Skipton Building Society


# Summary Financial Statement 2012

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SKIPTON
MY 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 online at www.skipton.co.uk/performance or free of charge on demand at every office of Skipton Building Society from 2 April 2013.

# Summary Directors' Report

It is pleasing to report that we have achieved a robust and balanced performance over the past year, combining ongoing financial success with a member-centric approach to doing business.

Celebrating our impressive heritage in our 160th anniversary year, we continue to focus on meeting our members' needs through long term good value, relevant products, and a commitment to outstanding personal service.

### Continued, prudent growth

In 2012, the Society achieved steady growth in mortgage balances, retail balances and capital, as well as significantly improving profitability. Our strategy of growing steadily, while remaining focussed on meeting our members' needs, has helped the Society to improve its performance in a difficult operating environment.

The key driver of the Group's improved performance has been an £18.4m turnaround in our Mortgages and Savings division, returning to profitability and reporting a profit of £4.9m compared to a loss of £13.5m in 2011. This is despite a £6.1m (2011: £5.4m) contribution to the Financial Services Compensation Scheme (FSCS) within the division, as a result of continuing to pay for the banking crisis of 2008. The improvement in our net interest margin, an important driver of sustainable profitability for the business, is also encouraging, and increased to 0.61% for the full year compared to 0.52% in 2011.

Capital and liquidity are two important indicators of our financial strength, and both remain robust, as outlined below. The quality of our liquidity remains excellent, with no exposure to Greece, Ireland, Italy, Portugal or Spain.

We have maintained a strong funding base, with a high proportion of retail funding and a degree of cost effective wholesale funding to achieve a desirable blend. By the end of the year, 83.1% of our total funding was derived from retail savings balances (2011: 80.2%), covering 90.1% of our mortgage lending (2011: 91.4%). Complementing this solid retail base, we raised £475m of funding from our second securitisation in 18 months – a sign of the market's confidence in the Society.

Arrears continue to fall, as summarised below, and are now lower than the industry average.

At the same time, impairment losses, predominantly within our Mortgages and Savings division, also fell significantly, to £12.3m, compared to £30.0m in 2011. However, Group provisions for liabilities increased to £28.7m compared to £13.5m, primarily due to total Group FSCS levies of £7.5m (2011: £5.8m), claims against surveys and valuations within our Estate Agency division of £8.4m (2011: £6.1m), provisions for commission clawbacks / rebates of £6.2m (2011: £(0.2)m), and customer compensation provisions for MPPI claims and compensation payable to customers as a result of issues identified from our review of past business within the Financial Advice division of £3.7m (2011: £2.1m).

Our key financial highlights were as follows:

### Profitability

- Pre-tax profits of £36.4m (2011: £22.2m), up 64%;
- £13.0m improvement in our net interest margin (2012: 0.61%, 2011: 0.52%);
- Continued strong earnings from the Estate Agency division, with profits of £36.2m (2011: £35.8m).

### Financial strength

- Core Tier 1 capital of 11.1% compared to 10.5% at the end of December 2011;
- Total capital also improved to 15.9% (2011: 15.5%);
- Strong liquidity ratio maintained at 21.1% of shares, deposits and liabilities (31 December 2011: 24.8%);
- Only 1.30% of mortgages have arrears of more than 2.5% of the total outstanding balance (31 December 2011: 1.45%). This compares to the industry average of 1.40%[1] (31 December 2011: 1.42%).

### Help for homeowners

Remaining true to this powerful founding principle, we again continued our support of borrowers during what continues to be a difficult housing market. Gross mortgage lending totalled £1.5bn for the year (2011: £1.7bn), a continued strong performance after the threefold uplift in 2011.

Net lending amounted to £356m, compared to £412m in 2011, as mortgage balances increased by 3.5% during the year to £10.5bn (2011: £10.1bn). Our 4.1% share of the growth in the UK mortgage market compares favourably to our natural market share of 0.8%.

We achieved this by providing solutions for a wide variety of homeowners, including those unable to provide a large deposit. 91% of the Group's gross lending is undertaken by the Society, and of this amount, 4.7% (2011: 4.5%) was to borrowers with a loan-to-value ratio of between 90% and 95%. 16.1% (2011: 19.5%) of the Society's gross lending went towards helping 1,833 (2011: 2,648) first time buyers, and Buy-to-Let mortgages for property investors also featured strongly, at 12.9% (2011: 7.5%) of the Society's overall lending, reflecting the increasingly important part they play in the overall health of the UK mortgage market.

Our mortgage offering was independently endorsed when *What Mortgage* magazine gave us their 'Best National Building Society Award' for the second year running in 2012. We were also highly commended and commended, respectively, in the 'Best First Time Buyer Mortgage Provider' and 'Best Building Society Mortgage Provider' categories at the prestigious *Moneyfacts Awards 2012*. Our outstanding service was recognised with a 'Five Star Service Award' from *Financial Adviser* magazine.

### Promoting savings

We are acutely aware that savers remain the 'forgotten victims of the credit crunch'. Their nominal returns are severely affected by keeping the Bank of England Base Rate at 0.5%, and their real returns are impacted by inflation.

UK monetary policy remains focussed on trying to stimulate growth and avoiding deflation, and the beneficiaries have been borrowers. Savers, on the other hand, continue to suffer.

In recent months, their plight has been compounded by the introduction of the Funding for Lending Scheme, again aimed at stimulating the housing and mortgage markets by making more affordable credit available to borrowers. Access to this new and cheaper source of funding has lessened the demand for retail savings and hence the rates payable to savers have declined. New mortgage rates have also fallen as funding is more available for lenders to deploy.

With the very best of intentions we must operate within our market environment, in order to manage the business responsibly in the best interests of all our members. Hence, we have also reduced our own new mortgage rates and savings rates in recent months.

We recognise that this is cold comfort for those savers that are affected, but we have endeavoured to maintain our rates at levels which continue to compare favourably with other High Street providers.

In spite of Bank Base Rate remaining at 0.5% for four years, the average savings rate paid across all of our accounts at 31 December 2012 (i.e. instant access or term accounts) was 2.56%, exactly the same figure as at 31 December 2011. Within the confines of such a low interest rate environment, and difficult market conditions, we continue to try to preserve long term saver value.

[1] Source: Council of Mortgage Lenders, published 14 February 2013

Our continued efforts to help people manage their finances responsibly, by saving, resulted in a 2% increase in our savings balances during 2012, to £9,462.4m compared to £9,280.4m at 31 December 2011.

We achieved this by listening to our members in order to provide products relevant to their needs, launching a range of new accounts including base rate tracker bonds, fixed rate bonds and regular savers, as well as a Christmas Regular Saver, enabling people to put away cash for future festive seasons instead of getting into debt to fund their celebrations.

Believing that everyone should have a tax-efficient account in their savings portfolio, another successful ISA season saw us encourage twice as many people to embark on tax free savings as we did in the same period of 2011.

## Focussed on our members

The consistent good value we offered across our savings and mortgage ranges during the year was endorsed by 528 media 'best buy table' mentions during the period.

Recognising that our members need help and advice, now more than ever, in navigating a path through the financial maze, we have underlined our commitment to supporting them. Firstly, we will continue to arrange expert financial advice through the Diploma-qualified financial planning managers within our Skipton Financial Services (SFS) subsidiary in each branch. We are doing so at a time when many providers have withdrawn their financial advice services in the wake of the Financial Services Authority's Retail Distribution Review, have restricted their availability to only high net worth clients, or are limiting the advice they give to a small selection of their own products and services. By contrast, Skipton customers continue to have access to a wide range of investment options, as well as expertise in areas such as pensions and inheritance tax planning.

And this is not the only help we offer our members in getting the most from their finances. Last May, we introduced our new *My Review* service, which is available to every member at no cost and has helped more than 20,000 customers since launch. During 2012, we also ran an extensive Free Wills promotion, providing almost 9,000 single and mirror wills during the year, benefiting more than 13,000 customers.

Our commitment to offering our members outstanding personal service has also come to the fore over the past 12 months, as we have introduced a number of enhancements. Quick, online Decisions in Principles, and text updates on mortgage applications and ISA transfer progress, are two examples of innovations we have made to help our borrowers and savers.

We have also continued to invest in our frontline customer service. The great work of our Skipton-based customer service team has been augmented by the installation of a new telephone system which provides a call-back option to save customers queuing and requires that they select a maximum of two options before getting through to a customer adviser who can help them. Dedicated numbers for specific queries mean that, in most cases, they get straight through to the right person.

Understanding, from member feedback, that they value face-to-face service from a strong branch network, we have refurbished 15 branches over the past year, as part of our ongoing modernisation programme.

As a mutual, owned by our members, we believe it is important to involve them in shaping the future direction of the Society. Since we introduced it in the Autumn of 2011, more than 2,800 people have signed up to our Customer Panel, to have their say on everything from our role in our communities to products and communications. This is complemented by an extended range of customer communications, including our new *My Society* newsletter launched in June.

## Subsidiary performance

Our group of subsidiary companies continues to make a welcome contribution to the Society's success. Our Estate Agency division, the Connells group, provided pre-tax profits of £36.2m, compared to £35.8m in 2011. This was an impressive result given the ongoing uncertainty facing the UK housing market.

Our mortgage servicing business, Homeloan Management Limited (HML), also moved back into profit. It achieved a pre-tax profit of £0.8m, following a loss of £3.1m in 2011, having gained a number of new clients and extended several existing key relationships. However, our Financial Advice division incurred a pre-tax loss of £0.9m compared to a profit of £2.9m in 2011. While the revenue generated by these businesses increased during 2012, we have made provisions for compensation payable to customers as a result of issues identified from our review of past business.

## Outlook

Uncertainty regarding economic growth, and the state of the Government's finances, will continue to hang over the UK economy and dominate fiscal and monetary policy. While we are pleased with the further upturn in our performance over the past year, we are not complacent and maintain a prudent eye on further potential external shocks which could impact the Society.

However, despite such developments, we are confident we will achieve further improvement during 2013 and beyond, as the strength of our Mortgages and Savings division, in particular, continues to gain momentum.

Since the year end, we have utilised funding available from the Funding for Lending Scheme, as we continue to increase our lending to borrowers. Meanwhile, we will remain focussed on satisfying the saving and investment needs of our customers.

| Group results for the year ended 31 December | 2012 £m | 2011 £m |
|---|---|---|
| Net interest receivable | **84.2** | 71.2 |
| Other income and charges | **403.7** | 375.4 |
| Profit on disposal of subsidiaries | **-** | 0.9 |
| Fair value gains | **3.6** | 3.0 |
| Administrative expenses and provisions for liabilities | **(438.8)** | (398.3) |
| Impairment losses | **(16.3)** | (30.0) |
| **Profit for the year before taxation** | **36.4** | 22.2 |
| Taxation | **(8.8)** | (6.7) |
| **Profit for the financial year** | **27.6** | 15.5 |
| Non-controlling interests | **1.0** | (0.1) |
| **Profit for the financial year attributable to members** | **28.6** | 15.4 |

| Group financial position at 31 December | 2012 £m | 2011 £m |
|---|---|---|
| **Assets** | | |
| Liquid assets | **2,531.8** | 3,020.6 |
| Residential mortgages | **10,070.9** | 9,713.8 |
| Commercial and other loans | **522.6** | 539.0 |
| Derivative financial instruments | **202.7** | 216.3 |
| Fixed and other assets | **432.2** | 420.6 |
| **Total assets** | **13,760.2** | 13,910.3 |
| **Liabilities and Reserves** | | |
| Shares | **9,462.4** | 9,280.4 |
| Borrowings | **2,536.2** | 2,905.2 |
| Derivative financial instruments | **370.8** | 374.4 |
| Other liabilities | **235.3** | 210.4 |
| Subordinated liabilities | **223.9** | 228.2 |
| Subscribed capital | **96.1** | 95.2 |
| Non-controlling interests | **1.8** | 2.8 |
| Reserves | **833.7** | 813.7 |
| **Total liabilities and reserves** | **13,760.2** | 13,910.3 |

| Group statement of movement in reserves | 2012 £m | 2011 £m |
|---|---|---|
| Reserves at 1 January | **813.7** | 818.0 |
| Net expense for the year not recognised in the Income Statement | **(8.6)** | (19.7) |
| Profit for the year | **28.6** | 15.4 |
| **Reserves at 31 December** | **833.7** | 813.7 |

This summary financial statement was approved by the Board of Directors on 27 February 2013 and was signed on its behalf by:

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

| **Summary of key financial ratios** | **2012**<br>**%** | 2011<br>% |
|---|---|---|
| Gross capital as a percentage of shares and borrowings | **9.63** | 9.35 |
| Liquid assets as a percentage of shares and borrowings | **21.10** | 24.79 |
| Group profit after tax for the year as a percentage of mean total assets | **0.20** | 0.11 |
| Group management expenses as a percentage of mean total assets | **2.96** | 2.78 |
| Society management expenses as a percentage of mean total assets | **0.44** | 0.44 |

Gross capital represents the general reserve together with the available-for-sale reserve, cash flow hedging 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.

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 2012 and 2011 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.

The management expenses ratio measures the proportion that the administrative expenses bear to the average of the mean total assets during the year.

# 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 2012 set out on pages 1 to 6.

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 on summary financial statement

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 2012 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

**John Ellacott**

**for and on behalf of KPMG Audit Plc, Statutory Auditor**

*Chartered Accountants*

Leeds

27 February 2013

## Directors' Remuneration Report

This report explains the Group's policies for the remuneration of Directors and discloses the remuneration of Directors. 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 specifically:

- Sets remuneration for the Chairman and the Executive Directors.
- Approves the remuneration policy for senior managers who have a material impact on the Society's risk profile (Code Staff).
- Reviews recommendations from the Group Chief Executive for approval of the remuneration for key executives in the Group.
- Agrees the design and overall targets for any short or long term variable pay schemes applicable to senior executives and Code Staff.

The Committee has established clear remuneration principles which reflect both the requirements of the Society and the Code. These principles, which are reviewed annually, apply Group-wide, setting appropriate standards with regard to remuneration governance, risk management, variable pay structures (and the link to performance) 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 terms of reference of the Remuneration Committee are available, on request, from the Secretary.

The Remuneration Committee met 10 times during 2012. 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 and Chief Human Resources Officer regularly attend by invitation and external advisers are invited to attend meetings as and when appropriate.

In addition to its annual responsibilities, the Committee has been involved during 2012 in the following areas:

- Review and approval of medium and long term incentive schemes for Operational Board members in group subsidiaries.
- Review of total remuneration for the Society's Executive team with particular emphasis on balancing reward for short term objectives with a long term focus on sustainable profit and member value.
- Approval of design changes to the Society's Senior Leadership Team annual bonus scheme.
- Updating of Executive service contracts.

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. The principles were last reviewed in Q4 2012 to reflect the FSA's guidance consultation on the approach to sales incentives.

## 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 any of the stated Board Risk Appetites or the scope of Board policies.
4. Remuneration practices 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 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.

Our approach to Executive Directors’ remuneration is as follows:

**Basic salary** – basic salary reflects the size of the role and responsibilities, individual performance (assessed annually) and the skills / experience of the individual. The Society uses a recognised job evaluation mechanism to determine the relative size of roles.

In setting appropriate salary levels, the Committee takes into account data for similar positions in comparable organisations. The data is independently commissioned and the Society aims to position Executives competitively within this reference group.

**Annual Variable Pay** – the Executive Directors participate in the Senior Leadership Incentive Scheme (the Incentive Scheme) which is a non-pensionable performance incentive scheme designed to reward the achievement of objectives across a balance of financial and non-financial objectives. These are reviewed each year and set by the Committee. In setting target and maximum payments, the Committee considers both the market position and the risk appetite of the Society and sets these levels accordingly.

Currently, annual bonus under the Incentive Scheme is the only variable pay element although this is under review, with proposals for a Long Term Scheme being considered for 2013.

**Pensions** – the Executive Directors receive contributions payable into defined contribution pension arrangements, or a cash equivalent.

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

## 2012 Executive Directors’ Remuneration review

### Basic salary

In 2011, following an external benchmarking survey of executive remuneration in comparable financial services organisations, the Committee agreed to increase the basic salaries of the Group Chief Executive and Group Finance Director to £352,000 and £275,000 respectively with effect 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 and Mr Cornelius’ basic salary, following his appointment to the Board as Commercial Director on 11 June 2012, was set at £210,000 based on comparable market data.

There has been no subsequent increase to the Executive Directors’ basic salaries.

### Variable pay

The Incentive Scheme was introduced in 2011 and therefore ended its first year of operation in December 2011 with payment made in March 2012.

In reviewing the operation of the Incentive Scheme for 2012, a number of changes were made in the following areas:

- Profit – Group profit was retained as a performance target but Society profit was replaced with Mortgages and Savings profit to reflect a broader focus. Individual profit targets were removed from the Incentive Scheme and reflected more appropriately in personal objectives.
- Common Team KPIs were set for all participants, taking into account a balance of conduct and prudential risk factors. The team KPIs reflect people, customers, conduct, financial strength and process measures.

The Incentive Scheme is capped in line with market practice and provides an appropriate balance between base and variable pay. The Incentive Scheme rules include the requirement to defer over three years a portion of the amount earned by any individual if the total amount earned by that individual is greater than £500,000, or the amount earned under the Incentive Scheme is more than 33% of his or her 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. In 2012, the Committee exercised its discretion and reduced the bonuses of Executive Committee members by 10% as a result of conduct risk issues within the Financial Advice division.

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 2012, expressed as a percentage of their basic salary: Mr Cutter 51.4% (2011: 15.0%); Mr Twigg 45.8% (2011: 10.1%); Mr Fleet 47.8% (2011: 17.5%) and Mr Cornelius 50.4% (2011: not applicable).

### Long term incentive plan

As part of the review of Executive remuneration, the Committee has been considering the introduction of a long term incentive plan for senior executives in common with many other banking and financial services organisations. This was supported by the benchmarking exercise carried out during the year which concluded that the total remuneration of some Executives is below market largely (but not exclusively) due to the absence of a long term incentive plan. The Committee's aim in introducing a long term incentive plan is to:

- Align reward to the achievement of long term sustainable profit and member interests.
- Provide an appropriate balance between short and long term objectives in the reward package.
- Provide market competitive reward packages which support retention and high performance of key Executives.

The Society intends to implement such a scheme during 2013. The scheme will apply to approximately 13 senior executives. It is intended that, over time, the balance between short and long term incentives will become equal by transferring variable pay from the short term scheme into the long term scheme. This will ensure an appropriate balance in the overall remuneration.

## 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 Remuneration Committee increased the Non-Executive Directors' basic annual fee from £40,000 to £42,000 from 1 July 2012, the first increase since July 2007.

The Chairman's fees are reviewed and approved by the Remuneration Committee. Mr Ellis' fee was set following comparison with market data at £155,000 per annum when he joined the Board as Chairman on 24 May 2011, and has not been increased since.

## 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

### Non-Executive Directors

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | | Committee | | | Committee | |
| | Fees | Fees | Total | Fees | Fees | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Mr M H Ellis (Chairman) (note 1) | **155** | **-** | **155** | 94 | - | 94 |
| Mr A I Findlay (resigned 24 May 2011) | **-** | **-** | **-** | 28 | - | 28 |
| Mr C N Hutton (Vice Chairman) (note 2) | **48** | **4** | **52** | 48 | 4 | 52 |
| Ms M L Cassoni (note 3) | **18** | **1** | **19** | - | - | - |
| Mr R D East (note 4) | **41** | **-** | **41** | 4 | - | 4 |
| Mr P R Hales (note 5) | **41** | **8** | **49** | 40 | 5 | 45 |
| Ms A B E Kinney (note 6) | **34** | **7** | **41** | 40 | 8 | 48 |
| Mr G Picken (note 7) | **41** | **-** | **41** | - | - | - |
| Mr P J S Thompson | **41** | **-** | **41** | 40 | - | 40 |
| Mr W R Worsley (retired 3 May 2011) | **-** | **-** | **-** | 13 | - | 13 |
| | **419** | **20** | **439** | 307 | 17 | 324 |

**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 is also Chairman of the Remuneration Committee.
3. Ms Cassoni was appointed a Director on 31 July 2012, and was appointed Chairman of the Audit Committee on 31 October 2012.
4. Mr East was appointed a Director on 29 November 2011.
5. Mr Hales is the Chairman of the Board Risk Committee.
6. Ms Kinney resigned as a Director and as Chairman of the Audit Committee on 31 October 2012.
7. Mr Picken was appointed a Director on 17 January 2012.

## Executive Directors

| **2012** | **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 (note 2) | **352** | **181** | **16** | **549** | **4** | **70** | **623** |
| Mr I D Cornelius (note 3) | **123** | **62** | **7** | **192** | **-** | **10** | **202** |
| Mr M R Fleet | **230** | **110** | **26** | **366** | **-** | **18** | **384** |
| Mr R J Twigg | **275** | **126** | **12** | **413** | **4** | **55** | **472** |
| | **980** | **479** | **61** | **1,520** | **8** | **153** | **1,681** |

| 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 4) | 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. £72,000 (2011: £nil) of Mr Cutter's annual performance pay was deferred under the rules of the scheme.
3. Mr Cornelius was appointed as an Executive Director on 11 June 2012 and the above table includes his remuneration, annual performance pay and benefits as a Director of the Society from that date.
4. Mr Fleet was appointed as an Executive Director on 6 December 2011 and the above table includes his remuneration, annual performance pay and benefits as a Director of the Society from that date.

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