



# Summary Financial Statement 2006

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This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on demand at every office of Skipton Building Society from 12 March 2007.

## Summary Directors' report

2006 has been a year of tremendous achievement for Skipton when, in its 153rd year, the Society reached assets of over £10 billion and many previous financial records, including mortgage lending and retail inflows, were broken. However, success has not been solely the preserve of the Society: the Skipton Group, with its 17 subsidiary companies, has also achieved some outstanding results.

Financial highlights include:

- Group Assets up 15.0% to £10.5bn
- Group Pre-Tax Profit up 62.0% to £147.7m (including a one-off gain of £15.7m)
- Group Interest Rate Margin 1.02% (2005: 1.08%)
- Society Assets up 14.6% to £10.1bn
- Society Pre-Tax Profit up 63.1% to £91.0m
- Society Interest Rate Margin 0.72% (2005: 0.74%)
- Society Management Expenses Ratio down from 60 pence to 57 pence per £100 assets

Skipton is once again the most profitable building society in the UK today, measured as a percentage of mean assets, a testament to the strategy of using subsidiaries to diversify the business. Core areas such as savings and mortgages remain at the heart of the Group, illustrated by the fact that mortgage origination through the Society, Amber Homeloans, Pink Home Loans, Skipton Guernsey and the Connells Group totalled £11.5 billion last year.

## Savers

For the Society, during 2006 retail balances grew by £914 million, ending the year at £6.1 billion. Particularly popular with savers was the Branch Access account, which rewards investors who use their branch with instant access to their money at a highly competitive rate of interest, leading to it appearing in 258 best buy tables in the national press during the year. The stability of both the FTSE 100 and Halifax House Price Index (HPI) also played its part in attracting funds, as returns on the Guaranteed Triple Asset Bond are directly linked to the performance of these indices. In addition, our range of 1, 2 and 3 year Pick 'N' Fix bonds have offered savers a competitive, guaranteed rate of return when they are unwilling to gamble on future rate increases.

Looking to 2007, our challenge is to ensure that we treat both savers and borrowers fairly, whatever happens to the Bank of England's base rate.

## Borrowers

Speaking of rate changes, predictions are that 2007 will be a tough time for many homeowners; those on variable rates are likely to see their monthly repayments rise and those coming to the end of fixed rate periods will be unlikely to find the marketplace offering such low deals for some time to come. All this fuels speculation that repossession figures are set to rise. At Skipton, however, prudent lending, with applications assessed individually on their affordability merits, means this is not an issue; at 31 December 2006, the Society had only six properties in possession from a population of over 73,000 loans.

2006 has been another record year for Skipton's lending, with 26,500 loan applications leading to advances to borrowers of over £2 billion, an increase of 21% on 2005, demonstrating the Society's success in attracting new members and customers. With regard to commercial lending, £129 million

of commercial loans were completed in 2006, bringing the value of the commercial book to £364 million – an important part of the business.

Underpinning all this is a residential Standard Variable Rate (SVR) which, at 6.64%, after the January 2007 base rate increase, remains the lowest of any top 10 building society, ensuring that all borrowers coming to the end of their product life continue to be treated fairly.

## **Insurance**

Skipton's new stand-alone home insurance product has continued to offer value in an extremely competitive market, which saw many of the larger organisations vying for market share with high profile marketing campaigns. During 2006, our insurance product range was also expanded to include motor, travel and pet insurance.

## **The Skipton Group**

Mirroring the success of the Society, the Skipton Group has had a phenomenal year financially, with key achievements being the increase in its assets to over £10.5 billion and the increase in profits as a percentage of mean assets from 1.05% to 1.50%. The Group grew in number with a new subsidiary joining in July, Sterling International Brokers, which provides a money broking service to banks, building societies, local authorities, public sector and commercial firms and has proved a very good fit within the Group. A number of our existing subsidiaries also strengthened their businesses during the year through acquisitions of their own.

Some achievements of note from other subsidiaries include the continued domination of the mortgage servicing sector by Homeloan Management (which increased the value of the mortgage assets it manages by £10.9 billion to £42.7 billion) and the growth of the Connells estate agency group, including the Sequence brand and Sharman Quinney, which saw operating profits rise to over £70 million.

## **The coming year**

Skipton has proven, time and again, that it is a formidable and innovative building society, with its strategy of diversification via the Group providing strength – whatever the economic climate. An added advantage is that considerable profits are channelled back into the business, as demonstrated by the payment of dividends of £61.1 million from the subsidiaries to the Society during the year. With the enthusiasm and dedication of the staff, it is anticipated that 2007 will produce another strong result and that Skipton will remain the envy of its peers as the most profitable mutual in the sector.

<b>Group results for the year ended 31 December</b>	<b>2006</b>	2005
	<b>£m</b>	£m
Net interest receivable	100.1	93.3
Other income and charges	448.8	352.0
Fair value gains and losses	3.0	(0.7)
Administrative expenses	(398.6)	(345.5)
Impairment losses	(5.6)	(7.9)
<b>Profit for the year before taxation</b>	<b>147.7</b>	91.2
Taxation	(32.6)	(25.3)
<b>Profit for the financial year</b>	<b>115.1</b>	65.9
Minority interests	(8.5)	(3.1)
<b>Profit for the year</b>	<b>106.6</b>	62.8

<b>Group financial position at 31 December</b>	<b>2006</b>	2005
	<b>£m</b>	£m
<b>Assets</b>		
Liquid assets	2,136.0	1,778.2
Mortgages	7,863.0	6,921.4
Other loans	120.6	108.9
Derivative financial instruments	87.6	62.2
Fixed and other assets	318.8	285.1
<b>Total assets</b>	<b>10,526.0</b>	9,155.8

<b>Liabilities</b>		
Shares	6,149.9	5,240.6
Borrowings	3,339.4	3,036.0
Other liabilities	189.6	194.4
Derivative financial instruments	31.9	44.3
Subordinated liabilities	181.0	130.9
Subscribed capital	26.3	26.3
Minority interests	11.7	7.3
Reserves	596.2	476.0
<b>Total liabilities</b>	<b>10,526.0</b>	9,155.8

<b>Group statement of movement in reserves</b>	<b>2006</b>	2005
	<b>£m</b>	£m
Reserves at 1 January	476.0	413.4
Effect of adoption of IAS 32 and 39 on 1 January 2005	-	11.3
Net income/(expense) for the year not recognised in the Income Statement	13.6	(11.5)
Profit for the year	106.6	62.8
<b>Reserves at 31 December</b>	<b>596.2</b>	476.0

Approved by the Board of Directors on 6 February 2007 and signed on its behalf by:

J B Rawlings	Chairman
J G Goodfellow	Chief Executive & Director
R J Twigg	Finance Director

## Summary of key financial ratios

	2006 %	2005 %
Gross capital as a percentage of shares and borrowings	8.59	7.74
Liquid assets as a percentage of shares and borrowings	22.51	21.50
Group profit for the year as a percentage of mean total assets	1.08	0.73
Group management expenses as a percentage of mean total assets	4.03	4.00
Society management expenses as a percentage of mean total assets	0.57	0.60

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 2006 and 2005 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.

## 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 1 to 4.

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.

## 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 2006 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  
6 February 2007

## Summary Directors' remuneration report

Whilst building societies are not required to do so, 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, a summary of this report will again be sent to all members entitled to vote at this year's Annual General Meeting, where members will have the opportunity to vote on the report.

### 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 Jack (Chairman), Hutton, Henderson and Sherlock. Mr Goodfellow also attends 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 Goodfellow (Chairman), Rawlings 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, details of which are set out in the Notes to the Accounts. Additionally, Mr Goodfellow has a further defined contribution arrangement designed to provide accelerated pension benefits.
- 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' remuneration

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.

## Directors' remuneration for 2006

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

### Non-Executive Directors

	<b>2006</b>	2005
	<b>£000</b>	£000
	<b>Fees</b>	Fees
Mr J B Rawlings	62	53
Mr W H Jack	45	42
Mr A I Findlay (appointed 12 June 2006)	22	-
Ms J R Fletcher (retired 5 April 2005)	-	9
Ms P M Hay-Plumb (appointed 12 June 2006)	22	-
Mr W J Henderson	38	36
Mr C N Hutton	38	36
Ms A B E Kinney	43	39
Mr J H Macaskill (retired 25 April 2006)	13	36
Mr R F Marriott	38	36
Mr R H Robinson (retired 26 April 2005)	-	17
Mr N Sherlock	38	36
	<b>359</b>	<b>340</b>

### Executive Directors 2006

	<b>Salary</b>	<b>Bonus</b>	<b>Benefits</b>	<b>Sub-total</b>	<b>Increase in accrued pension</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Mr J G Goodfellow	280	199	147	626	4	630
Mr D J Cutter	200	107	56	363	5	368
Mr R J Twigg	190	99	48	337	6	343
	<b>670</b>	<b>405</b>	<b>251</b>	<b>1,326</b>	<b>15</b>	<b>1,341</b>

### Executive Directors 2005

	<b>Salary</b>	<b>Bonus</b>	<b>Benefits</b>	<b>Sub-total</b>	<b>Increase in accrued pension</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Mr J G Goodfellow	273	154	137	564	15	579
Mr D J Cutter	186	76	44	306	6	312
Mr R J McCormick	202	69	112	383	5	388
Mr J A Scotter	186	70	96	352	7	359
Mr R J Twigg	171	79	40	290	5	295
	<b>1,018</b>	<b>448</b>	<b>429</b>	<b>1,895</b>	<b>38</b>	<b>1,933</b>

Messrs McCormick and Scotter retired from the Board on 31 December 2005. Under the terms of their service contracts, they received emoluments for the duration of their notice periods, during which time they remained available to the Society on a consultancy basis. Additionally, the Society agreed to waive the early retirement reduction factors applicable to their benefits in the Skipton Building Society Pension & Life Assurance Scheme.

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