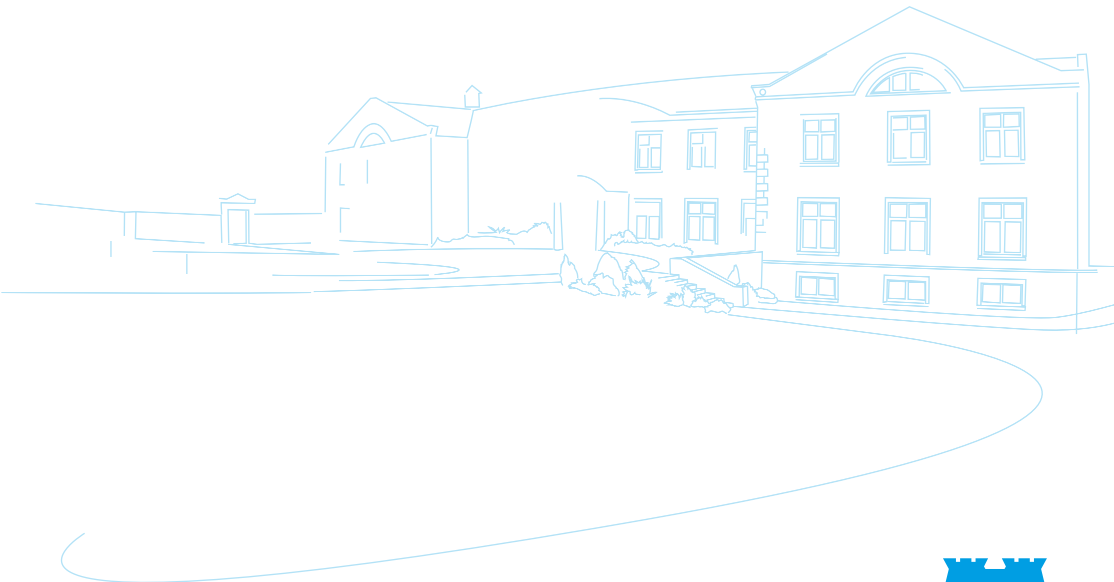
Skipton Building Society



Summary Financial Statement 2011



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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 online at www.skipton.co.uk/performance or free of charge on demand at every office of Skipton Building Society from 27 March 2012.

Summary Directors' Report

It is pleasing to report that the Society recorded another robust performance during 2011, despite the continuation of unprecedented market conditions, while maintaining an unwavering focus on delivering for our members.

The ongoing economic volatility has resulted in the Bank of England maintaining its Base Rate at an historically low 0.5% for a previously unthinkable three years. While this restorative measure undoubtedly provides some welcome relief for the nation's borrowers, we understand that it is not such good news for savers – including many of our own members who rely on interest from their nest eggs as a top-up retirement income. We have therefore placed great emphasis over the past 12 months on making saving still worthwhile, with a varied and innovative range of accounts offering some of the best returns available.

At the same time, we increased our new lending more than threefold to help more people to achieve their home ownership aspirations, playing our part in supporting the mortgage market. We take pride in our role in offering our customers trusted, expert and individual lifelong financial advice and concentrate on maintaining and enhancing the outstanding personal service we know our members have come to expect from us.

Blueprint for success

The Society entered 2011 with a clear plan centred on maintaining our financial strength, managing the business prudently, ensuring steady growth and offering the best possible value and service to our members. Whilst Group pre-tax profit fell year-on-year, primarily as a result of lower profits from our estate agency business and higher loss provision charges, we further improved our net interest margin during the year as we continued to build a platform for future growth. We have remained profitable throughout one of the longest and deepest financial crises ever known and expect the positive trend to continue as we ensure that the pursuit of appropriate financial returns is balanced with looking after the interests of our members.

Our level of high quality liquidity remains a key strength, retaining an optimal amount as a protective cushion against potential market shocks while being careful to manage the costs associated with doing so. Over 80% of our funding comes from retail deposits and we will continue to nurture and develop our savings customer base as our prime source of stable funding. We have reduced our reliance on short term wholesale funds in favour of more prudent medium term secured options and successfully raised over £1bn through our inaugural securitisation issue and other secured wholesale funding initiatives during the year.

Our key financial highlights were as follows:

Profitability

- Pre-tax profits of £22.2m (2010: £35.0m);
- Operating profit before impairment losses and provisions £65.7m (2010: £47.9m);
- £16.3m improvement in our net interest margin (2011: 52bps, 2010: 37bps);

Financial strength

- New mortgage lending up more than threefold to £1.7bn (2010: £0.5bn);
- Total assets up 1.2% to £13.9bn (2010: £13.7bn);
- Total capital ratio remains robust at 15.5% (2010: 16.6%);
- Core Tier 1 ratio was 10.5% (2010: 11.1%);

- Maintained appropriate levels of high quality, highly liquid assets – the proportion of liquidity to shares and deposit liabilities was 24.7% (2010: 27.8%);
- Arrears greater than 2.5% of the balance outstanding only 1.45% of the portfolio (2010: 1.42%).

Focused on members

Savings

Acutely conscious of the plight of savers in the continued high inflation, low interest rate environment, we worked tirelessly during 2011 on their behalf, offering them straightforward and consistent long term good value. The average rate we paid to customers increased by 0.14% to 2.56% (2010: 2.42%) during the year despite Bank Base Rate remaining unchanged at 0.5%.

We also played our part, as a mutual, in encouraging our investors to manage their finances responsibly, by offering innovative products such as our goal-based My Savings range. This allows our members to focus on achieving their personal savings goals and avoiding debt by putting money aside in badged accounts.

Thanks to our competitive and comprehensive ISA offering, we grew our ISA balances by 4.8% over the course of the year, so that even more people reap the benefits of tax-free saving as a key lynchpin of their portfolio. In recognition of our efforts, we won the Best Cash ISA accolade in the *Personal Finance* Awards for the second year running. Continuing this trend, we were also one of the first providers to offer the new government-backed Junior ISAs from 1 November, with a competitive, no strings account, now paying 3.02%. As a result of this strong savings performance, over 91% of our mortgages are now funded by retail deposits. The strength of our mortgage and savings product range as a whole was further recognised by almost 1,000 independent media best buy table mentions and numerous editorial endorsements during the year.

At the same time, we have continued to cater for our members' general lifetime requirements, with a selection of products designed to provide them and their families with security and peace of mind, including wills and insurance. We are one of only a few building societies with our own, whole of market, advice offering through Skipton Financial Services ('SFS'). As a result, we can help members to navigate a course through the uncertainty posed by the current environment by assisting them with everything from stock market investments to inheritance tax planning. In particular, SFS's market leading investment service, Monitored Informed Investing ('*M*II'), offers customers peace of mind through proactive fund monitoring and fee refunds in cases of underperformance.

Lending

We significantly but prudently increased our lending levels to help borrowers, winning the "Best National Building Society" award from *What Mortgage* magazine. In line with our mutual commitment to enabling home ownership, we lent almost 50% more than our natural market share of 0.81% during the year, with gross new lending totalling £1,700m compared to £493m in 2010.

The 4.3% growth in our mortgage assets during 2011 compares to an industry (CML) figure of only 0.5%, hence we played our part in trying to stimulate the mortgage market with a range of products available for vital groups such as first time buyers and buy-to-let landlords. These complemented our varied suite of options for all circumstances, from short term fixed rate and tracker mortgages to longer term deals and alternative solutions such as switch-to-fix. The fact that we have been able to increase lending despite the continued market challenges is another powerful demonstration of both our robustness as a business and our confidence in the future.

While arrears have risen slightly we have strategies in place to ensure effective debt management. We will continue to proactively manage arrears cases, balancing the need for a robust approach with fairness and forbearance for individuals who are experiencing payment difficulty.

Subsidiary performance

Our diversified Group structure continues to contribute to our ongoing financial health, with our range of subsidiary businesses ensuring a valuable contribution to the Group's profitability. Our Estate Agency division, Connells, recorded profits of £35.8m. Although down from £48.1m in 2010, this represents a fine performance in what continues to be an uncertain market.

Profits in our Financial Advice division, which includes SFS, have increased to £2.9m, compared to £1.0m the year before. Our IFA businesses are well prepared for the introduction of the Retail Distribution Review on 1 January 2013, with over 80% of SFS advisers already qualified to the required Diploma standard.

Meanwhile, in the Mortgage Services division, Homeloan Management Limited ('HML') made an operating profit of £0.2m. However, restructuring costs aimed at repositioning the business to take advantage of future opportunities resulted in a net pre-tax loss of £3.1m, compared to a £0.1m profit in 2010. The increased efficiency resulting from this restructuring will improve profitability going forward.

Outlook

The outlook for the markets in which we operate, and the economy in general, remains uncertain, with low GDP growth figures, continued fall-out from government austerity measures, rising unemployment, a flat housing market and the threat of contagion from the Eurozone. These things are likely to result in the continuation of an historically low UK Bank Base Rate for the foreseeable future.

However, for the reasons highlighted above, Skipton remains in a good position to withstand such unusual market conditions. We continue to concentrate on our clear strategy of prudent lending, while offering the best possible returns to our savers. Our goal remains to continue to drive our profit performance while keeping members' interests firmly at the heart of everything we do.

While we are not complacent and fully expect that there will be more challenges ahead of us, our members can continue to have confidence in Skipton as a safe haven for their funds and a source of trusted support for their families, as we continue our unwavering emphasis on them.

Group results for the year ended 31 December	**2011 £m**	2010 £m
Net interest receivable	**71.2**	54.9
Other income and charges	**375.4**	385.3
Profit on disposal of subsidiaries	**0.9**	1.2
Fair value gains	**3.0**	2.0
Administrative expenses and provisions	**(398.3)**	(396.6)
Negative goodwill on merger	**-**	3.1
Impairment losses	**(30.0)**	(14.9)
Profit for the year before taxation	**22.2**	35.0
Taxation	**(6.7)**	(9.8)
Profit for the financial year	**15.5**	25.2
Non-controlling interests	**(0.1)**	0.3
Profit for the financial year attributable to members	**15.4**	25.5

Group financial position at 31 December	2011 £m	2010 £m
Assets		
Liquid assets	**3,020.6**	3,379.7
Residential mortgages	**9,713.8**	9,236.4
Commercial and other loans	**539.0**	578.3
Derivative financial instruments	**216.3**	140.6
Fixed and other assets	**420.6**	404.5
Total assets	**13,910.3**	13,739.5
Liabilities		
Shares	**9,280.4**	9,388.5
Borrowings	**2,928.6**	2,788.6
Derivative financial instruments	**374.4**	260.8
Other liabilities	**210.4**	181.6
Subordinated liabilities	**214.2**	214.2
Subscribed capital	**85.8**	84.7
Non-controlling interests	**2.8**	3.1
Reserves	**813.7**	818.0
Total liabilities	**13,910.3**	13,739.5

Group statement of movement in reserves	2011 £m	2010 £m
Reserves at 1 January	**818.0**	762.9
Net (expense) / income for the year not recognised in the Income Statement	**(19.7)**	23.5
Transfer of engagements	**-**	6.1
Profit for the year	**15.4**	25.5
Reserves at 31 December	**813.7**	818.0

Summary of key financial ratios	2011 %	2010 %
Gross capital as a percentage of shares and borrowings (note 1)	**9.14**	9.20
Liquid assets as a percentage of shares and borrowings (note 2)	**24.74**	27.75
Group profit after tax for the year as a percentage of mean total assets (note 3)	**0.11**	0.17
Group management expenses as a percentage of mean total assets (note 4)	**2.78**	2.70

Notes

1. Gross capital represents the general reserve together with the available-for-sale reserve, cash flow reserve, translation reserve, subordinated liabilities, subscribed capital, and non-controlling interests, 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.
2. 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.
3. 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 2011 and 2010 total assets as shown in the Group Statement of Financial Position. A reasonable level of profit is required each year to maintain the gross capital ratio at a suitable level to protect investors' funds.
4. The management expenses ratio measures the proportion that the administrative expenses bear to the average of the mean total assets during the year.

This summary financial statement was approved by the Board of Directors on 28 February 2012 and was signed on its behalf by:

M H Ellis **Chairman**
D J Cutter **Group Chief Executive**
R J Twigg **Group Finance Director**

Independent auditor's statement to the members and depositors of Skipton Building Society

We have examined the Summary Financial Statement of Skipton Building Society for the year ended 31 December 2011 set out on pages 1 to 4.

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 auditor

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 auditor's 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 Directors' Report.

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 2011 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

28 February 2012

Summary Directors' Remuneration Report

This report explains the Group's policies for the remuneration of Directors and discloses the remuneration of Directors, explaining the key changes which have taken place in 2011. The Board is committed to best practice in its approach to remuneration policy and this report explains how the Group applies the principles in the Corporate Governance Code relating to remuneration, insofar as they are considered appropriate to building societies.

A summary of this report will be sent to all members entitled to vote at this year's Annual General Meeting at which members will, once again, have the opportunity to vote on the report.

Remuneration Committee

The Remuneration Committee is responsible for determining, on behalf of the Board, the Group's remuneration policy, reviewing its adequacy, effectiveness and compliance with the FSA's Remuneration Code ('the Code'). The Committee sets remuneration for the Chairman and the Executive Directors. In 2011, the remit of the Committee extended to include the approval of remuneration policy for senior managers who have a material impact on the Society's risk profile ('Code Staff'). The Committee also receives recommendations from the Group Chief Executive for approval of the remuneration for certain senior executives in the Group.

The Committee has established clear remuneration principles which reflect both the requirements of the Society and the Code. These principles, which are reviewed annually and apply Group-wide, set appropriate standards with regard to remuneration governance, risk management, variable pay structures and Code Staff remuneration. The Committee receives an annual report from the Chief Conduct Risk Officer and Secretary on the implications of the remuneration policies within the Group on risk management and compliance with the principles. The 2011 report concluded that there were no incentive arrangements which might give rise to inappropriate risk-taking behaviour among Group Executives.

The terms of reference of the Remuneration Committee are available, on request, from the Secretary.

The Remuneration Committee met six times during 2011. In discharging its duties, the Committee reviews and takes into account independently produced data in relation to similar financial services organisations. Independent remuneration consultants advising the Committee have no other connection with the Group.

The Committee currently comprises three Non-Executive Directors, Messrs Hutton (Chairman), Thompson and East. The Chairman, Group Chief Executive, Chief Conduct Risk Officer and Secretary, Chief Human Resources Officer and external advisers may be invited to attend meetings as and when appropriate.

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

Remuneration policy

In establishing, implementing and maintaining the remuneration policy, the Committee applies the Group's remuneration principles. The general principles set out the Committee's standards with regard to remuneration, governance, risk management, and the link to performance.

In addition to the general principles listed below, the Committee sets out requirements for the operation of variable pay, setting appropriate rules and limits around bonus and incentive payments. Further requirements on deferral and performance adjustment apply specifically to Code Staff.

General principles

1. A total rewards approach to remuneration is taken which encompasses the key elements deployed to attract, engage and retain employees, namely: compensation (base and variable), benefits and the 'work experience'. The 'work experience' includes but is not restricted to culture / environment, work / life balance, career development and recognition.
2. Remuneration throughout the Skipton Group encourages a high level of stewardship and corporate governance.
3. Remuneration policies, procedures and practices reflect sound, effective risk management and do not encourage risk taking which falls outside the Board's risk appetite or the scope of Board policies.
4. Remuneration policies are reviewed at least annually by the Risk function to ensure they do not encourage inappropriate risk taking behaviour or present conflicts of interest which may result in unfair outcomes for our members and customers.
5. Remuneration is to be competitive and sufficient to secure and retain the services of talented individuals from other companies or mutual organisations with the key skills, knowledge and expertise necessary to run group businesses effectively, recognising the diverse nature of the Group and the nature of its stakeholders.
6. Remuneration recognises the appropriate level of business and individual performance which will create a strong and sustainable Group for the benefit of our members and customers, now and in the future.
7. Where remuneration is performance related, it will be based on the assessment of the individual / team, the business unit and overall Group performance (if appropriate). In assessing individual performance, a balance of financial and non-financial criteria will be taken into account.
8. Remuneration arrangements are transparent, consistent and fair, reflecting individual responsibilities and performance. Base compensation will reflect the core role and responsibilities of the individual whereas variable compensation will reflect the achievement of agreed targets, or objectives which are over and above business as usual activities.
9. All employees will be rewarded fairly, regardless of race, colour, creed, ethnic or national origin, marital status, disability, age, gender, gender reassignment, sexual orientation, political opinion, religion, trade union or non trade union membership.
10. Remuneration arrangements are cost effective and straightforward to understand, communicate and administer.

Executive Directors' remuneration

The Board's policy is designed to ensure that Executive Directors' remuneration reflects performance and enables the 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.

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

Basic salary – basic salary reflects the size of the role and responsibilities, individual performance (assessed annually) and salary levels of similar positions in comparable organisations. The Society uses a recognised job evaluation mechanism to determine the relative size of roles.

Annual Performance Pay – the Executive Directors participate in the Senior Leadership Incentive Scheme ('the Incentive Scheme') which is a non-pensionable performance incentive scheme which is designed to encourage performance across a range of financial and non-financial measures.

Pensions – the Executive Directors receive contributions payable into defined contribution pension arrangements.

Benefits – include the provision of a car or car allowance and private medical insurance.

2011 Executive Directors' Remuneration review

Basic Salary

During 2011, the Remuneration Committee commissioned an external benchmarking survey of executive remuneration. The report benchmarked the Group Chief Executive's and Group Finance Director's remuneration against a peer group of UK building societies and similar financial services organisations, together with information from the 2010 Mercer Executive Remuneration Guide: Pan European Financial Services Survey. The Committee concluded that the Group Chief Executive's and Group Finance Director's basic salaries, which had not been increased since 1 January and 1 April 2009 respectively, had fallen behind the market for roles of similar size and complexity in comparable financial services organisations. The Remuneration Committee therefore decided to increase the basic salaries of the Group Chief Executive and the Group Finance Director to £352,000 and £275,000 respectively from 1 April 2011. Mr Fleet's basic salary, following his appointment to the Board as Distribution Director on 6 December 2011, was set at £230,000 with reference to comparable market data.

Variable pay

During the year, the Incentive Scheme, in which Executive Directors and senior managers in the Society participate, was reviewed to ensure that it continued to reward sustained business and individual success, while incorporating the requirements of the Code.

The Incentive Scheme is based on the achievement of a balance of financial (profit based) measures and a mixture of commercial, employee, customer and capital targets as follows:

Financial - Group profit, Society profit, and subsidiary profit

Commercial - Mortgages and retail savings performance

Employee - Employee engagement

Customer - Customer complaints

Capital - Core Tier One capital ratio

The Incentive Scheme is also in part based on the achievement of individual performance objectives.

The Incentive Scheme is capped in line with acceptable market practice and provides an appropriate balance between base and variable pay. The Incentive Scheme includes the requirement to defer over three years a portion of the amount earned if the amount earned under the Incentive Scheme is more than 33% of total remuneration.

The Remuneration Committee may reduce or withdraw the payment of a deferred amount in certain circumstances and has the power to reduce or cancel payments due under the Incentive Scheme if it believes in extreme circumstances that the payments are not appropriate given the underlying health of the business.

Under the terms of the Incentive Scheme and based on the results of the business and their individual performance, the Executive Directors are entitled to the following annual performance payments for 2011, expressed as a percentage of their basic salary: Mr Cutter 15.0% (2010: 21.2%); Mr Twigg 10.1% (2010: 21.2%); and Mr Fleet 17.5%.

Non-Executive Directors' remuneration

Non-Executive Directors' fees (excluding those of 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 commitments 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-Executive Directors who undertake additional duties and responsibilities, including chairmanship of Board committees.

Non-Executive Directors only receive fees and do not participate in any performance pay scheme, nor do they receive pension or other benefits. The Non-Executive Directors' basic fee for 2011 has remained unchanged since 2007. In 2011, the committee fee paid to the Chairman of the Risk Committee was increased to £8,000 per annum to reflect the responsibility and time commitment of the role.

The Chairman's fees are reviewed and approved by the Remuneration Committee. During the year the Remuneration Committee increased the Chairman's annual fee to £155,000 to reflect the increased time commitment now required to fulfil the role.

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. Non-Executive Directors do not have service contracts.

Directors' emoluments

KPMG Audit Plc has audited the information set out in the next three tables.

Non-Executive Directors		**2011**			2010	
		Committee			Committee	
	Fees £000	**Fees £000**	**Total £000**	Fees £000	Fees £000	Total £000
Mr M H Ellis (Chairman) (note 1)	**94**	**-**	**94**	-	-	-
Mr A I Findlay (resigned 24 May 2011)	**28**	**-**	**28**	63	-	63
Mr C N Hutton (Vice Chairman) (note 2)	**48**	**4**	**52**	45	4	49
Mr R D East (note 3)	**4**	**-**	**4**	-	-	-
Mr P R Hales (note 4)	**40**	**5**	**45**	40	1	41
Ms P M Hay-Plumb (resigned 21 December 2010)	**-**	**-**	**-**	40	8	48
Ms A B E Kinney (note 5)	**40**	**8**	**48**	40	-	40
Mr J B Rawlings (retired 27 April 2010)	**-**	**-**	**-**	23	-	23
Mr J Spence (resigned 30 September 2010)	**-**	**-**	**-**	30	-	30
Mr P J S Thompson	**40**	**-**	**40**	40	-	40
Mr W R Worsley (retired 3 May 2011)	**13**	**-**	**13**	40	-	40
	307	**17**	**324**	361	13	374

Notes
1. Mr Ellis was appointed Chairman on 24 May 2011, replacing Mr Findlay who resigned from the Board on the same date.
2. Mr Hutton became Vice Chairman on 28 April 2010, and is Chairman of the Remuneration Committee.
3. Mr East was appointed a Director on 29 November 2011.
4. Mr Hales is the Chairman of the Board Risk Committee which was established in September 2010.
5. Ms Kinney was reappointed Chairman of the Audit Committee on 21 December 2010.

Executive Directors 2011

	Salary £000	Annual performance pay £000	Benefits(1) £000	Sub total £000	Increase in accrued pension £000	Pension scheme contributions £000	Total £000
Mr D J Cutter	344	53	15	412	1	69	482
Mr M R Fleet (note 2)	16	2	2	20	-	1	21
Mr R J Twigg	269	28	12	309	1	54	364
	629	83	29	741	2	124	867

Notes

1. Benefits comprise the provision of a car, or car allowance and private medical insurance contributions.
2. Mr Fleet was appointed as Executive Director on 6 December 2011 and the above table includes his remuneration, annual performance pay and benefits as a Director of the Society pro-rata from that date.

Executive Directors 2010

	Salary £000	Annual performance pay £000	Benefits(1) £000	Sub total £000	Increase in accrued pension £000	Pension scheme contributions £000	Total £000
Mr D J Cutter	320	68	11	399	-	64	463
Mr R J Twigg	250	53	12	315	-	50	365
Mr T F Wood (note 3)	182	-	9	191	-	38	229
	752	121	32	905	-	152	1,057

Notes

3. Mr Wood's 2010 emoluments have been calculated to 22 September 2010, the date on which he ceased to be a Director of the Society. In line with amounts due under his service contract he was also paid compensation for loss of office amounting to £262,068.

Skipton Building Society
Principal Office, The Bailey,
Skipton, North Yorkshire BD23 1DN
Telephone: 08458 501700*
skipton.co.uk

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