



# Summary Financial Statement 2007

## Summary Financial Statement

This financial statement is a summary of information from the audited Annual Report & Accounts, which will be available to members and depositors free of charge on demand at every office of Skipton Building Society from 12 March 2008.

## Summary Directors' Report

It was a year of substantial growth for the Skipton Group during 2007; our assets are up by nearly a fifth to £12.53 billion, we have either created or acquired 12 businesses during the year (including the financial adviser, Parnell Fisher Child) and pre-tax profit (including exceptional items) has increased by nearly 14%. Our challenge is to maintain this momentum in 2008, in the face of some of the toughest economic conditions UK financial services providers have seen in years. However, steady and safe policies coupled with the breadth and variety of the Group means Skipton has already weathered the storm well – and will continue to do so.

- Group assets up 18.3% to £12.53bn
- Society assets up 18.3% to £11.97bn
- Group pre-tax profit up 13.6% to £165.5m (including a one-off gain of £36.0m)
- Society pre-tax profit up 50.3% to £136.8m
- Group interest rate margin 0.95%
- Society interest rate margin 0.74%
- Society management expenses ratio down from 57 pence to 49 pence per £100 assets

## Branches

Skipton has always had branches at the heart of its business, having the fourth largest network of any building society. Their importance to our future strategy has resulted in the opening of the Society's 80th branch in Dorking in December, shortly followed by others in Wilmslow and Woking. The aim is to have between 88 and 90 branches by the end of 2008 and in the longer-term, up to 150 branches by 2012 - creating approximately 400 new jobs in the Group.

## Intermediaries

During 2007, mortgage intermediaries delivered record numbers of applications for the Group. For example, in 2004, the Society had 10,000 applications, totalling £1 billion; in 2007, that figure rose to 14,500 applications, totalling £1.8 billion.

## Lending

Unlike some lenders, the Group has ample funds for borrowers and sound judgement is at the heart of our lending policies. For example, the Group's lending balances have grown by 16% year-on-year whilst still maintaining an average loan to value (LTV) of less than 50%.

The performance of the Group's residential mortgages remains excellent with only 23 cases being 12 months or more in arrears, representing just 0.033% of the book (2006: 0.023%). The proportion of mortgages three months or more in arrears was 0.65% (2006: 0.53%) which compares favourably with the industry average of 1.10%. Mortgage loans to borrowers with an adverse credit history (subprime) represent just 3.2% of total balances, and the credit performance of these loans continues to be better than expected.

## Savings

Skipton's strategy is to offer savings products which can be trusted to consistently deliver long-term value to members. As a result, approximately 90% of funds in our fixed rate bonds were retained on maturity and the number of transfers into our ISA accounts in 2007 was nearly three times that of the previous year – helping savings balances grow by over £1 billion in 2007.

2007 was also a year of product innovation, with the launch of the Christmas Saver and Special Saver accounts. In December, we also launched a limited edition, one-year Christmas Bond, with a rate of 6.75%, which generated inflows of over £111 million.

In addition, the Online Access Account was created and currently pays the same interest rate as the Branch Access account - ensuring fairness to all members, whether they live near a branch or not.

## **The Skipton Group**

The Group has five pillars: savings and lending, mortgage servicing, estate agency, financial advice and data provision. By focusing on these areas where we have undoubted knowledge and expertise, we have created top three providers in many markets: Homeloan Management is Europe's number one mortgage servicer, Connells is the UK's second largest and most profitable estate agency (with operating profits in 2007 of £62.2m) and Callcredit is one of only three credit reference agencies in the country. This strength is mirrored in the area of mortgages, where applications to Skipton Building Society, Skipton Guernsey, Pink Home Loans, Connells and Amber Homeloans for the year totalled nearly £19 billion.

This diversification has once again resulted in market leading results. Total profits, including exceptional items, grew by 14% to £165.5m in 2007 representing 1.43% of mean assets. Excluding the gain of £36.0m (2006: £15.7m) on the sale of Rightmove shares underlying pre-tax profitability was maintained at £129.5m (2006: £130.0m), which we confidently expect to be at the upper end of our sector.

## **Liquidity portfolio**

Despite the wider economic challenging conditions which have been well publicised, we have increased our liquidity balances from £2,136m at 31 December 2006 to £2,670m at 31 December 2007; expressed as a proportion of our funding this represents an increase from 22.51% to 23.56%.

As the credit crunch has continued there has been significant focus on the type and valuation of institutions' investments, with structured investment vehicles (SIVs) and 'conduits' bearing the brunt of negative comment and valuation downgrades. The Group does not invest in either SIVs or conduits and has no holdings in US subprime mortgages. The Group's treasury investments are to provide prudential liquidity and all are highly rated.

Under International Accounting Standards, we are required to record mark-to-market movements in our liquidity assets in the available-for-sale reserve. We do not consider any of these assets to be impaired and at 31 December 2007 the cumulative mark-to-market adjustment on treasury assets was just 0.39% of their par value.

## **Funding and capital**

As a mutual building society, we benefit from a strong retail savings franchise which continues to reduce our dependence on the wholesale markets, compared to some other institutions. At 31 December 2007, our retail savings balances formed over 66% of our total funding or, put another way, savings balances funded 77% of the Group's mortgages.

We have not experienced problems in accessing wholesale funding sources in 2007, but believe that a strong member savings base, together with a wide diversification of other sources, is an essential element in our growth strategy. Additionally, Skipton remains strongly capitalised and continues to operate comfortably in excess of the minimum levels set by both the Group's regulator and the Board.

## **The future**

In this challenging market, being a mutual puts the Society in pole position; where money is to be saved, it is now more likely to be with a building society such as Skipton. The majority of our funding comes from members and so we have ample available to lend; the range of products and services within the Society and the Group means Skipton can offer more than its peers; and the service of our staff provides the edge to stand out in a crowded market. Our expectation is therefore that, whilst 2008 will be tough, we fully believe that the Skipton Group will retain its position at the head of the industry.

<b>Group results for the year ended 31 December</b>	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>
Net interest receivable	109.7	98.1
Other income and charges	471.1	431.5
Profit on part disposal of associate	36.0	15.7
Fair value gains and losses	(3.9)	3.0
Administrative expenses	(442.0)	(397.0)
Impairment losses	(5.4)	(5.6)
<b>Profit for the year before taxation</b>	<b>165.5</b>	<b>145.7</b>
Taxation	(38.9)	(32.6)
<b>Profit for the financial year</b>	<b>126.6</b>	<b>113.1</b>
Minority interests	(1.1)	(1.4)
<b>Profit for the year</b>	<b>125.5</b>	<b>111.7</b>
<b>Group financial position at 31 December</b>	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>
<b>Assets</b>		
Liquid assets	2,670.1	2,136.0
Mortgages	9,157.5	7,863.0
Other loans	134.4	120.6
Derivative financial instruments	122.3	87.6
Fixed and other assets	446.2	388.6
<b>Total assets</b>	<b>12,530.5</b>	<b>10,595.8</b>
<b>Liabilities</b>		
Shares	7,191.1	6,149.9
Borrowings	4,144.1	3,339.4
Derivative financial instruments	50.4	40.4
Other liabilities	209.7	253.1
Subordinated liabilities	183.7	181.0
Subscribed capital	26.3	26.3
Minority interests	3.5	5.1
Reserves	721.7	600.6
<b>Total liabilities</b>	<b>12,530.5</b>	<b>10,595.8</b>
<b>Group statement of movement in reserves</b>	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>
Reserves at 1 January	600.6	476.0
Change of accounting policy	-	(0.7)
Net (expense) / income for the year not recognised in the Income Statement	(4.4)	13.6
Profit for the year	125.5	111.7
<b>Reserves at 31 December</b>	<b>721.7</b>	<b>600.6</b>

Approved by the Board of Directors on 26 February 2008 and signed on its behalf by:

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

## Summary of key financial ratios

	2007	2006
	%	%
Gross capital as a percentage of shares and borrowings	8.25	8.57
Liquid assets as a percentage of shares and borrowings	23.56	22.51
Group profit after tax for the year as a percentage of mean total assets	1.09	1.13
Group management expenses as a percentage of mean total assets	3.82	4.02
Society management expenses as a percentage of mean total assets	0.49	0.57

Gross capital represents the general reserve, cash flow reserve, translation 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 2007 and 2006 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 2007 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  
26 February 2008

## 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.

### Remuneration Committee

The Remuneration Committee, which comprises three 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 and Ms Hay-Plumb; 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 Rawlings (Chairman), Goodfellow 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. Up until 31 December 2006, the Society additionally contributed to a further defined contribution arrangement for Mr Goodfellow, 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

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

<b>Non-Executive Directors</b>	<b>2007 £000 Fees</b>	<b>2006 £000 Fees</b>
Mr J B Rawlings (Chairman)	<b>68</b>	62
Mr W H Jack (Vice Chairman)	<b>46</b>	45
Mr A I Findlay (appointed 12 June 2006)	<b>39</b>	22
Mr P R Hales (appointed 29 May 2007)	<b>23</b>	-
Ms P M Hay-Plumb (appointed 12 June 2006)	<b>39</b>	22
Mr W J Henderson (retired 24 April 2007)	<b>13</b>	38
Mr C N Hutton	<b>39</b>	38
Ms A B E Kinney	<b>44</b>	43
Mr J H Macaskill (retired 25 April 2006)	-	13
Mr R F Marriott	<b>39</b>	38
Mr N Sherlock (retired 24 April 2007)	<b>13</b>	38
	<b>363</b>	359

### Executive Directors 2007

	<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>
<b>Mr J G Goodfellow</b>	<b>325</b>	<b>238</b>	<b>54</b>	<b>617</b>	<b>25</b>	<b>642</b>
<b>Mr D J Cutter</b>	<b>223</b>	<b>115</b>	<b>42</b>	<b>380</b>	<b>9</b>	<b>389</b>
<b>Mr R J Twigg</b>	<b>220</b>	<b>127</b>	<b>40</b>	<b>387</b>	<b>10</b>	<b>397</b>
	<b>768</b>	<b>480</b>	<b>136</b>	<b>1,384</b>	<b>44</b>	<b>1,428</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
	670	405	251	1,326	15	1,341

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