debt factoring and invoice discounting to small and medium-sized enterprises, recorded a PBT of £3.8m (2017: £3.5m); and Jade Software Corporation, the provider of the Society's core database and software development language, and provider of digital solutions and large enterprise IT solutions to a number of other clients, recorded a PBT of £3.8m (2017: £1.2m).

Giving something back to our communities

We continued to support the Alzheimer's Society and Alzheimer Scotland thorough our charity partnership, and in September 2018 we held a festival of fundraising. Colleagues took part in Skipton's own Miles for Memories challenge, which saw colleagues from across the branch network and head office match the mileage covered by two senior leaders as they visited every one of our branches on motorbikes. Colleagues were encouraged to get involved by running, cycling, walking, kayaking and other challenges. Colleague engagement was fantastic and through their innovation and creativity we raised an incredible £79,194.

Through our award-winning Grassroots Giving community funding programme, in 2018 we gave 165 donations of £500 to small community groups voted for by the public, bringing the total donated since the scheme launched to £487,500.

In 2018 the Society donated more than £150,000 to the Skipton Building Society Charitable Foundation, which enabled the Foundation to support registered charities involved in helping people of all ages. We also continued to support a number of key community partners, including the Skipton Building Society Camerata.

Conclusion and outlook

These are yet another set of strong results for Skipton, and we are really proud that we now serve over one million members. We also saw continued good growth in our mortgage and savings balances whilst maintaining a strong capital base.

The more competitive mortgage environment coincides with a continuous period of increased political uncertainty, as the UK is in the midst of withdrawing from the European Union. Should there be a no-deal Brexit there would be no immediate significant impact on the Society but we would be cautious regarding the potential medium to longer term implications arising from possible movements in house prices, unemployment or bank base rates. We currently anticipate that profits in 2019 will be lower than 2018 due to a combination of ongoing pressures on mortgage and savings margins, and the continuation of a subdued housing market. However, the political and economic uncertainty highlighted above makes forecasting difficult and creates a need for caution.

We remain vigilant regarding potential economic headwinds, but with the strong capital and liquidity position we have continued to build during 2018, the Society is well placed to manage the risks that we may face and to capitalise upon any opportunities that may arise for the benefit of our members.

Group results for the year ended 31 December	2018 £m	2017 £m
Net interest receivable	**241.2**	220.6
Other income and charges	**477.8**	477.8
Fair value gains	**2.2**	1.5
Loss on disposal of mortgage assets	**-**	(15.0)
Profit on disposal of subsidiary undertakings	**3.3**	11.3
Profit on disposal of other Group undertakings	**-**	39.4
Administrative expenses and provisions	**(533.0)**	(539.4)
Impairment losses	**(3.3)**	3.9
Profit for the year before taxation	**188.2**	200.1
Taxation	**(40.6)**	(41.9)
Profit for the financial year attributable to members	**147.6**	158.2

Underlying Group profit before tax for 2018 was £186.1m (2017: £165.7m) as follows:

	2018 £m	2017 £m
Total Group profit before tax	**188.2**	200.1
Less fair value gains in relation to the equity release portfolio	**(1.0)**	-
Less profit on disposal of subsidiary undertakings	**(3.3)**	(11.3)
Less profit on disposal of other Group undertakings	**-**	(39.4)
Add back loss on disposal of mortgage assets	**-**	15.0
Add back impairment of goodwill and equity share investments	**2.5**	0.1
Add back fair value losses on equity share investments	**0.3**	-
Less / add back FSCS levy	**(0.6)**	1.2
Underlying Group profit before tax	**186.1**	165.7

Group financial position at 31 December	2018 £m	2017 £m
Assets		
Liquid assets	**4,201.5**	3,533.3
Residential mortgages	**17,709.3**	16,545.9
Commercial and other loans	**419.6**	426.8
Equity release portfolio [1]	**410.9**	-
Derivative financial instruments	**72.3**	94.2
Fixed and other assets	**390.8**	423.4
Total assets	**23,204.4**	21,023.6
Liabilities		
Shares	**16,113.5**	14,985.8
Borrowings	**4,988.7**	3,954.7
Derivative financial instruments	**279.4**	318.5
Other liabilities	**256.4**	318.2
Subscribed capital	**41.6**	41.6
Reserves	**1,524.8**	1,404.8
Total liabilities	**23,204.4**	21,023.6

Note

1) Following the introduction of new accounting standard IFRS 9 with effect from 1 January 2018, the equity release portfolio is now fair valued and has been reclassified from residential mortgages.

Group statement of movement in reserves

	2018 £m	2017 £m
Reserves at 1 January	**1,404.8**	1,278.5
Adjustment on initial adoption of IFRS 9 (net of tax)	**(38.6)**	-
Net expense for the year not recognised in the Income Statement	**(4.5)**	(24.2)
Acquisition of non-controlling interests without change in control	**-**	(7.7)
Profit for the year	**147.6**	158.2
Transfer of engagements	**15.5**	-
Reserves at 31 December	**1,524.8**	1,404.8

Summary of key financial ratios

	2018 %	2017 %
Gross capital as a percentage of shares and borrowings	**7.42**	7.64
Liquid assets as a percentage of shares and borrowings	**19.91**	18.65
Group profit after tax for the year as a percentage of mean total assets	**0.67**	0.79
Group management expenses as a percentage of mean total assets	**2.36**	2.61
Society management expenses as a percentage of mean total assets	**0.67**	0.71

Definitions

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

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

Group profit after tax for the year as a percentage of mean total assets measures the proportion that the Group's profit after tax for the year bears to the average of the Group's total assets during the year. Mean total assets are calculated as the average of the closing total asset balances as at 31 December 2017 and 2018 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 26 February 2019 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 2018 set out on pages 2 to 7.

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 2018 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 2018, 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 2018.

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
26 February 2019

Summary Directors' Remuneration Report

Annual statement from the Chairman of the Remuneration Committee

I am pleased to share this summary of the Directors' Remuneration Report on behalf of the Remuneration Committee, which sets out the details of pay, incentive payments and benefits for the Directors for the year ended 31 December 2018.

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

- This annual statement.
- The Directors' Remuneration Policy, which is unchanged for 2019 and was approved at the Annual General Meeting (AGM) in April 2016.
- The Annual Report on Remuneration in 2018 on pages 15 to 18 which explains how we put our existing policy into practice in 2018, and how we intend to apply the policy in 2019.

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

- The remuneration principles which underpin the policy presented to you in this summary report;
- The history of the Group Chief Executive's remuneration over the last ten years; and
- More details on the Remuneration Committee and its advisers.

Remuneration policy

We recognise that remuneration for our colleagues needs to be clearly aligned to our vision of 'Building a better Society'. Our policies, principles and practices are therefore designed to enable the business to attract, retain and reward people with the right skills, experience, knowledge and behaviours to support the achievement of business goals and objectives within a positive cultural environment, for the benefit of our members.

The Directors' Remuneration Policy, approved at the AGM in April 2016, remains unchanged for 2019. In line with the Large and Medium-sized Companies and Groups Regulations 2013, which requires shareholders (or in our case, members) to vote on policy every three years, the Remuneration Policy is included in full in this report. This will be put to an advisory vote at the AGM in April 2019.

In developing our approach to remuneration, we consider a broader context for total reward than the financial numbers. Mutuality, a strong values based culture and supporting a diverse workforce are also key to our thinking. 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.

Our full policy for the Society's Executive Directors is explained on pages 11 to 14 but the key elements of policy and its implementation in 2018 are set out below:

- 2018 was the third year of operation for the Single Variable Pay Arrangement (SVPA) (a single variable pay scheme which replaced the previous short term incentive (STI) and medium term incentive (MTI) arrangements). Payments from the 2015–2017 MTI scheme are phased and will conclude in 2020;
- The SVPA, which has a maximum opportunity of 50% of base salary, is made up of a balanced scorecard of measures which are targeted and assessed annually and which align with the corporate plan;
- As indicated in our 2017 Directors' Remuneration Report, within the framework of the current policy, the Committee made an adjustment to the SVPA in 2018, to place more emphasis on four key strategic team objectives. This increased the weighting of personal and team strategic objectives from 20% to 30% overall;
- 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);
- In addition to normal malus and clawback arrangements, these deferred payments are subject to a sustainability assessment one year after award and can be reduced if the Committee determines that the performance which generated the award has not been materially sustained in line with Board expectations.

In addition to the focus on the continuous improvement of the Directors' remuneration structures within the current policy, the Committee has been engaged in a number of important projects considering the broader issues of remuneration in the Society.

- During the year, the Committee has maintained an active interest in our gender pay reporting and gender work stream activities. A separate report on gender reporting and the key considerations for the Society resulting from this is available on our website, skipton.co.uk. This work is part of a wider Society initiative on diversity aimed at improving the representation and inclusion of women, ethnic minorities, LGBTQ and people with disabilities in the Society.
- We are taking into consideration for 2019, the Department for Business, Enterprise and Industrial Strategy (BEIS) amendments to Directors' Remuneration Reporting Regulations (for listed companies) in respect of reporting the CEO and employee pay ratio.
- We have started preparations for the introduction of the Financial Reporting Council's (FRC) revised UK Corporate Governance Code ('the Code') and the impact of this on our remuneration practices. Whilst we are confident that many aspects of our current remuneration policies and practices are already aligned to the Code, we will be taking the opportunity, during 2019, to review what 'fairness' means to us as a Society. We will be setting out our Fair Pay Strategy to explain our principles and how our approach to reward cascades through the Society. Adjustments to our policy as a result of this work will be considered for 2020 implementation.

Remuneration in respect of 2018

The Society's performance has remained strong as outlined in the Summary Directors' Report on pages 2 to 7.

Taking into account the market competition, economic factors, our acceptable risk profile and this continued strong performance, the Committee made awards under the Society's SVPA with respect to the 2018 outturn. The average variable pay awards made are set out in the table below:

	2018 award	2017 award	Maximum achievable
Executive Directors	45.5%	46.6%	50.0%
Other Executive Committee members	35.8%	36.3%	40.0%
Senior Leadership team	29.0%	28.3%	From 25% to 50%
Other colleagues	7.7%	7.7%	15.0%

Note

1) The calculations for average bonus awards are based on full year participation.

The Committee approved a salary increase of 2% for the Group Chief Executive and an average increase of 2.7% for the other three Executive Directors. This was lower than the increases applied in the Society as a whole (3.2%).

The Remuneration Committee continues to focus on managing risk in its remuneration schemes including risk adjustment arrangements. In 2019, the Committee will continue its work in this area and will also implement the requirements of the FRC's updated UK Corporate Governance Code and other industry best practice guidance on companies' approaches to wider stakeholders.

Conclusion

The Annual Report on Remuneration for 2017 was put to an advisory vote at our AGM in April 2018 and received majority votes in favour. Details of the votes are included in the final section of this report ('Statement of voting at the 2018 AGM').

On behalf of the Committee, I hope this report gives you a clear view of how we have implemented the policy in 2018. The Committee recommends that members vote in favour of the 2018 Annual Remuneration Report and the Directors' Remuneration Policy at the forthcoming AGM.

Helen Stevenson
Chairman of the Remuneration Committee
26 February 2019

Directors' Remuneration Policy

Overview of Remuneration Policy for Executive Directors

The table below shows the key elements of remuneration for Executive Directors and the reasons for their inclusion.

Element How element supports our strategy	**Operation**	**Maximum potential value**	**Performance conditions and assessment**
Base salary • Supports the recruitment and retention of Executive Directors, reflecting their individual roles, skills and contribution.	Base salary reflects the size of the role and responsibilities, individual performance (assessed annually) and the skills and experience of the individual. In setting appropriate salary levels, the Committee takes into account data for similar positions in comparable organisations. The data is independently commissioned and the Society aims to position Executive Directors competitively within this reference group.	Increases to base salary are determined annually by the Committee taking into account: • Individual performance; • The scope of the role; • Pay levels in comparable organisations; and • Pay increases elsewhere within the Group.	None applicable, although we do take account of individual performance when considering base pay increases.
Pension • Supports recruitment and retention of Executive Directors at a cost that can be controlled by the Society.	Generally, the Society contributes to a defined contribution pension scheme for the Executive Directors. The contribution can instead be paid in cash (which is excluded from incentive calculations) if the Executive Director is likely to be affected by the limits for tax-approved pension saving.	The maximum is 20% of base salary. Mr Cutter receives 20% of base salary and the other Executive Directors between 10% and 15% of base salary.	None applicable.
Benefits • To attract, retain and provide security for Executive Directors; and • Provide a competitive level of benefits to assist Executive Directors to carry out their roles effectively.	A number of benefits are provided to Executive Directors, including a car or car allowance, private medical insurance, life insurance and disability benefits. The Committee reviews benefits from time to time and may make changes, for example, to reflect market practice or the needs of the business.	The Society bears the cost of providing benefits, which may vary from year to year.	None applicable.
Single Variable Pay Arrangement (SVPA) • Supports the attraction and retention of Executive Directors; • Supports the development of a high performance culture; • Rewards performance within the context of achieving corporate goals and objectives as set out in the corporate plan; and • Encourages the right behaviours in respect of sustainable performance that supports the achievement of strategic goals.	A combination of financial and non-financial measures and targets are set with a weighting which will not exceed 50% of the total incentive opportunity for financial measures and which will not exceed 60% for non-financial measures. The latter includes personal objectives (normally up to 20%). Targets are set and assessed against these criteria each year relative to the Society's strategic aims. 50% of earned incentive is normally paid in cash shortly after performance has been assessed. The remaining 50% of earned incentive is deferred over a period of one to five years, or three to seven years if required by regulation, and is normally paid in cash subject to performance adjustment Current regulations also require that for those whose total remuneration exceeds £500,000 or whose variable pay (for the relevant performance year) exceeds 33% of total remuneration (de minimis threshold), 60% of the SVPA will be deferred and 50% of the initial up-front award will be delivered in the form of an 'instrument' which will be subject to a further holding period (currently twelve months). The instrument will be subject to a write down if the CET 1 ratio falls below a prescribed level.	The maximum incentive which may be earned for any year by the SVPA is 50% of base salary. For each performance measure, the Committee determines a threshold, target and maximum level of performance. No incentive is payable for performance below the threshold level, with varying levels of pay-out for performance between threshold and maximum. On-target performance generally attracts an incentive of 60% of the maximum.	The performance measures attached to the SVPA will be determined by the Committee from year to year, but might typically include (but are not limited to) any of the following: • Group profit (adjusted); • Mortgages and Savings division profit (adjusted); • Efficiency measures; • Customers (growth and satisfaction); • Risk and governance; • People;

Element How element supports our strategy	Operation	Maximum potential value	Performance conditions and assessment
Single Variable Pay Arrangement (SVPA) *(Continued)*	An element of the performance assessment will be made over a period of more than one financial year to meet regulatory requirements and to maintain a longer term perspective in the scheme. This will be achieved by the Remuneration Committee making a sustainability assessment one year after the award of the incentive. Up to 25% of the incentive originally awarded can be reduced or cancelled as a result of this assessment. The percentage of deferred incentive, the deferral period (one to five years or three to seven years) and the payment instrument may be amended in response to changes in regulation. The Committee may reduce or withdraw the payment of a deferred amount in certain circumstances and has the power to reduce, cancel or recover payments under the SVPA if it believes there are circumstances where the payments are not appropriate, for example due to failure to maintain certain capital levels, evidence of systemic conduct risk, or evidence of significant control failures or weaknesses.		• Personal objectives (includes an element for strategy development and implementation). Performance against the measures is reviewed and approved by the Remuneration Committee. The weightings attached to the types of measure and the individual weightings attached to each individual measure may vary from year to year as determined by the Committee.

Notes to the table

Performance measures

The performance conditions attached to the SVPA scheme have been selected as they support the sustainable success of the Society. The Committee believes that the use of a range of financial and non-financial measures provides a balanced assessment of the overall performance of the Society.

The Committee considers the targets attached to the SVPA to be commercially sensitive and will not therefore disclose these at the beginning of the financial years to which they relate. The Committee will, however, disclose the weightings that will be attached to each SVPA performance measure at the beginning of the relevant financial year.

A summary of performance against the targets will be disclosed following the end of the relevant financial year. In setting the target and maximum payments, the Committee considers both the market position and the risk appetite of the Society and sets these levels accordingly. The weightings for 2019 are outlined in the 'Statement of implementation of Remuneration Policy in 2019' section of this report.

MTI Scheme

The Society has a legacy MTI scheme which was discontinued from 2016. The final three year performance cycle ended in December 2017 and payments were phased 50% in 2018 with the remaining 50% to be paid pro rata in 2019 and 2020.

Remuneration for other employees

All employees of the Society receive a base salary and benefits consistent with market practice and are eligible to participate in the Society's pension plan and in the incentive arrangements relevant to their role.

Members of the Executive Committee and other selected senior managers may be eligible to participate in the SVPA on the same terms as the Executive Directors, subject to the discretion of the Group Chief Executive and the Committee. The award size for these individuals may be lower than for the Executive Directors.

A variable pay arrangement for all employees (excluding the Executive Committee and certain senior managers) is in place, so that everyone employed by the Society will have the opportunity to share in the Society's success. The key measures for the scheme are aligned with those that apply for senior management.

Committee's discretion in relation to the SVPA and MTI schemes

As noted above, the Committee has the discretion to reduce, defer or recover payments under the SVPA in accordance with the Society's Policy on Malus and Clawback. Malus refers to the reduction or withdrawal of deferred awards and clawback is the repayment of amounts already paid. The Committee also has the discretion to cease or amend the operation of either arrangement where this is necessary to ensure the arrangements continue to meet the Committee's overriding remuneration principles and risk criteria. This might include, for example, amending the deferral arrangements to comply with changing regulation.

Policy on remuneration of Non-Executive Directors

The table below sets out the elements of Non-Executive Directors' remuneration and the policy on how each element is determined.

Element	Approach to determination
Base fees	Reviewed annually based on time commitment and responsibility required for Board and Board committee meetings. Review takes into account fees paid by comparable financial services organisations.
Additional fees	Additional fees are payable for additional responsibilities such as committee chairmanship or other duties.
Other items	Non-Executive Directors are not eligible to participate in any form of performance pay plans and do not receive pensions or other benefits. Travel and subsistence expenses, including between home and Skipton offices, are reimbursed.

The Remuneration Committee determines the Chairman's fee while the fees of the other Non-Executive Directors are determined by the Non-Executive Remuneration Committee.

Approach to recruitment remuneration

Overall, the Committee aims to recruit Executive Directors using remuneration packages that are market-competitive and as consistent as possible with the existing remuneration structure. In doing so, the Committee seeks to pay no more than necessary to attract talented individuals to join the Society.

Newly recruited Executive Directors are eligible to receive the same remuneration elements as existing Executive Directors, as set out in the policy table on pages 11 to 12, namely:

- Base salary – set at an appropriate level taking into account the experience and quality of the candidate;
- Pension and benefits – in line with our standard policy; and
- Single Variable Pay Arrangement – in line with our standard policy.

The Committee does not expect to make additional recruitment arrangements (such as signing on bonuses) as standard practice but may (subject to regulation), from time to time, be required to do so in order to secure the appointment of the right candidate.

In addition to ongoing remuneration arrangements, the Society may, where necessary, make replacement awards to 'buy-out' any remuneration awards or opportunities that an incoming Executive Director has forfeited in order to join the Society. Where this is necessary, the Committee will ensure that the overall value does not exceed the value of remuneration being given up and will take into account regulatory requirements, performance conditions and timing of payments.

Newly appointed Non-Executive Directors will receive fees in line with the policy outlined above.

Directors' service contracts and notice periods

The Executive Directors are employed on rolling service contracts which can be terminated by either the Society or the Director giving one year's notice. Unless notice to terminate is given by either party, the contracts continue automatically.

Non-Executive Directors do not have service contracts.

Policy on termination payments

The Committee's overarching aim is to treat departing Executive Directors fairly, taking into account the circumstances of their departure, but always taking care to ensure that the interests of members are considered and that there are no rewards for failure.

Executive Directors are entitled to be paid their base salary and contractual benefits (including pension contributions) during the notice period. The Society has the discretion to pay these as a lump sum benefit in lieu of notice.

The Rules of the SVPA scheme and the MTI scheme* set out the treatment of awards for individuals who cease to be an employee or Director of the Society.

In the following circumstances an individual will be eligible for a payment under the SVPA scheme:

- Normal retirement;
- Death;
- Injury or disability; or
- Any other circumstances which the Committee may in its discretion determine.

In exercising discretion on eligibility for payment of annual or deferred amounts, the Committee will consider the circumstances surrounding the departure.

For the SVPA and until the outstanding MTI cycles are completed, the Society will continue to pay any payment due in respect of a completed performance year. Deferred awards for completed performance periods and for part completed performance periods will be paid on the due date, except in the event of death, when the Committee may exercise its discretion and pay the deferred amount due immediately.

Eligible leavers (as set out above) will be considered for a bonus in respect of a partially completed performance year. Such an award would be pro-rated to take account of the service completed during the year. The award would be paid at the usual time, after the end of the performance year, taking account of the outcome of any performance conditions. Any deferred element of the SVPA scheme for eligible leavers will continue to be paid on the usual payment dates.

* The rules of the MTI scheme remain unchanged from our 2016 policy and include redundancy in the eligible leaver criteria in addition to those set out for the SVPA above.

Consideration of remuneration for individuals elsewhere in the Society

The Committee is responsible for setting the remuneration of the Executive Directors and approves the policy for senior managers who have a material impact on the Society's risk profile (Material Risk Takers). In addition, the Committee reviews recommendations from the Group Chief Executive for approval of the remuneration for other key executives.

The Committee does not currently consult employees on remuneration policy for Directors but it does take into consideration remuneration arrangements for the wider population in the Society when determining executive remuneration.

As part of adopting, on a voluntary basis, the new FRC Corporate Governance Code for listed companies, the Society has designated, with effect from January 2019, a Non-Executive Director with a particular focus on engagement with employees as a further step to ensure that their views are reflected in Board discussions and decision making.

Consideration of member views

The Committee has, for a number of years, invited members to vote (on an advisory basis) on the Remuneration Policy and annual Remuneration Report and takes member feedback into account when determining policy and outcomes.

Statement of implementation of Remuneration Policy in 2019

As outlined in our Annual Report on Remuneration for 2018, the base salaries of our Executive Directors will be reviewed in April 2019 as part of our annual salary review process.

The SVPA for 2019 will continue to be based on a balanced scorecard of financial and non-financial measures, as is outlined in our policy section. The measures and weightings in 2019 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	15%
Mortgages and Savings division profit	30%	Net customer satisfaction	5%	Strategic team objectives	15%
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 designed to give a continued focus on the achievement of longer term strategic objectives. For 2019 there is a small re-balancing with the weighting for strategic objectives increased from 10% to 15%, and for personal objectives reduced from 20% to 15%.

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

For participants in the Risk, Audit or Compliance areas of the business, the personal objectives will have a 50% weighting with a 15% weighting on strategic objectives, 15% weighting on financial measures and 20% on team KPIs.

Their maximum opportunity will range between 15% and 40% with target being 60% of these figures.

The deferral arrangements operating in 2018 will continue to apply in 2019 and Directors' salaries will be reviewed on 1 April 2019 as they are for all colleagues in the Society.

On a broader level in 2019, the Committee will be implementing the remuneration requirements of the FRC's revised UK Corporate Governance Code and the broader remit that this will bring. As part of this, we will continue to review our overarching approach to remuneration, setting out principles of fairness for the Society and reviewing how our current remuneration practices align with these and cascade through the Society.

The fair pay review also supports the actions to address the Society's gender pay and bonus gaps and the achievement of the Society's vision of a diverse and inclusive Society. As indicated earlier in the report, the BEIS amendments to Directors' Remuneration Reporting Regulations (for listed companies) in respect of reporting the CEO and employee pay ratio will also form part of our 2019 agenda.

The Committee will maintain close links with the Board Risk and Audit Committees to ensure full compliance with regulatory guidelines from European and domestic authorities throughout 2019 and will maintain its focus on managing risk within remuneration schemes including consideration of risk adjustment arrangements.

Annual Report on Remuneration in 2018

Executive Directors’ remuneration

The total remuneration for Executive Directors in 2018 is set out in the table below:

2018 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	510	294	299	322	**1,425**
Benefits(1)	15	12	12	12	**51**
2018 annual performance award (SVPA)(2)	234	135	136	148	**653**
Pension(3)	102	44	30	30	**206**
Total remuneration in respect of performance periods ending in 2018	**861**	**485**	**477**	**512**	**2,335**
Total 2018 performance pay deferred(4)	(140)	(67)	(68)	(89)	**(364)**
Prior years’ deferred performance pay now released(5)	147	71	69	85	**372**
Total paid in 2018 or payable in 2019(6)	**868**	**489**	**478**	**508**	**2,343**

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	15	12	12	12	51
2017 annual performance award (SVPA)	234	133	137	148	652
MTI (2015/2017)	163	97	95	99	454
Pension	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	(222)	(115)	(116)	(139)	(592)
Prior years’ deferred performance pay now released	85	33	32	30	180
Total paid in 2017 or payable in 2018	875	490	481	493	2,339

Notes

1. Benefits comprise the provision of a car or car allowance and private medical insurance contributions.
2. £140,130 (60%) of the 2018 SVPA award for Mr Cutter (2017: SVPA £140,227, MTI £81,436) will be deferred in equal amounts for between three to seven years. Half of the initial up-front award (i.e. 20% of the total) will be paid in March 2019 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 2020. £88,805 (60%) of Mr Ndawula’s 2018 SVPA award will also be deferred on the same basis as Mr Cutter’s (2017: SVPA £88,949, MTI £49,656). 50% of the 2018 awards for Mr Bottomley and Mr Cornelius will be deferred for between one and five years in line with the SVPA scheme rules.
3. Mr Cutter’s 2018 pension figure includes the additional value earned in the defined benefit scheme during 2018 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.
4. These are amounts which have vested in respect of the performance period ending in December 2018 (from the 2018 SVPA scheme) which are due to be paid in future years in line with the scheme rules.
5. These are deferred amounts from STI schemes from 2015 onwards plus deferred payments from the 2014/2016 and 2015/2017 MTI schemes which are payable in 2019.
6. Total payable is salary, benefits, pension and other payments which have been paid in 2018 and variable pay from 2018 (and from prior years) which is payable in 2019.

In 2018, no payments were made to past Directors or for loss of office.

Risk considerations

As part of approving incentive outcomes for 2018, 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 2018, 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 2018 and that performance remained within risk appetite, no adjustment to remuneration was required.

Comparison to the remuneration of other employees in 2018

The Group Chief Executive's base salary increased in April 2018 by 2.0% (2.0% in April 2017). This compares to an annual average pay review award in April 2018 of 3.2% of base salary for all other Society employees below Executive level (3.2% in April 2017). 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. The salary increase figure for other Executive Committee members includes an element to address market position for a number of Executive Committee members.

The Group Chief Executive's award under the Society's SVPA scheme in respect of 2018 represented 45.6% of his base salary (2017: 46.6%). This compares to the average amount awarded to the other Executive Directors of 45.4% (2017: 46.6%) and other Executive Committee members of 35.8% (2017: 36.3%). The average amount awarded to the Senior Leadership Team was 29.0% (2017: 28.3%) and to the remainder of our people in the Society was 7.7% (2017: 7.7%).

From 2019, the Society has elected to publish, on an annual basis, the ratio between the Chief Executive's pay and the median, lower and upper quartile pay for Society employees. Given the diversity of the wider Skipton Group, the Society measure was thought to be more appropriate as it would provide a more meaningful comparison with our peers in Financial Services.

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 2018 recommended that the basic Non-Executive Director fee and Deputy Chairman fee should be increased by 2% (£1,000) to £51,000 and by £1,120 to £57,120 respectively with effect from 1 August 2018. Ms Burton was appointed as a Non-Executive Director of Connells Limited on 1 May 2018 for which she receives an annual fee of £26,500 (increased from £26,000 with effect from 1 August 2018) included pro-rata in the table below.

The fees for chairing the Audit and Board Risk Committees were increased by £300 to £14,300 per annum and the fee for the chair of the Remuneration Committee was similarly increased by £200 to £12,200 per annum with effect from 1 August 2018.

The Chairman's fees are reviewed and approved by the Remuneration Committee. Mr East's fee was increased by 2% to £153,000 (2017: £150,000).

Audited		2018				2017			
		Fees	**Committee chair fees**	**Taxable benefits**(1)	**Total**	Fees	Committee chair fees	Taxable Benefits (1)	Total
	Note	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000
Mr R D East (Chairman)	2	152	-	6	**158**	118	4	6	128
Mr M J Lund (Deputy Chairman)	3	54	-	4	**58**	49	-	5	54
Ms A J Burton	4	68	-	3	**71**	49	-	3	52
Ms M Cassoni	5	50	14	6	**70**	49	13	4	66
Mr J R Coates	6	50	-	2	**52**	38	-	-	38
Mrs D P Cockrem		50	-	6	**56**	49	-	6	55
Mr M H Ellis	7	-	-	-	**-**	52	-	2	54
Mr D A Hall	8	50	14	3	**67**	38	5	3	46
Ms H L Jackson	9	10	-	-	**10**	-	-	-	-
Mr G E Picken	10	25	-	2	**27**	81	-	3	84
Ms H C Stevenson	11	50	12	4	**66**	49	11	4	64
		559	**40**	**36**	**635**	572	33	36	641

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 and Ms Burton, who, during 2018 have also been Non-Executive Directors 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 Lund was appointed as Deputy Chairman on 24 April 2018.
4. Ms Burton was appointed as a Non–Executive Director of Connells Limited on 1 May 2018 for which she receives an annual fee of £26,500, included pro rata in the table above.
5. Ms Cassoni is the Chair of the Board Audit Committee.
6. Mr Coates was appointed to the Board on 27 March 2017.
7. Mr Ellis (former Chairman) retired from the Board on 24 April 2017.
8. Mr Hall was appointed to the Board on 27 March 2017 and appointed Chairman of the Board Risk Committee on 1 September 2017.
9. Ms Jackson was appointed to the Board on 24 October 2018.
10. Mr Picken (former Deputy Chairman) retired from the Society on 23 April 2018. He was a Non-Executive Director of Connells Limited between January and April 2018, for which he received an annual fee of £26,000, included pro rata in the above table (2017: £26,000).
11. Ms Stevenson is the Chair of the Remuneration Committee.

The Committee and its advisers

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

Ms H C Stevenson, Non-Executive Director (Chairman of the Committee)
Ms A J Burton, Non-Executive Director
Mrs D P Cockrem, Non-Executive Director
Mr D A Hall, Non-Executive Director

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.

PwC were appointed by the Committee in 2015 following a review of potential advisers. Their remuneration team have continued to support the Committee in 2018 and have received £69,500 (net of VAT) in fees in respect of remuneration services provided. The Committee maintains oversight of remuneration policy and practice through an annual internal audit which is supported by other independent remuneration experts.

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

Statement of voting at the 2018 AGM

At the 2018 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
2017 remuneration report	59,138 (89.1%)	7,235 (10.9%)	1,451

Helen Stevenson
Chairman of the Remuneration Committee
26 February 2019

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

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