

**FOR THE YEAR ENDED  
31<sup>st</sup> MARCH 2008**

**Directors:**

M.R. Neve, FCA (Chairman)  
M.J. Crooks, MA (Oxon), (Vice Chairman)  
P.A. Bell, FCIB (appointed 1<sup>st</sup> January 2008)  
N.M.H. Fallowfield, BSc, FRICS  
K.E. Halstead, MA (Oxon), FCA  
M.D. Knight  
K.C. Morgan, FCIB  
M. Seymour, BSc, FRICS

**Bankers:**

National Westminster Bank Plc  
21 High Street  
Reigate  
RH2 9AD

**Auditor:**

KPMG Audit Plc  
1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

**Chief Executive, Secretary & Director:**

K.C. Morgan, FCIB

**Deputy Chief Executive & Director:**

P.A. Bell, FCIB

**HOLMESDALE BUILDING SOCIETY**

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*Authorised and regulated by the Financial Services Authority – our Firm Reference Number is 206037*

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# DIRECTORS' REPORT

for the year ended 31<sup>st</sup> March 2008

The Directors are pleased to present the 153<sup>rd</sup> annual report, accounts and annual business statement of the Society for the year ended 31<sup>st</sup> March 2008.

## Business Objectives and Activities

The Society's principal purpose is making loans which are secured on residential property and are funded substantially by its members. The Holmesdale Building Society operates as a local, independent, mutual society which the Directors consider is most effective for the long term benefit of the members. The Society aims to continue to provide both investment and mortgage facilities at competitive rates, whilst offering an efficient, flexible and friendly service.

## Business Review

In accordance with disclosure requirements, the Directors are required to set out a range of Key Performance Indicators used by the Society in measuring its development and performance. These are tabulated below:

	2008	2007
<b>Net Profit</b>	<b>£588,257</b>	£486,215
(As a mutual organisation it is not the Society's policy to maximise profit, but rather to maintain capital resources at a level sufficient for our business needs and to provide extra security for our members. Our profit for the year has once again strengthened our financial position whilst at the same time enabling us to pass on the benefits of competitive interest rates to our investors and borrowers).		
<b>Gross mortgage lending</b>	<b>£25,906,444</b>	£23,001,063
(This indicator demonstrates the level of our involvement in providing mortgage loans to assist our members in purchasing their own homes. Please see comments in the main Business Review with regard to year on year variations).		
<b>Net mortgage lending</b>	<b>£867,606</b>	£968,221
(This indicator shows the overall increase in mortgage balances after allowing for repayments of capital and redemption of loans. Our aim is to increase mortgage balances year on year whilst maintaining an interest rate structure which is fair to our members).		
<b>Increase in shares and borrowings balances</b>	<b>£2,028,527</b>	£6,327,519
(This indicator demonstrates the continued growth of our share and deposit balances over a period of time).		
<b>Management expenses as a percentage of mean assets</b>	<b>0.81</b>	£0.80
(This indicator demonstrates our commitment to maintaining a management expense level which is generally lower than societies of a similar size. Our aim is to keep our costs as low as possible so that we can pass on the benefit to our members in the form of higher savings rates and lower mortgage rates than would otherwise be possible).		
<b>Total asset growth percentage</b>	<b>1.96%</b>	4.70%
(This indicator has been selected as it demonstrates our commitment to controlled growth over a period of time. Whilst our growth has been lower this year, this is due to a business decision not to accept retail investments from the public which are likely to be volatile in a changing market. We prefer to take a longer term view which we believe delivers a fairer and more consistent return to our members over a period of time).		

During the last financial year, the Bank of England has changed Bank Base Rate (BBR) four times: two upward movements of 0.25% each followed by two downward movements of 0.25%. A further reduction of 0.25% was made in April 2008, reducing the BBR to 5.00% and further reductions are anticipated later this year. In the midst of this flurry of activity, the global financial markets have experienced turbulence of almost unprecedented levels since late summer 2007 leading to the transfer of Northern Rock Bank Plc to state ownership during the early part of this year. At a time of considerable uncertainty in the financial markets, your Society has remained steadfast and continues to deliver a fair deal to its members by offering a simple, yet competitive range of savings and mortgage products, made more attractive by the lack of small print. We believe that product terms should be uncomplicated and not subject the account holder to a range of complex conditions in order to achieve the stated headline rate, only to discover that the rate reverts to a much lower rate within a relatively short time frame. At times, some of our interest rates may not always match the headline grabbing rates published in the national press, but our rates always offer fair value for money and consistency and they are backed by a level of personal service

# DIRECTORS' REPORT

for the year ended 31<sup>st</sup> March 2008

that is becoming increasingly rare in today's financial service sector. The Society has rightly gained an enviable reputation for treating its customers fairly over a history that spans 153 years. We appreciate that our members always have a choice, and we hope they will continue to acknowledge that there is an inevitable 'trade-off' between some of the rates available in the market place and the increasing use of impersonal call centres and remote administration.

However, even though we continue to uphold our traditional values, we have moved forward on numerous fronts during the year to ensure that we appeal to a wide range of customers. Our new Young Saver account was launched during the year and offers members from birth to their 23<sup>rd</sup> birthday a competitive rate of interest with a range of free gifts designed to encourage thrift. For those aged 18 or over, the account also offers a free pre-paid debit card which can be used worldwide at any financial institution displaying the MasterCard<sup>®</sup> acceptance mark. Once again, we think it is sensible to discourage youngsters from getting into debt at an early age; with our card the young saver can only spend what they have had credited to the card from their Young Saver savings account and until the savings are credited to the card, they are earning a good rate of interest.

We have also launched a new Home Saver account to encourage our younger members to save for their first home, a difficult enough task in today's market, but one which is helped by a good rate of interest and a range of concessions of considerable benefit to those trying to get their foot on the housing ladder.

Our mortgage products have also featured in many of the national press and BBC/ITV Teletext Best Buy tables and we re-opened our Mini Cash ISA to existing members and residents of Surrey and Sussex in November 2007. Since 6<sup>th</sup> April 2008 we have accepted Cash ISA transfers from other ISA providers.

Last summer we asked our members for their views via the *Have Your Say in Our Future* survey and as a result we have introduced several changes. A further survey will be enclosed with this year's Members' Newsletter and we look forward to receiving members' views and comments.

Finally, during early summer last year, we refurbished the first and second floors of 43 Church Street which enabled us to make best use of the available space and provide a better working environment for the staff. This was followed by the implementation of a complete upgrade of our IT systems, thus enabling us to keep pace with the latest technology which has led to improvements in our transaction posting times and service resilience. These major projects were undertaken with skill and enthusiasm and their successful implementation was a credit to all those involved with the projects.

As the Society's year drew to a close, the financial markets remained in turmoil, house prices were predicted to fall back and the level of inflation was increasing, and many lenders withdrew from the mortgage market as it had become impossible to borrow wholesale money at acceptable rates. However, the Bank of England has announced its intention to inject £50 billion into the money markets which will hopefully stabilise the situation and bring some normality to the housing market. Overall, the economic outlook looks less optimistic than it has done for many years, but as a member of the Holmesdale Building Society you can take comfort from the fact that your Society is as financially sound as ever. We have no wholesale borrowings and we have no involvement, whatsoever, in the structured financial derivatives which have caused such pain to many of the international banks. We continue to operate a simple business model which means we have plenty of money available for lending to our members as we hold high levels of liquidity and our financial strength is underpinned by a level of capital well above our operating needs. We have a simple strategy and one in which you can be confident. We thank you for your continued support and we look forward to serving you the same way in the future, as we have done in the past.

## **Total Assets**

The total assets at 31<sup>st</sup> March 2008 were £151,564,105 an increase of £2,913,950 representing a growth rate of 1.96% for the year (2007: 4.70%).

## **Liquid Assets**

Liquid assets in the form of cash and securities at 31<sup>st</sup> March 2008 were £44,066,382 representing 32.05% of total shares and borrowings (2007: £42,332,823 or 31.25%).

## **Loans and Advances**

As in previous years, our continued flexible approach to borrowers' requirements enabled us to assist many members in buying a home as well as helping many others whose circumstances needed wider consideration than available from some of our competitors.

We lent a total of £25,906,444 to 178 borrowers in the year. Loans secured on residential properties and land increased from £105,674,208 to £106,541,489 after taking into account repayments of capital, an increase of £867,281 or 0.82%.

As a mutual society, members with financial problems are supported, where possible, and our policy of encouraging borrowers experiencing difficulties with repayments to contact the Society at an early stage continues to work well. Indeed, the incidence of arrears is extremely low and well below the average Council of Mortgage Lenders arrears statistics for the industry in all categories. At 31<sup>st</sup> March 2008, there were no cases where mortgage repayments were 12 months or more in arrears. During the year one property was taken into possession and was sold (subject to contract) as at the year-end.

There were no losses from doubtful debts during the year to 31<sup>st</sup> March 2008, but we considered it prudent to maintain the existing provision for doubtful debts given the current uncertainty in the housing market.

## **Funding**

Share and Deposit balances as at 31<sup>st</sup> March 2008 were £137,473,238 (2007: £135,477,271), an increase of £1,995,967 or 1.47% (2007: 4.89%).

# DIRECTORS' REPORT

for the year ended 31<sup>st</sup> March 2008

## Capital and Reserves

At 31<sup>st</sup> March 2008 free capital amounted to £12,386,509 or 9.01% of total shares and borrowings, an increase of £516,109. Gross capital amounted to £13,235,964 or 9.63% of total shares and borrowings (including accrued interest).

After a tax charge of £228,245, the Society made a profit of £588,257 (2007: £486,215) which has been added to reserves. The higher profit reflects the increased returns available on our liquid investments from late summer onwards last year. The post tax profit level for this year is in line with the Board's expectations and underpins the financial strength of your Society.

Following guidance from our Actuaries, and to ensure our ongoing compliance with accounting standards, the Board has been advised not to recognise the pension asset as it does not represent an amount readily recoverable by the Society. This has no impact on the profitability of your Society, and is merely shown as a movement in our reserves.

It is the Society's policy, as a mutual organisation, not to seek to maximise profits, but to maintain them at a level sufficient for our business needs. By doing this we are able to pass on the benefits of competitive investment rates to our savers and one of the lowest standard variable rates in the UK to our borrowers.

## Management Expenses

Management Expenses as a percentage of mean assets are 81p per £100 of mean assets (2007: 80p) and remain one of the lowest expense ratios for societies of a similar size.

## Regulatory Costs

Statutory regulatory costs other than audit for this year were £25,793 (2007: £25,725), plus the very considerable cost of many hours of senior management time which the regulatory system imposes on all financial institutions.

## Post Balance Sheet Events

The Directors consider that there have been no events since the year-end that have had an important effect on the position of the Society.

## Creditor Payment Policy

The Society's policy is to pay its trade creditors within the agreed terms of credit, provided that the supplier's contractual obligations have been fulfilled. The average number of trade creditor days as at 31<sup>st</sup> March 2008 was 10 days.

## Management & Staff

The Directors wish to record their appreciation of the dedication of the staff in a year which has seen considerable increase in workload due to ongoing legislative and regulatory changes, and intense competition for business. As always, our staff have risen to the challenge and have continued to provide an efficient and friendly service to all our members.

## Financial Risk Management Objectives and Policies

The Society adopts a policy of low exposure to risk which is consistent with its risk averse culture, the objective of which is to minimise the impact of financial risk upon its performance. Financial Risks faced by the Society include: Liquidity Risk; Credit Risk; Market Risk and Operational Risk and are summarised in the section below (Principle Risks and Uncertainties).

## Principle Risks and Uncertainties

Liquidity Risk concerns the Society's ability to meet its financial obligations as they fall due as a result of imbalances in the cash flow of its activities. The Society has policies in place to ensure that it maintains sufficient funds in a liquid form at all times, so that the Society can meet its liabilities as they fall due thereby maintaining public confidence in the solvency of the Society. Liquid funds in the form of 8-Day liquidity are maintained well above the regulatory minimum and we are not dependent on wholesale funding as all our activities are funded by retail receipts.

Credit Risk arises primarily from mortgage loans, but also as a result of the Society's investments as part of its treasury activities. The Society has policies in place to ensure that mortgage loans and treasury investments are transacted strictly in accordance with prudent policy limits thereby minimising risk and reflecting the Board's general risk averse attitude.

Market Risk incorporates the loss of income as a result of changes to interest rates. The Revenue Management Committee has delegated authority from the Board to manage exposure to market risk and approve all changes to the Society's interest rate structure.

Operational Risk is associated with the Society's internal processes and systems and the potential for these not to function properly, or a risk arising from external events. A Steering Committee was formed during 2007 to ensure compliance with regulatory changes to capital assessment requirements arising from the implementation of the Capital Requirements Directive which became effective on 1<sup>st</sup> January 2008. The Capital Requirements Directive necessitated a substantial amount of preparation which we successfully completed on time, and we are pleased to report that the Society's capital position is well in excess of regulatory requirements.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Society's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

# DIRECTORS' REPORT

for the year ended 31<sup>st</sup> March 2008

## Directors

The following persons were Directors of the Society during the year: P.A. Bell (appointed 1<sup>st</sup> January 2008), M.J. Crooks, N.M.H. Fallowfield, K.E. Halstead, M.D. Knight, K.C. Morgan, M.R. Neve and M. Seymour.

## Auditors

KPMG Audit Plc have expressed their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

22<sup>nd</sup> May 2008

On behalf of the Board of Directors  
M.R. Neve, Chairman

# DIRECTORS' RESPONSIBILITIES

for the year ended 31<sup>st</sup> March 2008

## Directors' Responsibilities in Respect of the Directors' Report, Accounts and Annual Business Statement

The Directors are responsible for preparing the Directors' Report, Accounts and Annual Business Statement in accordance with applicable law and regulations.

The Building Societies Act ("the Act") requires the Directors to prepare society Annual Accounts for each financial year. Under that law they have elected to prepare the Society Annual Accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Society Annual Accounts are required by law to give a true and fair view of the state of affairs of the Society and of the income and expenditure of the Society for the financial year.

In preparing these Annual Accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts;
- prepare the Annual Accounts on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

In addition to the Annual Accounts the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

## Directors' Responsibilities for Accounting Records and Internal Controls

The Directors are responsible for ensuring that the Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society, in accordance with the Act.
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions.

## Going Concern

The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

# CORPORATE GOVERNANCE

for the year ended 31<sup>st</sup> March 2008

The Board is responsible for the governance of the Society and is firmly committed to corporate governance best practice.

The Board recognises that the FSA's Code of Governance has been replaced by an FSA regulatory expectation for compliance with the Combined Code on Corporate Governance which is intended to apply to listed companies. The Building Societies Association has provided guidance on the Combined Code and the Board, having reviewed the requirements as appropriate to a building society, has adopted them unless as otherwise stated below.

As a mutual society, the Board as a whole takes responsibility for ensuring that a satisfactory dialogue takes place with our members. Indeed, as all of our Non-Executive Directors are based locally, there are frequent opportunities for members to express their views on the Society's overall efficiency and range of services. Members are encouraged to attend and participate in the Society's Annual General Meeting and receive an annual Newsletter containing useful information about the Society's activities and services and have an opportunity to express their views on the Society through the annual members' survey.

The Board consists of two Executive Directors, being the Chief Executive and the Deputy Chief Executive, and six independent Non-Executive Directors including the Non-Executive Chairman who is appointed annually by the Board. All the Non-Executive Directors are viewed by the Board as being of independent character and judgement and are able to provide an objective view of the Society's activities. As a consequence, the Board is of the opinion that the concept of a Senior Independent Director is not appropriate for the Society. All Directors must meet the Financial Services Authority's test of fitness and propriety and be registered with them as Approved Persons in order to fulfil their Controlled Function responsibilities. All Directors maintain their knowledge of the industry and its regulatory structure by attending the Building Societies Association or Financial Services Authority seminars to ensure that they have the requisite skills and knowledge to effectively discharge their duties and responsibilities.

The Society has arranged appropriate liability insurance in respect of its Directors who have access to independent legal and other professional advice, if required, at the expense of the Society.

The Chairman leads the Board and is not involved in the day-to-day management of the Society. The Chief Executive implements the strategy set by the Board and his responsibilities are set out in a job description which is reviewed annually by the Board.

The Board meets 12 times a year and adheres to a formal calendar of items for review and decision making. The Board has established committees to consider certain specialist areas in more detail which operate within defined terms of reference. Minutes of meetings are formally recorded. The Committees and their terms of reference are set out below.

## **Management & Audit Committee**

The Management & Audit Committee's terms of reference include the consideration of matters relating to internal and external audit reports, arrangements, systems of control and regulatory issues and consideration of the broad policies of the Society. The Committee also approves the annual internal audit and risk management plans and reviews the compliance plan. These are based on a thorough risk assessment of the Society's business activities and the Committee monitors progress against those plans. The Committee normally meets on a monthly basis. Membership of the Committee is confined to Non-Executive Directors; by invitation, all meetings are attended by the Chief Executive and, also by invitation when required, the Deputy Chief Executive and the Compliance Manager.

During the year the committee comprised:

K.E. Halstead (Chairman), M.J. Crooks and M.R. Neve.

A quorum consists of the Chairman, or Acting Chairman, plus one other Committee member.

## **Mortgage Advances Committee**

The Mortgage Advances Committee's terms of reference are to consider for approval mortgage advances in excess of the limits determined by the Board. The Committee meets as required and aims to reach a decision on individual mortgage applications within 24 hours of receipt.

During the year the committee comprised:

M. Seymour (Chairman), N.M.H. Fallowfield and K.C. Morgan.

A quorum consists of the Chairman, or Acting Chairman, plus one other Committee member.

## **Revenue Management Committee**

The Revenue Management Committee's terms of reference are to be responsible for the management and investment of surplus funds in order to obtain the best possible income and growth within the requirements of the Building Societies Act. The Committee is empowered to change interest rates for both borrowers and savers.

The Committee meets to determine interest rate and investment strategy following the announcement of any change in the Bank of England Base Rate.

During the year the committee comprised:

M.D. Knight (Chairman), K.C. Morgan and M.R. Neve.

A quorum consists of the Chairman, or Acting Chairman, plus one other Committee member.

# CORPORATE GOVERNANCE

for the year ended 31<sup>st</sup> March 2008

## Nominations Committee

The Nominations Committee comprises the entire Board. Its terms of reference include the review of the balance of the Board's skills and experience, its structure and composition, any new appointments and the performance of Directors. The Nominations Committee meets as necessary to oversee the Board succession plan and to address matters concerning the appointment of new Directors. All future vacancies for Non-Executive Directors will be advertised in the annual Members' Newsletter, or other such media as may be appropriate.

Directors are appointed for periods of three years. The Chairman appraises the performance of the Non-Executive Directors on an annual basis and the Chairman's performance is appraised by the Non-Executive Directors annually. The Chairman gives feedback to the Board on general issues of performance improvement following the appraisal process to allow it to review its own performance.

The Combined Code recommends that Non-Executive Directors, other than the Chairman, should be subject to annual re-election after serving nine years on the Board. The following Directors are subject to this requirement at this year's Annual General Meeting and will be standing for re-election by the membership with the full support of the Board:

1. Michael John Crooks,
2. Michael David Knight, and
3. Martin Seymour.

In addition, the following Directors will be standing for re-election for the next three years:

1. Keith Erik Halstead, and
2. Kevin Charles Morgan.

In accordance with the Society's Rules, Mr Peter Andrew Bell, who was appointed an Executive Director on 1<sup>st</sup> January 2008, is required to retire at the Annual General Meeting and, being eligible, offers himself for election for the next three years.

## Remuneration Committee

The Remuneration Committee's terms of reference include the review and approval of remuneration packages and service contracts for the Executive Director as well as Directors' fees and the approval of loans to Directors as connected persons.

All Combined Code provisions, Society policy, and procedures relating to the remuneration of Directors are detailed in the Directors' Remuneration Report.

## The Capital Requirements Directive (CRD) Steering Committee

The CRD Steering Committee's terms of reference are to oversee the Society's ICAAP (Internal Capital Adequacy Assessment Process) to ensure that we comply with the regulatory requirements relating to capital and solvency. The Committee meets on a quarterly basis and comprises:

K.E. Halstead (Chairman), M.R. Neve, K.C. Morgan and P.A. Bell.

A quorum counts of the Chairman, or Acting Chairman, plus one other Committee member.

## Board and Sub-Committee Attendance Record

The table below shows, against each Director's name, the number of meetings of the Board and its Committees at which the Director was present and, in brackets, the number of such meetings the Director was eligible to attend as a member of the Board or Sub-Committee.

Director	Board	Management & Audit Committee	Revenue Management Committee	Nominations Committee	Remuneration Committee	Capital Requirements Directive Steering Committee
M.R. Neve, Chairman	12 (12)	12 (12)	4 (4)	1 (1)	1 (1)	5(5)
M.J. Crooks, Vice Chairman	11 (12)	11 (12)	-	1 (1)	1 (1)	-
P.A. Bell, Deputy Chief Executive	12 (12)	-	-	1 (1)	1 (1)	5(5)
N.M.H. Fallowfield	11 (12)	-	-	1 (1)	1 (1)	-
K.E. Halstead	11 (12)	11 (12)	-	1 (1)	1 (1)	5(5)
M.D. Knight	12 (12)	-	4 (4)	1 (1)	1 (1)	-
K.C. Morgan, Chief Executive	11 (12)	11 (12)	4 (4)	1 (1)	1 (1)	5(5)
M. Seymour	11 (12)	-	-	1 (1)	1 (1)	-

# DIRECTORS' REMUNERATION REPORT

for the year ended 31<sup>st</sup> March 2008

## Directors' Remuneration

Although building societies are not required to do so, the Board voluntarily follows the requirements for listed companies in providing information to members about the Board's policy on the remuneration of Executive and Non-Executive Directors. As a consequence, the Board has included an advisory vote on the Directors' Remuneration Report, as set out below, at this year's Annual General Meeting.

## Remuneration Committee

The Remuneration Committee comprises the Non-Executive Directors for the purpose of setting the Executive Directors' remuneration policy; the Chairman is M.R. Neve. For the purpose of setting the Non-Executive Directors' fees, the Remuneration Committee is the whole Board of Directors.

## Executive Directors' Remuneration

The Board's policy is to set remuneration levels in order to attract and retain a sufficient number of Executives who are committed to achieving the Society's strategic objectives. The main components of the Executive Directors' Remuneration are:

Basic Salary - takes into account: the job content and responsibilities, individual performance (which is assessed annually), and salary levels for similar positions in comparable organisations.

Pension - the Executive Directors are members of the Holmesdale Building Society Group Personal Pension Scheme which is a defined contribution scheme.

Other Benefits - the provision of a car (or an equivalent allowance) to the Executive Directors, private medical insurance and permanent health insurance.

Service Contract - the Chief Executive is employed under a contract which requires six months' notice by the employer or employee to terminate employment. The Deputy Chief Executive is employed under a contract which requires three months' notice by the employer or employee to terminate employment.

## Non-Executive Directors' Remuneration

The remuneration of Non-Executive Directors is reviewed annually by the Remuneration Committee by comparing information from external sources and fees paid in similar sized societies. Non-Executive Directors are remunerated by fees, are not members of the Society's pension scheme, and do not receive any other benefits. Non-Executive Directors do not have service contracts as their terms of service are set out in an initial letter of appointment.

## DIRECTORS' REMUNERATION FOR THE YEAR ENDED 31<sup>st</sup> MARCH 2008

The following tables show each Director's remuneration for the year to 31<sup>st</sup> March 2008 with prior year comparatives also shown:

<b>Non-Executive Director</b>	<b>Fees Total 2008</b>	<b>Fees Total 2007</b>
M.R. Neve (Chairman)	<b>£23,700</b>	£22,350
M.J. Crooks (Vice Chairman)	<b>£13,950</b>	£13,200
M.D. Knight	<b>£12,750</b>	£12,000
N.M.H. Fallowfield	<b>£13,250</b>	£12,500
K.E. Halstead	<b>£14,250</b>	£13,200
M. Seymour	<b>£13,250</b>	£12,500
	<b><u>£91,150</u></b>	<b><u>£85,750</u></b>

  

<b>Executive Directors (2008)</b>	<b>Salary/Fees</b>	<b>Benefits</b>	<b>Pension Contributions</b>	<b>Total 2008</b>
K.C. Morgan	£103,036	£6,079	£29,410	<b><u>£138,525</u></b>
P.A. Bell (from appointment 1 <sup>st</sup> January 2008)	<u>£18,887</u>	<u>£222</u>	<u>£1,425</u>	<b><u>£20,534</u></b>
	<b><u>£121,923</u></b>	<b><u>£6,301</u></b>	<b><u>£30,835</u></b>	<b><u>£159,059</u></b>

  

<b>Executive Director (2007)</b>	<b>Salary/Fees</b>	<b>Benefits</b>	<b>Pension Contributions</b>	<b>Total 2007</b>
K.C. Morgan	£96,488	£6,058	£27,625	<b><u>£130,171</u></b>

22<sup>nd</sup> May 2008

**M.R. Neve, Chairman of the Remuneration Committee**

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOLMESDALE BUILDING SOCIETY

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We have audited the annual accounts of Holmesdale Building Society for the year ended 31<sup>st</sup> March 2008 which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These annual accounts have been prepared under the accounting policies set out therein.

We have examined the Annual Business Statement (other than the details of directors and officers upon which we are not required to report) and the Directors' Report.

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in the auditors' report 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, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Directors' Report, Accounts and Annual Business Statement in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We are also responsible for examining the Annual Business Statement (other than the details of directors and officers) and for reading the information in the Directors' Report and assessing whether it is consistent with the accounting records and the annual accounts.

We report to you our opinion as to whether the annual accounts give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. In addition, we report to you our opinion as to whether certain information in the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information in the Directors' Report is consistent with the accounting records and the annual accounts and whether the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

We also report to you if, in our opinion, the annual accounts are not in agreement with the accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Directors' Report, Accounts and Annual Business Statement and consider whether it is consistent with the audited annual accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Directors' Report, Accounts and Annual Business Statement. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the annual accounts are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the annual accounts.

## **Opinion**

In our opinion:

- (a) the annual accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the affairs of the Society as at 31<sup>st</sup> March 2008 and of the income and expenditure for the year then ended;
- (b) the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- (c) the information given in the Directors' Report is consistent with the accounting records and the annual accounts; and
- (d) the annual accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

22<sup>nd</sup> May 2008

## INCOME AND EXPENDITURE ACCOUNT

for the year ended 31<sup>st</sup> March 2008

	Note	2008 £	2007 £
Interest receivable and similar income	2	9,285,190	7,937,333
Interest payable and similar charges	3	<u>(7,260,012)</u>	<u>(6,089,048)</u>
<b>Net interest receivable</b>		<b>2,025,178</b>	<b>1,848,285</b>
Fees and commissions receivable		97,751	74,074
Fees and commissions payable		(100,116)	(80,442)
Other operating income		<u>13,354</u>	<u>7,835</u>
<b>Total income</b>		<b>2,036,167</b>	<b>1,849,752</b>
Administrative expenses	4	(1,161,412)	(1,129,428)
Depreciation and amortisation	11	(58,253)	(39,871)
Provisions for liabilities	17	-	<u>(13,312)</u>
<b>Profit on ordinary activities before tax</b>		<b>816,502</b>	<b>667,141</b>
Tax on profit on ordinary activities	8	<u>(228,245)</u>	<u>(180,926)</u>
<b>Profit for the financial year</b>	19	<b><u>588,257</u></b>	<b><u>486,215</u></b>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31<sup>st</sup> March 2008

	Note	2008 £	2007 £
Profit for the financial year		588,257	486,215
Movement in actuarial gain recognised in the pension scheme	21	(5,134)	(304,232)
Movement in taxation relating to the pension scheme		<u>1,438</u>	<u>91,267</u>
<b>Total recognised gains and losses for the year</b>		<b><u>584,561</u></b>	<b><u>273,250</u></b>

## NOTES OF HISTORICAL COST PROFITS AND LOSSES

for the year ended 31<sup>st</sup> March 2008

	Note	2008 £	2007 £
Reported profit on ordinary activities before tax		816,502	667,141
Excess depreciation on revaluation of freehold premises	18	<u>10,341</u>	<u>7,025</u>
<b>Historical cost profit on ordinary activities before tax</b>		<b><u>826,843</u></b>	<b><u>674,166</u></b>
<b>Historical cost profit for the year retained after tax</b>		<b><u>598,598</u></b>	<b><u>493,240</u></b>

The above results are all derived from continuing operations. The 'profit on ordinary activities before tax' represents the FRS 3 caption 'operating profit'.

The notes on pages 14 to 23 form part of these accounts.

## BALANCE SHEET

as at 31<sup>st</sup> March 2008

	Note	2008 £	2007 £
<b>Assets</b>			
<b>Liquid Assets:</b>			
Cash in hand		9,000	9,000
Loans and advances to credit institutions	9	<u>44,057,382</u>	<u>42,323,823</u>
		<b>44,066,382</b>	<b>42,332,823</b>
 <b>Loans and Advances to Customers:</b>			
	10		
Loans fully secured on residential property		99,934,187	100,391,379
Loans fully secured on land		<u>6,482,572</u>	<u>5,157,774</u>
		<b>106,416,759</b>	<b>105,549,153</b>
Tangible fixed assets	11	934,455	688,997
Deferred tax	12	29,469	37,494
Prepayments and accrued income		80,437	41,688
Other asset		<u>36,603</u>	<u>-</u>
<b>Total assets</b>		<b><u>151,564,105</u></b>	<b><u>148,650,155</u></b>
 <b>Liabilities</b>			
Shares	13	135,394,925	133,255,123
Amounts owed to credit institutions	14	32,560	-
Amounts owed to other customers	15	2,078,313	2,222,148
Other liabilities	16	674,023	583,571
Accruals and deferred income		123,320	89,906
Provisions for liabilities	17	25,000	25,000
Revaluation reserve	18	587,081	420,422
General Reserves	19	<u>12,648,883</u>	<u>12,053,985</u>
<b>Total liabilities</b>		<b><u>151,564,105</u></b>	<b><u>148,650,155</u></b>

The notes on pages 14 to 23 form part of these accounts.

These accounts were approved by the Board of Directors on 22<sup>nd</sup> May 2008 and were signed on its behalf by:

.....  
**M.R. Neve** (Chairman),

.....  
**M.J. Crooks** (Vice Chairman),

.....  
**K.C. Morgan** (Director and Chief Executive)

## CASH FLOW STATEMENT

for the year ended 31<sup>st</sup> March 2008

	2008	2007
	£	£
Net cash inflow from operating activities (see below)	<b>3,064,024</b>	5,133,541
Taxation	<b>(228,245)</b>	(180,926)
Capital expenditure and financial investment		
Purchase of fixed assets	<b>(126,711)</b>	(3,820)
Proceeds from maturity of debt securities	<u>-</u>	<u>500,000</u>
<i>Increase in cash</i>	<b><u>2,709,068</u></b>	<b><u>5,448,795</u></b>

### Reconciliation of operating profit to net cash inflow from operating activities

	2008	2007
	£	£
Profit on ordinary activities before tax	<b>816,502</b>	667,141
(Increase) in prepayments, accrued income and accrued interest	<b>(55,215)</b>	(2,645)
Increase in accruals, deferred income and accrued interest	<b>28,299</b>	238,423
Increase in provisions for liabilities and charges	-	4,754
Depreciation	<b>58,253</b>	39,871
(Decrease)/Increase in other non-cash movements	<b><u>(3,700)</u></b>	<u>720</u>
<b><i>Net cash inflow from trading activities</i></b>	<b><i>844,139</i></b>	<b><i>948,264</i></b>
(Increase) in loans and advances to customers	<b>(867,606)</b>	(968,221)
Increase in shares	<b>2,144,917</b>	6,154,025
(Decrease) in amounts owed to other customers and credit institutions	<b>(111,275)</b>	(80,897)
Decrease/(Increase) in loans and advances to credit institutions	<b>1,000,000</b>	(1,000,000)
Increase in other liabilities	<b>90,452</b>	80,370
(Increase) in other assets	<b><u>(36,603)</u></b>	<u>-</u>
<b><i>Net cash (outflow) from operating activities</i></b>	<b><i><u>3,064,024</u></i></b>	<b><i><u>5,133,541</u></i></b>

### Analysis of the balances of cash shown in the Balance Sheet (excluding accrued interest)

	2008	2007
	£	£
Cash in hand	<b>9,000</b>	9,000
Loans and advances repayable on demand	<b><u>19,749,302</u></b>	<u>17,040,234</u>
<b><i>Analysis of the changes in cash</i></b>	<b><i><u>19,758,302</u></i></b>	<b><i><u>17,049,234</u></i></b>
Opening cash	<b>17,049,234</b>	11,600,439
Cash inflow (see above)	<b><u>2,709,068</u></b>	<u>5,448,795</u>
Closing cash	<b><u>19,758,302</u></b>	<u>17,049,234</u>

# NOTES TO ANNUAL ACCOUNTS

for the year ended 31<sup>st</sup> March 2008

## 1. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Society's accounts.

### (a) Basis of Preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable Accounting Standards and in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 (the 'Accounts Regulations').

### (b) Fixed Assets

The cost of additions is capitalised. Minor items of equipment and repairs and renewals are written off in the year in which the expenditure is incurred.

### (c) Depreciation

Depreciation is provided on the freehold buildings over 50 years. Depreciation is not provided on freehold land. Equipment, fixtures and fittings and motor vehicles are depreciated to their residual values by annual instalments over their estimated useful lives of between five and ten years.

### (d) Liquid Assets

Liquid assets are stated at the lower of cost or net realisable value. Income from liquid assets includes interest accrued to the date of the Balance Sheet.

### (e) Taxation

Deferred tax is recognised, without discounting, in respect of all timing difference between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the Balance Sheet date, except as otherwise required by FRS 19, Deferred Tax.

The charge for taxation is based on the profit for the year and takes into account taxation deferred.

### (f) Pension Costs

The Society operates a defined benefit pension scheme administered by trustees, the funds of which are separate from those of the Society. The pension costs relating to the defined benefit scheme are assessed in accordance with the advice of a qualified actuary using the projected unit method. Actuarial surpluses, to the extent that they are recoverable by the Society, and deficiencies, are reported immediately on the Balance Sheet net of deferred taxation and any resulting actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The Society also contributes to a Group Personal Pension scheme which is a money purchase scheme. The assets of this scheme are held separately from those of the Society in an independently administered fund. The amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

### (g) Provision for Losses on Loans and Advances

Provisions are made to reduce the value of loans and advances to the amount which the Directors consider is likely ultimately to be received.

Throughout the year and at the year-end individual assessments are made of all loans and advances on properties which are in possession or in arrears by 2½% or more of the outstanding balance. Specific provision is made against those loans and advances which are considered to be impaired. In considering the specific provision for impaired loans account is taken of the probability that an account in arrears will result in a possession, any discount which may be needed against the value of the property at the Balance Sheet date to agree a sale within three months of that date, the amounts recoverable under mortgage indemnity policies and anticipated realisation costs.

A general provision is made against those loans and advances which have not been specifically identified as impaired, but where the Society's experience and the general economic climate would indicate that the full loan may not be recouped by the Society.

Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable, except in respect of loans and advances where there are long term arrears or where the property has been taken into possession and where the collection of interest is subject to significant doubt. Such interest is credited to a suspense account. Loans and advances in the Balance Sheet are shown net of provisions, specific and general, and net of the balance of suspended interest. The charge to the income and expenditure account comprises the change in provisions together with losses written off in the year.

# NOTES TO ANNUAL ACCOUNTS

for the year ended 31<sup>st</sup> March 2008

## (h) Incentives to Borrowers

Discounts and other upfront incentives given to borrowers are charged against interest receivable in the period in which they are allowed.

## (i) Mortgage Indemnity Guarantee

Fees received from borrowers in respect of advances with high loan to value ratios are deferred and offset against loans and advances to customers in the Balance Sheet. The balance of the deferred income is carried forward and released to income over the lives of the mortgages.

## (j) Operating Leases

All payments under operating lease contracts are charged to the income and expenditure account on a straight line basis over the life of the lease.

### 2. Interest Receivable and Similar Income

	2008	2007
	£	£
On loans fully secured on residential property	<b>6,100,363</b>	5,738,965
On other loans	<b>456,823</b>	379,404
On debt securities		
Interest and other income	-	16,827
On other liquid assets	<b><u>2,728,004</u></b>	<u>1,802,137</u>
	<b><u>9,285,190</u></b>	<u>7,937,333</u>

### 3. Interest Payable and Similar Charges

	2008	2007
	£	£
On shares held by individuals	<b>7,151,210</b>	6,005,967
On deposits and other borrowings	<b><u>108,802</u></b>	<u>83,081</u>
	<b><u>7,260,012</u></b>	<u>6,089,048</u>

### 4. Administrative Expenses

	2008	2007
	£	£
Staff costs:		
Wages and salaries	<b>602,913</b>	554,851
Social security costs	<b>61,445</b>	56,744
Other pension costs	<b><u>82,937</u></b>	<u>134,776</u>
	<b>747,295</b>	746,371
Other expenses	<b><u>414,117</u></b>	<u>383,057</u>
	<b><u>1,161,412</u></b>	<u>1,129,428</u>
Other administrative expenses include:		
Auditors' and their associates' remuneration (exclusive of VAT):		
Audit services	<b>25,168</b>	25,150
Non-audit services	<b><u>3,525</u></b>	<u>2,100</u>
	<b><u>28,693</u></b>	<u>27,250</u>

### 5. Employees

The average number of persons employed by the Society (including the Executive Directors) at its only office during the year was as follows:

	2008	2007
Full time	<b>14</b>	14
Part time	<b><u>5</u></b>	<u>4</u>
	<b><u>19</u></b>	<u>18</u>

# NOTES TO ANNUAL ACCOUNTS

for the year ended 31<sup>st</sup> March 2008

## 6. Remunerations of and Transactions with Directors

- (a) Details outlining the policy on Directors' remuneration is shown within the Directors' Remuneration Report on page 8. Total Directors' remuneration for the year was £250,209 (2007: £215,921).
- (b) Directors' loans and transactions: at 31<sup>st</sup> March 2008 there were 3 outstanding mortgage loans (2007: 3) granted in the ordinary course of business to 3 Directors and their connected persons (2007: 3), amounting in aggregate to £390,761 (2007: £364,943).

A Register is maintained at the head office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and their connected persons. A statement of the appropriate details contained in the Register, for the financial year ended 31<sup>st</sup> March 2008, will be available for inspection at the head office for a period of 15 days up to and including the Annual General Meeting.

## 7. Provision for Bad and Doubtful Debts

Provisions against loans and advances to customers are as follows:

	Loans Fully Secured on Residential Property		Loans Fully Secured on Land		Total £
	General	Specific	General	Specific	
	£	£	£	£	
At 1 <sup>st</sup> April 2007	55,000	17,500	30,000	-	102,500
(Releases)/Charges	-	-	-	-	-
At 31 <sup>st</sup> March 2008	<b>55,000</b>	<b>17,500</b>	<b>30,000</b>	-	<b>102,500</b>

## 8. Taxation

	2008 £	2007 £
The taxation charge for the year comprises:		
UK Corporation Tax based on the profit for the year on ordinary activities at 30% (2007 30%)	220,133	181,678
Under/(Over) provision of tax in prior years	53	(39)
<i>Total current tax</i>	<b>220,186</b>	181,639
Deferred Tax		
Origination and reversal of timing differences	(8,025)	(713)
<i>Total deferred tax</i>	<b>(8,025)</b>	(713)
Tax on profit on ordinary activities	<b>228,211</b>	180,926

The difference between the Corporation Tax rate and the effective tax rate, defined as the taxation charge for the year as a percentage of profit on ordinary activities before taxation is explained as follows:

	2008 £	2007 £
Profit on ordinary activities before tax	<b>816,502</b>	667,141
Current tax at 30% (2007: 30%)	<b>244,951</b>	200,142
Effect of:		
Timing differences	-	-
Expenses not deductible for tax purposes	(1,180)	168
Small companies relief	(17,682)	(22,528)
Adjustments to tax charge in respect of previous periods	(8,025)	39
Depreciation in excess of capital allowances	4,100	3,105
Rate difference on deferred taxation	(1,978)	-
Total current tax charge for the year (see above)	<b>220,186</b>	180,926

## NOTES TO ANNUAL ACCOUNTS

for the year ended 31<sup>st</sup> March 2008

### 9. Loans and Advances to Credit Institutions

	2008	2007
	£	£
Loans and advances to credit institutions have remaining maturities as follows:		
Accrued interest	308,080	283,589
Repayable on demand	19,749,302	17,040,234
In not more than three months	<u>24,000,000</u>	<u>25,000,000</u>
	<u>44,057,382</u>	<u>42,323,823</u>

### 10. Loans and Advances to Customers

The maturity of loans and advances to customers from the date of the Balance Sheet is as follows:

	2008	2007
	£	£
On call and at short notice	289,586	377,650
In not more than three months	478,452	435,358
In more than three months but not more than one year	2,858,315	1,936,928
In more than one year but not more than five years	16,957,185	13,614,624
In more than five years	<u>85,957,951</u>	<u>89,309,648</u>
	106,541,489	105,674,208
Less: provisions for bad and doubtful debts (Note 7)	(102,500)	(102,500)
Deferred mortgage indemnity income	<u>(22,230)</u>	<u>(22,555)</u>
	<u>106,416,759</u>	<u>105,549,153</u>

'Loans Fully Secured on Land' relates to loans secured on commercial property.

### 11. Tangible Fixed Assets

	Freehold Land & Buildings	Equipment, Fixtures & Fittings	Motor Vehicles	Total
	£	£	£	£
<b>Cost or valuation</b>				
At 1 <sup>st</sup> April 2007	690,000	421,643	26,618	1,138,261
Additions	177,000	126,711	-	303,711
Disposals	-	-	-	-
At 31 <sup>st</sup> March 2008	<u>867,000</u>	<u>548,354</u>	<u>26,618</u>	<u>1,441,972</u>
<b>Depreciation</b>				
At 1 <sup>st</sup> April 2007	73,925	359,371	15,968	449,264
Charge for the year	13,667	39,264	5,322	58,253
Disposals	-	-	-	-
At 31 <sup>st</sup> March 2008	<u>87,592</u>	<u>398,635</u>	<u>21,290</u>	<u>507,517</u>
<b>Net book value</b>				
<b>At 31<sup>st</sup> March 2008</b>	<u>779,408</u>	<u>149,719</u>	<u>5,328</u>	<u>934,455</u>
At 31 <sup>st</sup> March 2007	<u>616,075</u>	<u>62,272</u>	<u>10,650</u>	<u>688,997</u>

## NOTES TO ANNUAL ACCOUNTS

for the year ended 31<sup>st</sup> March 2008

Tangible Fixed Assets comprise:

	2008	2007
	£	£
At cost	574,972	448,261
At valuation	<u>867,000</u>	<u>690,000</u>
Total	<u>1,441,972</u>	<u>1,138,261</u>

Freehold land and buildings were re-valued to £867,000 as at 31<sup>st</sup> March 2008. This valuation was carried out by a member of the Royal Institution of Chartered Surveyors, from Robinsons Chartered Surveyors, an external firm of valuers. The valuation was carried out on an 'existing use basis'.

The net book value of land and buildings occupied by the Society for its own activities at 31<sup>st</sup> March 2008 was £701,467 (2007: £553,433).

### 12. Deferred Tax

	2008	2007
	£	£
As at 1 <sup>st</sup> April 2007	37,494	38,207
(Decrease) during the year	<u>(8,025)</u>	<u>(713)</u>
At 31 <sup>st</sup> March 2008	<u>29,469</u>	<u>37,494</u>
The elements of deferred tax are as follows:		
Difference between accumulated depreciation and capital allowances	(3,237)	4,494
General mortgage loss provisions	23,800	<u>25,500</u>
Other short term timing differences	8,906	<u>7,500</u>
Deferred tax asset	<u>29,469</u>	<u>37,494</u>

### 13. Shares

	2008	2007
	£	£
Held by individuals	<u>135,394,925</u>	<u>133,255,123</u>

Shares held by individuals are repayable from the Balance Sheet date in the ordinary course of business as follows:

	2008	2006
	£	£
Accrued interest	250,959	256,074
Repayable on demand	6,991,384	6,636,118
In not more than three months	128,101,935	126,334,444
In more than three months but not more than one year	<u>50,647</u>	<u>28,487</u>
	<u>135,394,925</u>	<u>133,255,123</u>

### 14. Amounts Owed to Credit Institutions

Amounts owed to Credit Institutions are repayable from the Balance Sheet date as follows:

	2008	2007
	£	£
Repayable on demand	<u>32,560</u>	<u>-</u>

# NOTES TO ANNUAL ACCOUNTS

for the year ended 31<sup>st</sup> March 2008

## 15. Amounts Owed to Other Customers

Amounts owed to other customers are repayable from the Balance Sheet date in the ordinary course of business as follows:

	2008	2007
	£	£
In not more than three months	<u>2,078,313</u>	<u>2,222,148</u>

## 16. Other Liabilities

	2008	2007
	£	£
Income tax	446,656	394,741
Corporation tax	220,220	180,926
Other creditors	<u>7,147</u>	<u>7,904</u>
	<u>674,023</u>	<u>583,571</u>

## 17. Provisions for Liabilities

	2008	2007
	£	£
Regulatory and other:		
At 1 <sup>st</sup> April 2007	25,000	20,246
(Utilisation) for the year	-	(8,558)
Charge for the year	<u>-</u>	<u>13,312</u>
At 31 <sup>st</sup> March 2008	<u>25,000</u>	<u>25,000</u>

## 18. Revaluation Reserve

	2008	2007
	£	£
At 1 <sup>st</sup> April 2007	420,422	427,447
Transfer of excess depreciation to General Reserves	(10,341)	(7,025)
Revaluation in year (note 11)	<u>177,000</u>	<u>-</u>
At 31 <sup>st</sup> March 2008	<u>587,081</u>	<u>420,422</u>

## 19. General Reserves

	2008
	£
At 1 <sup>st</sup> April 2007	12,053,985
Profit for the financial year	588,257
Transfer of excess depreciation from Revaluation Reserve	10,341
Actuarial gain net of deferred tax	24,532
De-recognition of non-utilisable asset	(28,232)
At 31 <sup>st</sup> March 2008	<u>12,648,883</u>

## 20. Guarantees and Other Financial Commitments

### Financial Services Compensation Scheme

- (a) The Society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme provided for by the Financial Services and Markets Act 2000.
- (b) The Society's annual commitments under non-cancellable operating leases were as follows:

	Land & buildings 2008	Land & buildings 2007
	£	£
Expiring between one and five years	9,500	-

# NOTES TO ANNUAL ACCOUNTS

for the year ended 31<sup>st</sup> March 2008

## 21. Retirement Benefits

The Society operates two pension schemes, a funded defined benefit scheme that was open to employees up to 1<sup>st</sup> August 1993 and a defined contribution scheme for all employees since then.

For the defined contribution group personal pension scheme, the charge for the period was £82,937.

For the defined benefit scheme, contributions are determined by actuarial valuations, which are made regularly at three yearly intervals, the most recent being 1<sup>st</sup> January 2006. The aggregate market value of the scheme's assets at this date was £678,000 and the actuarial value of these assets represented 108% of the benefits that had accrued to scheme members.

The assumptions which have the most significant affect on the result of the valuation are those relating to mortality and the rate of return on existing assets. It is assumed that all members will reach their normal retirement date; after retirement the PA92 mortality table with medium cohort is used. The rate of return on existing assets is assumed to be 6.6% per annum for equities and 4.6% per annum for other assets.

For the defined benefit scheme, the charge for the period was £0.00.

The Society is required to account for employees' pensions in accordance with Financial Reporting Standard 17 – Retirement Benefits ('FRS 17'). FRS 17 requires the assets and related liabilities of defined benefit schemes to be included within the Balance Sheet. The valuation at 1<sup>st</sup> January 2006 has been updated by the Actuary on an FRS 17 basis as at 31<sup>st</sup> March 2008.

	<b>At 31<sup>st</sup> March 2008</b>	At 31 <sup>st</sup> March 2007	At 31 <sup>st</sup> March 2006
Rate of increase in salaries	<b>n/a</b>	n/a	n/a
Rate of increase in pensions in payment	<b>3.70%</b>	3.3%	3.1%
Discount rate	<b>3.60%</b>	5.3%	5.0%
Inflation assumption	<b>6.80%</b>	3.4%	3.1%
Mortality table	<b>PA92 Medium Cohort</b>	PA92 YOB Medium Cohort	PA92 c2020

The assumptions used by the Actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

The fair value of the scheme's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

# NOTES TO ANNUAL ACCOUNTS

for the year ended 31<sup>st</sup> March 2008

	Long term rate of return expected at 31 <sup>st</sup> March 2008	Value at 31 <sup>st</sup> March 2008 £	Long term rate of return expected at 31 <sup>st</sup> March 2007	Value at 31 <sup>st</sup> March 2007 £	Long term rate of return expected at 31 <sup>st</sup> March 2006	Value at 31 <sup>st</sup> March 2006 £
Equities	6.6%	317,772	5.9%	318,835	5.2%	264,297
Bonds	4.6%	38,789	3.9%	42,771	3.2%	31,464
Other (Property, Cash, etc)	4.6%	<u>257,954</u>	3.9%	<u>272,851</u>	3.2%	<u>293,416</u>
<b>Total market value of assets</b>		<b>614,515</b>		<b>634,457</b>		<b>589,177</b>
<b>Present value of scheme liabilities</b>		<b>(235,045)</b>		<b>(294,199)</b>		<b>(284,934)</b>
<b>Surplus/ (Deficit) in the scheme</b>		<b>379,470</b>		<b>340,258</b>		<b>304,243</b>
<b>Related notional deferred tax (liability)/asset</b>		<b>(106,252)</b>		<b>(102,077)</b>		<b>(91,273)</b>
<b>Net pension surplus/ (deficit)</b>		<b>273,218</b>		<b>238,181</b>		<b>212,970</b>
<b>De-recognition of non- utilisable asset</b>		<b>(273,218)</b>		<b>(238,181)</b>		<b>-</b>
<b>Recognised net pension surplus/(deficit)</b>		<b>-</b>		<b>-</b>		<b>212,970</b>

Under the requirements of FRS 17, and following advice from our Actuaries, the pension scheme asset has been de-recognised in the year. The ongoing appropriateness of this treatment will be assessed annually.

The following amounts have been recognised in the income and expenditure account in the year to 31<sup>st</sup> March, under the requirements of FRS 17.

**The amount charged to operating profit through administrative expenses is analysed as follows:**

	2008 £	2007 £
Current service cost	<u>-</u>	<u>-</u>
Total operating charge	<u>-</u>	<u>-</u>

**The amounts (charged)/credited to other finance income are analysed as follows:**

	2008 £	2007 £
Expected return on pension scheme asset	<b>20,605</b>	(26,058)
Interest on pension scheme liabilities	<b>(15,471)</b>	<b>(14,153)</b>
Net return	<u><b>5,134</b></u>	<u>(40,211)</u>

# NOTES TO ANNUAL ACCOUNTS

for the year ended 31<sup>st</sup> March 2008

The amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL) are analysed as follows:

	2008 £	2007 £
Actual return less expected return on pension scheme assets	(35,966)	34,872
Experience gains and losses arising in the scheme liabilities	(3,453)	(10,802)
Changes in assumptions underlying the present value of the scheme liabilities	73,497	11,956
De-recognition of non-utilisable asset	<u>(39,212)</u>	<u>(340,258)</u>
Actuarial (loss) recognised in STRGL	<u>(5,134)</u>	<u>(304,232)</u>

## Movement in surplus during the year:

	2008 £	2007 £
Surplus/(Deficit) in scheme at beginning of the year	-	304,243
Movement in year:		
Current service cost	-	-
Contributions	-	40,200
Other finance income	5,134	(40,211)
Actuarial (loss)/gain	<u>(5,134)</u>	<u>(304,232)</u>
Surplus in scheme at end of the year	<u>-</u>	<u>-</u>

## Details of experience gains and losses

	2008 £	2007 £	2006 £	2005 £	2004 £
Difference between the expected and actual return on scheme assets:					
Amount (£)	(35,966)	34,872	28,084	(2,866)	78,975
Percentage of scheme assets	(6%)	5%	5%	(2%)	11%
Experience gains and losses on scheme liabilities					
Amount (£)	(3,453)	(10,802)	232,294	(89,252)	8,190
Percentage of the present value of the scheme liabilities	(1%)	(4%)	82%	(20%)	1%
Total amount recognised in statement of total recognised gains and losses					
Amount (£)	(5,134)	(304,232)	225,223	(92,118)	34,800
Percentage of the present value of the scheme liabilities	(2%)	(103%)	79%	(20%)	3%

## 22. Financial Instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Society is a retailer of financial instruments in the form of mortgage and savings products, and also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and manage risks arising from its operations.

The Society has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Society's Board, which is charged with the responsibility for controlling and managing the Balance Sheet exposures.

### Liquidity risk

The Society's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in the solvency of the Society and to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through management control of the growth of the business.

# NOTES TO ANNUAL ACCOUNTS

for the year ended 31<sup>st</sup> March 2008

## Interest rate risk

The Society is exposed to movements in interest rates, and manages this exposure on a continuous basis, within limits set by the Board. The interest rate sensitivity of the Society as at 31<sup>st</sup> March 2008 and 31<sup>st</sup> March 2007 in relation to the time bands, by reference to the earlier of the next interest rate re-pricing date and the maturity date, was as follows:

	<i>Not more than three months</i>	<i>More than three months but not more than six months</i>	<i>More than six months but not more than one year</i>	<i>More than one year but not more than five years</i>	<i>More than five years</i>	<i>Non-interest bearing</i>	<i>Total</i>
	£	£	£	£	£	£	£
<b>2008</b>							
<b>Assets</b>							
Liquid assets	43,758,302	-	-	-	-	308,080	<b>44,066,382</b>
Loans and advances to customers	106,416,759	-	-	-	-	-	<b>106,416,759</b>
Tangible fixed assets	-	-	-	-	-	934,455	<b>934,455</b>
Other assets	-	-	-	-	-	146,509	<b>146,509</b>
<b>Total assets</b>	<b><u>150,175,061</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,389,044</u></b>	<b><u>151,564,105</u></b>
<b>Liabilities</b>							
Shares	135,093,319	50,647	-	-	-	250,959	<b>135,394,925</b>
Amounts owed to credit institutions	32,560	-	-	-	-	-	<b>32,560</b>
Amounts owed to other customers	2,078,313	-	-	-	-	-	<b>2,078,313</b>
Other liabilities	-	-	-	-	-	822,343	<b>822,343</b>
Reserves	-	-	-	-	-	13,235,964	<b>13,235,964</b>
<b>Total liabilities</b>	<b><u>137,204,192</u></b>	<b><u>50,647</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>14,309,266</u></b>	<b><u>151,564,105</u></b>
<b>Interest rate sensitivity gap</b>	<b><u>12,970,869</u></b>	<b><u>50,647</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>12,920,222</u></b>	<b><u>-</u></b>
<b>Cumulative gap</b>	<b><u>12,970,869</u></b>	<b><u>12,920,222</u></b>	<b><u>12,920,222</u></b>	<b><u>12,920,222</u></b>	<b><u>12,920,222</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>2007</b>							
<b>Assets</b>							
Liquid assets	42,040,234	-	-	-	-	292,589	<b>42,332,823</b>
Loans and advances to customers	105,549,153	-	-	-	-	-	<b>105,549,153</b>
Tangible fixed assets	-	-	-	-	-	688,997	<b>688,997</b>
Other assets	-	-	-	-	-	79,182	<b>79,182</b>
<b>Total assets</b>	<b><u>147,589,387</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,060,768</u></b>	<b><u>148,650,155</u></b>
<b>Liabilities</b>							
Shares	132,970,562	28,487	-	-	-	256,074	<b>133,255,123</b>
Amounts owed to credit institutions	-	-	-	-	-	-	<b>-</b>
Amounts owed to other customers	2,222,148	-	-	-	-	-	<b>2,222,148</b>
Other liabilities	-	-	-	-	-	698,477	<b>698,477</b>
Reserves	-	-	-	-	-	12,474,407	<b>12,474,407</b>
<b>Total liabilities</b>	<b><u>135,192,710</u></b>	<b><u>28,487</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>13,428,958</u></b>	<b><u>148,650,155</u></b>
<b>Interest rate sensitivity gap</b>	<b><u>12,396,677</u></b>	<b><u>(28,487)</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(12,368,190)</u></b>	<b><u>-</u></b>
<b>Cumulative gap</b>	<b><u>12,396,677</u></b>	<b><u>12,368,190</u></b>	<b><u>12,368,190</u></b>	<b><u>12,368,190</u></b>	<b><u>12,368,190</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

# ANNUAL BUSINESS STATEMENT

for the year ended 31<sup>st</sup> March 2008

## 1. Statutory percentages

	At 31 <sup>st</sup> March 2008	Statutory limit
	%	%
Lending limit	6.22	25
Funding limit	1.54	50

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The statutory limits are as prescribed by the Building Societies Act 1986, and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by members.

## 2. Other percentages

	2008	2007
	%	%
Gross capital as a percentage of shares and borrowings	9.63	9.21
Free capital as a percentage of shares and borrowings	9.01	8.76
Liquid assets as a percentage of shares and borrowings	32.05	31.25
Profit after taxation as a percentage of mean total assets	0.39	0.33
Management expenses as a percentage of mean total assets	0.81	0.80

Gross capital represents the general and revaluation reserves as shown in the Balance Sheet. The gross capital ratio measures the proportion, which the Society's capital bears to the Society's liabilities to shareholders and borrowers. The Society's capital consists of profits accumulated over many years in the form of reserves. Capital provides a financial cushion against any losses which might arise in the Society's business and therefore protects investors.

Shares and borrowings represent the total shares, amounts owed to credit institutions and amounts owed to other customers, including accrued interest.

Free capital represents the gross capital and general provision for bad and doubtful debts less tangible fixed assets as shown in the Balance Sheet.

Liquid assets ratio measures the proportion of investors' funds, which are held in the form of cash, short term deposits and marketable securities. Liquid assets are generally realisable, enabling the Society to meet requests by investors for withdrawals from their accounts, to make new mortgage loans and to fund its general business activities.

The profit to mean total asset ratio measures the proportion which the profit after taxation for the year bears to the average of total assets at the start and end of the year. The Society needs to make a reasonable level of profit each year in order to maintain its capital ratio at a suitable level to protect investors.

Management expenses represent the ordinary cost of running the Society and mainly comprise the cost of staff, office premises and depreciation. The ratio of management expenses is considered by the Board to be a comparable measure of business efficiency year on year.

Mean total assets are the average of the 2007 and 2008 total assets.

# ANNUAL BUSINESS STATEMENT

for the year ended 31<sup>st</sup> March 2008

### 3. Information Relating to the Directors, Chief Executive and Other Officers as at 31<sup>st</sup> March 2008.

<b>DIRECTOR'S NAME (&amp; Date of Birth)</b>	<b>Date of Appointment</b>	<b>Business Occupation</b>	<b>Other Directorships</b>
P.A. Bell (21.06.50)	01.01.08	Building Society Deputy Chief Executive	-
M.J. Crooks (22.07.49)	01.01.98	Solicitor	Capseco Ltd Britannia Pharmaceutical Specialities Ltd
N.M.H. Fallowfield (21.03.49)	01.06.01	Chartered Surveyor	-
K.E. Halstead (05.11.56)	22.02.05	Chartered Accountant	-
M.D. Knight (29.09.41)	01.09.75	Retail Draper (retired)	-
K.C. Morgan (26.05.53)	26.07.04	Building Society Chief Executive and Secretary	DPRA Ltd
M.R. Neve (07.12.50)	20.11.95	Chartered Accountant	-
M. Seymour (30.11.47)	01.10.97	Chartered Surveyor	-

Documents may be served on the above Directors at the following address:

Ref: Holmesdale Building Society  
c/o Thomas Eggar  
Belmont House  
Station Way  
Crawley  
West Sussex  
RH10 1JA

#### **DIRECTORS' SERVICE CONTRACTS**

None of the Directors has service contracts, except the Executive Directors, Mr K.C. Morgan, who has a service contract dated 1<sup>st</sup> June 2004, which may be terminated by either party giving six months' notice, and Mr P.A. Bell who has a service contract dated 15<sup>th</sup> December 2004, which may be terminated by either party giving three months' notice

<b>OFFICER'S NAME (&amp; Date of Birth)</b>	<b>Date of Appointment</b>	<b>Business Occupation</b>	<b>Other Directorships</b>
K.C. Morgan (26.05.53)	06.04.00 (Deputy Chief Executive)	Building Society Chief Executive and Secretary	DPRA Ltd
	26.07.04 (Chief Executive, Secretary & Director)		
P.A. Bell (21.06.50)	15.12.04 (Deputy Chief Executive)	Building Society Deputy Chief Executive & Director	-

