

# BUCKINGHAMSHIRE BUILDING SOCIETY

Annual  
Report & Accounts

2009



helping you to build a better future

# ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2009

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## BUCKINGHAMSHIRE BUILDING SOCIETY

REGISTERED HEAD OFFICE: High Street, Chalfont St. Giles, Bucks., HP8 4QB

web site: [www.bucksbs.co.uk](http://www.bucksbs.co.uk)

e-mail: [info@bucksbs.co.uk](mailto:info@bucksbs.co.uk)

Tel: (01494) 879500

Fax: (01494) 876256

### **The Society is a member of:**

The Building Societies Association

The Financial Services Compensation Scheme

The Financial Ombudsman Service

Authorised and Regulated by the Financial Services Authority (FSA)  
Registration No. 206022



## OVERVIEW

Few, if any, predicted the continued financial and economic turbulence that we saw in 2009. With the government's spotlight shifted from control of inflation to management of the recession, the financial landscape has seen a lengthy period of low interest rates in an attempt to stimulate growth.

However, the overall economy is impacted by a number of intertwined components.

The housing market suffered falls in prices during the early part of the year but recovered well later on, ending up with an overall rise in prices of 2.6% according to the Land Registry or 5.9% using Nationwide Building Society's numbers. However, the outlook for 2010 remains uncertain.

Unemployment at the year end was 2.46m people or 7.8% on a seasonally adjusted basis. Whilst it appears that the pace of growth in unemployment has slowed, the fragile nature of the current economy means that a slow, jobless recovery remains a threat.

The Financial Services Compensation Scheme (FSCS) continues to affect the building society sector as a whole. However, unlike some of our competitors, we elected to make provisions for the whole interest payment for three years in last year's accounts. Whilst this action lowered profitability last year, we have not had to make any provision for the Scheme this year.

Regulatory pressures continue to increase for all financial services firms and we are no exception to this. The Financial Services Authority (FSA) have made no attempt to hide their focus upon a more intrusive regime although I am pleased to be able to tell you that we enjoy a good working relationship with our contacts in Canary Wharf.

Two significant pieces of regulation affected your Society during the year and will continue to have an impact for years to come. Firstly, there is the new Sourcebook applicable to all building societies, impacting in the main upon risk management and lending. The second piece is the revised liquidity requirements which will result in us holding significant sums in gilts and other government securities.

Whilst the balance sheet shrunk slightly by £2.24m, a careful analysis shows that this is because we reduced our reliance on wholesale money market funding. At the year end we could have taken on more wholesale funding in order to report some growth in the balance sheet but your Board does not believe in cosmetic growth of this nature.

Despite the challenges of 2009, your Society had a successful year overall and is well placed to take advantage of the economic recovery when it comes. Some highlights for the year are:

- Improved profitability – post tax profits up by 98%
- Reducing cost ratios – management expense ratio reduced to 1.04%
- Increased Member numbers – voting Members up by 35%
- Increased share and deposit balances
- Increased mortgage balances
- Reduced arrears
- No properties in possession

Our traditional business model remains a key strength and our Members trust us as a business. Our primary objective will always be that of providing value to our Members by offering competitively priced savings and mortgage products.

## **INTEREST RATES**

The Bank of England reduced its base rate to a historic low of 0.5% in March 2009 and it remained at that level throughout the remainder of the year. However LIBOR, which is the rate that influences the price institutions pay to borrow from each other, was volatile throughout the year. This meant that the rates we pay and charge our Members, be they savers or borrowers, did not track the base rate directly.

Like all societies, the vast majority of our Members are savers, and it is those Members living on a fixed income that have been particularly affected by the low rate environment. We have tried our best during the year to offer attractive products at good rates and our ISA Bonds and Chiltern Gold Mine accounts proved to be very popular.

## **LENDING**

We have always enjoyed a quality mortgage book with low levels of arrears and this remained the case in 2009. Whilst we saw a high level of redemptions in the first half of the year, lending in the second half more than compensated for this and the result was an increase in the overall book as at the year end.

We continue to be active but prudent lenders, with every mortgage case being individually underwritten and not credit scored by a machine. Whilst this methodology is relatively expensive, the benefits are self evident. Our arrears at the end of 2009 were lower than those at the end of the previous year, despite growth in the mortgage book and we have no properties in possession.

We do, however, remain aware of the patchy economic recovery and have prudently increased provisions to help protect us against any deterioration.

## **SHARES AND DEPOSITS**

Competition for retail funds in the marketplace was fierce in 2009 and there is little likelihood of this abating. However, at several points during the year, we launched targeted products at niche areas and have been very successful.

Whilst these niche areas might be too small to be of interest to some of our competitors, we can make effective inroads to more than adequately fund the mortgage lending side of our business.

Our retail offerings during the year were very successful, resulting in voting Member growth of 35%. I am pleased to extend a personal welcome to all new Members and to thank you for your support.

Overall, share and deposit balances grew by 0.96%, and our marketing to solicitors and pension providers as well as a broad range of products for individuals leaves us well placed for further growth in the coming year.

Our use of the wholesale markets for funding reduced during the year and we continue to use this source of funds only when necessary.

## **MEMBER AND COMMUNITY INVOLVEMENT**

With this year's AGM documents we are again sending a Members' questionnaire and would request that you please take a few minutes to respond: we value your comments and previous similar questionnaires have proven very useful in suggesting future developments.

Once again, as in past years, we have supported a number of local charitable and community projects.

A donation will be made to the Iain Rennie Hospice at Home for every vote cast and we hope that these funds go a little way to help continue the excellent help given to those less fortunate than ourselves.

No contributions were made for political purposes.

## **STAFF AND MANAGEMENT**

As anticipated last year, Jim Mundell retired in 2009 and we have recruited an experienced financial services professional, Ivan Gould, as his replacement. Ivan brings with him many years of banking, building society and property experience and I recommend that you confirm his appointment to the Board.

Your Board has been further strengthened by the recruitment of Declan Mullen and Ian Powell, whose skills complement the existing team. A short summary of their background is within the voting papers and, once again, I recommend that you confirm their appointment to the Board.

During the year our General Manager, Rob Watkinson, also retired after some 26 years of service and we wish him well. Rob's retirement gave us the opportunity to review the senior management structure and we have appointed Kate Büggs as Head of Customer Services.

As part of our continued focus on appropriate corporate governance, Anne O'Farrell has been promoted to the role of Head of Compliance and Risk.

It is to be emphasised that the Directors recognise the contribution made by the staff and we are grateful for all their hard work. We continue to strive for excellent customer service and a number of you have complimented us on this during the year.

## **LOOKING FORWARD**

2009 was a challenging year and I doubt if 2010 will be any different.

There are a number of new entrants to the savings and mortgage marketplaces which will mean that we must strive even harder to meet our Members' needs.

However, we face these challenges with relish. We have a strong and experienced Board, a revitalised Executive Team and a passion for customer service.

We will continue to concentrate on our core value of providing value to our Members by offering competitively priced savings and mortgage products. Overlaying this will be a strong corporate governance regime allied to good relationships with the FSA.

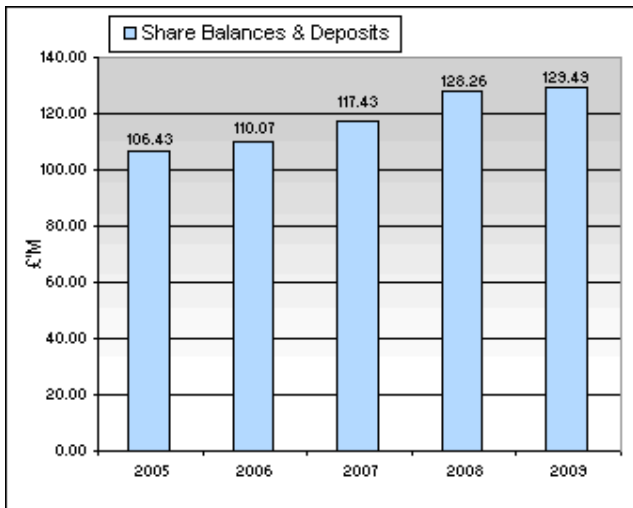
In short, we're still helping you build a better future.

**R.R. Currie**  
**Chairman**

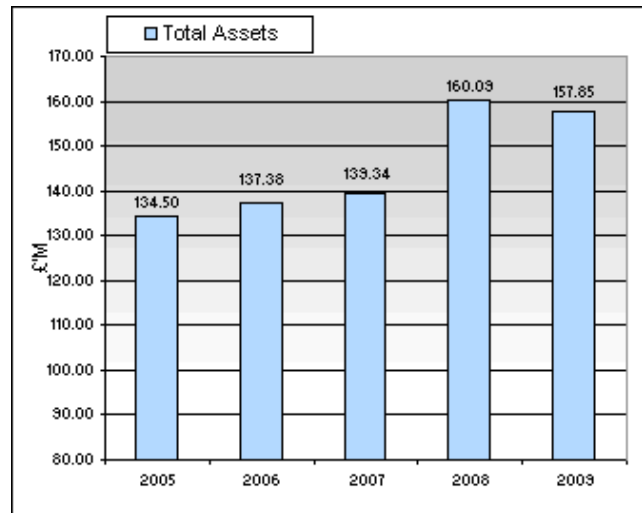
24<sup>th</sup> March 2010

## THE SOCIETY'S PERFORMANCE DURING THE PERIOD 2005 – 2009

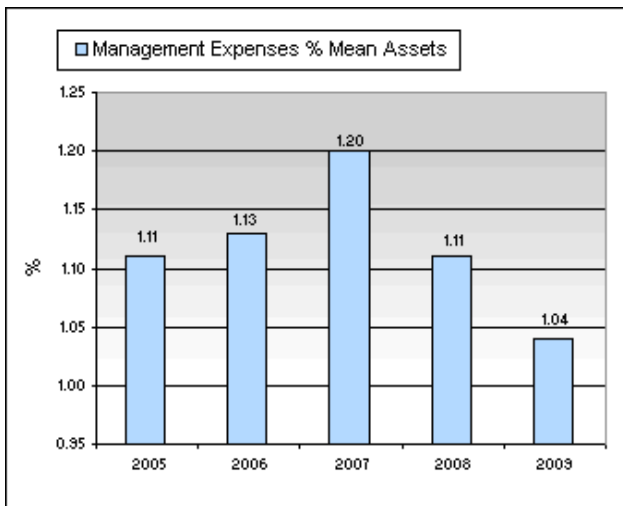
The Society's strategy of controlled and sustainable growth is considered to be core to the protection of interests for both savers and borrowers. Illustrated below are some of the key performance indicators which show the Society's progress over the previous five years.



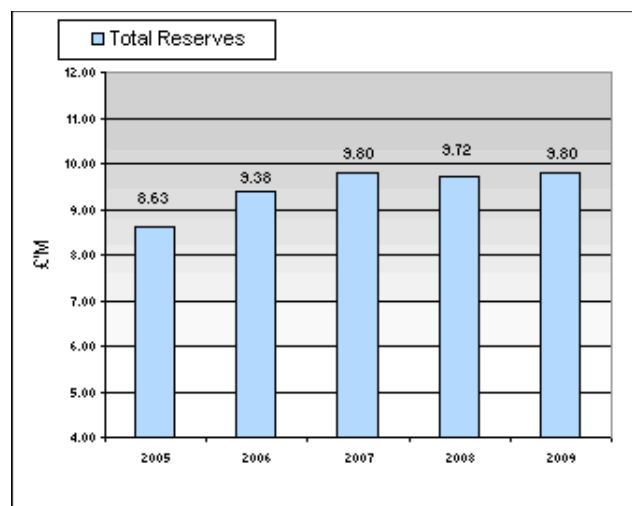
The Society is committed to offering our members a competitive range of investment opportunities



The chart mirrors our aspiration of controlled and real, not cosmetic growth.



Our aim is to reduce cost without prejudicing the level of service



Your Board is committed to maintaining a strong capital base

### Summary of highlights for financial year 2009

Mortgage Balances of £117.48m, an increase of £3.70m (3.25%)

Wholesale funding reduced by £3.36m (15.8%)

Voting Member numbers up by 35%

### **BUSINESS OBJECTIVES AND ACTIVITIES**

The principal purpose of the Society remains that of providing mortgage finance which is secured on residential property and funded substantially by Members.

The principal business objectives are the promotion of home ownership and a commitment to the provision of excellent service to all existing and potential Members.

The Society is committed to retaining its mutual status, which preserves the security and protection of our Members.

### **PRODUCT DEVELOPMENT**

2009 saw a concerted effort to create a number of new products to appeal to a wider range of customers. Having received various Member requests for a regular saver account, we launched 3 issues of the Chiltern Gold Mine fixed rate regular saver account in September which proved to be incredibly popular and attracted over 2,000 new Members. Later in the year we also launched a variable rate regular saver account – the Chiltern Gold Builder, which is still available to investors.

We have also had success with all of our fixed rate bonds during the year, which we continue to offer at high rates to give our Members a great return on longer term savings.

The number of cash ISA accounts we offer also increased in 2009 to give Members a more varied range to choose from. There is now a wide choice of fixed rate, variable rate and monthly income cash ISAs available, which are frequently mentioned in best buy tables.

Our commercial customers have also seen an improvement in the range of savings accounts we offer, with a variety of business accounts now available including solicitors' client accounts.

### **ADMINISTRATIVE EXPENSES**

The Society continually reviews its business costs and strives to introduce efficiencies to contain expenditure. These efforts have resulted in the management expense ratio decreasing to 1.04% (2008: 1.11%).

### **ASSETS**

Total assets are an indicator of our success in the two main markets of mortgages and savings. The total assets of the Society at the end of the financial year amounted to £157.85m (2008: £160.09m), representing a decrease of £2.24m or 1.4% on the previous year and reflects the difficulties posed by the economic environment. A closer analysis of the balance sheet also evidences that we have repaid over £3m of wholesale funding, reducing our reliance on the money markets.

### **PROFIT AND CAPITAL**

The Society aims to generate sufficient profit to enable continued investment and to maintain its financial strength and security of its Members' funds. At 31<sup>st</sup> December 2009 the Gross Capital of the Society increased from £9.725m to £9.80m even though we were required to write down £20,000 resulting from the revaluation of our properties. Free capital decreased to 5.49% (2008: 5.57%) of share, deposit and loan balances resulting from further investment in property. Our relatively low level of profit is in keeping with our mutual status and strategy of optimising benefit to both our savers and borrowers.

## **FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES**

The Directors manage risk from activities both strategically, in the context of the demands in the market place, and operationally in terms of the products and services provided to Members and customers of the Society. The key risks and uncertainties inherent in the Society's business can be classified as follows:

### **Strategic Risk**

The Society monitors the external environment in which it operates, as the profitability of its products could be adversely affected by a downturn in the economy or by interest rate volatility. A corporate plan and annual budget is prepared which is agreed by the Board and monitored on a monthly basis.

### **Regulatory Risk**

This refers to the risk that the Society's capital and ability to compete over a period of time might be reduced by the volume and complexity of regulatory issues (for instance, Treating Customers Fairly initiatives) and related costs (such as the FSCS levy).

### **Operational Risk**

Operational risk arises from inadequate or failed processes, people, systems, or 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.

### **Liquidity Risk**

Liquidity risk is the risk that the Society is unable to meet its current and future payment obligations when they fall due. Payment obligations arise in respect of repayments due to depositors and commitments to lend, in addition to repayment of other borrowings. The responsibility for managing this risk lies with the Head of Finance and the Treasury team and is monitored by the Assets & Liabilities Committee, within the framework outlined under Board Committees.

### **Market Risk**

Market risk is the risk of fluctuation in financial markets which could impact on the value of the Society's assets and liabilities, primarily as a result of movements in interest rates. The Society's Treasury team manages the underlying risk within a framework and parameters agreed by the Board.

### **Credit Risk**

Credit risk arises from the failure of a borrower or counterparty to settle financial or contractual obligations as they fall due. In general, decisions to lend money to individual customers are made by the Head of Customer Services, in accordance with the Society's lending policy. In certain circumstances referral is made to the Board for approval. All applications are reviewed by the Board each month.

### **Pillar 3 Disclosure – Society's approach to risk management**

The Board of Directors have put in place a formal management structure that includes its Internal Capital Adequacy Assessment Process (ICAAP), policy statements, exposure limits, mandates and reporting lines. Since last year the Society has been required under the Capital Requirements Directive (CRD) to provide to its Members a document that sets out the Society's approach to risk management as it relates to maintaining and preserving the capital position of the Society. It also provides asset information and capital calculations under Pillar 1 of the CRD. The document in its entirety can be found on our website ([www.bucksbs.co.uk](http://www.bucksbs.co.uk)).

## **SUPPLIER PAYMENT POLICY / CREDITOR PAYMENT POLICY**

The Society's policy concerning the payment of its trade creditors and suppliers continues to be to pay within the agreed terms of credit, once the supplier has discharged its contractual obligations. Amounts due to relevant creditors of the Society as at 31<sup>st</sup> December 2009 represented 19 days (2008: 15 days).

## **TECHNOLOGY**

The Society's technological capabilities are regularly reviewed to ensure compliance with regulatory requirements. In addition, two new servers have been commissioned to improve the efficiency and effectiveness of IT systems.

The Society's website has a new, shorter web-address [www.bucksbs.co.uk], to improve ease of use for Members. During 2009 the website has been re-designed to improve navigation and to accommodate a section for mortgage intermediaries. The website is updated frequently to ensure Members are fully informed of any changes to the product range.

The Society now has the facility to electronically verify customer identity and details, ensuring a quicker, more accurate process.

## **HUMAN RESOURCES**

As the Society operates in a highly regulated environment, the training and competence of all staff, management and directors is paramount and sufficient resources are allocated to maintain service levels to customers and to ensure compliance with regulatory requirements. The Society encourages access to training and career development for all employees. This policy extends to all staff regardless of race, beliefs, gender, marital status, age or physical disability.

## **DIRECTORS**

The following persons served as Directors of the Society during the year:-

R.R. Currie	Chairman of the Board – since May 2009 Chairman, Nomination Committee
K.W. Green	Vice-Chairman – since May 2009 Chairman, Remuneration Committee
A. Davies	Chairman, Assets & Liabilities Committee
M.J. Stannard	Chairman, Audit, Compliance & Risk Committee
J.E.A. Payne	Senior Independent Director
D.A. Mullen – appointed 19 <sup>th</sup> May 2009	
I.G. Powell – appointed 19 <sup>th</sup> May 2009	
I.J. Gould – appointed 19 <sup>th</sup> May 2009	Chief Executive – since May 2009
H.N. Machin – retired from the Board April 2009	Chairman – until April 2009
J. Mundell – retired April 2009	Chief Executive – until April 2009

The Directors retiring by rotation this year, in accordance with the Rules, are Andrew Davies and James Payne who, being eligible, offer themselves for re-election. In May 2009 the Board co-opted Ivan Gould, Declan Mullen and Ian Powell, who will stand for election at the Annual General Meeting in April 2010.

#### **AUDITORS**

The auditors Mazars LLP have signified their willingness to continue in office and a resolution will be proposed at the Annual General Meeting that they be re-appointed as auditors of the Society.

## CORPORATE GOVERNANCE REPORT

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The Board of Directors is responsible for the governance of the Society, on behalf of the Members, and is committed to best practice in Corporate Governance.

The FSA, as the Society's regulator, requires the Board to have regard to the Combined Code on Corporate Governance for listed companies as issued by the Financial Reporting Council in June 2008. In consultation with the FSA, the Building Societies Association has issued guidance on this revised Combined Code.

The Board agrees with and supports the principles of the Code and, whilst they are not mandatory for the Society, they have been adopted by the Board unless considered inappropriate for a mutual organisation of our size. Application of these principles is outlined below, with an explanation given where the Society's practice differs from that set out in the Code.

The Board currently consists of one Executive Director, being the Chief Executive, and seven independent Non-Executive Directors and is led by a Non-Executive Chairman. All the Non-Executive Directors are viewed by the Board as being of independent character and are able to provide an objective view of the Society's activities and the climate in which it operates. All Directors must continue to meet the FSA's test of fitness and propriety and be registered with them as an Approved Person in order to fulfil their controlled function responsibilities. New Non-Executive Directors are given appropriate induction training at the Society and are encouraged to enhance and maintain their knowledge of the industry and its regulatory structure. Directors are assisted by the Society's management in seeking advice, guidance and training to ensure that they are equipped with the skills and knowledge necessary to effectively discharge their duties and responsibilities.

Directors' and Officers' Liability Insurance continues to be purchased and reviewed annually to ensure an appropriate level of cover.

The Board exercises full and effective control over the Society's activities and meets as often as necessary to ensure the proper conduct of business is maintained. A schedule is maintained and regularly reviewed, which clearly defines areas of responsibility for which authority is delegated to Management. Those strategic matters reserved for the Board, such as policy, performance, resources and standards of conduct, are also defined. There is clear delineation between the roles of Chairman and Chief Executive, which are held by different individuals. Separate Strategy Meetings are also held by the Board when required.

The Code requires the appointment of a Senior Independent Director, envisaged to be readily identifiable as an alternative contact when a Member has concerns which are considered inappropriate for Management or the Chairman/Vice-Chairman to be approached or where the matter has not been resolved. James Payne acts as Senior Independent Director for the Society.

Members' comments and requests for information on the Board's governance of the Society are encouraged, as is their attendance and participation at the Annual General Meeting.

Full Board Meetings are held at least monthly, with additional meetings of committees and sub-committees to address particular matters. To ensure informed decision making by Directors, relevant papers are circulated with the agenda in advance of meetings and members of Management are invited to attend meetings or serve on sub-committees. The effectiveness of the Board and Board Meetings are reviewed regularly. Standing committees have formal terms of reference and their membership and chairmanship, together with the roles of Chairman and Vice-Chairman of the Board, are subject to annual review and appointment at the Board Meeting following the Annual General Meeting. Opportunities for discussion in the absence of the Chief Executive or Chairman are ensured.

## DIRECTORS' 2009 MEETING ATTENDANCE

	<i>First Appointed</i>	Board	Audit, Compliance & Risk Committee	Nomination Committee	Remuneration Committee	Assets & Liabilities Committee
		(12)	(4)	(4)	(2)	(7)
R.R. Currie	1995	12	~	4	2	~
K.W. Green	2001	11	4	4	2	~
A. Davies	2001	11	4	3	~	7
M.J. Stannard	2005	11	3	4	~	~
J.E.A. Payne	2004	11	~	3	2	~
D.A. Mullen *	2009	8 (8)	~	2 (3)	~	6
I.G. Powell *	2009	8 (8)	3 (3)	3 (3)	~	~
I.J. Gould *	2009	7 (8)	~	3 (3)	~	6
H.N. Machin **	1992	4 (4)	~	1 (1)	~	~
J. Mundell **	2008	4 (4)	~	~	~	~

\*co-opted onto the Board in May 2009

\*\*resigned April 2009

## BOARD COMMITTEES

### Audit, Compliance & Risk Committee

Previously entitled the Audit & Compliance Committee, it is chaired by Michael Stannard and meets at least four times a year, generally quarterly. Its membership in 2009 comprised four Non-Executive Directors: Michael Stannard, Andrew Davies, Keith Green and Ian Powell. Meetings are usually also attended by the Chief Executive, relevant members of Management and a representative from Internal Audit.

This Committee has the delegated responsibility for the Society's system of inspection and control; it continually reviews the effectiveness of internal controls, regulatory compliance and risk management and makes recommendations as necessary. The internal audit function and some of the compliance monitoring function are outsourced to Mutual One Limited's Audit Services and Compliance Services respectively. The Committee receives reports from and consults with both of the service providers, gaining an insight into the operation and system of control in order to ensure that they address all statutory requirements and to assess any proposed improvements that are recommended.

The Committee reviews the work of the external auditors and oversees the work of the internal audit and compliance monitoring functions, and reviews and makes recommendations in relation to their appointments and remuneration.

## **Nomination Committee**

This Committee's membership comprises all seven Non-Executive Directors with Robert Currie as Chairman.

The Nomination Committee meets as appropriate to consider Board appointments as and when they arise, in a formal and transparent manner, in order to make recommendations to the Board. Full consideration is given periodically to succession planning and the balance of skills, knowledge and experience of the Board for the requirements of the business are assessed; changes are recommended to the Board where necessary.

The Committee has not used the services of an external search agency or open advertising in the recruitment of Non-Executive Directors. It prefers to utilise formal and informal business networks of existing and past directors and their associates to identify candidates appropriate for this Society.

During the recruitment process for Executive appointments to the Board, external advertisements were placed. Both newspapers and periodicals and relevant websites, such as that of the Building Societies Association, were used.

## **Remuneration Committee**

Three Non-Executive Directors comprise this committee: Keith Green (Chairman), Robert Currie and James Payne, which meets as required.

Responsibility is delegated to the Committee to review the Society's remuneration and benefit policies. The Committee makes recommendations to the Board with regard to the contractual terms, performance and remuneration of the Chief Executive and in conjunction with the Chief Executive, those of Management. With Management, it also reviews levels of staff remuneration.

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

## **Assets & Liabilities Committee**

This Committee was instigated in June 2009, replacing the Finance Committee. It meets not less than monthly or as required and comprises Andrew Davies (Chairman), Declan Mullen, Ivan Gould, the Head of Finance and the Head of Customer Services. The Committee reviews Treasury and balance sheet risk related activities and has full responsibility for setting the Financial Risk Management Policy, the review and implementation of controls contained therein and the authorisation or otherwise of proposals and recommendations brought forward from within the Society.

## **BOARD APPOINTMENTS**

Directors are usually appointed for periods of three years but may stand for re-election. Appraisal of Directors is formally carried out annually by the Chairman (or Vice-Chairman in respect of the Chairman) following confidential consultation with other Board members. Proposals for re-election are made by the Board as a whole.

Corporate Governance stipulates that independent Board members should be rigorously assessed to ensure continuing independence and should not serve for unduly long periods. In order to ensure assessment of independence, the Code envisages that Directors should be subject to annual re-election after serving nine years on the Board. The Board do not consider that annual re-election is appropriate for this Society's requirements and Members should continue to consider the approval of appointments for periods of up to three years.

The Society's Board has been mindful of best practice requirements in consideration of the succession planning for phased replacement of long-serving Directors. Currently there are three Directors who have served for nine years or more: Robert Currie, Keith Green and Andrew Davies.

Mr Currie was first appointed in 1995, and has served as Chairman since 2009; he was re-elected for a term of three years in 2008.

Mr Green was first appointed in 2001 and has served as Vice-Chairman since 2009; he was re-elected for a term of three years in 2008.

Mr Davies also was first appointed in 2001; presently Chairman of the Assets & Liabilities Committee, he served as Chairman of the Audit & Compliance Committee from 2002 to 2009. Mr Davies was re-elected for a period of three years in 2007 and will be standing for re-election for a further three year period at the AGM in April 2010.

The Board has considered these three Directors and their service and believes that all three remain independent in character and judgement and all have demonstrated that their ability to take an objective view of the Society and its business has not been compromised by their long service.

## DIRECTORS' REMUNERATION REPORT

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This report sets out the Society's policy on the remuneration of the Executive and Non-Executive Directors and it will again be subject to an advisory vote on its approval at this year's Annual General Meeting. The Society has chosen where appropriate, to follow the Combined Code's best practice in Corporate Governance in relation to remuneration.

### REMUNERATION COMMITTEE

The Combined Code envisages the remuneration of the Chairman and Executive Directors being determined by the Remuneration Committee, with that of the Non-Executive Directors being assessed by the Chairman and Executive Directors. The Society's Board includes only one Executive appointment at present – the Chief Executive - whose salary and benefits are determined by the Committee. However, given the composition of the Society's Board, to ensure fairness and transparency an alternative process has been adopted in relation to the fees paid to Directors. Annually the Board as a whole assesses the Society's performance and refers to amounts paid by other comparable building societies in respect of fee levels. Total Directors' fees are calculated in accordance with the Society's Rules and are based on growth in total assets. Directors then allocate the fee, having regard to the level of commitment required for certain Board positions, including that of Chairman. During 2009, total fees paid amounted to £116,915 (2008: £97,966).

The Committee may seek external advice to inform its deliberations but has not done so during the year.

### EXECUTIVE DIRECTOR REMUNERATION

The Chief Executive's contractual arrangements comprise basic salary, pension contributions and taxable benefits. The basic salary is paid at an external market rate to reflect the responsibilities discharged and the individual's performance. The Chief Executive's terms of engagement allow for termination by either party at six month's written notice. The normal retirement age is 65.

### NON-EXECUTIVE DIRECTORS' REMUNERATION

Non-Executive Directors do not have service contracts, being appointed by letter, and receive only a fee. Non-Executive Directors do not receive any salary, pension, bonus incentives or other taxable benefits. The fees received relate to time spent on Society affairs including responsibilities to membership of the various Board committees.

During 2009, three Non-Executive Directors were employed by companies and one related to a sole trader, who each provided services to the Society:

Robert Currie is employed as an Associate Director by The Aitchison Raffety Group, Property Consultants; this company provided valuations of the Society's properties for which fees of £1,175 (2008: £690) were paid.

Andrew Davies is a Partner in F.A. Magee & Co., Chartered Accountants, which provided payroll services to the Society for a consideration of £2,444 (2008: £2,070).

Keith Green provided legal services to the Society for fees totalling £1,156 (2008: £2,480), which were paid to Land Graham Partnership LLP, Solicitors, of which he is a Partner.

James Payne is the son of Edward J. Payne, Architect, who provided architectural services to the Society for fees totalling £11,865 (2008: £11,569).

Director	Directors' Fee £'000s	Salary £'000s	Benefits in kind £'000s	Pension contributions £'000s	Total 2009 £'000s	Total 2008 £'000s
R.R. Currie	21				21	16
K.W. Green	16				16	12
A. Davies	18				18	16
M.J. Stannard	13				13	12
J.E.A. Payne	13				13	12
D.A. Mullen *	8				8	~
I.G. Powell *	8				8	~
I.J. Gould *	9	62	6	5	82	~
B.J. O'Neill **	-				-	16
H.N. Machin ***	7				7	20
J. Mundell ***	4	32	5		41	53
<b>Total</b>	<b>117</b>	<b>94</b>	<b>11</b>	<b>5</b>	<b>227</b>	<b>157</b>

\* co-opted onto the Board 19<sup>th</sup> May 2009

\*\* resigned July 2008

\*\*\* resigned April 2009

on behalf of the Board of Directors

**R.R. Currie**

Chairman

24<sup>th</sup> March 2010

## RESPONSIBILITIES OF THE DIRECTORS

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### DIRECTORS' RESPONSIBILITIES FOR PREPARING THE ANNUAL ACCOUNTS

The following statement, which should be read in conjunction with the statement of the Auditors' Responsibilities on page 16, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The Directors are required by the Building Societies Act 1986 (the Act) to prepare, for each financial year, Annual Accounts which give a true and fair view of the state of the 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 those accounts, the Directors are required to:

- select appropriate accounting policies and apply them consistently
- make judgements 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 Accounts
- prepare the Accounts on the going concern basis, unless it is inappropriate to presume that the Society will continue in business

In addition to the 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 CONTROL

The Directors are responsible for ensuring that the Society keeps accounting records in accordance with the Act.

The Directors are also responsible for ensuring that the Society 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 FSA under the Financial Services and Markets Act 2000.

The Directors have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### 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.

on behalf of the Board of Directors

**R.R. Currie**  
Chairman

24<sup>th</sup> March 2010

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

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We have audited the Annual Accounts of the Buckinghamshire Building Society for the year ended 31<sup>st</sup> December 2009 which comprise the income and expenditure account, balance sheet, cash flow statement and the related notes. These accounts have been prepared under the historical cost convention as modified by the revaluation of the freehold premises and in accordance with the policies set out therein. We have examined the Annual Business Statement (other than the details of officers and directors 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 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to any one other than the Society and the Society's members as a body, for our audit work, or for the opinions we have formed.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As described in the statement of Directors' Responsibilities the Society's Directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom accounting standards.

Our responsibility is to audit the Annual Report and Financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding the Directors' remuneration and transactions with the Society is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. Our responsibilities do not extend to any other information.

## **BASIS OF 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, 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 financial statements are free from material misstatement, 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 financial statements.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BUCKINGHAMSHIRE BUILDING SOCIETY continued

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### OPINION

In our opinion:

- the Annual Accounts give a true and fair view of the state of affairs of the Society as at 31<sup>st</sup> December 2009, and of the income and expenditure of the Society for the year then ended
- 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
- the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts
- the Annual Accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of Part VIII of the Building Societies Act 1986 and regulations made under it

Lee Brook (Senior Statutory Auditor)

for and on behalf of Mazars LLP

24<sup>th</sup> March 2010

Chartered Accountants and Registered Auditors,  
The Atrium, Park Street West,  
Luton, Bedfordshire, LU1 3BE

**INCOME AND EXPENDITURE ACCOUNT  
for the year ended 31st December 2009**

**Buckinghamshire Building Society**

	<b>Notes</b>	<b>2009 £'000s</b>	<b>2008 £'000s</b>
Interest receivable and similar income	2	5,853	8,712
Interest payable and similar charges	3	(4,055)	(6,549)
Net interest receivable		<u>1,798</u>	<u>2,163</u>
Fees and commissions receivable		159	162
Fees and commissions payable		(148)	(156)
Other operating income	4	37	27
<b>TOTAL INCOME</b>		<u>1,846</u>	<u>2,196</u>
Administrative expenses	6	(1,632)	(1,858)
Depreciation and amortisation	13	(26)	(21)
		<u>188</u>	<u>317</u>
Provisions for bad and doubtful debts	11	(40)	(78)
Provisions for liabilities and charges	19	(19)	(9)
Provisions for FSCS	21	-	(158)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>		<u>129</u>	<u>72</u>
Tax on profit on ordinary activities	9	(34)	(24)
<b>PROFIT FOR THE FINANCIAL YEAR</b>	20	<u><b>95</b></u>	<u><b>48</b></u>

The notes on pages 21 to 32 form part of these accounts.

The above results are all derived from continuing operations.

There is no material difference in the current or previous year, between the historical cost profit and the profit reported above. Accordingly no note of historical cost profits and losses has been included in these accounts.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
for the year ended 31st December 2009**

	<b>Notes</b>	<b>2009 £'000s</b>	<b>2008 £'000s</b>
Profit for the financial year		95	48
Unrealised deficit on revaluation of freehold premises	20	(20)	(126)
Total recognised gains and losses relating to the year		<u>75</u>	<u>(78)</u>
Prior year adjustment		-	-
Total gains and losses recognised since last annual report		<u><u>75</u></u>	<u><u>(78)</u></u>

**BALANCE SHEET**  
**as at 31st December 2009**

**Buckinghamshire Building Society**

<b>ASSETS</b>	<b>Notes</b>	<b>2009</b>	<b>2008</b>
		<b>£'000s</b>	<b>£'000s</b>
<b>LIQUID ASSETS</b>			
Cash in hand and balances with the Bank of England		38	68
Loans and advances to credit institutions	10	38,753	44,940
		<u>38,791</u>	<u>45,008</u>
<b>LOANS AND ADVANCES TO CUSTOMERS</b>			
Loans fully secured on residential property	12	110,010	107,038
Other loans	12	7,244	6,565
		<u>117,254</u>	<u>113,603</u>
<b>TANGIBLE FIXED ASSETS</b>	13	1,712	1,397
<b>OTHER ASSETS</b>	14	92	84
<b>TOTAL ASSETS</b>		<b><u>157,849</u></b>	<b><u>160,092</u></b>
 <b>LIABILITIES</b>			
SHARES	15	119,342	125,725
AMOUNTS OWED TO CREDIT INSTITUTIONS	16	17,836	21,193
AMOUNTS OWED TO OTHER CUSTOMERS	17	10,146	2,538
		<u>147,324</u>	<u>149,456</u>
OTHER LIABILITIES	18	529	696
PROVISIONS FOR LIABILITIES AND CHARGES	19 & 21	196	215
<b>RESERVES</b>			
General Reserve	20	8,926	8,831
Revaluation Reserve	20	874	894
<b>TOTAL LIABILITIES</b>		<b><u>157,849</u></b>	<b><u>160,092</u></b>

The notes on pages 21 to 32 form part of these accounts.

These accounts were approved by the Board of Directors on 24th March 2010 and were signed on its behalf by:

R.R.Currie  
Chairman

K.W.Green  
Vice-Chairman

M.J. Stannard  
Chairman,  
Audit, Compliance & Risk Committee

**CASH FLOW STATEMENT**  
for the year ended 31st December 2009

Buckinghamshire Building Society

	<b>2009</b>	<b>2008</b>
	<b>£'000s</b>	<b>£'000s</b>
<b>NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES</b>	(5,916)	8,440
Taxation	(39)	(105)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(389)	(21)
Payment to FSCS	(38)	-
<b>(DECREASE)/INCREASE IN CASH</b>	<u>(6,382)</u>	<u>8,314</u>
<b>RECONCILIATION OF OPERATING PROFIT TO NET CASH</b>		
<b>(OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES</b>		
<b>Operating profit</b>	129	72
Movement in prepayments and accrued income	135	303
Movement in accruals and deferred income	(157)	69
Provisions for liabilities and charges	19	9
Provision for FSCS	-	158
Provision for bad and doubtful debts	40	78
Depreciation and Impairment	54	21
<b>NET CASH INFLOW FROM TRADING ACTIVITIES</b>	<u>220</u>	<u>710</u>
<b>Movement in:</b>		
Loans and advances to customers	(3,691)	(16,428)
Shares	(6,383)	9,163
Amounts owed to credit institutions and other customers	4,408	11,679
Loans and advances to credit institutions and other customers	(300)	3,443
Other assets	(3)	25
Other liabilities	(167)	(152)
<b>NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES</b>	<u>(5,916)</u>	<u>8,440</u>
<b>ANALYSIS OF (DECREASE)/INCREASE IN CASH</b>	<b>Cash</b>	<b>Net</b>
	<b>Balances</b>	<b>Movement</b>
	<b>£'000s</b>	<b>£'000s</b>
Cash in hand	38	
Loans and advances to credit institutions repayable on demand	11,829	
<b>At 31st December 2009</b>	<u>11,867</u>	
Decrease from 2008 to 2009		(6,382)
Cash in hand	68	
Loans and advances to credit institutions repayable on demand	18,181	
<b>At 31st December 2008</b>	<u>18,249</u>	
Increase from 2007 to 2008		8,314
Cash in hand	40	
Loans and advances to credit institutions repayable on demand	9,895	
<b>At 31st December 2007</b>	<u>9,935</u>	

## 1 PRINCIPAL 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 ACCOUNTING

The accounts have been prepared under the historical cost convention, as modified by the revaluation of the freehold premises.

### B) FORMAT OF ACCOUNTS

The accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 and applicable accounting standards.

### C) FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are shown in the balance sheet at cost less accumulated depreciation. Freehold land is not depreciated. Depreciation is calculated so as to write off the cost of tangible fixed assets over their estimated useful lives as follows:

Computer hardware and software	2 to 4 years
Office equipment and fixtures	2 to 7 years
Motor vehicles	5 years

Land and buildings are held at their revalued amount. A revaluation is to be carried out each year and no depreciation is charged in respect of these assets.

### D) CORPORATION TAX

Corporation tax for the year ended 31st December 2009 was charged at 21.00% (2008: 21.25%) on the excess of income over expenditure. Marginal relief is claimed at the Small Companies rate.

### E) DEFERRED TAXATION

In accordance with FRS 19, Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on the revaluation of fixed assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### F) RETIREMENT BENEFITS

The Society operates a money purchase pension scheme which is open to all permanent employees. The contributions of the Society and employees are fixed at a maximum of 10% and 5% of gross salary respectively.

For certain employees the Society provided a targeted money purchase scheme which retained the potential benefits of a previous final salary scheme. This arrangement has been discontinued with alternative provisions established.

The Society's contributions are charged to the Income and Expenditure account in the periods which benefit from the employees' services.

### G) LIQUID ASSETS

Liquid assets are shown at cost to the Society and investment interest received is accounted for on an accruals basis.

**H) HEDGING INSTRUMENTS**

The Society has entered into prescribed contracts specifically and exclusively for the purpose of reducing the risk of loss arising from changes in interest rates, which may affect non-administered business. Receipts and payments arising under interest rate swap agreements are included in the accounts within interest receivable or interest payable as appropriate, on an accruals basis.

**I) OTHER INCOME AND CHARGES**

Fees charged to borrowers for the services of third parties including valuation fees in connection with advances made are included in fees and commissions receivable. The payment for these services is included in fees and commissions payable.

**J) PROVISIONS FOR BAD AND DOUBTFUL DEBTS**

(i) Provisions are made to reduce the value of advances, loans and other assets to the amount which the Directors consider is likely ultimately to be received.

(ii) Throughout the year and at the year end individual assessments are made of all advances and loans on properties which are in arrears or in possession. Specific provision is made against those advances and loans which are considered to be impaired. In considering the specific provision for impaired loans, account is taken of 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.

(iii) A general provision is made against those advances which have not been specifically provided for, but where the Society's experience and general economic climate would indicate that losses may ultimately be realised.

(iv) Provisions for other items are also appraised on a regular basis and if it appears that a loss might arise, the full amount is provided.

(v) Interest in respect of all loans is credited to the Income and Expenditure account as it becomes receivable, except in respect of advances where the property has been taken into possession and where the recoverability of the interest is subject to significant doubt. Such interest is credited to an interest suspense account.

(vi) Loans and advances in the balance sheet are shown net of both specific and general provisions and net of the balance in the interest suspense account. Any charge to the Income and Expenditure account comprises the increase in provisions together with losses written off in the year.

**K) INCENTIVES TO BORROWERS**

The initial cost of cashbacks and interest rate discounts associated with new mortgage products is charged to the income and expenditure account as incurred.

**2 INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2009</b>	<b>2008</b>
	<b>£'000s</b>	<b>£'000s</b>
On loans fully secured on residential property	4,591	5,960
On other loans	349	485
On other liquid assets	913	2,182
Net receivable on financial instruments	-	85
	<u>5,853</u>	<u>8,712</u>

There is no interest suspended on non-performing loans and assets.

**3 INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
On shares held by individuals	2,674	5,464
On other shares	21	47
On deposits and other borrowings	1,360	1,038
	<u>4,055</u>	<u>6,549</u>

**4 OTHER OPERATING INCOME**

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
Other operating income	37	27
	<u>37</u>	<u>27</u>

**5 STAFF NUMBERS AND COSTS**

The average number of persons employed by the Society (including one executive Director) during the year was as follows:

	<b>2009</b>	<b>2008</b>
Full time	19	18
Part time	5	10
	<u>24</u>	<u>28</u>

**6 ADMINISTRATIVE EXPENSES**

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
<b>EMPLOYEE COSTS</b>		
Wages and Salaries	767	732
Social Security Costs	81	79
Other Pension Costs	58	285
	<u>906</u>	<u>1,096</u>
Other administrative expenses	726	762
	<u>1,632</u>	<u>1,858</u>

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
<b>OTHER ADMINISTRATIVE EXPENDITURE</b>		
Auditors' remuneration and expenses		
Audit fees	20	20
Non-audit fees	13	4

**7 REMUNERATION OF DIRECTORS**

(a) DIRECTORS' EMOLUMENTS	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
For services as Directors	104	88
For Executive Services	123	69
Other services [see (c) below]	5	5
	<u>232</u>	<u>162</u>

The emoluments of the Directors are detailed below:

(b) Non-Executive Directors (comprising fees only)		
R.R. Currie (Chairman) appointed 1st May 2009	21	16
K.W. Green (Vice-Chairman) appointed 1st May 2009	16	12
A. Davies (Chairman ALCO)	18	16
M.J. Stannard (Chairman Audit Compliance And Risk Committee)	13	12
J.E.A. Payne	13	12
D.A. Mullen	8	-
I.G. Powell	8	-
H.N. Machin (Chairman) resigned 30th April 2009	7	20
	<u>104</u>	<u>88</u>

The office of Non-Executive Director is non pensionable.

		<b>2009</b>	<b>2008</b>
		<b>£000s</b>	<b>£000s</b>
Executive Director:-	I.J. Gould		
Salary		62	-
Taxable Benefits		6	-
Pension Contributions		5	-
Fees		9	-
Total		<u>82</u>	<u>-</u>
Executive Director:-	J. Mundell		
Salary		32	48
Taxable Benefits		5	1
Fees		4	4
Total		<u>41</u>	<u>53</u>
Executive Director:-	B.J. O'Neill		
Salary		-	-
Taxable Benefits		-	6
Pension Contributions		-	5
Fees		-	5
Total		<u>-</u>	<u>16</u>

During the year the Society contributed £5,221.60 to an occupational pension scheme on behalf of the Chief Executive (2008: £4,684.50).

**7 (cont'd) REMUNERATION OF DIRECTORS**

- (c) In accordance with Section 69 of the Building Societies Act 1986 the Society maintains a Register of Relevant Services of a Related Business. The fees paid relate to (i) the Society's payroll function which was carried out by an accountancy practice of which one Director is a partner (ii) the premises valuation which was completed by a firm where one of the Directors is a Director (iii) the acquisition of property and the drafting of a compromise agreement which is carried by a firm of solicitors where the director is a salaried partner (iv) architectural services which are provided by an ex-director whose son is currently serving on the Board. A statement of the appropriate details contained in the Register for the financial year ended 31st December 2009 will be available for inspection at the Head Office for a period of 15 days up to and including the Annual General Meeting.

**8 DIRECTORS' LOANS AND TRANSACTIONS**

At 31st December 2009, there were outstanding mortgage loans granted in the ordinary course of business to two Directors and their connected persons, amounting in aggregate to £243,671.

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 December 2009, will be available for inspection at the Head Office for a period of 15 days up to and including the Annual General Meeting.

**9 TAX ON PROFIT ON ORDINARY ACTIVITIES**

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
<b>Current Taxation</b>		
UK Corporation tax charge for the year	37	37
Amount under provided in prior period	2	-
Total current tax	<u>39</u>	<u>37</u>
<b>Deferred tax</b>		
Origination and reversal of timing difference (Note 19)		
Tax on profit on ordinary activities	(5)	(13)
Total current tax	<u>34</u>	<u>24</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 21.00% (2008: 20.75%). The actual tax charge for the current and the previous year varies from the standard rate for the reasons set out in the following reconciliation.

Profit on ordinary activities before tax	<u>129</u>	<u>72</u>
Tax on profit on ordinary activities at standard rate	27	15
<b>Factors affecting charge for the year:</b>		
Capital allowances in excess of depreciation	(5)	(1)
Expenses not deductible for tax purposes	7	4
Marginal relief	-	-
Other timing differences	8	19
	<u>37</u>	<u>37</u>

**10 LOANS AND ADVANCES TO CREDIT INSTITUTIONS**

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
Loans and advances to credit institutions have remaining maturities, as follows:		
Accrued interest	124	259
On demand	11,829	18,181
In not more than three months	17,000	20,000
In more than three months but not more than one	6,550	6,500
In more than one year but not more than five years	3,250	-
	<u>38,753</u>	<u>44,940</u>

**11 PROVISIONS FOR BAD AND DOUBTFUL DEBTS**

	<b>Loans fully secured on residential property</b>	<b>Other Loans fully secured on land</b>	<b>Other Assets</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
At 1st January 2009				
General provisions	132	-	-	132
Specific provisions	48	-	-	48
	<u>180</u>	<u>-</u>	<u>-</u>	<u>180</u>
Amounts written off during the year	-	-	-	-
Income and expenditure account				
General provisions	42	8	-	50
Specific provisions for bad and doubtful debts	(10)	-	-	(10)
Net charge	<u>32</u>	<u>8</u>	<u>-</u>	<u>40</u>
At 31st December 2009				
General provisions	174	8	-	182
Specific provisions	38	-	-	38
	<u>212</u>	<u>8</u>	<u>-</u>	<u>220</u>

**12 LOANS AND ADVANCES TO CUSTOMERS**

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
Loans fully secured on residential property	105,067	107,198
Loans fully secured on land	12,407	6,585
	<u>117,474</u>	<u>113,783</u>

Loans fully secured on land include £1,095 (2008: £21,961) of loans which are fully secured on residential property and which were made to corporate bodies prior to 20th October 1998, the date the Society adopted the powers of the Building Societies Act 1997. The classification of these assets is not consistent with the treatment of similar loans made after 20th October 1998 which are included in "loans fully secured on residential property" but is necessary to comply with the requirements of the Building Societies Act 1997.

12 (cont'd) LOANS AND ADVANCES TO CUSTOMERS

	2009 £000s	2008 £000s
MATURITY ANALYSIS		
The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:		
Repayable on demand	150	189
In not more than three months	939	511
In more than three months but not more than one year	2,197	4,314
In more than one year but not more than five years	17,979	16,495
In more than five years	96,209	92,274
	<u>117,474</u>	<u>113,783</u>
Less: Provisions (Note 11)	(220)	(180)
	<u>117,254</u>	<u>113,603</u>

13 TANGIBLE FIXED ASSETS

	Land & Buildings £000s	Equipment, Fixtures, Fittings & Vehicles £000s	Total £000s
COST OR VALUATION			
At 1st January 2009	1,373	417	1,790
Additions	353	36	389
Deficit on revaluation	(20)	-	(20)
Impairments	(28)	-	(28)
Disposals	-	(35)	(35)
At 31st December 2009	<u>1,678</u>	<u>418</u>	<u>2,096</u>
DEPRECIATION			
At 1st January 2009	-	393	393
Charge for the year	-	26	26
Disposals	-	(35)	(35)
At 31st December 2009	<u>-</u>	<u>384</u>	<u>384</u>
NET BOOK VALUE			
At 31st December 2009	<u>1,678</u>	<u>34</u>	<u>1,712</u>
At 31st December 2008	<u>1,373</u>	<u>24</u>	<u>1,397</u>

Freehold land and buildings were valued at £1,678,000 as per the valuation report dated the 10th January 2010 by Mr M. Awdry MRICS, on behalf of The Aitchison Raffety Group, Property Consultants. The valuation is based on market value in accordance with the R.I.C.S. Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors. The historical cost of these revalued assets is £832,166.

**14 OTHER ASSETS**

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
Other assets	92	84
	<u>92</u>	<u>84</u>

**15 SHARES**

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
Held by individuals	117,686	124,096
Other shares	1,656	1,629
	<u>119,342</u>	<u>125,725</u>

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

On demand	54,546	64,649
Other shares by residual maturity repayable or period of notice:		
In not more than three months	17,754	12,492
In more than three months but not more than one year	39,740	47,333
In more than one year but not more than five years	7,302	1,251
	<u>119,342</u>	<u>125,725</u>

**16 AMOUNTS OWED TO CREDIT INSTITUTIONS**

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

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
Accrued interest	36	193
With agreed maturity date or period of notice:		
In not more than three months	17,300	20,000
In more than three months but not more than one year	500	1,000
In more than one year but not more than five years	-	-
	<u>17,836</u>	<u>21,193</u>

**17 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:

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
On demand	4,314	2,538
In not more than three months	3,416	-
In more than three months but not more than one year	1,017	-
In more than one year but not more than five years	1,399	-
	<u>10,146</u>	<u>2,538</u>

**18 OTHER LIABILITIES**

Other liabilities are all due within one year and comprise:

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
Corporation Tax	37	37
Income Tax	158	561
Other Creditors	334	98
	<u>529</u>	<u>696</u>

**19 PROVISIONS FOR LIABILITIES AND CHARGES**

<b>Deferred taxation asset</b>	<b>£000s</b>
Balance at 1st January 2009	(33)
Profit and loss account credit	(3)
	<u>(36)</u>
Balance at 31st December 2009	<u>(36)</u>

Following the adoption of FRS 19, the deferred taxation consists of liabilities recognised and those not recognised in the accounts. The liabilities have been calculated at the main tax rate of 29% (2008: 30%).

	<b>Liabilities recognised</b>		<b>Liabilities not recognised</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Revaluation	-	-	(76)	(56)
Depreciation in excess of Capital allowances	(5)	1	-	-
Other timing differences	41	32	-	-
	<u>36</u>	<u>33</u>	<u>(76)</u>	<u>(56)</u>

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
At 1st January	57	58
Under provision from previous year	(12)	(10)
Provision for endowment policies	31	9
	<u>76</u>	<u>57</u>

The Society has accepted a number of complaints relating to the sale of Endowment Assurance Policies taken out in the 1980s. The potential shortfall at maturity which has arisen by the reduction in the current level of bonuses being declared are in the Directors opinion fully provided for and are subject to annual review.

The Society believes that a contingent liability for potential complaints could arise in the future but because the directors were unable to ascertain the amount of liability with any certainty, no provision was previously made in the accounts. However the number of potential claimants has reduced sufficiently for an estimate of the liability to be made and on the information available a sum has been set aside and is included in the provision of £76,097 above. The directors now believe the level of provision adequately covers not only the existing but also the expected liability of any further claims.

20 RESERVES

	General Reserve £000s	Revaluation Reserve £000s	Total £000s
At 1st January 2009	8,831	894	9,725
Profit for the financial year	95	-	95
Deficit on revaluation	-	(20)	(20)
At 31st December 2009	8,926	874	9,800

21 GUARANTEES, CAPITAL AND OTHER FINANCIAL COMMITMENTS

	£000s
Financial Services Compensation Scheme	
At 31st December 2008	158
Payments made	(38)
At 31st December 2009	120

The Society has a contingent liability in respect of contributions to the FSCS provided for by the Financial Services and Markets Act 2000. Based on its share of protected deposits, the Society, in common with all regulated UK deposit takers, pays levies to the 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 out net of any recoveries it makes using the rights that have been assigned to it.

In September 2008 a claim was triggered against the FSCS by the transfer of Bradford and Bingley plc's retail deposit business to Abbey National plc. In October 2008 a further claim was triggered against the FSCS by the transfer of Kaupthing Singer and Friedlander's (KSF) internet deposit business and Heritable Bank's (a subsidiary of Landsbanki hf) deposit business to ING Direct. The FSCS will also be liable to claims from the depositors of Landsbanki hf and KSF whose balances have not been transferred to ING Direct, but are covered by the FSCS. Further claims have been registered in respect of London Scottish Bank plc (December 2008) and Dunfermline Building Society (March 2009).

We understand that the FSCS has met, or will meet, the claims by way of loans received from the Bank of England which will eventually be replaced by a loan from HM Treasury. The FSCS has, in turn, acquired the rights to the realisation of the assets of these banks. The FSCS is liable to pay interest on the loans from the Bank of England. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to repay fully the respective Bank of England loans.

As a result of the notification received from the FSA, the Society recognised the liability and in this year's accounts held the provision at the same level representing the full known liability existing at the previous year end, less the instalment of £38,000 paid in 2009. The final amounts chargeable in respect of the levies will depend on future interest rates and each deposit-taker's relevant share of the UK total of protected deposits and the ultimate level of compensation paid in relation to failures detailed above.

## **22 FINANCIAL INSTRUMENTS**

The Society is a retailer of financial instruments in the form of mortgage and savings products, and also uses wholesale financial instruments to invest in liquid assets and to raise funds from wholesale money markets in support of its retail savings operation. These instruments also allow it to manage the risks arising from these business markets.

The Society has a formal structure for managing risk, including formal risk policies, risk limits, reporting structures, mandates and other control procedures. This structure is reviewed regularly by the Board of Directors.

The Society's principal derivatives used in balance sheet risk management are interest rate swaps which are used to hedge balance sheet exposures arising from fixed rate mortgage lending products.

The table below shows the notional principal amounts, credit risk weighted amounts and replacement costs of derivatives. Notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The credit risk weighted amount, which is calculated according to the rules specified by the FSA, is based on the replacement cost, but also takes into account measures of the extent of potential future exposure and the nature of the counterparty. The replacement costs represent the costs of replacing the Society's maximum exposure should all counterparties default.

### UNMATURED INTEREST RATE CONTRACTS

At the year-end the contract or underlying principal amounts of off-balance sheet instruments together with their risk weighted amount and replacement cost were:

	<b>2009</b>	<b>2008</b>
	<b>£000s</b>	<b>£000s</b>
Notional principal amount	24,500	25,000
Credit risk weighted amount	5	5
Replacement cost	-	-

### RISK MANAGEMENT

The main financial risks arising from the Society's activities are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, and these are summarised below.

- **Credit Risk:** Credit risk is the risk of default by counterparties to transactions. Appropriate credit limits have been established by the Board for individual counterparties and sectors
- **Liquidity Risk:** The Society's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Society can cover all fluctuations in funding, retain full public confidence in the solvency of the Society and to enable the Society to meet its financial obligations
- **Interest Rate Risk:** The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Society manages this exposure continually by using both on and off-balance sheet instruments

The tables on the following page summarise these re-pricing mismatches as at 31st December 2009 and 2008. Items are allocated to time bands by reference to the earlier of the next interest rate re-pricing date and maturity date.

The interest rate sensitivity exposure of the Society at 31st December 2009 was as follows:

	Not more than three months £000s	More than three months but not more than six months £000s	More than six months but not more than one year £000s	More than one year but not more than five years £000s	More than five years £000s	Non-interest bearing £000s	Total £000s
<b>ASSETS</b>							
Liquid assets	28,794	1,009	5,583	3,298	-	107	<b>38,791</b>
Loans and advances to customers	86,909	3,789	5,509	21,047	-	-	<b>117,254</b>
Tangible fixed assets	-	-	-	-	-	1,712	<b>1,712</b>
Other assets	-	-	-	-	-	92	<b>92</b>
<b>TOTAL ASSETS</b>	<b>115,703</b>	<b>4,798</b>	<b>11,092</b>	<b>24,345</b>	<b>-</b>	<b>1,911</b>	<b>157,849</b>
<b>LIABILITIES</b>							
Shares	93,877	3,529	10,926	11,010	-	-	<b>119,342</b>
Amounts owed to credit institutions and other customers	24,066	1,775	808	1,333	-	-	<b>27,982</b>
Other liabilities	-	-	-	-	-	725	<b>725</b>
Reserves	-	-	-	-	-	9,800	<b>9,800</b>
<b>TOTAL LIABILITIES</b>	<b>117,943</b>	<b>5,304</b>	<b>11,734</b>	<b>12,343</b>	<b>-</b>	<b>10,525</b>	<b>157,849</b>
Interest rate sensitivity gap	(2,240)	(506)	(642)	12,002	-	(8,614)	

The interest rate sensitivity exposure of the Society at 31st December 2008 was as follows:

	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>ASSETS</b>							
Liquid assets	39,249	-	5,500	-	-	259	<b>45,008</b>
Loans and advances to customers	87,045	1,245	1,608	23,705	-	-	<b>113,603</b>
Tangible fixed assets	-	-	-	-	-	1,397	<b>1,397</b>
Other assets	-	-	-	-	-	84	<b>84</b>
<b>TOTAL ASSETS</b>	<b>126,294</b>	<b>1,245</b>	<b>7,108</b>	<b>23,705</b>	<b>-</b>	<b>1,740</b>	<b>160,092</b>
<b>LIABILITIES</b>							
Shares	103,703	3,104	17,728	1,190	-	-	<b>125,725</b>
Amounts owed to credit institutions and other customers	21,411	300	1,400	-	-	620	<b>23,731</b>
Other liabilities	-	-	-	-	-	911	<b>911</b>
Reserves	-	-	-	-	-	9,725	<b>9,725</b>
<b>TOTAL LIABILITIES</b>	<b>125,114</b>	<b>3,404</b>	<b>19,128</b>	<b>1,190</b>	<b>-</b>	<b>11,256</b>	<b>160,092</b>
Interest rate sensitivity gap	1,180	(2,159)	(12,020)	22,515	-	(9,516)	

**(1) STATUTORY PERCENTAGES**

The accounts have been prepared under the historical cost convention, as modified by the revaluation of the freehold premises.

	<b>2009</b>	<b>Statutory Limit</b>
	%	%
<b>The Lending Limit</b>		
Proportion of business assets not in the form of loans fully secured on residential property	6.16	25
<b>The Funding Limit</b>		
Proportion of shares and borrowings not in the form of shares held by individuals	20.12	50

- Business assets are the total assets of the Society as shown in the balance sheet plus provisions for bad and doubtful debts, less fixed assets and liquid assets. Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the balance sheet plus provisions for bad and doubtful debts
- The above percentages have been calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 as substituted by the Building Societies Act 1997
- The statutory limits 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 its members

**(2) OTHER PERCENTAGES**

	<b>2009</b>	<b>2008</b>
	%	%
AS A PERCENTAGE OF SHARES AND BORROWINGS -		
Gross Capital	6.65	6.51
Free Capital	5.49	5.57
Liquid Assets	26.33	30.11
AS A PERCENTAGE OF MEAN TOTAL ASSETS -		
Profit after taxation	0.06	0.03
Management expenses	1.04	1.11

The above percentages have been prepared from the Society's accounts and:

- "Shares and Borrowings" represents the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers
- "Gross Capital" is the General Reserve and Revaluation Reserve
- "Free Capital" represents the aggregate of gross capital less tangible fixed assets
- "Mean Total Assets" represent the average of the total assets at the beginning and end of the financial year
- "Liquid Assets" has the same meaning ascribed in the Balance Sheet
- "Management Expenses" represents the aggregate of administrative expenses and depreciation. In 2008 the Society incurred exceptional costs relating to the closure of the benefits defined pension scheme amounting to £220,000, this amount has been deducted from management expenses in order to provide comparison to the underlying level of profitability and expense

**(3) INFORMATION RELATING TO THE DIRECTORS, CHIEF EXECUTIVE & OTHER OFFICERS**

The accounts have been prepared under the historical cost convention, as modified by the revaluation of the freehold premises.

**(a) DIRECTORS**

<b>Name and Date of birth</b>	<b>Profession/Occupation &amp; year first appointed</b>	<b>Other directorships</b>
<b>Chairman</b> R.R. Currie, BSc, FRICS, IRRV 16th August 1952	Chartered Surveyor 1995	None
<b>Vice-Chairman</b> K.W. Green 23 January 1946	Solicitor 2001	None
A. Davies, ACA 17 July 1958	Chartered Accountant 2001	Asa Court Management Co. Ltd.
J.E.A. Payne FCIOB 20th September 1964	Chartered Builder 2004	Jamestead Ltd. Jamestead Construction Ltd. Jamestead Building Contractors Ltd.
M.J. Stannard 6th May 1962	Financial Director 2005	Hallmark IP Ltd. Nucleus Ltd.
D.A. Mullen, B.Comm. M.Comm 7th April 1955	Banker 2009	None
I.G. Powell, LLB (Hons) 13th May 1961	Barrister 2009	None
I.J. Gould, FCIB, MBA 4th April 1962	Chief Executive 2009	DG Properties Ltd. I. Gould & Associates Ltd. Footprint Asset Management Ltd.

Correspondence to directors jointly or individually should be addressed to:  
'Private and Confidential', c/o Mazars LLP, The Atrium, Park Street West, Luton, Bedfordshire, LU1 3BE.

**(b) OTHER OFFICERS**

<b>Name</b>	<b>Business Occupation</b>	<b>Directorships</b>
M.K. Simpson, BA, BSc, DMS,	Head of Finance	M&C Consolidated Enterprises Ltd.
K.M. Büggs, Dip ML,CeMAP	Head of Customer Services	None
A.C. O'Farrell, BSc, CeFA	Head of Compliance & Risk	None
H. A. Brown	Society Secretary (until 31st December 2009)	None
J. Williams, BA, MSc, ACIS	Society Secretary (from 1st January 2010)	None

**(c) Directors' Service Contracts**

None of the non-executive Directors has a service contract with the Society.

**BUCKINGHAMSHIRE  
BUILDING SOCIETY**

