

Spring 2009

mutual matters

The members' magazine from
Skipton Building Society

Chief Executive's Welcome

What happened in 2008

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Merging for the future

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skipton.co.uk

Cheryl Roberts, customer of Chester branch

mutual**matters**



A portrait of David Cutter, a middle-aged man with light brown hair, wearing a dark suit, white shirt, and a blue and white striped tie. He is smiling slightly and has his arms crossed. The background is a blurred office setting.

Chief Executive's Welcome

David Cutter joined Skipton in 1993 as Head of Audit before being appointed to the Board as Operations Director in 2000. In 2002 he became responsible for the day-to-day functions of the Society's core business, before moving to head the Group's subsidiary businesses in 2006. He took over as Chief Executive from John Goodfellow on 1 January 2009.

Q. You've been with Skipton for 15 years – how does it feel to become Chief Executive?

It's a great honour to be taking the helm of one of the country's largest building societies – especially at a time when mutuals are showing such strength in comparison to their banking counterparts. It gives me confidence to know the Society has a robust and sustainable business model and the Group is better placed than most to weather the storm. And it's a privilege to lead a team of dedicated, skilful and enthusiastic staff.

Q. What do you think the future holds for the economy?

In the short-term it's not good news. For much of 2009, the economic news will be gloomy, dominated by business failures and increasing unemployment, which will do nothing to improve consumer confidence. Interest rates will be held very low, the pound will remain weak and Government finances will be severely strained. In a nutshell, I predict the economy won't start growing again until mid-2010.

For me, the key economic indicator is house prices in America and the UK, and when they will bottom out. At the moment, there is historically low demand for moving house, due to first-time buyers holding off while prices are still falling; added to this is a shortage of mortgage supply because of lenders' funding concerns and capital protection. However, very low interest rates will help affordability and I forecast more buyers will regain confidence and enter the market during this year. Sentiment will change and lenders will acknowledge the worst is over and be prepared to lend again up to 95% loan-to-value. So much depends on whether the Government's various initiatives have been successful in unblocking the medium and long-term inter-bank lending markets.

Q. What were the key highlights of 2008 for the Society?

First is the opening of new branches in six locations – Wilmslow, Woking, Warrington, Newbury and Northwich in 2008 and Selby in early 2009 – taking our total number to 85. The credit crunch has highlighted to all lenders the need for, and benefit of, a strong retail funding base. Being able to speak to our customers face-to-face is very important to us.

Secondly, during the year of so much uncertainty surrounding the future of financial institutions, it was a pleasure to see Skipton's membership grow so strongly, as we welcomed over 46,000 new members.

Finally, the announcement of our proposed merger with Scarborough Building Society (which will take effect from 30 March 2009) is an endorsement of Skipton's strong financial standing.

Q. Why did Skipton agree to merge with Scarborough?

This will be good news for Skipton members, creating an enlarged Society that is even better placed to deal with any future economic uncertainties.

Scarborough faced difficult trading conditions which unfortunately had a substantial impact on its profit; it was likely to report a pre-tax loss for its year ending 30 April 2009, compared to pre-tax profits of £7.8 million for the previous year. After considering other factors affecting its outlook, such as the recession and declining housing market, its Board approached us about a merger. This was so it could fully protect the interests of its members with a Society that well matched its commitment to mutuality, business model and North Yorkshire location.

Chief Executive's Welcome

Q. Why is there no vote on the merger or a windfall for members?

It is for the protection of Scarborough's members that the merger is completed as quickly as possible (whereas a vote would have caused delay). This is being allowed under the Building Societies Act 1986 via a Scarborough Board resolution and permitted by a direction from our regulator, the Financial Services Authority (FSA). As a result, this means a vote by Scarborough members will not be required. The FSA has also consented to Skipton proceeding with the merger by a resolution of the Skipton Board. In the current climate, in order to preserve capital for the benefit of the combined membership, no distribution of capital will be made to either set of members.

Q. After the merger, will the Society be more likely to convert to a plc?

Absolutely not. Having seen the advantages of mutuality first hand during my time with Skipton, there is no benefit to be had in changing this model. The demutualisation campaigns of the 1980s and 1990s have proven to be an unmitigated disaster, as shown by the fortunes of Northern Rock, Bradford & Bingley and Halifax.

My aim is 'business as usual' to continue to act in the best long-term interests of our members.

Q. Are other mergers on the cards?

Skipton is open to the idea of mergers but only where they are in the interests of the Society and our members.



David Cutter and
Skipton's Chairman
John Rawlings

Q. Some big financial names have failed to survive the credit crunch – how can building societies survive?

The failings of other institutions have been for a number of reasons, but in particular due to an over-reliance on wholesale funding and concerns over asset quality; size alone has not been a safeguard. You can find out more about how secure we are on page 8 of this magazine.

Q. What's in store for Skipton in the coming year?

Although 2008 did not produce the profits of previous years, for obvious reasons, the fact we made a profit while many made a loss should be recognised. 2009 will therefore be about maintaining stability, riding out the recession, and making sure we're in the optimum position to capitalise on the opportunities when some form of normality returns.

So how does mutuality deliver value to its members?

In this economic climate, the answer to that question has become clearer than ever. I've already said I'm a fan of mutuality, so instead of answering this myself, I'd like to quote comments from others about its value:



The best argument for mutuality is blindingly simple – a building society is owned by its savers and borrowers, so its sole purpose is to serve them. That goal is not complicated by a conflicting need to satisfy the Square Mile.

***The Observer* – 8 June 2008**

Anyone who has their cash in a building society rather than a bank knows their institution won't collapse because of stock market speculation . . . the key difference between a bank and a building society is banks are driven to greater profits and riskier deals by greedy shareholders. Building societies are owned by their customers.

***The People* – 28 September 2008**

Every single demutualised building society has either collapsed and had to be rescued or has been swallowed up by a bigger bank. The conversion of building societies into banks is an instance where deregulation and the liberalisation of an industry appears to have been an unmitigated disaster.

BBC website – 28 September 2008

The remaining building societies, meanwhile, may have gone through years in which they wondered whether they were being left behind, but their prudence has won the day in the end. Of course, their members haven't enjoyed the same excitement as bank investors, but somehow I doubt they feel they've missed out.

***The Independent* – 22 August 2008**



Your stronger Society

When Scarborough merges with Skipton, it will create the UK's fifth largest building society, with approximately 860,000 members and over £16 billion of assets. Here are some of your questions answered.

However, if you have any further questions, please call our Merger Helpline on 0800 345 7041.

Q. What will happen to Scarborough members?

On 30 March, members of Scarborough will become members of Skipton, with their membership mirroring what they had previously. Their Scarborough membership will cease and they will be solely Skipton members, with one vote at the AGM, as any existing Skipton member does.

Q. What are the benefits of the merger for Skipton's existing members?

The fact Skipton was approached by Scarborough shows the Society was – and remains – a safe organisation with a strong future – something our members can be proud of. This is important in the current climate, benefiting our ability to attract funds and reducing any reliance on wholesale funding.

Other benefits include the fact we'll have a broader customer base who can benefit from the wide range of services Skipton offers – not just those of the Society but also companies in the Group. And the addition of Scarborough's branches to our network will mean members on the east coast of Yorkshire will be better served.



Muriel Evans, customer of Bradford branch

Q. What are the benefits for members who are currently with Scarborough?

The biggest benefit is they are with a safe and secure building society, with the same dedication to its members as Scarborough, delivering the same great value. Other benefits include borrowers who were paying Scarborough's standard variable rate (SVR) will have seen their monthly repayments drop, as Skipton's SVR is lower, and just about to fall to 3.50%. And of course the number of branches available to use will increase from nine to 90.

Q. The Financial Services Compensation Scheme (FSCS) changed its rules regarding merged building societies. What does that mean?

The FSCS protects up to a total of £50,000, of an investor's savings in a single financial institution. However, when a number of building societies began to merge last year, it was unclear whether a saver who had money with both societies involved would be covered twice, for £100,000, or once, for £50,000 by the single remaining society.

As a result, the Financial Services Authority (FSA) ruled that a building society which merges with another is allowed to keep its separate compensation limit providing certain conditions are met.

We are pleased to say that the FSA has confirmed that Skipton meet the conditions and therefore our members who have savings accounts in both Skipton and Scarborough will benefit until at least 30 September 2009. (The FSA is currently consulting on how the rules will apply after this date.)

Q. What will happen to Scarborough's+ branches?

We'll keep a branch in every town where Scarborough is represented, and the staff that work in them, as branches are very important to us – illustrated by the fact we've been opening new ones when others have been closing theirs. However, we regularly review our network to ensure branches are in the best locations to serve our customers. As a result, looking at our coverage where both Skipton and Scarborough branches are present, we have decided to close one of three branches in Scarborough, and one of two branches in each of Hull, Lincoln and Nottingham.

Q. I read Scarborough had a number of 'adverse' or higher risk loans on its books, which will become Skipton's. Will this jeopardise your safer lending?

The rules of the merger mean all accounts will be transferred, including some loans which are higher risk. However, we carried out a comprehensive review of these accounts in preparation for the transfer and believe that the financial strength of Skipton will not be negatively affected by the merger. We would simply not have proceeded if we felt the move would adversely affect Skipton.

Customers matter

Our customers matter to us, so if you have a question, you can email Skipton's Chief Executive David Cutter by visiting our website at skipton.co.uk/yourquestions.

However, you may find your question is already answered here.

Q. Are my investments safe with Skipton?

As well as the fact we are a strong and secure mutual, we are members of the Financial Services Compensation Scheme (FSCS). This protects 100% of your savings with the Society up to a limit of £50,000 per person. If you also have savings with Scarborough, you are covered twice (see page 7).

Q. How does the FSCS apply to joint accounts?

If you have a joint account, you're covered for £50,000 per person and therefore £100,000 in total. If you don't currently have a joint account but wish to add another person to take advantage of this, we're happy to do so. However, it's worth noting there could be some implications from having your account in joint names; for example, doing so could affect the amount of tax you pay or who can vote at our AGM.

However, before you change your account, our branch staff can discuss these implications with you to ensure you're fully informed. Alternatively, you can call our Helpline on 08458 501700* where an adviser can help you.

Q. Why is Skipton safer than the banks?

The difference between a mutual like Skipton and a bank is the majority of money we lend on mortgages comes from members' savings – you save, we lend, it isn't much more complicated than that. The banks, however, rely heavily on borrowing money from each other to fund their mortgages. When the credit crunch hit, banks could no longer be sure of this source of money and so had problems, whereas we are much less impacted by this.

In addition, we've always had a prudent approach to lending; this means we have never offered mortgages of more than 95% loan to value and our buy-to-let mortgages comprise only a small proportion of our overall lending.

Q. I've heard there's a scheme to take money from savings accounts and give it to charity. Is that true?

In late 2008, an Act of Parliament was passed to formalise a voluntary scheme for financial institutions to give money held in 'lost' savings accounts to a central fund to support charitable works. (This is currently scheduled to come into effect in mid-2009.) The Government's definition of 'lost' accounts is those where the saver has not been in contact with their account provider for a significant period of time, no matter how much money is in it. We anticipate the Society will take part in this scheme when it comes into force, for those accounts where we have had no contact from the member for at least 15 years.

However, if you think this could apply to your account, it's easy to protect your savings. All you have to do is get in touch with us and through making contact, the "15 year clock" rule will start again. It doesn't matter whether you do this by phone, letter or by visiting your branch – even sending us back your AGM vote would be sufficient. Of course, if you're a member who we already have regular contact with or you've used your account within the last 15 years, this isn't necessary – although it's always important to let us know if you change address.

Even if we don't hear from you, your savings will not be at risk because funds that have gone to charity under this scheme can be reclaimed at any time, along with any interest.

Q. I don't live near one of your branches – how else can I access my savings?

As well as our branch-based accounts, we offer accounts you can operate by post or online – just check out our website at skipton.co.uk/savings__and__investments or call us on 08458 501722* for more details.

Q. Identity fraud seems to be increasing – could someone pretend to be me and get access to my accounts?

Every time someone contacts us about their mortgage or savings account, we ask a series of questions to verify the person is who they say they are; not just their date of birth or address but more detailed information, such as what other accounts are held with the Society or the amount of a recent transaction. In our branches, a signature is also required for withdrawals, which is then checked with the accompanying passbook; and the fact that we know our regular customers so well means we can be even more vigilant.

However, it's not just your accounts with Skipton that should be protected from someone pretending to be you. That's why Callcredit – a credit reference agency which is one of our subsidiary companies – offers you a way to monitor your credit record 24-hours a day, so you will know immediately if anything is amiss. Call 0113 244 1555 or visit callcredit.co.uk to find out more.

* To help maintain service quality, some telephone calls may be recorded and monitored.



Marie Shutt, customer of Colne branch



Community matters

There are many ways in which members benefit from Skipton being a building society, such as how our mutual ethos links firmly with a duty to the communities we operate in.

At Skipton, we strongly believe the best way to carry out this duty is to share the benefits of our success with a variety of charities and organisations. During 2008, through sponsorship, fundraising and staff volunteering, Skipton and its independent Charitable Foundation and subsidiaries within the Skipton Group made contributions totalling nearly £500,000. And our members did their bit too, as savers with Skipton's NSPCC ISA raised nearly £140,000 for the charity last year.

There are five key areas where we concentrate our efforts: money advice, community, the arts, education and sport. This last one is particularly important and we are committed to helping create healthier communities. 2008 therefore saw us supporting a range of charities and organisations in this field.

At an individual community level, our branches across the country get involved with their local sports teams in a variety of ways. For instance, our Solihull branch is the kit sponsor of Ulverley Hawks, an under-8s football team. Cricket is also covered, through Oldham branch's contribution towards a bowling machine for Royton Cricket Club. And Newark Swimming Club approached its local branch for money to buy a trophy cabinet for its many awards.

The sponsorship team at our Principal Office in Skipton also plays a part. For instance, it was approached to help Durham University's lacrosse team with equipment such as cones, goalie kit and bibs to help with its training. Another project which has been supported in our heartland for many years is the Skipton Building Society Wharfedale



The Club has big plans for the future and, with help from the Society, aims to support its members in the run up to the 2012 Olympics in London.

Rugby Academy. This puts qualified coaches in 50 local primary and secondary schools in North Yorkshire. The programme teaches them tag rugby, developing their co-ordination, communication and teamwork skills.

On a larger scale, and in what will be a longer – term project, we recently launched a partnership with Molesey Boat Club, which is amongst the top rowing clubs in the UK. This was agreed following discussions with Olympic rower and gold medal winner, Andy Hodge – a customer of Skipton since the age of five and, like the Society, a Yorkshire success story. To help develop future talent, Skipton has committed to sponsor Molesey, where Andy is captain, for five years.

The Club has big plans for the future and, with help from the Society, aims to support its members in the run up to the 2012 Olympics in London. Our funding will see subsidised membership for potential gold medallist athletes who would otherwise struggle to find the money to train at the club. It will also provide training camp resources and physiotherapy support for the athletes.



If you would like to apply for support for your organisation or club, please visit the 'About us' section of our website at skipton.co.uk.

Notice of AGM

This year's Annual General Meeting (AGM) of Skipton Building Society will be held at the Skipton Building Society Principal Office, The Bailey, Skipton, North Yorkshire BD23 1DN on **Tuesday 28 April 2009 at 6.30pm** for the following purposes:

Ordinary resolutions

1. To receive the Report & Accounts
2. To re-appoint KPMG Audit Plc as auditors
3. To approve the Report on Directors' Remuneration

Voting instructions

As a voting member, you have the right to vote on matters affecting your Society. Register your vote in any of the following ways:

Online

Members – **excluding holders of Permanent Interest Bearing Shares (PIBS)**[†] – can vote online. Just log onto skipton.co.uk/agm or use the link on our homepage at skipton.co.uk, then follow the instructions. You will need the two part security code printed on your Voting form. Online voting is available 24 hours a day **until 5pm on Friday 24 April 2009**.

If you vote online and subsequently change your mind, you can vote again using the same two part security code. If you vote by post as well as online, then the last vote received is the one that will be counted.

By Freepost

Please complete, sign and date this form, then place it in the enclosed Freepost envelope and post it to arrive by **5pm on Friday 24 April 2009**.



Voting notes

1. You are entitled to vote if you are at least 18 years old on the date of the AGM and are the first named account holder in our records. You must also either:
 - a) have had at least £100 in your savings account (including Permanent Interest Bearing Shares (PIBS)) on 31 December 2008 and continue to have a savings account with the Society† at all times between 31 December 2008 and the voting date, or
 - b) have owed the Society† not less than £100 on your mortgage(s) at all times between 31 December 2008 and the voting date.
2. No matter how many savings or mortgage accounts you have, in any capacity, you are only entitled to one vote on each resolution.
3. You may either vote in person at the AGM or you may use the Voting form to appoint a representative to attend and vote for you. You may appoint the Chairman of the Meeting or anyone else as your representative; they do not have to be a member of the Society.
4. Your representative may vote for you at the AGM on a written poll but not on a show of hands.
5. If you appoint a representative to vote on your behalf and your representative does not attend the AGM, your vote will not be counted.
6. Members attending the AGM in person will be required to produce their passbook, share certificate or other evidence of membership to gain entry to the AGM. Representatives will also need to produce an appropriate form of identification to gain entry to the meeting.
7. Please remember to sign the declaration in either Box 1 or Box 2 on the Voting form as only signed forms will be valid.
8. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for and against the resolution.
9. Online voting is not available for a holder of PIBS unless they are also either a saving or borrowing member.

† the Society refers to either Skipton or Scarborough Building Society.

If you have any queries please telephone our Member Helpline on

08458 501700*

Elections of Directors

- 4.1 To re-elect David John Cutter
- 4.2 To re-elect John Barrington Rawlings
- 4.3 To elect Peter (Nimble) Thompson¹
- 4.4 To elect William Worsley¹

Notes that form part of this Notice of AGM can be found below and adjacent.

By order of the Board



Gill Davidson
Secretary

6 March 2009



At a branch

Please complete, sign and date this form, then place it in the enclosed Freepost envelope and put it in the ballot box at any of our branches by **closing time on Wednesday 22 April 2009**.

At the AGM



Come to the AGM at **6.30pm on Tuesday 28 April 2009** at our Principal Office, The Bailey, Skipton, North Yorkshire BD23 1DN. Please also bring your passbook, share certificate or other evidence of membership. (The venue is wheelchair accessible.)

* To help maintain service and quality, some telephone calls may be recorded and monitored.

† See note 9 in Voting notes.

¹ Provided at the date of the AGM he has been appointed by the Board as a Director following the transfer of engagements by Scarborough Building Society to Skipton Building Society.

Meet the Board



David Cutter, a Chartered Accountant, joined the Society as Head of Audit in 1993, was appointed to the Board in 2000 and became Chief Executive in January 2009. David was Chairman of the Society's Operational Board from 2002 until 2005 and had Board responsibility for the Group's subsidiary businesses until December 2008. He is Chair of the Society's Senior Management Committee and a member of the Asset & Liability Committee, Operational Risk Committee and Group Retail Credit Committee. Externally, he is a Governor of Malsis Preparatory School.

David lives in Bradley, near Skipton, with his wife, Carol, and his sons Kit, Oliver and James. He is a former international hockey player and still plays for his local club, as well as enjoying golf and playing the piano.

David Cutter

Age 47
Chief Executive

"I'm honoured to be leading such a sound and trusted Society, and believe my experience in so many areas of the Group will be an asset as we work our way through the recession and emerge as a winner. I believe strongly in our mutual status and operating in the long-term interest of the Society."



John Rawlings was appointed to the Board as a Non-Executive Director in 1995 and became Chairman of the Society in 2005. He is also Chairman of the Nominations Committee. Since 1994 he has been a Non-Executive Director of a number of companies, chiefly in the financial sector, including the Financial Ombudsman Service. His earlier career was spent at the Foreign Office and the merchant bank, Morgan Grenfell & Co Ltd, where he became Deputy Chairman.

John and his wife Sylvia have lived on their farm in Suffolk for 28 years. When not helping on the farm, where Sylvia breeds pedigree Texel sheep, John divides his time between books, music, cinema, gardening, walking and following many sports, particularly cricket and rugby.

John Rawlings

Age 62
Chairman

"My overriding priority is to ensure the financial stability and strength of Skipton is maintained. In the present financial crisis I believe my experience during 35 years in the industry can provide, with the help of my skilled and committed colleagues on the Board, the leadership to guide Skipton through to better economic times."



Nimble Thompson joined Scarborough's Board three years ago. He qualified as a solicitor before practising in Leeds and Manchester, where he eventually became Senior Partner of Eversheds. He was also Deputy Chairman of the firm before he retired in 1999. Nimble is Chairman of N G Bailey and a non-executive director of a number of other companies. In addition, he was Chairman of Leeds Metropolitan University for six years (receiving an Honorary Doctorate of Laws on his retirement), Chairman of Eureka! until 2007 and is currently Regional Chairman of the Institute of Directors in Yorkshire and the Humber, as well as a Non-Executive Director nationally.

Nimble and his wife Morven have lived in Kirkby Malzeard near Ripon for over 30 years and, of their three children, their daughter has produced two grandchildren. He is a fisherman who enjoys walking the hills in both England and Scotland.

Peter (Nimble) Thompson
Age 62
Non-Executive Director

"I had no hesitation in supporting the decision to merge with Skipton, as I have always seen it as a vibrant, strong and well run Society. It's an honour to be asked to join the Board and I believe my legal background, coupled with 20 years' experience of management, will add to the knowledge around the Board table."



William Worsley joined the board of Scarborough Building Society in 1996 and became Chairman in 2002. He is a Fellow of the Royal Institution of Chartered Surveyors and is Deputy President and Chairman of the Board of the Country Land & Business Association. He is also a Non-Executive Director of The Brunner Investment Trust Plc where he is Chairman of the Audit Committee and is a former member of the Private Banking Board of the merchant bank Guinness Mahon & Co. His early career was spent with property consultants Savills and Humberts.

William Worsley
Age 52
Non-Executive Director

"The breadth and depth of Skipton's Group provides security to members during these challenging market conditions. The merger with Scarborough creates an even stronger Society and is in the best interest of all members. I'm honoured to have been asked to join the Board and believe my experience as a director and property background will be of value to the Group as a whole."

A Yorkshireman who was born in York, William lives and farms at Hovingham near Malton with his wife Marie-Noelle and their three children. His hobbies include skiing, reading, art and fine wine.

Meet the Board



Alastair Findlay

Age 56
Vice Chairman

Alastair Findlay, a Chartered Accountant, joined the Board as a Non-Executive Director in June 2006, was appointed Vice Chairman in May 2008, is Chairman of the Audit Committee and is a member of the Nominations Committee. After a number of years' experience in the corporate finance department of a City investment bank he joined the Mersey Docks and Harbour Company in 1996 where he was Group Finance Director until he left the company at the end of 2005. Alastair is also Vice Chairman of the Countess of Chester Hospital NHS Foundation Trust and an independent Director of the trustees of the main AMEC plc pension funds.

Peter Hales

Age 62
Non-Executive Director

Peter Hales joined the Board as a Non-Executive Director in May 2007 and is also a member of the Audit Committee. Prior to joining the Board he was Sales & Marketing Director of Norwich Union, having previously been a Director of General Accident and CGU. He was President of the Chartered Insurance Institute, the professional body for the insurance industry in 2006. He is also a director of Just Retirement Plc and Unum Ltd, a member of the Accenture Insurance Advisory Board and a member of the Advisory Board of Simply Biz Plc.

Paula Hay-Plumb

Age 48
Non-Executive Director

Paula Hay-Plumb, a Chartered Accountant, joined the Board as a Non-Executive Director in June 2006. She is a member of the Audit Committee and the Remuneration Committee. Paula's previous roles include Group Financial Controller for Olympia & York Canary Wharf and Chief Executive of English Partnerships. She then rejoined Marks & Spencer (where she started her career) in 2003 as Corporate Finance and Group Reporting Director. Paula is a Non-Executive Director of the Forensic Science Service and Chairman of the National Australia Bank Common Investment Fund.

Noel Hutton

Age 59
Non-Executive Director

Noel Hutton joined the Board as a Non-Executive Director in July 2004. He is a member of the Nominations Committee and Chairman of the Remuneration Committee. Before his retirement in 2004, he was a partner in Hammonds, the international law firm, where he specialised in corporate finance. He is a member of the Law Society.



William Jack
Age 64
Non-Executive Director

William (Bill) Jack was appointed to the Board as a Non-Executive Director in early 2001. He is a member of the Remuneration Committee and the Nominations Committee. Prior to joining the Board, Bill was managing director at CGU Life, with responsibility for all UK life and associated companies. Before this he was Managing Director of General Accident Life Assurance for eight years, preceding its merger with Commercial Union in 1998 to form CGU Life. Whilst there, he was responsible for a business with a £2.5 billion annual turnover and 3,500 employees.

Alexandra Kinney
Age 50
Non-Executive Director

Alexandra (Sandy) Kinney joined the Board as a Non-Executive Director in July 2003 and is a member of both the Audit Committee and the Nominations Committee. During her career as an accountant, Sandy was a partner of PricewaterhouseCoopers and was previously a Director at KPMG. In June 2005, she was appointed by the FSA as a Non-Executive Director of the Financial Services Compensation Scheme.

Richard Twigg
Age 44
Group Finance Director

Richard Twigg is a Chartered Accountant who joined the Skipton Group in 1993. Having previously been Finance Director of both Homeloan Management and Connells, he was appointed to the Board in March 2002. A member of the Senior Management Committee, Richard is responsible for finance, treasury, planning and risk management, and chairs the Group Retail Credit Committee. He is a member of the Society's Operational Board and chairs the Operational Boards of the Group's other lending and funding companies. Richard is a trustee of the Society's Charitable Foundation and is a governor of both Ermysted's Grammar School and Menston Primary School.

Summary

financial statement 2008

This financial statement is a summary of information from the Annual Report & Accounts, which will be available to members and depositors free of charge on demand at every office of Skipton Building Society from 16 March 2009.

Summary Directors' Report

Introduction

The Skipton Group is pleased to report a solid financial performance in light of extremely difficult and volatile market conditions. Whilst our profits are down on the level achieved in 2007, we believe our business model, based on a traditional and prudent building society supplemented by other income generated through investment in subsidiary companies, demonstrates the long-term stability of the business. Our balance sheet remains healthy and we continue to hold strong levels of liquidity and capital.

There is no doubt we are in the midst of an uncompromising recession and the ability to forecast its severity and ending is made difficult, if not impossible, by the continuing shortage of credit in the UK markets. For this reason, our business plans for 2009 are likely to adopt a similar vein to 2008: to limit balance sheet growth, to hold above normal levels of liquidity, reduce further our reliance on wholesale funding and increase our cost control.

Skipton, in common with all building societies, has a substantial and stable retail funding base. However, unlike other building societies, we also have a Group of subsidiaries with a diversified portfolio of investments, which generate higher returns (even in this difficult economic climate).

As a result, once the banking sector and our building society peers have reported their figures, we are confident the added context will show what a solid set of results these are.

Financial highlights

- **Group total assets** £13.6bn (up 8.9%)
- **Group mortgage assets** up 1.7% (2007: up 15.9%)
- **Group retail share balances** £8.1bn (up 12.9%)
- **Group pre-tax profit** £22.5m (2007: £163.9m)
- **Society management expenses ratio** 47p (2007: 49p) per £100 assets
- **Society interest rate margin** 0.54% (2007: 0.74%)
- **Group interest rate margin** 0.66% (2007: 0.95%)
- **Solvency ratio Basel II** – 12.28% (2007: Basel I – 12.30%)

In 2008, the Society's net interest margin reduced by £12.2 million to £69.8 million. This was partly as a result of the competitive rates enjoyed by savers (as demonstrated by a growth in retail balances of 12.9%) and partly due to the high cost of securing longer-term funding and carrying above-normal levels of liquidity during the credit crunch.

In addition to providing in full against the Society's own exposure of £11.0 million to the Icelandic banking system, we have also set aside £16.3 million for our share towards the next three years' levy to be imposed by the Financial Services Compensation Scheme (FSCS) in relation to the rescue of savers in Bradford & Bingley and other banks. Group profits in 2008 are almost half what they would have been had the FSCS

provision not been required. We believe it unjust that the building society sector, which has an inherently safer business model, is bearing a disproportionate cost for the troubles of some banks which had far riskier models.

Lending

2008 was a year of turmoil in the wholesale markets and, as such, our lending plans were always going to be modest – the Society's mortgage lending was down a third from £2.2 billion to £1.3 billion. The uncertainties of the credit crunch meant we were naturally cautious in committing funds and, where we did, they tended to be to borrowers of higher quality. By lending in this way we can avoid the stresses on funding which have been the undoing of others in the industry. Also, at this time of limited funds for borrowers, it is our members who we give priority to, recognising our existing relationship and their track record with the Society.

As the economy deteriorated, we have seen an increase in arrears. In the Society, the number of mortgages that were three months or more in arrears increased during the year from 0.20% to 0.38%. At a Group level, the figure increased from 0.41% to 1.14%, but remained well below the Council of Mortgage Lenders' industry figure of 1.89% at the year end.

Savings

During its 155 year history, the Society has always tried to balance the needs of savers with the wishes of borrowers, but never have interest rates fallen so low to make this so difficult. As a mutual, our natural inclination is to pass on in full any reduction in rates to our borrowers whilst protecting the returns for our savers. But with the Bank of England's base

rate having fallen to such a low level we are in a unique environment which challenges our best intentions. We find it perverse that UK savers, who are the bedrock for the funding of mortgages, are being penalised to help correct the fundamental imbalances in the economy. We will therefore continue to lobby central policy makers on behalf of our savers.

On the positive side, the credit crunch has done much to benefit mutuals like Skipton who are now seen as stable homes for investors' money – especially with the increased cover offered by the FSCS. This, coupled with a range of competitive products (in particular, our Branch Access Account and limited edition Fixed Rate Bonds) has meant retail balances have increased from £7,191.1 million to £8,158.2 million. In addition, Skipton's investor numbers grew from 521,000 to 565,000 during 2008 and will increase further to over 700,000 following the proposed merger with Scarborough.

Distribution

Skipton has long swum against the tide with regard to its branch network; while others closed branches, 2008 saw the Society open five new ones, plus another in early 2009, taking our total to 85. This will grow further with the branches inherited through the Scarborough merger.

The merger with Scarborough will also bring with it investors who transact by telephone. This is a channel Skipton hasn't explored before and, whilst we will initially limit this to existing products, we will evaluate its effectiveness for future expansion.

This will be balanced with the fact we have spent 2008 expanding our online offering, with new savings products added to this channel and the launch of our eMortgage service, where mortgage brokers

submit applications using one of the industry's best online systems.

Wholesale funding and capital

A key reason for the healthy state of Skipton's business, in relation to many in the banking sector, is our limited reliance on the money markets, as approximately 70% of our funding comes from retail balances. However, the challenge has been in managing our non-retail funding, with an emphasis on extending the term of our loans for greater stability in our funding profile.

With regard to this, the Society has maintained its level of funding through already well diversified channels, supplemented by a covered bonds programme, established during the year, which will enable it to access further medium-term funding whilst the credit crunch continues. In addition, the Society was the first in the sector to have a call date on a tranche of its subordinated debt during the current market, and it is testament to our security and strength, the hard work of our Treasury team and our strong relationship with the investment community that we were able to renew this capital on acceptable terms in December 2008.

The Skipton Group

For a long time, the Society has extolled the benefits of having a Group of subsidiaries to complement its core business of savings and loans. During good times they provide dividends to the Society which enables us to deliver better pricing to our members. In more stressed conditions they are assets that allow us to crystallise value to protect the overall Group performance.

As a result, in 2008 the Society sold two of its subsidiaries – Direct Life & Pensions and Amber Select – generating a profit of £9.1 million. This was

part of our strategy to concentrate on the Group's five key pillars: savings and lending, mortgage servicing, estate agency, financial advice and data provision. In addition, Connells disposed of its remaining holding in the property website, Rightmove, generating a profit of £22.3 million.

Overall, 2008 saw Connells' operating profits fall from £59.7 million to £10.4 million. However, when considering 2008 was the worst housing market in living memory and UK property transactions were down approximately 40% on 2007, this is in fact a very creditable performance, helped by good results in lettings, auctions, survey and valuation, and asset management of repossessed properties on behalf of lenders.

Callcredit is another Group company with a positive story to tell. Profits have grown again in 2008, and we are forecasting continued growth, not only in the supply of traditional credit checking products but also in account management, monitoring and over-indebtedness products (particularly relevant right now).

Homeloan Management (HML) is also embracing the opportunities the downturn has presented, especially by improving its range of services in the collections arena to support its portfolio of clients. This is a countercyclical business with good prospects.

New to the Group in early 2008, but not faring as well in the present climate, are two financial advisory companies – Torquil Clark, based in the Midlands, and Thomson Shepherd, based in Scotland. They were acquired as part of our strategy to strengthen our financial advice offering and longer-term, when the investment market volatility finally subsides, we are confident they will deliver a strong performance.

Another subsidiary affected by market forces is our specialist lending subsidiary, Amber Homeloans, whose borrowers were the first to feel the impact of the economic conditions. Following a review of the risks surrounding this business, Amber ceased new lending in March 2008 and is now concentrating on managing its portfolio of loans.

The future

With regard to the future, we believe a deep recession will exist throughout 2009 and well into 2010. An extremely low interest rate environment will prevail, to the benefit of borrowers, but savers will see a very noticeable difference in the lower levels of interest they receive. For those borrowers who do succumb to the economic fallout, we will endeavour to work fairly with them.

With so many uncertainties continuing in the general economy, we will not return to the levels of profit seen in 2006 and 2007 for a while, but we are confident that our prudent management of both the core business and our subsidiaries should see us deliver another solid performance.

We remain on track to complete the proposed merger with Scarborough Building Society on 30 March 2009. Our experience during the project has reconfirmed our belief that the two organisations are a close fit, in terms of commitment to mutuality, business diversification and of course geography. The reward will be a stronger mutual with the opportunity to serve a larger audience, which can only be good news for our customers and staff.

With regard to future mergers, we will consider these so long as our existing members are not compromised and there is a long-term benefit for the combined business.

Group results for the year ended 31 December	2008 £m	2007 £m
Net interest receivable	86.0	109.7
Other income and charges	387.5	468.5
Profit on disposal of associate	22.3	36.0
Profit on disposal of subsidiaries	9.1	–
Fair value losses	(3.3)	(3.9)
Administrative expenses	(433.0)	(441.0)
Impairment losses	(46.1)	(5.4)
Profit for the year before taxation	22.5	163.9
Taxation	1.3	(37.3)
Profit for the financial year	23.8	126.6
Minority interests	(1.0)	(1.1)
Profit for the year	22.8	125.5
Group financial position at 31 December	2008 £m	2007 £m
Assets		
Liquid assets	3,178.3	2,670.1
Mortgages	9,488.4	9,157.5
Other loans	79.3	134.4
Derivative financial instruments	429.9	122.3
Fixed and other assets	471.1	446.2
Total assets	13,647.0	12,530.5
Liabilities		
Shares	8,158.2	7,191.1
Borrowings	4,077.8	4,144.1
Derivative financial instruments	280.3	50.4
Other liabilities	213.2	209.7
Subordinated liabilities	183.7	183.7
Subscribed capital	26.3	26.3
Minority interests	3.9	3.5
Reserves	703.6	721.7
Total liabilities	13,647.0	12,530.5
Group statement of movement in reserves	2008 £m	2007 £m
Reserves at 1 January	721.7	600.6
Net expense for the year not recognised in the Income Statement	(40.9)	(4.4)
Profit for the year	22.8	125.5
Reserves at 31 December	703.6	721.7

These Accounts were approved by the Board of Directors on 24 February 2009 and were signed on its behalf by:

J B Rawlings	Chairman
D J Cutter	Chief Executive & Director
R J Twigg	Group Finance Director

Summary

of key financial ratios

Summary of key financial ratios	2008 %	2007 %
Gross capital as a percentage of shares and borrowings	7.50	8.25
Liquid assets as a percentage of shares and borrowings	28.84	23.56
Group profit after tax for the year as a percentage of mean total assets	0.18	1.09
Group management expenses as a percentage of mean total assets	3.31	3.81
Society management expenses as a percentage of mean total assets	0.47	0.49

Gross capital represents the general reserve, cash flow reserve and available-for-sale reserve together with minority interests, subordinated liabilities and subscribed capital, as shown in the Group Balance Sheet. The gross capital ratio measures the proportion which the Group's 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.

The profit ratio 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 2008 and 2007 total assets as shown in the Group and Society Balance Sheets. 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 expenses ratio measures the proportion that the administrative expenses bears to the average of the mean total assets during the year.

Auditors'

statement

Statement of the independent auditors to the members and depositors of Skipton Building Society

Pursuant to Section 76 of the Building Societies Act 1986, we have examined the Summary Financial Statement of Skipton Building Society on pages 18 to 23.

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

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Summary Financial Statement, in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom. Our report on the Group's full Annual Accounts describes the basis of our audit opinion on those Annual Accounts.

We also read the other information contained in *Mutual Matters* and consider the implications for our report if we become aware of apparent mis-statements or material inconsistencies with the Summary Financial Statement.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, the Annual Business Statement and Directors' Report of Skipton Building Society for the year ended 31 December 2008 and conforms with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds
24 February 2009

Summary Directors'

remuneration report

The Board is committed to best practice in its remuneration policy for Directors and this report explains how the Society applies the principles in the Combined Code relating to remuneration. Additionally, all members entitled to vote will again have the opportunity to vote on the report at this year's AGM.

Remuneration Committee

The Remuneration Committee, which comprises four Non-Executive Directors, is responsible for the Society's Executive remuneration policy. The Committee is also responsible for setting, reviewing and approving individual remuneration packages for Executive Directors and other senior Group Executives, and setting the Chairman's fees. The members of the Remuneration Committee are Messrs Hutton (Chairman), Rawlings, Jack and Ms Hay-Plumb. The Chief Executive may attend meetings by invitation, together with external advisers, where appropriate.

In discharging its duties, the Remuneration Committee also reviews and takes into account independently produced data and professional advice in similar financial services organisations. It also gives full consideration to the provisions set out in the Code of Best Practice of the Combined Code on Corporate Governance.

The Non-Executive Directors' Remuneration Committee, which comprises Messrs Rawlings (Chairman), Cutter and Twigg, determines the level of the other Non-Executive Directors' fees.

Directors' Remuneration Policy

Executive Directors' Remuneration

The Board's policy is designed to ensure that Executive Directors' remuneration reflects performance and enables the Society to attract, retain and motivate a sufficient number of high calibre individuals to lead and direct the organisation and deliver continually improving business performance.

The main components of Executive Directors' remuneration are as follows:

- Basic salary – which takes into account job content and responsibilities, individual performance (assessed annually) and salary levels of similar positions in comparable organisations.
- Annual bonus – which is calculated by reference to Group and Society performance measured together with individual performance against personal objectives, both of which are linked to the achievement of the Group's strategic objectives.
- Pensions – all Executive Directors are members of the Skipton Building Society Pension & Life Assurance Scheme.
- Other benefits include provision of a car, or car allowance, and private medical insurance.
- Policy on service contracts – the Executive Directors are employed on service contracts which expire at the age of 65, with a contractual notice period of 12 months.

Non-Executive Directors

Non-Executive Directors' fees are based on comparable data from similar financial services organisations. Non-Executive Directors do not receive bonuses, are not eligible for pension benefits and do not have service contracts.

Executive Directors Contractual Terms

The Executive Directors all have a notice period of 12 months, under the policy on service contracts detailed above.

Directors'

remuneration for 2008

Remuneration of all the Society's Directors during the year is detailed below.

Non-Executive Directors	2008 £000 Fees	2007 £000 Fees
Mr J B Rawlings	70	68
Mr A I Findlay	50	39
Mr P R Hales (appointed 29 May 2007)	40	23
Ms P M Hay-Plumb	40	39
Mr W J Henderson (retired 24 April 2007)	–	13
Mr C N Hutton	42	39
Mr W H Jack	44	46
Ms A B E Kinney	41	44
Mr R F Marriott (retired 27 May 2008)	13	39
Mr N Sherlock (retired 24 April 2007)	–	13
Total	340	363

Executive Directors 2008	Salary £000	Bonus £000	Benefits (1) £000	Sub total £000	Increase in accrued pension £000	Total £000
Mr J G Goodfellow (Note 1)	363	37	56	456	7	463
Mr D J Cutter	246	26	41	313	7	320
Mr S W Haggerty (Note 2)	210	–	34	244	12	256
Mr R J Twigg	238	24	39	301	6	307
Total	1,057	87	170	1,314	32	1,346

Executive Directors 2007	Salary £000	Bonus £000	Benefits (1) £000	Sub total £000	Increase in accrued pension £000	Total £000
Mr J G Goodfellow	325	238	54	617	25	642
Mr D J Cutter	223	115	42	380	9	389
Mr R J Twigg	220	127	40	387	10	397
Total	768	480	136	1,384	44	1,428

(1) Benefits comprise the provision of a car, or car allowance, the Society's contributions to the Skipton Building Society Pension & Life Assurance Scheme and private medical insurance contributions.

Summary Directors'

remuneration report (continued)

Notes

1. Mr Goodfellow retired as a Director on 31 December 2008 and will remain employed as a consultant to the Board until 31 December 2009. Under his settlement agreement, the Society will pay a total of £781,000 to Mr Goodfellow. This comprises salary and benefits of £385,000 in accordance with his service agreement and payments of £259,000 in respect of his early retirement and £137,000 in consideration of his entering into certain restrictive covenants. Additionally Mr Goodfellow will accrue pension benefits in the Skipton Building Society Pension & Life Assurance Scheme ("the Scheme") until 31 December 2009. As part of these arrangements the Society has also agreed to waive the early retirement discount factors applicable to his benefits in the Scheme with effect from 10 January 2010.

In considering these arrangements, the Committee sought advice from external advisers to reach an agreement that was both fair and reasonable to both the Society and Mr Goodfellow. The Committee believes that the amounts agreed are fair and reasonable and adhere to good practice.

2. Mr Haggerty resigned as an Executive Director on 3 December 2008. In addition to the amounts shown above, Mr Haggerty will receive a compensation payment of £242,000 in line with his contractual arrangements.

Need to know more about the AGM?

If you would like to speak to someone about anything in this magazine, call us on:

08458 501700*

If you require a large print version of the pack or will be attending the meeting and need a sign language interpreter, please let us know by 10 April 2009.



Nathan Peverley, customer of Skipton branch

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All figures quoted in this magazine were correct at time of print.

*To help maintain service and quality, some telephone calls may be recorded and monitored.

