Skipton Building Society
Summary Financial Statement

2009

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SKIPTON BUILDING SOCIETY

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 22 March 2010.

Summary Directors' Report

Introduction

In spite of the severity of the recession, the Skipton Group is pleased to report an increase in both profits and capital in a year that will be remembered for the impact of the worst financial crisis in almost a century.

Our success amid these extreme trading conditions reaffirms the robustness of the Group's diversified business model and provides security to our members.

However, uncertainties remain regarding the economy; the Government's finances; the impact of an historic Quantitative Easing programme and the distortions in the UK savings market. We therefore remain vigilant and cautious.

Our focus is on running the business prudently and responsibly in the best long-term interests of the Society as a whole, and its borrowing and saving members.

Financial highlights

- **Improved profits**
  - Total Group pre-tax profit up £41.0m to £63.5m (2008: £22.5m)
  - Group pre-tax profit from continuing operations up £0.1m to £18.0m (2008: £17.9m)
- **Improved capital strength**
  - Core Tier One ratio up 9% to 9.4% (2008: 8.6%)
  - Tier One ratio up 20% to 10.8% (2008: 9.0%)
  - Solvency ratio up 18% to 14.5% (2008: 12.3%)
- **Strengthened our retail savings franchise**
  - 79% of funding is comprised of retail balances (2008: 69%), an increase of £2.3bn to £10.5bn partly due to the merger with Scarborough Building Society
- **Maintained high levels of liquidity**
  - Liquidity represents 29% of shares, deposits and liabilities (2008: 29%)
- **Prudent measured growth in mortgage assets**
  - Group mortgage assets increased by a net £1.3bn to £10.7bn predominantly due to the merger with Scarborough Building Society
  - Mortgage assets 98% funded by retail deposits (2008: 86%)
- **Net interest income reduced by £33m from £86m to £53m due to**
  - Operating in a low interest rate environment
  - The cost of holding high-quality, highly liquid balances compared to the cost of funding
  - Maintaining competitive rates paid to savers
- **Improved efficiency**
  - Society management expenses ratio of 0.35% (2008: 0.47%)

Savings

We are acutely aware of the impact low interest rates have had on our savers. However, in reality, the average rates paid to savers have never been so high relative to average rates charged to borrowers. Demand for UK savings is intense, as banks reduce their over-reliance on wholesale funding and building societies seek to protect their main source of funding. This, together with the cost of holding high levels of liquidity and the impact of low interest rates on our free reserves, has significantly reduced our net interest margin.

In 2009 our retail balances increased by £2.3bn (29%) to £10.5bn. £1.8bn came via the Scarborough Building Society merger and £723m from our acquisition of Capital One's savings portfolio, now rebranded as Castle Money. We welcomed on board 145,000 new saving members during the year, giving us 700,000 in total.

Lending

In common with most lenders, our appetite for mortgage lending was modest. Restricted wholesale markets and economic uncertainties meant our priority was to maintain high levels of liquidity and improve our capital position. Gross mortgage lending was £0.4bn, down from £1.5bn in 2008.

The low interest rate environment helped our borrowers, and we saw a reduction of 11% in our total arrears balances from their peak in May to the year-end.

Wholesale funding and capital

The wholesale funding markets proved challenging, exacerbated by ratings agency downgrades for building societies, and the demise of Dunfermline Building Society.

However, our strong and diverse funding streams were bolstered by a number of successes during the year. For example, in December we were one of only four building societies who were granted access to the Government Guarantee Scheme – a sign of confidence in our business – which enabled us to prudently raise £650m.

All of the Society's capital ratios improved markedly in the second half of the year. A key marker of financial strength, our Tier One capital ratio rose to 10.8%, largely due to the sale of our investment in Callcredit Information Group ('CIG') and profit generated from our other trading subsidiaries.

Divisions

The advantages of the Society's business model came to the fore, as our subsidiaries' trading performances contributed substantial profits to the Group.

Following a strategic review, we decided that ownership of a credit reference agency no longer suited our long-term direction and we sold CIG for a £39.7m profit.

Our Estate Agency division, headed by Connells, produced profits of £54.1m (£10.4m in 2008), due to improved trading conditions and cost control.

2010

Although our Group remains profitable, it is important that the Society itself addresses the ongoing challenges of operating in a low interest rate environment. We have recently announced two initiatives for achieving this.

On 1 March 2010, we increased our mortgage Standard Variable Rate ('SVR') to 4.95%, exercising our right to remove, in exceptional circumstances, the ceiling which has maintained it at 3% above Bank Base Rate. The new rate is in line with the industry average. The ceiling will be voluntarily reimposed once exceptional circumstances no longer prevail. We acknowledge this was unwelcome news for those affected but we must balance the needs of all our members and ensure we remain competitive in the savings market.

We will continue to lobby policy makers to ensure a level playing field for building societies and to emphasise the danger to any economic recovery of ignoring savers. Only when there is a stable savings base will lenders be willing to lend.

Regrettably, headcount in the Society is also being reduced by 90 staff as we continue our focus on improving our operational productivity and efficiency.

Chesham merger

In addition, we have announced our intention to merge with Chesham Building Society (subject to a vote by Chesham's members and Financial Services Authority ('FSA') approval). Chesham is already well known to Skipton, as we provide its IT systems.

The Board firmly believe this latest union will be beneficial to existing Skipton members, marginally improving the enlarged Society's capital position and adding three more branches and 21,000 members. Chesham has superb credit quality; £14.5m of reserves and good capital ratios. While it recorded a small operating loss for 2009, efficiencies resulting from the merger should return its continuing operations to profitability within two years.

The year ahead

Although we anticipate that growth in the economy will be anaemic, and uncertainties remain regarding the consequences of the Government's financial deficit, we are confident that the Skipton Group will deliver another solid performance for our members, in spite of the challenges we face.

Group results for the year ended 31 December	**2009 £m**	2008 £m
Continuing operations		
Net interest receivable	**53.3**	87.5
Other income and charges	**382.8**	358.9
Profit on disposal of associate	**-**	22.3
Profit on disposal of subsidiary undertakings	**-**	9.1
Fair value gains / (losses)	**3.9**	(3.3)
Administrative expenses	**(379.7)**	(410.5)
Impairment losses	**(42.3)**	(46.1)
Profit for the year before taxation	**18.0**	17.9
Taxation	**(4.3)**	2.8
Profit for the financial year from continuing operations	**13.7**	20.7
Discontinued operation		
Profit from discontinued operation	**43.9**	3.1
Profit for the financial year	**57.6**	23.8
Non-controlling interests	**(0.2)**	(1.0)
Profit for the financial year attributable to members	**57.4**	22.8

Group financial position at 31 December	**2009 £m**	2008 £m
Assets		
Liquid assets	**4,058.9**	3,178.3
Mortgages	**10,739.0**	9,488.4
Other loans	**74.3**	79.3
Derivative financial instruments	**265.5**	429.9
Fixed and other assets	**431.1**	471.1
Total assets	**15,568.8**	13,647.0
Liabilities		
Shares	**10,470.2**	8,158.2
Borrowings	**3,551.7**	4,077.8
Derivative financial instruments	**263.7**	280.3
Other liabilities	**220.2**	213.2
Subordinated liabilities	**213.0**	183.7
Subscribed capital	**83.6**	26.3
Non-controlling interests	**3.5**	3.9
Reserves	**762.9**	703.6
Total liabilities	**15,568.8**	13,647.0

Group statement of movement in reserves	**2009 £m**	2008 £m
Reserves at 1 January	**703.6**	721.7
Net expense for the year not recognised in the Income Statement	**1.9**	(40.9)
Profit for the year	**57.4**	22.8
Reserves at 31 December	**762.9**	703.6

These Accounts were approved by the Board of Directors on 24 February 2010 and were signed on its behalf by:

J B Rawlings	Chairman
D J Cutter	Group Chief Executive
T F Wood	Group Finance Director

Summary of key financial ratios	**2009** **%**	2008 %
Gross capital as a percentage of shares and borrowings	**7.58**	7.50
Liquid assets as a percentage of shares and borrowings	**28.95**	28.84
Group profit after tax for the year as a percentage of mean total assets	**0.39**	0.18
Group management expenses as a percentage of mean total assets	**2.63**	2.98
Society management expenses as a percentage of mean total assets	**0.35**	0.47

Gross capital represents the general reserve, cash flow reserve and available-for-sale reserve together with non-controlling interests, subordinated liabilities and subscribed capital, as shown in the Group Statement of Financial Position. 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 2009 and 2008 total assets as shown in the Group and Society Statements 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 expenses ratio measures the proportion that the administrative expenses of continuing operations bears to the average of the mean total assets during the year.

Statement of the independent auditor 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 5.

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.

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 2008/3 *'The auditors' statement on the summary financial statement in the United Kingdom'* issued by the Auditing Practices Board. Our report on the Group's full Annual Accounts describes the basis of our opinions on those Annual Accounts, the Annual Business Statement and the Directors' Report.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, the Annual Business Statement and the Directors' Report of Skipton Building Society for the year ended 31 December 2009 and conforms with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

J L Ellacott

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

Leeds

24 February 2010

Summary Directors' Remuneration Report

This report aims to provide information about the Skipton Group's policies on remunerating Directors and discloses the remuneration of the Directors. The Board is committed to best practice in its remuneration policy for Directors and this report explains how the Skipton Group applies the principles in the Combined Code relating to remuneration, in so far as they are considered appropriate to building societies. During 2009, the Board has also taken into account the requirements of the FSA's Remuneration Code.

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 is responsible for determining, on behalf of the Board, the Skipton Group's remuneration policy and reviewing its adequacy and effectiveness. The Committee is also responsible for setting, reviewing and approving remuneration for the Chairman, the Executive Directors and certain other key individuals. The Committee also receives recommendations from the Group Chief Executive for approval of the remuneration for Senior Executives.

During 2009, the Committee reviewed the Skipton Group's remuneration policies leading to the adoption of Remuneration Principles set out below. The Committee will receive a report annually from the Director of Group Risk on the implications of the remuneration policy for risk and risk management and reports from each of the divisions which provide an overview of incentive arrangements (short and long-term), demonstrating how the Remuneration Principles have been applied. The first of these reports will be received in 2010.

The Committee reports to the Board and all recommendations are considered by the Board, but no Director participates in any decisions relating to their own remuneration.

The Remuneration Committee met five times during 2009. In discharging its duties, the Committee reviews and takes into account independently produced data and professional advice in similar financial services organisations. Remuneration consultants were appointed by the Committee during the year, to advise the Committee. These consultants have no other connection with the Skipton Group.

The Committee comprises four Non-Executive Directors, Messrs Hutton (Chairman) and Worsley, Ms Hay-Plumb and Ms Kinney. The Chairman, Group Chief Executive, Head of Human Resources, Director of Group Risk and external advisers may be invited to attend meetings as and when appropriate.

The Non-Executive Directors' Remuneration Committee, which comprises Messrs Rawlings (Chairman), Cutter and Wood, 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 Skipton Group to attract, retain and motivate a sufficient number of high-calibre individuals to lead and direct the organisation and deliver continually improving business performance.

During the course of 2009, the Committee adopted the Skipton Group's Remuneration Principles which the Committee follows in establishing, implementing and maintaining the remuneration policy. The Principles are relevant to the Society and each of its divisions and references to 'Group' include the Society. The Remuneration Principles are:

- Remuneration at Skipton encourages the highest levels of stewardship and corporate governance;
- Remuneration does not encourage inappropriate taking of risk;
- Remuneration is sufficient to secure and retain the services of talented individuals from other companies or mutuals, recognising the diverse nature of the Group and the nature of its stakeholders;
- Remuneration recognises the appropriate level of Group / divisional and individual performance which will create a strong and sustainable Society for the benefit of borrowers and savers, now and in the future;
- Remuneration for senior management has an element tied to the longer-term performance of the Group / division to reflect the time horizons of the decisions made by Group leaders; and
- Remuneration arrangements are straightforward to communicate, understand, and administer.

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.

  Mr Wood, who was appointed as an Executive Director on 7 September 2009, received as a term of his engagement a guaranteed bonus of £25,000 payable in respect of the year ended 31 December 2009.
- Pensions – Messrs Cutter and Twigg are members of the defined benefit pension scheme, the Skipton Building Society Pension & Life Assurance Scheme. During the year, it was agreed that future pension accrual would cease in this scheme with effect from 1 January 2010. From 1 January 2010 all the Executive Directors receive contributions of 20% of basic salary payable into defined contribution schemes.
- Other benefits include provision of a car, or car allowance, and private medical insurance.

Non-Executive Directors' remuneration

Non-Executive Directors' fees (excluding the Chairman) are reviewed annually by the Non-Executive Remuneration Committee with recommendations made to the Board. The reviews are based on the responsibilities and time commitment required for Board and Board sub-committee meetings and also reflect comparable data from similar financial services organisations. Additional fees are paid to those Non-Executives Directors who undertake additional duties and responsibilities, including chairmanship of certain Board committees.

Non-Executive Directors are only entitled to receive fees and do not participate in any performance pay scheme, nor do they receive pension benefits or other benefits.

The Chairman's fees are reviewed and approved by the Remuneration Committee.

Service contracts

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 to the age of 65.

In addition, the Society has agreed that, in the event of certain circumstances arising prior to 31 December 2010, Mr Wood will have the right to terminate his contract within 12 months of such circumstances arising. On such termination he will be entitled to 12 months' salary in addition to any other contractual rights and the Society will indemnify him for any loss he incurs on the sale of his residential property (subject to certain conditions).

Non-Executive Directors do not have service contracts.

Directors' emoluments

KPMG have audited the information set out in the next three tables.

Non-Executive Directors

	2009			2008		
	Fees £000	**Committee Fees £000**	**Total £000**	Fees £000	Committee Fees £000	Total £000
Mr J B Rawlings (Chairman)	**70**	**-**	**70**	70	-	70
Mr A I Findlay (Vice Chairman) (note 1)	**48**	**4**	**52**	44	6	50
Mr P R Hales	**40**	**-**	**40**	40	-	40
Ms P M Hay-Plumb (note 2)	**40**	**3**	**43**	40	-	40
Mr C N Hutton (note 3)	**40**	**3**	**43**	40	2	42
Mr W H Jack (retired 1 May 2009) (note 4)	**13**	**-**	**13**	44	-	44
Ms A B E Kinney (note 5)	**40**	**-**	**40**	40	1	41
Mr R F Marriott (retired 27 May 2008)	**-**	**-**	**-**	13	-	13
Mr J Spence (appointed 1 June 2009)	**23**	**-**	**23**	-	-	-
Mr P J S Thompson (appointed 1 April 2009)	**30**	**-**	**30**	-	-	-
Mr W R Worsley (appointed 24 April 2009)	**30**	**-**	**30**	-	-	-
	374	**10**	**384**	331	9	340

Notes

1. Mr Findlay became Vice Chairman from 24 June 2008 and chaired the Audit Committee from 20 February 2008 until 31 July 2009. Up until 31 July 2009, the fee for Audit Committee Chairman was £6,000 per annum, and from 1 August 2009 the fee increased to £8,000 per annum.
2. Ms Hay-Plumb became Chairperson of the Audit Committee from 1 August 2009.
3. Mr Hutton has chaired the Remuneration Committee since 24 June 2008. Up until 31 July 2009, the fee for Remuneration Committee Chairman was £3,000 per annum, and from 1 August 2009 the fee increased to £4,000 per annum.
4. Mr Jack was Vice Chairman until 24 June 2008.
5. Ms Kinney chaired the Audit Committee until 20 February 2008.

Executive Directors 2009

	Salary £000	Bonus £000	Benefits(†) £000	Sub total £000	Increase in accrued pension £000	Total £000
Mr D J Cutter	**320**	**-**	**41**	**361**	**19**	**380**
Mr R J Twigg	**247**	**-**	**34**	**281**	**7**	**288**
Mr T F Wood (appointed 7 September 2009) (note 1)	**80**	**25**	**118**	**223**	**-**	**223**
	647	**25**	**193**	**865**	**26**	**891**

Executive Directors 2008

	Salary £000	Bonus £000	Benefits(†) £000	Sub total £000	Increase in accrued pension £000	Total £000
Mr J G Goodfellow (retired 31 December 2008) (note 2)	363	37	56	456	7	463
Mr D J Cutter	246	26	41	313	7	320
Mr S W Haggerty (resigned 3 December 2008) (note 3)	210	-	34	244	12	256
Mr R J Twigg	238	24	39	301	6	307
	1,057	87	170	1,314	32	1,346

(†) 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.

Notes

1. Mr Wood was appointed as an Executive Director on 7 September 2009, and received benefits amounting to £97,770 in relation to relocation costs incurred by him in taking up his appointment.
2. Mr Goodfellow retired as a Director on 31 December 2008 and remained employed as a consultant to the Board until 31 December 2009. Under his settlement agreement, the Society paid a total of £781,000 to Mr Goodfellow. This comprised 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 accrued pension benefits of £16,710 in the Skipton Building Society Pension & Life Assurance Scheme ('the Scheme') until 31 December 2009. As part of these arrangements the Society also agreed to waive the early retirements discount factors applicable to his benefits in the scheme with effect from 10 January 2010.

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

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