



## Summary Financial Statement Year Ended 31 December 2006



## DIRECTORS' DETAILS

## Directors' Details

**DIRECTORS**

Michael Hart FCII Chairman

Avril Casson Willis BA MBA FCIPD FRSA Vice Chairman\*

Derek Parkin FCIB\*\*

Robert James Cairns BA Hons FCIB MCMI

Christopher Stuart Fairclough BSc Hons FIA

Peter Richard Wavell Hensman MA FCA

Colin Stewart Millar BA

(Appointed 19 September 2006)

Steven Lindsay Pryer BCom Hons MBA FCMI Cmgr Dip PIC

Cert LC Dip LC

Philip Lloyd Shipman FCIB

**CHIEF EXECUTIVE**

Robert James Cairns BA Hons FCIB MCMI

**DEPUTY CHIEF EXECUTIVE AND SECRETARY**

Philip Lloyd Shipman FCIB

**FINANCE DIRECTOR**

Steven Lindsay Pryer BCom Hons MBA FCMI Cmgr Dip PIC

Cert LC Dip LC

**GENERAL MANAGERS**

Brian Greenwood FCIB MCMI (Customer Services)

Judith Helen Wren BSc Hons FCIB (Sales & Marketing)

David John Rhodes FIIA MIIA Head of Group Risk

**SOLICITORS**

Poole Townsend 69-75 Duke Street Barrow-in-Furness

**AUDITOR**

KPMG Audit Plc Chartered Accountants St James' Square

Manchester

**BANKERS**

National Westminster Bank plc & The Royal Bank of Scotland plc

**Furness Building Society** Reg. No. 221 B Registered Office

51-55 Duke Street Barrow-in-Furness Cumbria LA14 1RT

\* *Chairman of Remuneration Committee* \*\* *Chairman of Audit Committee*

VISION, KEY AIMS AND KEY HIGHLIGHTS OF THE YEAR

## Vision

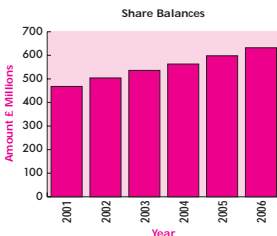
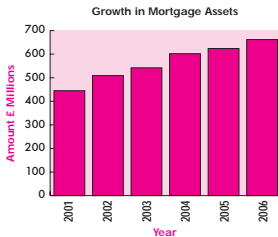
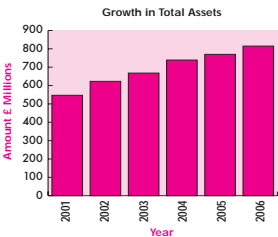
- To be recognised as the leading regional building society known for its excellence of service and value for money

## Key Aims

- To grow the business and membership profitably to ensure the future success of the Society
- To further improve service excellence
- To maximize our effectiveness

## Key Highlights

- Total assets milestone of £800m exceeded during the year
- Group profit before tax of £4.9m
- A 15% increase in Group other income from £1.3m to £1.5m
- New lending of £176m
- Healthy inflow into retail investment accounts
- £183,007 paid to affinity scheme partners including £85,794 paid to St Mary's Hospice and £49,387 to the North West Air Ambulance Service
- Improved website capability
- Management expense ratio maintained below 1.00% of mean assets



Vision, Key Aims and Key Highlights of the Year

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## SUMMARY DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

# Summary Financial Statement

This Financial Statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on demand at every office of Furness Building Society from 19 March 2007.

### Summary Directors' Report



Michael Hart - Chairman

The Directors have pleasure in presenting the 141st Annual Report and Accounts for the year ended 31 December 2006.

We achieved yet another important milestone in 2006 when we reached £800m in assets.

The housing market remained reasonably buoyant over the year with house prices continuing to rise. This enabled the Society to lend £176m in 2006 which represents our highest level of lending in a year when we have not purchased a mortgage book.

We have offered a variety of fixed rate mortgage products throughout the year including our first 10 year fixed rate mortgage which proved to be popular.

The Society has again been able to retain more of our mortgage business and hence suffered a lower level of redemptions through offering competitive deals and taking a proactive approach to preventing our mortgage business going elsewhere.

We recently launched an improved website which we hope will attract much more 'internet' lending in 2007. We intend to further develop this website as the new year progresses.

2006 has seen the Furness maintaining its relatively low level of mortgage arrears despite there being an increasing trend in the industry generally. This has been achieved through our staff's understanding approach and their experienced guidance in assisting borrowing members in difficulty.

We have increased our insurance offerings over the year and launched our Furness Insurance Club which offers very competitive deals on home, travel, motor and breakdown insurances. We intend to offer further competitive insurance deals throughout 2007. We have also introduced a specialist insurance sales team who are already achieving some excellent results.

For the second year running, there were no increases in our AXA home insurance premiums. This is good news for borrowing members. Also we have now made our insurance products available to our investing members.

The Furness now has staff trained to sell the Liverpool Victoria Flexible Protection Product which gives much needed life protection for our members on either new or existing borrowings.

Our savings performance was also very creditable with us obtaining a retail inflow in excess of our expectations.

Our ISA accounts, which had been featured in the national press 'best buy' tables, were particularly popular. We will continue to offer competitive rates on these products.

Our affinity accounts are very popular with local organisations. The 1% bonus we pay on these accounts is a source of much needed income. For example, St Mary's Hospice, Ulverston and the North West Air Ambulance received £85,794 and £49,387 respectively. Two new schemes were set up during the year – 'Give a Child a Chance', an NSPCC campaign with Bay Radio, and Kendal Town F.C.

Following the Farepak debacle, the Furness immediately took action by introducing a Festive Saver account in which Christmas savings will not only be safe but the interest we pay should mean some extra presents can be bought.

Our Child Trust Fund partnership with Liverpool Victoria continues to be successful. Our partnerships with other financial institutions are very important to us and we hope to develop new ones in the future.

## SUMMARY DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

# Summary Financial Statement

Our financial services subsidiary company, FIFA, achieved record results. By having a complete mortgage broking service, it can offer products that the Society cannot which means we can offer a solution to any mortgage enquiry. As well as taking on a dedicated mortgage adviser, FIFA is also expanding their number of independent financial advisers to enable the company to give whole of market investment advice on such key areas as pensions.

Our branches continue to be an important source of business and a key customer contact point, with each one contributing to the Society's profit.

Our good results have been achieved in an extremely competitive financial services marketplace characterised by constantly reducing margins. But, despite this, we realised a gross profit of £4.9m, maintained our management expense ratio below 1.00% of mean assets and grew by 5.48%.

The lending industry is heavily regulated. We place great importance on fully complying with the spirit as well as the requirements of the regulations. The Financial Services Authority's 'treating customers fairly' initiative has always been a top priority at the Furness and we believe we have developed systems to ensure that this is very much part of our culture.

Our staff are our greatest asset. It is therefore fundamental to our success that we develop them so they are able to achieve their maximum potential. We also strive constantly to improve communication to both our staff and our members as this too is crucial to our success.

As a mutual, we believe we should support the local communities in which we operate and as a result of this we feel the Furness is an integral part of these communities.

Four building society mergers were announced in 2006. Commentators are predicting further merger announcements in 2007. The Directors believe we can best serve our members by remaining an independent regional building society.

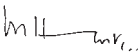
In April, we introduced a new format Annual General Meeting which was very successful in attracting a higher number of members. We will therefore be keeping the same approach this year.

John Poole left the Board in June 2006 after 13 year's service as a non-executive director. His wise counsel and the significant contribution he has made over many years will be greatly missed. I would, however, like to welcome Colin Millar onto our Board. As well as his overall business experience, Colin brings an immense amount of strategic marketing expertise to us which is already being put to good use.

The Board are always keen to know of any potential directors who have the required time and skills to make an effective contribution to the running of the Society. Applications from female potential directors would be especially welcome. Details of members considered to be suitable to fulfil this ever more demanding role should be sent to the Society's Secretary, Philip Shipman.

As always, the Board would like to extend our grateful thanks to all staff, agents and professional connections for their commitment and enthusiasm throughout the year. Their ability, efforts and loyalty have enabled the Society to achieve another set of good results.

The directors would especially like to thank our members for their continued support without which we would not achieve such good results.



Michael Hart  
Chairman  
20 February 2007

Summary Financial Statement

SUMMARY FINANCIAL STATEMENT

Group Results for the Year		
	2006	2005
	£000	£000
Net interest receivable	10,800	10,787
Other income and charges	1,485	1,253
Administrative expenses	(7,486)	(7,008)
Operating profit before provisions	4,799	5,032
Provisions	122	45
Profit for the year before taxation	4,921	5,077
Taxation	(1,510)	(1,519)
Profit for the year	3,411	3,558

Group Financial Position at End of Year		
ASSETS		
Liquid assets	150,562	142,809
Mortgages	661,571	624,475
Fixed and other assets	2,772	3,004
Total assets	814,905	770,288
LIABILITIES		
Shares	631,587	597,984
Borrowings	125,753	117,763
Other liabilities	2,524	2,610
Net pension liability	1,908	3,513
Subordinated liabilities	4,938	4,932
Reserves	48,195	43,486
Total liabilities	814,905	770,288

Approved by the Board of Directors on 20 February 2007 and signed on its behalf by:

*M Hart*

M Hart  
Chairman

*A. C. Willis*

A C Willis  
Vice Chairman

*R J Cairns*

R J Cairns  
Director and Chief Executive

## SUMMARY OF KEY FINANCIAL RATIOS

## Summary of Key Financial Ratios

	Notes	2006 %	2005 %
Gross capital as a percentage of shares and borrowings	1	7.02	6.76
Liquid assets as a percentage of shares and borrowings	2	19.88	19.95
Profit for the year as a percentage of mean total assets	3	0.43	0.47
Management expenses as a percentage of mean total assets	4	0.94	0.93

**NOTES**

1. The gross capital ratio measures the proportion that capital bears to shares and borrowings. Gross capital constitutes the reserves and subordinated liabilities shown in the balance sheet and includes the profits accumulated since the Society's formation in 1865. Capital provides a financial cushion against possible adverse market conditions in the future and therefore protects investors.
2. The liquid assets ratio measures the proportion of the Group's shares and borrowings which are held in the form of cash, short term deposits and securities which can be readily converted into cash. Liquid assets are maintained at a level which enables the Group to meet requests from investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.
3. This ratio measures the proportion which profit after taxation for the year bears to the average balance of total assets during the year. The ratio is similar to a company's return on assets. The Group needs to make a reasonable profit each year in order to maintain its capital ratios at a suitable level to protect investors.
4. The ratio of management expenses as a percentage of mean total assets measures the proportion which administrative expenses (which include depreciation and amortisation) bear to the average balance of total assets during the year.

SUMMARY FINANCIAL STATEMENT

Summary Financial Statement

Statement of the Independent Auditors to the Members and Depositors of Furness Building Society.

Pursuant to Section 76 of the Building Societies Act 1986, we have examined the summary financial statement of Furness Building Society set out on pages 9 to 12.

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 members' review in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the members' review 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.

We also read the other information contained in the members' review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

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 Furness Building Society for the year ended 31 December 2006 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
St James' Square, Manchester, M2 6DS

20 February 2007

## DIRECTORS' REMUNERATION REPORT

### INTRODUCTION

This report informs members of the Society about the policy for the remuneration of executive and non-executive directors. Although building societies are not required to hold an advisory vote on the Report on Directors' Remuneration, the Board has decided to follow the requirements for listed companies and an appropriate resolution will be put to members at this year's Annual General Meeting.

This Report has been prepared by the Remuneration Committee which is comprised entirely of non-executive directors.

### POLICY FOR EXECUTIVE DIRECTORS

The Society's strategy is to attract and retain suitably qualified individuals who have the motivation and ability to ensure the Society's continuing success.

The Committee determines the level of remuneration for executive directors which is reviewed annually taking into account rates and benefits paid by comparable peer group organisations together with individual responsibilities, experience, expertise and overall contributions.

Executive directors receive formal appraisals which focus on performance in relation to set objectives. The Chief Executive appraises his two board colleagues and receives his own appraisal from the Vice Chairman. They also receive an appraisal from the Chairman in respect of their performance as a director.

The elements of the remuneration policy are set out below:

#### **Basic Salary**

This aims to take into account market salaries paid by comparable peer group organisations.

#### **Performance Pay**

Unlike a public company the Society is not able to offer participation in Share Option Schemes.

The executive directors participate in an incentive scheme by which they may receive a non-pensionable bonus depending upon performance in relation to pre-determined objectives.

The objectives are set by the Board at the beginning of each year and are linked to the Society's strategic objectives in order to give executive directors an incentive to perform at the highest level in the interest of members. In 2006 the maximum amount of performance pay was set at 5% of basic salary for each executive director. A longer term incentive scheme was also in operation which could provide a further maximum incentive of 5% of basic salary after a period of 3 years for attainment of a separate pre-determined objective related to performance against peer group organisations.

**Benefits in Kind**

Each executive director is provided with a company car and long term disability insurance and private medical insurance.

Along with all other employees, they can participate in a concessionary mortgage scheme although no executive director is currently taking benefit from this facility.

**Pensions**

All executive directors are members of the Society's contributory final salary pension scheme.

From 1 January 2006 the amount of salary which could qualify for inclusion in this scheme was limited to the inflation related increase payable to other employees. However, the executive directors have the option to participate in the Group Personal Pension Scheme, which is a defined contribution scheme into which the Society contributes on the directors' behalf. The directors also contribute to this scheme.

**Service Contracts**

All executive directors are employed on service contracts which are terminable by either party on one year's notice or by the payment by the Society of an amount equivalent to one year's remuneration. All three executive directors are covered by contracts dated 21 December 2004.

**POLICY FOR NON-EXECUTIVE DIRECTORS**

The level of remuneration for non-executive directors is determined by the full Board taking into account market rates paid by peer group building societies.

An additional amount is paid to the Chairman, Vice Chairman and Chairman of the Audit Committee in recognition of the additional responsibilities and time commitment required for these functions.

The maximum level of remuneration that can be paid for services of the directors is set out in the Society's Rules.

There are no bonus schemes or other benefits for non-executive directors and they are not currently entitled to any pension in respect of their services.

Non-executive directors do not have service contracts.

# Directors' Remuneration Report

## EXECUTIVE DIRECTORS

2006	Salary	Bonus	Taxable Benefits	Sub-total	Increase in Accrued Pension	Defined Contribution Scheme	£ TOTAL
R J Cairns	120,000	4,200	5,481	129,681	3,327	504	133,512
P L Shipman	89,000	3,115	5,040	97,155	3,502	492	101,149
S L Poyer	75,000	2,625	6,147	83,772	1,799	453	86,024
	<u>284,000</u>	<u>9,940</u>	<u>16,668</u>	<u>310,608</u>	<u>8,628</u>	<u>1,449</u>	<u>320,685</u>

2005	Salary	Bonus	Taxable Benefits	Sub-total	Increase in Accrued Pension	Defined Contribution Scheme	£ TOTAL
R J Cairns	106,667	5,333	4,346	116,346	3,108	-	119,454
P L Shipman	80,000	4,000	4,291	88,291	3,299	-	91,590
S L Poyer	64,000	3,200	5,871	73,071	2,379	-	75,450
	<u>250,667</u>	<u>12,533</u>	<u>14,508</u>	<u>277,708</u>	<u>8,786</u>	<u>-</u>	<u>286,494</u>

The increase in accrued pension represents the change in the annual pension to which each director is entitled as a result of changes in pensionable earnings (excluding inflation) and increases in pensionable service during the year.

## NON-EXECUTIVE DIRECTORS

	2006	2005
J L Winder (Chairman until 26.4.05)	-	8,500*
M Hart (Chairman from 26.4.05)	35,258	31,125*
A C Willis (Vice-Chairman from 26.4.05)	23,338	21,275*
D Parkin (Chair of Audit Committee)	21,881	21,100
C S Fairclough (Appointed 21.6.05)	18,251	10,267*
P R W Hensman	18,251	17,600
J Poole (Resigned 20.6.06)	4,563*	17,600
C S Miller (Appointed 19.9.06)	6,083*	-
TOTAL	<u>127,625</u>	<u>127,467</u>

\* Part year fees are paid on a pro-rata basis

*A. C. Willis*

A C Willis  
Vice Chairman  
20 February 2006

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**Bolton**

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BL1 1DR

Tel: (01204) 532806

**Liverpool**

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Member of the Building Societies Association

Eligible for investment by Trustees