

Directors' Report, Accounts & Annual Business Statement

**FOR THE YEAR ENDED
31st MARCH 2011**

Directors:

M.R. Neve, FCA, (Chairman)
M.J. Crooks, MA (Oxon), (Vice Chairman)
P.A. Bell, FCIB, CeMap, CeFA
N.M.H. Fallowfield, BSc, FRICS
K.E. Halstead, MA (Oxon), FCA
M.D. Knight (retired 31st March 2011)
K.C. Morgan, FCIB, CeMap
M. Seymour, BSc, FRICS
M.A. Thompson, MSc, CEng, CFA (appointed 28th April 2011)

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 & Director:

K.C. Morgan, FCIB, CeMap

Deputy Chief Executive & Director:

P.A. Bell, FCIB, CeMap, CeFA

Secretary/MLRO:

N.S. Pettitt

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 31st March 2011

The Directors are pleased to present the 156th annual report, accounts and annual business statement of the Society for the year ended 31st March 2011.

Business Objectives and Activities

The Society's principal purpose is making loans which are secured on residential property and are funded entirely 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 last year's report, your Board indicated that the continuing low interest environment would lead to a challenging market place and this has been our experience in this period.

The historically low level of Bank of England Base Rate (BBR), remaining as it has for twenty-four consecutive months at 0.50%, has been a defining issue in the financial marketplace with savers suffering returns on their investments lower than the rate of inflation, and borrowers enjoying some of the lowest rates since records began. As a mutual building society, we have continued to tread a cautious path whereby the interests of all our members are served as best as possible, given the financial constraints of the UK economy, whilst at the same time ensuring that the Society's financial structure remains robust and able to provide the high level of protection and security that our members expect and deserve.

At the end of the previous financial year, the Board had to take the unprecedented step to review the Society's interest rate structure at a time other than a change in the BBR. As far as we are aware, this is the first time the Society has decided to make such a change, but our aim is to maintain reasonable profitability of the Society. As conditions existed at the time, the interest rate structure of the Society in early 2010 would not have resulted in a reasonable profit level, so the Board had no option but to readjust the structure. Subsequent events during the current year have confirmed that the Board made the right decision at the time and this has resulted in a modest restoration of profit levels compared with the results for last year. Our capital (reserves) continues to rank amongst the highest in the sector, underpinning our commitment to remain a robust and safe haven for our saving members.

However, market conditions have led to a temporary change in the shape of our Balance Sheet as some members have been tempted by the seemingly attractive fixed rates offered by some of our competitors. This has led to a contraction in our mortgage book and a smaller reduction in our Share & Deposit balances. As a small, traditional building society, we are bound by the strict rules prescribed by our regulator, the Financial Services Authority, which limit our activities to variable interest rates applicable to both savings and mortgages. Whilst this does inhibit our ability to offer fixed rate products, it also means that your Society avoids the complexities, and therefore the costs and risks, of operating in a more complex treasury environment. Your Board will continue to investigate the pros and cons of seeking authorisation to operate at a higher level when market conditions improve but, for the time being, we believe our members' interests are best served by continuing to operate a relatively simple business model that focuses on accounts which are not subject to a range of onerous conditions and by providing a service which is professional, efficient and individual.

During the year, the Financial Services Authority has issued a swathe of new regulation affecting all financial institutions including new rules governing liquidity; the Mortgage Market Review (MMR) and the Building Societies Sourcebook (BSOCS), to name but a few. Although the adoption and integration of such wide-ranging changes has presented a challenge, the Board confirms that the Society's systems and processes have been successfully changed to ensure full compliance with the new regulatory regime as borne out by our Internal Auditors.

During the year, the Board comprehensively reviewed several areas of the Society's activities taking into account feedback from members and, as a result, strategies were evolved to expand our IT capabilities, develop new mortgage products and increase awareness of the Society locally.

We have signed contracts to switch our existing computer systems to Mutual Vision Technologies Ltd (MVT). This company is owned by a group of eight building societies and provides state of the art technology relevant to the smaller building society, rather than larger, more bank-focused systems. Our staff are currently involved in detailed testing of the new systems and, subject to satisfactory results, we hope to 'go live' on the new systems with effect from October 2011. This is a significant step for your Society as the new systems will improve our operating efficiency, reduce costs and should lead to the provision of a simple online internet facility for members during 2012. This development is in direct response to opinions expressed by our members in the annual Members' Survey and should ensure the latest technology is available as an option for members who require it, even though we are only a local building society with limited resources.

In addition, we are upgrading our IT infrastructure which should provide improved communications to our Business Recovery site in the event of our main premises at 43 Church Street being rendered unusable. In turn, this will provide an uninterrupted business service in all operating conditions.

Finally, members may have noticed that we are trying to raise awareness of the Society and its services. Although we have been established for over 156 years, we believe many local residents remain unaware that Reigate has its very own local building society. With so many well known names disappearing from the High Street, your Board considered it appropriate to raise awareness of the Society by commissioning a range of advertisements in the local press and also on the local Heart Radio station which broadcasts in Surrey and Sussex. This action is coupled with the introduction of a range of competitive mortgage products including First Time Buyer, Discount Re-Mortgage and improved Loyalty Discount for existing borrowers. Early signs are very encouraging as business levels in our new financial year are already improving. We are also re-designing our display posters and point of sale literature to provide a new look and, subject to conducive operating conditions, we will be reconsidering the refurbishment of the banking hall in 2012 which, as members will be aware, was put on hold in recent years due to difficult economic conditions.

DIRECTORS' REPORT (continued)

for the year ended 31st March 2011

Whilst we are confidently preparing the Society for better times, so much depends on the timing of the eventual economic recovery of the UK as a whole. However, we have taken a number of measures to drive the Society forward to meet the challenges ahead.

We believe, as do many of our members, that there is a need for smaller building societies that offer a simple but fair service to the local community from conveniently located offices. We also believe that the market place has changed fundamentally and we need to tailor our service to meet the needs of a more demanding customer base and a more prescriptive regulatory regime. We have been, and will be, addressing all those needs in the year ahead and we are confident that we can retain our independence as a mutual building society providing we continue to adapt and keep pace with the times. The Board thanks you for your continuing support and we look forward to the ongoing and successful development of your Society.

The Directors have chosen to set out a range of Key Performance Indicators (KPIs), used by the Society in measuring its development and performance.

	2011	2010
Net Profit	£305,758	£101,534
As a mutual organisation, we continue to support our members by offering the best possible interest rates consistent with maintaining a sound financial base as we regard the safety and security of our members' interests as second to none. Profit after tax for 2011 has recovered over the previous year due to the interest rate structure effective from February 2010.		
Gross Mortgage Lending	£9,959,284	£11,946,898
Lending continues at a lower level due to the continuing uncertainty in the housing market, our maintenance of high lending standards and a trend of some borrowers moving to fixed rate providers.		
Net Mortgage Lending	(£16,270,820)	(£7,747,216)
Net mortgage balances have decreased year-on-year due to the above mentioned factors and borrowers continuing to repay their capital at an accelerated rate due to the low interest environment.		
Share & Deposit Balances	(£5,786,085)	£2,719,797
Share & Deposit balances decreased year-on-year due to a trend by some savers to move funds to providers offering fixed rate deals.		
Management Expenses as a Percentage of Mean Assets	£0.96	£0.91
Management Expenses have risen slightly due to increased advertising, a higher level of IT maintenance and modest staff salary increases which had been deferred from 2009. Management Expense levels have been maintained at a level generally lower than that of our peer group of similarly sized building societies.		
Total Asset Growth Percentage	(3.58%)	1.76%
Overall assets have contracted slightly due to a reduction in Mortgage and Share & Deposit balances. We believe this contraction is reflective of general market conditions.		
Liquidity Ratio as a Percentage of Share & Deposit Balances	47.33%	38.19%
This indicator represents the very high level of liquidity which has been maintained without recourse to Government assistance or wholesale market funding. The increase arises generally from the accelerated repayment of mortgage capital balances.		
Arrears	0.98%	0.84%
This indicator represents a low level of accounts in arrears compared with the Council of Mortgage Lenders average of 2.21% of all accounts over 1.50% in arrears for all lenders. The Society's performance in this area is testament to a cautious lending policy and ongoing management of accounts in arrears.		
Gross Capital as a Percentage of Share & Deposit Balances	10.28%	9.60%
This indicator demonstrates the continuing strength of your Society and remains amongst the highest in the building society sector. Our members can continue to rest secure in the knowledge that they can invest with considerable confidence.		

DIRECTORS' REPORT (continued)

for the year ended 31st March 2011

Total Assets

The total assets at 31st March 2011 were £146,262,869, a decrease of £5,433,887, representing a contraction of 3.58% for the year (2010: increase of 1.76%).

Liquid Assets

Liquid assets in the form of cash and securities at 31st March 2011 were £62,596,988 representing 47.33% of total shares and borrowings (2010: £52,717,276 or 38.19%). Within this figure, a total of £19,476,822 has been invested in Government Treasury Bills which ensures that the Society meets and exceeds the Financial Services Authority Liquidity Buffer requirements. In accordance with recommendations made to the industry by the Financial Services Authority, the Society has maintained a high level of liquidity to allow it to respond to eventualities which may arise during an uncertain economic environment.

Loans and Advances

The overall size of our mortgage book has decreased by £16,270,820 (16.58%) due to an increasing number of borrowers paying down their debts during the recession, especially those who have benefited from exceptionally low mortgage repayments as their loan tracked Bank Base Rate. In addition, a number of borrowers have chosen to re-mortgage to lenders providing fixed rate loans as a hedge against future interest rate increases. Unfortunately, the Society is not currently authorised to offer fixed rate mortgages, so we are unable to compete with other lenders in this market. In addition, we have purposefully been particularly selective about borrowers' abilities to meet their obligations which has resulted in a lower level of lending, but has also enabled us to maintain very low levels of arrears.

During the year we lent a total of £9,959,284 (2010: £11,946,898) to 115 borrowers. Loans secured on residential properties and land decreased from £98,288,879 to £82,018,059 after taking into account repayments of capital.

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 in managing cases before arrears build up. We are pleased to report that the incidence of arrears remains low and is lower than one half of the average Council of Mortgage Lenders arrears statistics for the industry in all categories. One property was taken into possession during the year and remains in possession at the year-end.

There were no losses from doubtful debts during the year to 31st March 2011 and, following a detailed review of our mortgage book, it was felt that the current level of provisions was adequate in the current housing market. There were no accounts 12 or more months in arrears at the Balance Sheet date (31st March 2010: none).

Funding

Share & Deposit balances as at 31st March 2011 were £132,262,994 (2010: £138,049,079), a decrease of £5,786,085 or 4.19% (2010: increase 2.01%).

Capital and Reserves

At 31st March 2011, free capital amounted to £12,949,946 or 9.79% (2010: £12,639,461 or 9.16%) of total shares and borrowings, an increase of £310,485. Gross capital amounted to £13,593,667 or 10.28% (2010: £13,249,219 or 9.60%) of total shares and borrowings (including accrued interest). The Board has reviewed its risk assessment to meet the requirements of Basel II and the associated Capital Requirements Directive (CRD). The CRD requires the Society to conduct an assessment of the adequacy of its capital and resources; this is its Internal Capital Adequacy Assessment Process (ICAAP). The Society's Board approved and adopted the ICAAP from 1st January 2008 and continues to update the document on a quarterly basis, based on emerging risks and the removal of risks that are no longer relevant. In October 2009, the Financial Services Authority, the Society's regulatory body, conducted its first review of the Society's ICAAP in the course of conducting its periodic risk assessment (ARROW or Advanced, Risk-Responsive Operating framework) visit, and determined the Internal Capital Guidance (ICG) level to be observed by the Society. Details of the Society's Basel II disclosures for Pillar 3 are available on our website via www.holmesdale.org.uk/accounts.htm then click on the relevant link.

After a tax charge of £99,946, the Society made a profit of £305,758 (2010: £101,534) which has been added to reserves. This figure includes an additional provision of £41,464 for the Financial Services Compensation Scheme (FSCS) based on guidance issued by the Financial Services Authority which assumes that Bank Base Rate (BBR) and London Inter Bank Offer Rate (LIBOR) will increase over the next two years, thereby increasing the Society's FSCS liability. This treatment is consistent with the approach adopted within the financial services industry. 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 an adjustment to the movement in our reserves.

It is the Society's continuing policy, as a mutual organisation, not to maximise profits, but to maintain them at a level sufficient for our business needs and to treat our customers fairly.

Management Expenses

Management Expenses as a percentage of mean assets are 96p per £100 of mean assets (2010: 91p) and remain generally lower than those of our peer group of similarly sized societies.

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DIRECTORS' REPORT (continued)

for the year ended 31st March 2011

Regulatory Costs

Statutory regulatory costs, other than audit for this year, were £36,551 (2010: £43,493) plus the very considerable cost of many hours of senior management time which the regulatory system imposes on all financial institutions. As mentioned previously, all financial institutions, and the building society sector in particular, will be subject to an increasing amount of regulation as the Financial Services Authority implements its much publicised intrusive regulatory regime which, undoubtedly, will lead to higher costs in order to remain compliant.

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 suppliers' contractual obligations have been fulfilled. The average number of trade creditor days as at 31st March 2011 was 7 days (2010: 10 days).

Management & Staff

2010/11 was another challenging year in which all our staff worked hard to keep pace with substantial changes in regulation, preparing for a new computer system and re-shaping the business plan to suit the changed environment whilst still providing our members with a first class individual service. The Board applauds their tenacity and commitment during an exceptionally busy year.

The Board is also delighted to announce, as part of our succession planning programme, the appointment of Mr Nicholas Pettitt as Secretary/MLRO (formerly IT/Compliance Manager), and Mr Mario Faccenda as Mortgage & IT Manager (formerly Project Administrator), each with effect from 1st November 2010. We wish them every success in their new appointments.

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 and other risks faced by the Society include: Liquidity Risk; Credit Risk; Market Risk; Operational Risk and Regulatory Risk and are summarised in the section below (Principle Risks and Uncertainties). See Note 21 in Notes to Annual Accounts for an analysis of the liquidity and market risk affecting the Society's assets and liabilities.

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 Asset & Liability Management Committee (ALMCo) – formerly 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. The management of operational risk, which includes fraud, regulatory risk and risk associated with both organisational and operational change, is the collective responsibility of senior management.

Regulatory Risk is the risk that the volume, complexity and cumulative effect of regulatory changes may impact the Society's ability to compete and function effectively.

Directors

The following persons were Directors of the Society during the year: P.A. Bell, M.J. Crooks, N.M.H. Fallowfield, K.E. Halstead, M.D. Knight (retired 31st March 2011), K.C. Morgan, M.R. Neve and M. Seymour.

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DIRECTORS' REPORT (continued)

for the year ended 31st March 2011

Retirement of Mr M.D. Knight

Michael Knight retired from the Board on 31st March 2011 after almost 36 years of dedicated and loyal service to the Society.

The Knight family has a long association with the Holmesdale Building Society, with Michael's father's uncle, Frank Royal Knight, having been Chairman for 23 years for the period between 1933 and 1957 (excluding 1950). P.J.G. Knight, Michael's uncle, also served as a Director of the Society.

Many local people fondly remember Michael as the proprietor of James Knight & Sons the drapers in Bell Street, Reigate before it was sold to the current owners in 2006.

Michael always put his customers first and that was no exception at the Holmesdale where his unstinting efforts contributed considerably to the trust and respect which the Society now enjoys. Michael shared the Society's ethos in treating customers as individuals and strongly supported any initiative which provided greater benefits for members.

We wish him health and happiness in his retirement.

Appointment of Non-Executive Director

The Society has pleasure in confirming the co-option of Mr Mark Thompson to the Board with effect from 28th April 2011.

Mr Thompson was selected from a range of very talented members who applied for the Non-Executive Director vacancy which was advertised in the annual Newsletter in 2010.

Full biographical details relating to Mr Thompson are listed in the Annual General Meeting pack which will be distributed to voting members during June 2011.

Auditor

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

13th June 2011

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

CORPORATE GOVERNANCE REPORT

for the year ended 31st March 2011

The Board

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

The Board recognises the Financial Services Authority 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. These terms of reference are available on our website at www.holmesdale.org.uk.

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 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 also has specific responsibility for monitoring the External Auditor's independence, objectivity and effectiveness. 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.

The Board is responsible for determining a framework for risk management and control. Senior management is responsible for designing, operating and monitoring risk management and internal control processes, and the Management & Audit Committee, in conjunction with the Capital Requirements Directive (CRD) Steering Committee, on behalf of the Board, is responsible for reviewing the adequacy and effective operation of these processes. The Internal Audit function, which is outsourced to Mutual One Ltd, provides independent and objective assurance that these processes are appropriate and effectively applied.

During the year the committee comprised:

K.E. Halstead (Chairman), M.J. Crooks and M.R. Neve. Each member of the Committee has recent, relevant financial experience.

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 and cases requiring a greater degree of consideration. 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.

CORPORATE GOVERNANCE REPORT (continued)

for the year ended 31st March 2011

Asset & Liability Management Committee (ALMCo) – formerly the Revenue Management Committee

The ALMCo's terms of reference set out the objective to derive the most appropriate strategy for the Society in terms of the mix of assets and liabilities given its expectations of the future and the potential impact of any Liquidity Risk, Interest Rate Risk and Funding Risk within the Board's defined Risk Appetite. Specific responsibilities also include the determination of the Society's interest rate structure, taking into consideration profit margins and ensuring value for money for our members.

The Committee meets to determine interest rate and investment strategy following the announcement of any change in the Bank of England Base Rate and on an *ad hoc* basis when necessary.

During the year the committee comprised:

M.D. Knight (Chairman – retired 31st March 2011), K.C. Morgan, M.R. Neve and P.A. Bell. M.J. Crooks was appointed Chairman from 1st April 2011.

The Accounts Supervisor and Reporting Officer also attend the meetings by invitation.

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

Nominations Committee

The Nominations Committee comprises the entire Board. A quorum consists of the Chairman, or Acting Chairman, plus a minimum of three Non-Executive Directors and one Executive Director. 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 and that of its committees.

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. Neil Mark Hugh Fallowfield,
3. Martin Seymour.

In accordance with recommendations in the Combined Code relating to the regular refreshment of the Board, it has been agreed that all future Board appointments will be for a period of nine years maximum (with three yearly re-election) unless the Board deem that it would be desirable for the Non-Executive Director to serve for a longer period, in which case the Non-Executive Director would be re-elected on an annual basis, subject to being able to meet the requirements of independence, character and judgement.

Remuneration Committee

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

The Remuneration Committee comprises the entire Board. The Committee meets on an annual basis, or more frequently, if deemed appropriate. A quorum consists of the Chairman, or Acting Chairman, plus a minimum of three Non-Executive Directors and one Executive Director. Executive Directors are excluded from Committee meetings when their own remuneration packages or service contracts are reviewed.

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

Risk Committee – formerly Capital Requirements Directive (CRD) Steering Committee

The Risk Committee's terms of reference are to identify, control and manage the operational risk inherent in the Society and to ensure that these are properly documented in the Risk Policy Statement (RPS) which should be updated at least quarterly. The relevant RPS review will feed into the Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Systems Assessment (ILSA) documents which are then reviewed on an alternating 6 monthly basis.

1. In considering these risks, the Committee will understand the Society's strategies and tactics, along with the key success factors used to measure our performance against these strategies and tactics.
2. The Committee will be responsible for ensuring that the Society's risk management systems, including people and processes, are appropriate and have sufficient resources.
3. The Committee will approve the Risk-related Management Information supplied to the Board and will be responsible for the Risk Policy statement. The Committee will liaise with the Board to ensure the Management Information is in the required format and includes the appropriate content desired by the Board.

CORPORATE GOVERNANCE REPORT (continued)

for the year ended 31st March 2011

4. The Committee will be responsible for ensuring that the Society has a culture which promotes a constructive dialogue between management and the Board and which fosters a willingness to challenge assumptions.
5. The Committee will ensure a close alignment between Strategy, Risk, Controls, Compliance, Remuneration and Personnel.
6. The Committee will consider emerging and inter-related risks and decide whether these create any new training needs.
7. The Committee will consider whether the Board is fulfilling its risk oversight obligations and will recommend any perceived training needs for individual Directors or the Board as a whole.
8. The Committee shall have the power to call for a full or partial test of any of the Risk control measures, including the Contingency Funding Plan or the Disaster Recovery Plan. The Committee will decide whether the tests are to be simulations or physical tests. Following the test, the Risk Committee will propose any remedial action to the Board.

The Committee meets on a quarterly basis and comprises:

K.E. Halstead (Chairman), M.R. Neve, K.C. Morgan and P.A. Bell. The Reporting Officer also attends these meetings by invitation.

A quorum consists of at least three members of the Committee, one of whom must be a Non-Executive Director.

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.

<i>Director</i>	<i>Board</i>	<i>Management & Audit Committee</i>	<i>ALMCo</i>	<i>Nominations Committee</i>	<i>Remuneration Committee</i>	<i>Risk Committee</i>
M.R. Neve, Chairman	12 (12)	10 (10)	1 (1)	3 (3)	1 (1)	7 (7)
M.J. Crooks, Vice Chairman	11 (12)	10 (10)	-	3 (3)	1 (1)	-
P.A. Bell, Deputy Chief Executive	11 (12)	-	1 (1)	1 (1)	1 (1)	7 (7)
N.M.H. Fallowfield	10 (12)	-	-	2 (2)	1 (1)	-
K.E. Halstead	11 (12)	10 (10)	-	1 (1)	1 (1)	7 (7)
M.D. Knight	11 (12)	-	1 (1)	1 (1)	1 (1)	1 (1)
K.C. Morgan, Chief Executive	12 (12)	10 (10)	1 (1)	3 (3)	1 (1)	6 (7)
M. Seymour	11 (12)	-	-	1 (1)	1 (1)	-

DIRECTORS' REMUNERATION REPORT

for the year ended 31st March 2011

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 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. It was agreed that all Directors' fees would remain unchanged for the year 2010/11. 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. Due to budgetary constraints, the Board had previously elected to maintain the fees for Executive and Non-Executive Directors at the level set in April 2008; it further deferred the review of fees until April 2011.

DIRECTORS' REMUNERATION FOR THE YEAR ENDED 31st MARCH 2011

The following tables show each Director's remuneration for the year to 31st March 2011 with the 2010 comparatives shown in the final column/table. Variance in Fees Totals reflect the number and type of meetings attended by each Director.

Non-Executive Director		Fees Total 2011	Fees Total 2010		
M.R. Neve (Chairman)		£25,300	£25,200		
M.J. Crooks (Vice Chairman)		£15,100	£14,600		
N.M.H. Fallowfield		£14,300	£14,000		
K.E. Halstead		£15,400	£14,700		
M.D. Knight		£13,900	£13,700		
M. Seymour		£14,200	£14,000		
		<u>£98,200</u>	<u>£96,200</u>		
Executive Directors (2011)		Salary/Fees	Benefits	Pension Contributions	Total 2011
K.C. Morgan		£115,715	£7,194	£33,218	£156,127
P.A. Bell		<u>£82,653</u>	<u>£1,381</u>	<u>£6,172</u>	<u>£90,206</u>
		<u>£198,368</u>	<u>£8,575</u>	<u>£39,390</u>	<u>£246,333</u>
Executive Directors (2010)		Salary/Fees	Benefits	Pension Contributions	Total 2010
K.C. Morgan		£113,078	£6,726	£32,300	£152,104
P.A. Bell		<u>£81,357</u>	<u>£1,178</u>	<u>£6,000</u>	<u>£88,535</u>
		<u>£194,435</u>	<u>£7,904</u>	<u>£38,300</u>	<u>£240,639</u>

M.R. Neve, Chairman of the Remuneration Committee

13th June 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

for the year ended 31st March 2011

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

The Directors are responsible for preparing the Annual Report, the Annual Business Statement, the Directors' Report and the Annual Accounts 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 as at the end of the financial year 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOLMESDALE BUILDING SOCIETY

We have audited the annual accounts of Holmesdale Building Society for the year ended 31 March 2011 set out on pages 14 to 27. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 an auditor's 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 12, the directors are responsible for the preparation of annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the annual accounts

A description of the scope of an audit of annual accounts is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on the annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the society as at 31 March 2011 and of the income and expenditure of the society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- 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 thereunder;
- the information given in the Directors' Report for the financial year for which the annual accounts are prepared is consistent with the accounting records and the annual accounts; and
- 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Society; or
- the annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

Jonathan Holt (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

1 The Embankment
Neville Street
Leeds
LS1 4DW

Date:

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31st March 2011

	Note	2011 £	2010 £
Interest receivable and similar income	2	4,570,651	4,379,326
Interest payable and similar charges	3	<u>(2,725,435)</u>	<u>(2,977,346)</u>
Net interest receivable		1,845,216	1,401,980
Fees and commissions receivable		68,748	100,415
Fees and commissions payable		<u>(37,123)</u>	<u>(40,293)</u>
Other operating income		<u>4,417</u>	<u>5,770</u>
Total income		1,881,258	1,467,872
Administrative expenses	4	<u>(1,376,694)</u>	<u>(1,304,426)</u>
Depreciation and amortisation	11	<u>(57,214)</u>	<u>(58,026)</u>
Provisions for bad & doubtful debts	7	-	<u>(20,000)</u>
Provisions for liabilities – FSCS levy	16	<u>(41,646)</u>	<u>44,814</u>
Profit on ordinary activities before tax		405,704	130,234
Tax on profit on ordinary activities	8	<u>(99,946)</u>	<u>(28,700)</u>
Profit for the financial year	18	<u>305,758</u>	<u>101,534</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31st March 2011

	Note	2011 £	2010 £
Profit for the financial year		305,758	101,534
Movement in actuarial loss recognised in the pension scheme	20	-	-
Movement in taxation relating to the pension scheme		<u>-</u>	<u>-</u>
Total recognised gains and losses for the year		<u>305,758</u>	<u>101,534</u>

NOTES OF HISTORICAL COST PROFITS AND LOSSES

for the year ended 31st March 2011

	Note	2011 £	2010 £
Reported profit on ordinary activities before tax		405,704	130,234
Excess depreciation on revaluation of freehold premises	17	<u>9,104</u>	<u>8,340</u>
Historical cost profit on ordinary activities before tax		<u>414,808</u>	<u>138,574</u>
Historical cost profit for the year retained after tax		<u>314,862</u>	<u>109,874</u>

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 17 to 27 form part of these accounts.

BALANCE SHEET

as at 31st March 2011

	Note	2011 £	2010 £
Assets			
Liquid Assets:			
Cash in hand		9,000	9,000
Treasury Bills		19,476,822	-
Loans and advances to credit institutions	9	<u>43,111,166</u>	<u>52,708,276</u>
		62,596,988	52,717,276
Loans and Advances to Customers:			
	10		
Loans fully secured on residential property		77,220,526	92,672,989
Loans fully secured on land		<u>4,650,033</u>	<u>5,468,390</u>
		81,870,559	98,141,379
Tangible fixed assets	11	773,721	739,758
Other assets	23	931,058	-
Prepayments and accrued income		62,107	63,097
Deferred tax	12	<u>28,436</u>	<u>35,246</u>
Total assets		<u>146,262,869</u>	<u>151,696,756</u>
Liabilities			
Shares	13	129,942,689	135,277,496
Amounts owed to other customers	14	2,320,305	2,771,583
Other liabilities	15	192,285	167,343
Accruals and deferred income		100,647	109,776
Provisions for liabilities	16	113,276	121,339
Revaluation reserve	17	<u>473,485</u>	<u>443,899</u>
		133,142,687	138,891,436
Reserves			
General reserves	18	<u>13,120,182</u>	<u>12,805,320</u>
Total liabilities		<u>146,262,869</u>	<u>151,696,756</u>

The notes on pages 17 to 27 form part of these accounts.

These accounts were approved by the Board of Directors on 13th June 2011 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 31st March 2011

	2011	2010
	£	£
Net cash (outflow)/inflow from operating activities (see below)	(22,706,111)	4,569,884
Taxation	(99,946)	(28,700)
Capital expenditure and financial investment		
Purchase of fixed assets	<u>(52,487)</u>	<u>(13,939)</u>
	<u>(22,858,544)</u>	<u>4,527,245</u>

Reconciliation of operating profit to net cash inflow from operating activities

	2011	2010
	£	£
Profit on ordinary activities before tax	405,704	130,234
(Increase)/Decrease in prepayments, accrued income and accrued interest	(10,444)	124,518
(Decrease)/Increase in accruals, deferred income and accrued interest	(10,546)	10,930
(Decrease) in provisions for liabilities and charges	(8,063)	(102,563)
(Decrease) in provision for bad and doubtful debts	-	(2,230)
Depreciation	<u>57,214</u>	<u>58,026</u>
Net cash inflow from trading activities	433,865	218,915
Decrease in loans and advances to customers	16,270,820	7,749,446
(Decrease)/Increase in shares	(5,333,390)	1,952,693
(Decrease)/Increase in amounts owed to other customers and credit institutions	(451,278)	772,514
(Increase) in securities	(19,476,822)	-
(Increase) in loans and advances to credit institutions	(13,250,000)	(6,000,000)
Increase/(Decrease) in other liabilities	24,942	(115,729)
(Increase) in other assets	<u>(924,248)</u>	<u>(7,955)</u>
Net cash (outflow)/inflow from operating activities	<u>(22,706,111)</u>	<u>4,569,884</u>

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

	2011	2010
	£	£
Cash in hand	9,000	9,000
Loans and advances repayable on demand	<u>6,764,761</u>	<u>29,623,305</u>
	<u>6,773,761</u>	<u>29,632,305</u>
Analysis of the changes in cash		
Opening cash	29,632,305	25,105,060
Cash (outflow)/inflow (see above)	<u>(22,858,544)</u>	<u>4,527,245</u>
Closing cash	<u>6,773,761</u>	<u>29,632,305</u>

NOTES TO ANNUAL ACCOUNTS

for the year ended 31st March 2011

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, the Building Societies (Accounts and Related Provisions) Regulations 1998 (the 'Accounts Regulations') and the Building Societies Act 1986.

(b) Tangible 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 differences between the treatment of certain items for taxation and accounting purposes which have arisen but have not been 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 Bad and Doubtful Debts

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.

(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.

NOTES TO ANNUAL ACCOUNTS (continued)

for the year ended 31st March 2011

(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

	2011	2010
	£	£
On loans fully secured on residential property	3,772,007	3,526,914
On other loans	305,625	321,844
On other liquid assets	<u>493,019</u>	<u>530,568</u>
	<u>4,570,651</u>	<u>4,379,326</u>

3. Interest Payable and Similar Charges

	2011	2010
	£	£
On shares held by individuals	2,693,046	2,943,629
On deposits and other borrowings	<u>32,389</u>	<u>33,717</u>
	<u>2,725,435</u>	<u>2,977,346</u>

4. Administrative Expenses

	2011	2010
	£	£
Staff costs:		
Wages and salaries	720,243	711,156
Social security costs	74,872	63,595
Other pension costs	<u>97,925</u>	<u>94,321</u>
	<u>893,040</u>	<u>869,072</u>
Other expenses	<u>483,654</u>	<u>435,354</u>
	<u>1,376,694</u>	<u>1,304,426</u>
Other administrative expenses include:		
Auditor's and its associates' remuneration (exclusive of VAT):		
Audit of the annual accounts	27,760	27,222
Non-audit services – Tax	<u>4,054</u>	<u>3,350</u>
	<u>31,814</u>	<u>30,572</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:

	2011	2010
Full time	15	15
Part time	<u>5</u>	<u>5</u>
	<u>20</u>	<u>20</u>

6. Remunerations of and Transactions with Directors

(a) Details outlining the policy on Directors' remuneration is shown within the Directors' Remuneration Report on page 11. Total Directors' remuneration for the year was £344,533 (2010: £336,839).

(b) Directors' loans and transactions: at 31st March 2011 there were 3 outstanding mortgage loans (2010: 3) granted in the ordinary course of business to 3 Directors and their connected persons (2010: 3), amounting in aggregate to £338,849 (2010: £360,221).

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 31st March 2011, will be available for inspection at the head office for a period of 15 days up to and including the Annual General Meeting.

NOTES TO ANNUAL ACCOUNTS (continued)

for the year ended 31st March 2011

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
	<i>General</i>	<i>Specific</i>	<i>General</i>	<i>Specific</i>	
	£	£	£	£	£
At 1 st April 2010 and 31 st March 2011	<u>100,000</u>	<u>17,500</u>	<u>30,000</u>	<u>-</u>	<u>147,500</u>

8. Taxation

	2011 £	2010 £
The taxation charge for the year comprises:		
UK Corporation Tax based on the profit for the year on ordinary activities at 28% (2010: 21%)	93,136	35,901
Under provision of tax in prior years	<u>-</u>	<u>754</u>
<i>Total current tax</i>	93,136	36,655
Deferred Tax		
Origination and reversal of timing differences	4,623	(7,955)
Effects of increased/decreased tax rate	<u>2,187</u>	<u>-</u>
<i>Total deferred tax</i>	6,810	<u>(7,955)</u>
Tax on profit on ordinary activities	99,946	<u>28,700</u>

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:

	2011 £	2010 £
Profit on ordinary activities before tax	405,704	<u>130,234</u>
Current tax at 28% (2009: 28%)	113,597	36,466
Effect of:		
Timing differences	2,820	5,600
Expenses not deductible for tax purposes	3,388	3,448
Adjustments to tax charge in respect of previous periods	-	754
Depreciation in excess of capital allowances	(7,442)	2,354
Rate difference on Corporation Tax	(19,227)	<u>(11,967)</u>
Total current tax charge for the year (see above)	93,136	<u>36,655</u>

9. Loans and Advances to Credit Institutions

	2011 £	2010 £
Loans and advances to credit institutions have remaining maturities as follows:		
Accrued interest	96,405	84,971
Repayable on demand	6,764,761	29,623,305
In not more than three months	27,750,000	18,000,000
In more than three months but less than one year	8,500,000	<u>5,000,000</u>
	43,111,166	<u>52,708,276</u>

continued...

NOTES TO ANNUAL ACCOUNTS (continued)

for the year ended 31st March 2011

10. Loans and Advances to Customers

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

	2011	2010
	£	£
On call and at short notice	89,370	224,558
In not more than three months	484,531	507,093
In more than three months but not more than one year	2,554,690	5,393,511
In more than one year but not more than five years	16,478,150	16,922,294
In more than five years	<u>62,411,318</u>	<u>75,241,423</u>
	82,018,059	98,288,879
Less: provisions for bad and doubtful debts (Note 7)	<u>(147,500)</u>	<u>(147,500)</u>
	<u>81,870,559</u>	<u>98,141,379</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
	£	£	£	£
Cost or valuation				
At 1 st April 2010	742,500	573,275	28,676	1,344,451
Additions/revaluation	42,500	48,677	-	91,177
Disposals	<u>-</u>	<u>(296,530)</u>	<u>-</u>	<u>(296,530)</u>
At 31 st March 2011	<u>785,000</u>	<u>325,422</u>	<u>28,676</u>	<u>1,139,098</u>
Depreciation				
At 1 st April 2010	113,058	480,315	11,320	604,693
Charge for the year	11,603	39,826	5,785	57,214
Disposals	<u>-</u>	<u>(296,530)</u>	<u>-</u>	<u>(296,530)</u>
At 31 st March 2011	<u>124,661</u>	<u>223,611</u>	<u>17,105</u>	<u>365,377</u>
Net book value				
At 31st March 2011	<u>660,339</u>	<u>101,811</u>	<u>11,571</u>	<u>773,721</u>
At 31 st March 2010	<u>629,442</u>	<u>92,960</u>	<u>17,356</u>	<u>739,758</u>

Tangible Fixed Assets comprise:

	2011	2010
	£	£
At cost	354,098	601,951
At valuation	<u>785,000</u>	<u>742,500</u>
Total	<u>1,139,098</u>	<u>1,344,451</u>

Freehold land and buildings were re-valued to £785,000 as at 31st March 2011. 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 31st March 2011 was £593,067 (2010: £565,318).

continued...

NOTES TO ANNUAL ACCOUNTS (continued)

for the year ended 31st March 2011

12. Deferred Tax

In the Budget on 23rd March 2011, it was announced that the UK Corporation Tax rate will reduce from 28% to 23% over a period of 4 years from 2011. The first reduction in the UK Corporation Tax rate from 28% to 27% was substantively enacted on 22nd June 2010 and is effective from 1st April 2011.

A further reduction to 26% was substantively enacted on 29th March 2011. The Balance Sheet rate of deferred tax for the 31st March year-end is therefore 26%. This will reduce the Society's future current tax charge accordingly. It has not yet been possible to quantify the full anticipated effect of the further 3% rate reduction, although this will further reduce the Society's future tax charge and reduce the Society's deferred tax assets accordingly.

	2011	2010
	£	£
As at 1 st April 2010	35,246	27,291
(Decrease)/Increase during the year	<u>(6,810)</u>	<u>7,955</u>
At 31 st March 2011	<u>28,436</u>	<u>35,246</u>
The elements of deferred tax are as follows:		
Difference between accumulated depreciation and capital allowances	(7,983)	(1,154)
General mortgage loss provisions	<u>36,419</u>	<u>36,400</u>
Deferred tax asset	<u>28,436</u>	<u>35,246</u>

13. Shares

	2011	2010
	£	£
Held by individuals	<u>129,942,689</u>	<u>135,277,496</u>

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

	2011	2010
	£	£
Accrued interest	8	1,425
Repayable on demand	9,902,937	7,875,134
In not more than three months	120,032,649	127,363,776
In more than three months but not more than one year	<u>7,095</u>	<u>37,161</u>
	<u>129,942,689</u>	<u>135,277,496</u>

14. 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:

	2011	2010
	£	£
Repayable on demand	124,930	182,474
In not more than three months	<u>2,195,375</u>	<u>2,589,109</u>
	<u>2,320,305</u>	<u>2,771,583</u>

15. Other Liabilities

	2011	2010
	£	£
Income tax	92,002	124,295
Corporation tax	93,136	35,901
Other creditors	<u>7,147</u>	<u>7,147</u>
	<u>192,285</u>	<u>167,343</u>

NOTES TO ANNUAL ACCOUNTS (continued)

for the year ended 31st March 2011

16. Provisions for Liabilities – FSCS Levy

	2011	2010
	£	£
FSCS levy (note 22):		
At 1 st April 2010	121,339	223,902
Movement		
– Utilised in Year	(49,709)	(57,749)
– Charge for Year	41,646	-
– Release of provision – FSCS	-	(44,814)
At 31 st March 2011	<u>113,276</u>	<u>121,339</u>

17. Revaluation Reserve

	2011	2010
	£	£
At 1 st April 2010	443,899	452,239
Transfer of excess depreciation to General Reserves	(9,104)	(8,340)
Revaluation in year	<u>38,690</u>	-
At 31 st March 2011	<u>473,485</u>	<u>443,899</u>

18. General Reserves

	2011	2010
	£	£
At 1 st April 2010	12,805,320	12,695,446
Profit for the financial year	305,758	101,534
Transfer of excess depreciation from Revaluation Reserve	9,104	8,340
Actuarial gain/(loss) net of deferred tax	(10,324)	70,178
De-recognition of non-utilisable asset	<u>10,324</u>	<u>(70,178)</u>
At 31 st March 2011	<u>13,120,182</u>	<u>12,805,320</u>

19. Guarantees and Other Financial Commitments

- (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 2011	Land & buildings 2010
	£	£
Expiring between one and five years	9,500	9,500

20. Retirement Benefits

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

For the defined contribution group personal pension scheme, the charge for the year was £97,925 (2010: £94,321).

For the defined benefit scheme, contributions are determined by actuarial valuations, which are made regularly at three yearly intervals, the most recent being 1st January 2009. The aggregate market value of the scheme's assets at this date was £623,000 and the actuarial value of these assets represented 97% 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 PNA00 mortality table with long cohort (subject to 1% underpin) is used. The rate of return on existing assets is assumed to be 6.4% per annum for equities and 4.4% per annum for other assets.

For the defined benefit scheme, the charge for the period was £nil (2010: £nil). The latest valuation shows the scheme to have a surplus (after adjusting for deferred tax) of £200,377 at 31st March 2011 (2010: £210,611) and, following the recommendation of the actuary, the Society does not intend to contribute to the scheme in the next 12 months.

NOTES TO ANNUAL ACCOUNTS (continued)

for the year ended 31st March 2011

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 1st January 2009 has been updated by the Actuary on an FRS 17 basis as at 31st March 2011.

	At 31 st March 2011	At 31 st March 2010
Expected rate of return on assets	5.28%	4.81%
Rate of increase in salaries	N/A	n/a
Rate of increase in pensions in payment	3.5%	3.8%
Discount rate	5.5%	5.5%
Inflation assumption	3.6%	3.9%
Mortality table	PM/FA00 Long Cohort (subject to 1% PA underpin)	PM/FA00 Long Cohort (subject to 1% PA underpin)

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:

	Long term rate of return expected at 31 st March 2011	Value at 31 st March 2011 £	Long term rate of return expected at 31 st March 2010	Value at 31 st March 2010 £	Long term rate of return expected at 31 st March 2009	Value at 31 st March 2009 £	Long term rate of return expected at 31 st March 2008	Value at 31 st March 2008 £	Long term rate of return expected at 31 st March 2007	Value at 31 st March 2007 £
Equities	6.4%	290,023	6.5%	238,173	6.6%	210,710	5.9%	317,772	5.9%	318,835
Bonds	4.4%	53,861	4.5%	59,543	4.6%	52,462	3.9%	38,789	3.9%	42,771
Other (Property, Cash, etc)	4.4%	264,925	4.5%	314,491	4.6%	<u>255,712</u>	4.6%	<u>257,954</u>	3.9%	<u>272,851</u>
Total market value of assets		608,809		612,207		518,884		614,515		634,457
Present value of scheme liabilities		<u>(330,507)</u>		<u>(319,691)</u>		<u>(323,838)</u>		<u>(235,045)</u>		<u>(294,199)</u>
Surplus in the scheme		278,302		292,516		195,046		379,470		340,258
Related notional deferred tax (liability)		<u>(77,925)</u>		<u>(81,905)</u>		<u>(54,613)</u>		<u>(106,252)</u>		<u>(102,077)</u>
Net pension surplus		200,377		210,611		140,433		273,218		238,181
De-recognition of non-utilisable asset		<u>(200,377)</u>		<u>(210,611)</u>		<u>(140,433)</u>		<u>(273,218)</u>		<u>(238,181)</u>
Recognised net pension surplus		-		-		-		-		-

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.

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NOTES TO ANNUAL ACCOUNTS (continued)

for the year ended 31st March 2011

The following amounts have been recognised in the income and expenditure account in the year to 31st March, under the requirements of FRS 17:

Reconciliations of opening and closing balances of the present value of scheme liabilities

	2011	2010
	£	£
Scheme liabilities at start of period	319,691	323,838
Current service cost	-	-
Interest cost	17,462	18,324
Actuarial (gains)/losses	(2,209)	(18,056)
Benefits paid and death in service insurance premiums	(4,437)	(4,415)
Scheme liabilities at end of period	<u>330,507</u>	<u>319,691</u>

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

	2011	2010
	£	£
Current service cost	-	-
Total operating charge	<u>-</u>	<u>-</u>

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

	2011	2010
	£	£
Expected return on pension scheme asset	17,462	18,324
Interest on pension scheme liabilities	(17,462)	(18,324)
Net return	<u>-</u>	<u>-</u>

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

	2011	2010
	£	£
Actual return less expected return on pension scheme assets	(16,423)	79,414
Experience gains and (losses) arising in the scheme liabilities	(1,411)	27,241
Changes in assumptions underlying the present value of the scheme liabilities	3,620	(9,185)
Effect of limit on amount of surplus recognised	14,214	(97,470)
Actuarial gain/(loss) recognised in STRGL	<u>-</u>	<u>-</u>

Movement in surplus during the year:

	2011	2010
	£	£
Surplus/(Deficit) in scheme at beginning of the year	-	-
Movement in year:		
Current service cost	-	-
Contributions	-	-
Other finance income	-	-
Actuarial gain/(loss)	-	-
Surplus in scheme at end of the year	<u>-</u>	<u>-</u>

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NOTES TO ANNUAL ACCOUNTS (continued)

for the year ended 31st March 2011

Details of experience gains and losses

	2011 £	2010 £	2009 £	2008 £	2007 £
Difference between the expected and actual return on scheme assets:					
Amount (£)	(16,243)	79,414	(113,908)	(35,966)	34,872
Percentage of scheme assets	3%	13%	(22%)	(6%)	5%
Experience gains and losses on scheme liabilities:					
Amount (£)	(1,411)	27,241	(6,109)	(3,453)	(10,802)
Percentage of the present value of the scheme liabilities	(0.4%)	9%	(2%)	(1%)	(4%)
Total amount recognised in statement of total recognised gains and losses:					
Amount (£)	-	-	(6,730)	(5,134)	(304,232)
Percentage of the present value of the scheme liabilities	-	-	(2%)	(2%)	(103%)

	Period Ending 31 st March 2011 £	Period Ending 31 st March 2010 £
Fair value of scheme assets at start period	612,207	518,884
Expected return on scheme assets	17,462	18,324
Actuarial gains/(losses)	(16,423)	79,414
Contributions by the Society to fund expenses	-	-
Contributions by scheme participants	-	-
Benefits paid and death in service insurance premiums	(4,437)	(4,415)
Assets acquired in a business combination	-	-
Assets distributed on settlements	-	-
Fair value of scheme assets at end of year	<u>608,809</u>	<u>612,207</u>

21. 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's assets and liabilities are all denominated in Sterling and it conducts all its operations in the UK. The Society is not therefore exposed to currency risk.

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.

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NOTES TO ANNUAL ACCOUNTS (continued)

for the year ended 31st March 2011

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 31st March 2011 and 31st March 2010 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:

2011	<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>	Total
	£	£	£	£	£	£	£
Assets							
Liquid assets	54,000,583	8,500,000	-	-	-	96,405	62,596,988
Loans and advances to customers	81,870,559	-	-	-	-	-	81,870,559
Tangible fixed assets	-	-	-	-	-	773,721	773,721
Other assets	-	-	-	-	-	1,028,411	1,028,411
Total assets	<u>135,871,142</u>	<u>8,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,898,537</u>	<u>146,269,679</u>
Liabilities							
Shares	129,935,586	-	7,095	-	-	8	129,942,689
Amounts owed to credit institutions	-	-	-	-	-	-	-
Amounts owed to other customers	2,320,305	-	-	-	-	-	2,320,305
Other liabilities	-	-	-	-	-	396,684	396,684
Reserves	-	-	-	-	-	13,610,001	13,610,001
Total liabilities	<u>132,255,891</u>	<u>-</u>	<u>7,095</u>	<u>-</u>	<u>-</u>	<u>14,006,693</u>	<u>146,269,679</u>
Interest rate sensitivity gap	<u>3,615,251</u>	<u>8,500,000</u>	<u>(7,095)</u>	<u>-</u>	<u>-</u>	<u>(12,108,156)</u>	<u>-</u>
Cumulative gap	<u>3,615,251</u>	<u>12,115,251</u>	<u>12,108,156</u>	<u>12,108,156</u>	<u>12,108,156</u>	<u>-</u>	<u>-</u>
2010	<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>	Total
	£	£	£	£	£	£	£
Assets							
Liquid assets	47,632,305	5,000,000	-	-	-	84,971	52,717,276
Loans and advances to customers	98,141,379	-	-	-	-	-	98,141,379
Tangible fixed assets	-	-	-	-	-	739,758	739,758
Other assets	-	-	-	-	-	98,343	98,343
Total assets	<u>145,773,684</u>	<u>5,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>923,072</u>	<u>151,696,756</u>
Liabilities							
Shares	135,238,910	5,000	32,161	-	-	1,425	135,277,496
Amounts owed to credit institutions	-	-	-	-	-	-	-
Amounts owed to other customers	2,771,583	-	-	-	-	-	2,771,583
Other liabilities	-	-	-	-	-	398,458	398,458
Reserves	-	-	-	-	-	13,249,219	13,249,219
Total liabilities	<u>138,010,493</u>	<u>5,000</u>	<u>32,161</u>	<u>-</u>	<u>-</u>	<u>13,649,102</u>	<u>151,696,756</u>
Interest rate sensitivity gap	<u>7,763,191</u>	<u>4,995,000</u>	<u>(32,161)</u>	<u>-</u>	<u>-</u>	<u>(12,726,030)</u>	<u>-</u>
Cumulative gap	<u>7,763,191</u>	<u>12,758,191</u>	<u>12,726,030</u>	<u>12,726,030</u>	<u>12,726,030</u>	<u>-</u>	<u>-</u>

NOTES TO ANNUAL ACCOUNTS (continued)

for the year ended 31st March 2011

22. Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) makes annual levies on all regulated UK deposit-takers in relation to its running expenses (the management expenses levy) and any compensation claims made against it (the compensation levy). The levies for each deposit-taker are based on its share of the total protected deposits.

Based on its share of protected deposits, the Society, in common with all regulated UK deposit-takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of recoveries it makes using the rights that have been assigned to it. In 2008 a claim was triggered against the FSCS by the transfer of Bradford & Bingley plc's retail deposit business to Abbey National plc and similar issues with various Icelandic Banks, London Scottish Plc and the transfer of Dunfermline Building Society to the Nationwide Building Society in 2009.

The FSCS has met the claims by way of loans received from HM Treasury on which it is liable to pay interest. The FSCS has, in turn, acquired the rights to the realisation of the assets of these institutions. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the institutions to fully repay the respective loans from HM Treasury. To the extent that the loans have not been fully repaid by 31st March 2012, the FSCS will agree a schedule of repayments with HM Treasury and levy the industry, including the Society, accordingly.

As a result of notifications it received from the Financial Services Authority, the Society recognised in last year's results a provision of £121,399 for the scheme years 2009/10 and 2010/11. The provision in the results to 31st March 2011 continues to be calculated on the same basis as was used for the prior year. During the year, invoices from the FSCS totalling £49,709 were paid by the Society in respect of its liabilities to the FSCS for the scheme year 2009/10. Consistent with the approach taken within the financial sector, a further provision charge of £41,646 has therefore been recognised in the year to 31st March 2011 for the 2011/12 levy year. This has been calculated with reference to the level of the Society's protected deposits and anticipated future interest rates. The totals of these estimated levies have been charged to the Income and Expenditure account as Provisions for contingent liabilities and commitments and provided for in the Balance Sheet as Provisions for liabilities – FSCS levy.

In addition to the management expenses levy claims referred to above, the Society will be required to contribute to any compensation levies raised in relation to the aforementioned deposit-taker failures. Compensation levies will arise in the event that proceeds for the eventual disposal of assets are insufficient to cover compensation payments made by the FSCS.

23. Other Assets

'Other assets' represents one property repossessed during the year. At the point of repossession, a full valuation was prepared by an independent chartered surveyor which indicated that the value of the underlying asset was sufficient to cover the balance of the loan outstanding plus any selling costs anticipated by the Society.

ANNUAL BUSINESS STATEMENT

for the year ended 31st March 2011

1. Statutory percentages

	At 31 st March 2011	Statutory limit
	%	%
Lending limit	6.87	25
Funding limit	1.75	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 (calculated net of mortgage loss provisions held).

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

	2011	2010
	%	%
Gross capital as a percentage of shares and borrowings	10.28	9.60
Free capital as a percentage of shares and borrowings	9.79	9.16
Liquid assets as a percentage of shares and borrowings	47.33	38.19
Profit after taxation as a percentage of mean total assets (excluding Financial Services Compensation Scheme Levy)	0.21	0.05
Profit after taxation as a percentage of mean total assets (including Financial Services Compensation Scheme Levy)	0.22	0.07
Management expenses as a percentage of mean total assets	0.96	0.91

Gross capital represents the general and revaluation reserves as shown in the Balance Sheet.

Shares and borrowings represent the total of shares 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 are taken from the amounts shown in the Balance Sheet.

Management expenses are the Administrative expenses plus Depreciation amortisation shown in the Income and Expenditure Account.

Mean total assets are the average of the 2011 and 2010 total assets.

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ANNUAL BUSINESS STATEMENT (continued)

for the year ended 31st March 2011

3. Information Relating to the Directors, Chief Executive and Other Officers as at 31st March 2011.

DIRECTOR'S NAME (& Age at 31.03.11)	Date of Appointment	Business Occupation	Other Directorships
P.A. Bell (60)	01.01.08	Building Society Deputy Chief Executive	-
M.J. Crooks (61)	01.01.98	Solicitor	-
N.M.H. Fallowfield (62)	01.06.01	Chartered Surveyor	-
K.E. Halstead (54)	22.02.05	Chartered Accountant	-
M.D. Knight (69)	01.09.75	Retail Draper (retired)	-
K.C. Morgan (57)	26.07.04	Building Society Chief Executive	-
M.R. Neve (60)	20.11.95	Chartered Accountant	-
M. Seymour (63)	01.10.97	Chartered Surveyor	-
M.A. Thompson (46)	28.04.11	Chartered Financial Analyst & Chartered Engineer	-

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 1st June 2004, which may be terminated by either party giving six months' notice) and Mr P.A. Bell (who has a service contract dated 15th December 2004, which may be terminated by either party giving three months' notice).

DIRECTOR'S/OFFICER'S NAME (& Age at 31.03.11)	Date of Appointment	Business Occupation	Other Director-ships
K.C. Morgan (57)	06.04.00 to 25.07.04	Building Society Deputy Chief Executive	-
	26.07.04 to 31.10.10	Building Society Chief Executive, Secretary & Director	-
	01.11.10 to date	Building Society Chief Executive & Director	-
P.A. Bell (60)	15.12.04 to 31.12.07	Building Society Deputy Chief Executive	-
	01.01.08 to date	Building Society Deputy Chief Executive & Director	-
N.S. Pettitt (47)	01.11.10 to date	Building Society Secretary/MLRO (Money Laundering Reporting Officer)	-

