



midlands excellence
special award winner

Business Review & Summary Financial Statement

for the year ended 31 August 2008



www.thehanley.co.uk

Chief Executive's Business Review

for the year ended 31 August 2008



Overview: Despite the unprecedented scale of turmoil in our core markets in 2008, The Hanley has had another successful year. Our financial year began in September 2007 with emerging evidence that the housing market in America faced great difficulties and that the value of US mortgage-backed securities was far lower than had been assumed. In the months that followed uncertainty about the scale of the problem, and specifically the demise of the Northern Rock bank in the UK, caused markets to lose the two vital ingredients which are essential for market vibrancy; confidence and trust. Inevitably, banks sought to repair the damage to their balance sheets by restricting lending to each other and to customers, making borrowing more difficult to arrange and more expensive. This is now widely known as the "credit crunch".

In the UK our housing market has undergone major adjustment in the past year and this continues to run its course. House prices have fallen 10% from last year's peak and mortgage approvals are currently only around one-third of last year's levels, signifying a deterioration in customer confidence as inflation rose to 4.7% and the unemployment rate reached 5.3%.

| | | |
|-------------------------------------|---|--|
| Total assets now £363m | – | up 6.5% |
| Group mortgage balances now £256m | – | up 12.9% |
| Reserves of £26.2m | – | up 4.5% |
| Retail savings balances now £293m | – | up 3.1% |
| Group management expenses now 1.10% | – | down from 1.17% in 2007 |
| Annual pre-tax profit of £1.60m | – | up 10.1% on 2007 underlying profits ¹ |

¹ Annual pre-tax profit excluding the benefits derived from the disposal of residential properties was £1.46m

The unprecedented turbulence in financial markets has had a huge impact on UK banks with profit warnings, rights issues and, in the cases of Northern Rock and Bradford & Bingley, business failure. Building societies are not immune to financial market upheaval, but so far the traditional model of a building society has stood up well to the turmoil, and this is certainly true of The Hanley. We have no exposure to sub-prime lending, nor do we have elaborate treasury management practices. We have high levels of liquidity and modest wholesale funding, preferring to rely on our traditional savings accounts to fund our mortgage business in a conservative, responsible way.

In addition, our customers have grown to trust us over many years, and the value of having a secure place to save and seek advice on financial matters has rarely been more potent. The Hanley is a local, independent mutually owned building society with customer service and consistent value at its core. We do not harbour ambitions beyond our means and we certainly do not underestimate the importance of earning and keeping the trust of all our customers. Our primary objective remains the strengthening of The Hanley via sustainable levels of profitable, balanced growth, without taking undue risks, whilst keeping costs under control and attaining profit levels which enable us to invest in the long-term health of the business. With this goal in mind I am proud to spotlight the key financial highlights of yet another successful year at The Hanley.

In relation to our primary objective mentioned above it is worth stressing that The Hanley's 41% growth in assets over the past five years has been matched by a commensurate growth in reserves (39%), demonstrating that our business strategy has been quality-driven and not simply a drain on Society reserves as a means of accumulating new mortgage business. On the contrary, we have resisted disproportionate expansion and have focused on balanced growth with genuine efficiency gains and real added-value to Society members.

As a mutual organisation profit maximisation is not a key driver. Instead we aim to achieve a level of profit to support our reserves and to re-invest in the Society. Our declared profit in 2007/2008 of £1.60m is less than that reported in the previous year, but of course in 2006/2007 we benefited from an exceptional contribution to profit of £1.1m from a single transaction, dispensing of a portfolio of residential properties held for many years. In a similar vein our prudent approach also extends to our current portfolio of residential development lending, where our long term view has resulted in an additional provision for bad and doubtful debts of £160k. Setting this to one side, our underlying profit performance has improved year on year and crucially our ratio of net profit to assets (0.32%) is still amongst the best in the building society sector. We remain a very well capitalised Society with substantial reserves and high levels of cash liquidity, validating our reputation as a vibrant business with strong foundations and an extremely prosperous future as a mutually independent, local Building Society.

Mortgage Lending: By the year end the average loan to value in our total mortgage portfolio is 54% and our residential mortgage

arrears are at historically low levels. We have no cases where borrowers are 12 months or more in arrears, only two residential possessions during the year and only 0.50% of our 4,200 mortgage customers are three months or more in payment arrears, which is significantly below the industry average as reported by the Council of Mortgage Lenders.

Notwithstanding this fierce determination to attract only high quality lending, The Hanley has had an outstanding year with a record £74m in mortgage advances, achieved through our branch network and direct via telephone enquiries. Our healthy liquidity position throughout 2008 enabled us to use this competitive advantage at a time when other lenders retreated from the market due to funding pressures.

The Hanley remains committed to offering customers a choice of mortgage products through our broking service and we will place a customer with another lender if that is the most suitable option for them. This exemplifies our belief in offering advice you can trust and involves a review by a qualified Adviser of all aspects of an applicant's circumstances so that the best mortgage solution can be found, together with correct protection for their family and their property.

Savings: At The Hanley we have never lost sight of the fact that seven out of every eight Hanley members are savers rather than borrowers, and we always strive to offer a consistently competitive suite of savings products. Retail savings accounts are our backbone, and our growth in balances of almost £9m in the past year underlines the strength of our product range and our ongoing focus on simple, transparent products with no detrimental features hidden in the undergrowth of the small print.

We were also extremely proud to open our 1,000th Child Trust Fund account during 2008 and our CTF remains a market leader attracting widespread media attention as it pays interest at 7.75% to CTF customers visiting our local branches. We also launched a regular savings account specifically for local First Time Buyers who need to save for a deposit on their first home, and the Jumbo 747 account may prove to be a foretaste of future government-supported initiatives as the number of new first time buyers plummeted to record lows in 2008 and a viable solution to resuscitating this market segment is essential.

Our independent financial advice service through Hanley Financial Services Ltd remains a powerful extension to our branch-based advisory proposition and is integral to our diversified approach to seeking income streams from which Society members ultimately benefit.

Our People and our Community: In January 2008 it was my privilege to collect an award on behalf of The Hanley at a glittering awards ceremony in Birmingham hosted by Midlands Excellence where your Society was recognised for its commitment to developing our people and seeking continuous improvement in all that we do. This was a strong endorsement of our belief that our people are the distinctive differentiating feature as we strive to compete with much larger organisations.

We know that Treating Customers Fairly and providing outstanding customer service can only be achieved through the excellence of the people who work at The Hanley. Further verification of this was obtained during the year when we achieved a re-accreditation of the Investors in People award and personally I was overwhelmed by the Assessor's description of The Hanley as "a true learning organisation where personal development is encouraged; a business with a strong sense of integrity."

Gratifyingly, our own staff feel equally pleased to be part of our success story as evidenced in our internal staff survey in which employee satisfaction reached 86%, towering above the industry benchmark level of 60%.

The Hanley continues to play a very active part in our local community and two stories stood out from many examples of superb community support in 2008. Firstly, we took a proactive approach in reuniting customers with long-forgotten savings accounts and in one instance we were delighted to reunite a local charity dDeaflinks with the sum of £10,000 which had accumulated in an account held by a former trustee of the charity. Secondly, we supported our chosen charity Breath of Life by sponsoring this year's Potters 'Arf Marathon in June 2008 which was a huge success involving 1,600 runners and raising the profile of the city of Stoke-on-Trent in a positive way.

Looking forward to 2009, our optimism and confidence is reflected in the Board's decision to accept an offer to sell Granville House and move to a brand new, purpose built head office on Festival Park. By mid-July 2009, The Hanley's Head Office will be in the newly-acquired Festival Court, providing contemporary facilities to both staff and customers, and emphasising that the Society remains on a sound financial footing and is planning for a bright future.

I believe that The Hanley will continue to justify the trust of our members and customers by exhibiting all of these characteristics and along with your Board and all the staff at The Hanley, look forward to the challenges that lie ahead.



David Webster, Chief Executive 16 October 2008

Your Board



Edward Turner, age 64, is a chartered accountant and has been a Board member since 1998. He is Chairman of the Society and is also a member of the Society's Assets & Liabilities and Audit & Compliance Committees.

Ted was a Partner with KPMG for 21 years, and often undertook work within the building society sector as well as in other financial services businesses. He is a Non-Executive Chairman of a private property investment company, and President and Trustee of the North Staffs Medical Institute, a charity which provides facilities for post graduate education for the medical profession locally. Ted also provided consulting advice to a professional firm in North Staffordshire and following his retirement from the profession he worked as a finance director in industry for nearly six years.



Francis Stafford, aged 54, was appointed to the Board as a Non-Executive Director in January 1993, and appointed Vice Chairman in December 1997. He was Chairman of the Assets & Liabilities Committee when it was first created but has since passed that role over to Steve Jones the Finance Director. He is still a member of that committee as well as being Chairman of the Remuneration and Nominations Committees.

Among his outside interests, Lord Stafford was Chairman of both Keele and Harper Adams Universities from where he started The Lord Stafford Awards which continue encouraging businesses to work with Universities. These Awards have now progressed to both the East and West Midlands and are looking to expand into other regions of the country. Lord Stafford currently manages his family estate at Swynnerton Park.



Dr Ann Henshaw, age 61, has thoroughly enjoyed her first year as Non-Executive Director since being co-opted to the Board in February last year and feels privileged to have the opportunity to make a contribution to such a high quality organisation. Ann is a member of the Remuneration Committee and has taken on the specific role as 'champion' of Treating Customers Fairly (TCF).

She has a broad range of experience and skills that are vested in a long and successful career in business, Psychology and Alternative Dispute Resolution and working in the city as a Family Mediator with law firms and the people of Stoke-on-Trent.



Edward Jenner, age 53, was appointed to the Board as a Non-Executive Director in January 1998 and is Chairman of the Audit & Compliance Committee.

He was a Non-Executive Director of CORGI, the gas safety body, and was strategic development director of the Wedgwood Group having previously been Wedgwood Group Finance Director since 1994. Prior to that he had spent his career in Unilever. He currently works in property development specialising in environmentally friendly homes.



[Steven Jones](#), age 45, was appointed Finance Director in May 2004. He currently chairs both the Treasury and the Assets & Liabilities Committees. His executive management responsibilities include finance, treasury and information systems.

Steven, who lives locally, is married with two children. A Fellow of the Institute of Chartered Accountants with a strong background in the financial services sector, Steven is committed to The Hanley's continued success as a mutual Building Society within North Staffordshire. Outside of the Society, Steven has for many years been actively involved in the voluntary sector and currently is Chairman of North Staffs MIND.



[Dianne Thompson](#), age 47, was appointed to the role of Operations Director in January 2008. Her executive management responsibilities include the Branch Network, Mortgage and Independent Financial Advisory services, third party relationship management and the Group's two subsidiary companies. Dianne also acts as a Regional Chairperson for Lighthouse Group Plc who provide Hanley Financial Services Ltd with compliance support.

Her previous career spans 24 years in two national building societies with a particular focus on the delivery of financial services in a retail environment. Dianne is committed to maintaining The Hanley as an independent mutual Building Society with a strong connection to our local community.



[John Wood](#), age 52, was co-opted to the Board as a Non-Executive Director in April of this year following a formal selection and recruitment process. John has become a member of the Audit & Compliance Committee and oversees on behalf of the Board the Society's policy on corporate social responsibility.

He retired last year from Staffordshire Police as acting Assistant Chief Constable and brings a broad range of experience of working in a professional environment at a high level. In 2006 John received the Queen's Police Medal for distinguished service. He is a member of a number of business networks including the North Staffordshire Chamber of Commerce and Industry.



[David Webster](#), age 49, has been Chief Executive at The Hanley since April 2002. David has led the Society through a period of significant change in the financial services industry and remains fully committed to The Hanley's future as an independent, local mutual Building Society with very strong roots in the community of North Staffordshire. The regeneration of North Staffordshire is of particular interest to David and his involvement in local business initiatives includes being Deputy Chairman of fineST (the professional services network for North Staffordshire) and Chairman of the Business Brokers project.

During 2008 David was re-elected for a second term by fellow Chief Executives to the Council of the Building Societies Association where he will continue to promote the views of small, local building societies.

Directors' Remuneration Report

for the year ended 31 August 2008

Directors' Remuneration

The purpose of this report is to inform members of The Hanley about our policy on the remuneration of Executive and Non-Executive Directors. This Policy was updated in 2004 and the Board has included an advisory vote on the Directors' Remuneration Report at this year's AGM.

The Remuneration Committee

The Committee is responsible for the remuneration policy for all Directors of the Society and it makes recommendations to the Board regarding remuneration and contractual arrangements. The Committee meets at least twice a year and reviews supporting evidence, including external professional advice if appropriate, on comparative remuneration packages. The Committee also reviews the Chief Executive's proposals for Senior Management remuneration, including any performance related bonus.

Policy for Executive Directors

The Board's policy is to set remuneration levels which will attract and retain high calibre Executive Directors, and to encourage excellent performance through rewards directly linked to the achievement of The Hanley's strategic objectives. The main components of the Executive Directors' remuneration are:

- a) **Basic Salary** – which takes into account the job content and responsibilities, individual performance (assessed annually) and salary levels for similar positions in comparable organisations.
- b) **Bonus** – which is a non-pensionable, performance related cash bonus payable on achievement of Board-specified key performance indicators (KPIs). These KPIs include Group profit, customer satisfaction measures, cost management and growth in other income. They are set at challenging levels and provide a true incentive to perform at high levels, consistent with the interests of members. Bonus payments to Executive Directors (and to Senior Managers) are payable annually, are not guaranteed and are reviewed each year.
- c) **Pensions** – which involves The Hanley contributing to the personal pension arrangements of its Executive Directors. The Society does not have a Defined Benefit/Final Salary pension scheme.
- d) **Other Benefits** – notably the provision of a company car to each Executive Director (or an equivalent allowance), private medical insurance, permanent health insurance and a concessionary mortgage rate on loans up to £40,000. Such benefits are reviewed annually by the Remuneration Committee.

Executive Directors have contractual notice periods of up to one year and so any termination payment would not exceed 12 months salary and accrued benefits. The performance of the Chief Executive, Finance Director and Operations Director is reviewed on an annual basis by the Remuneration Committee.

Policy for Non-Executive Directors

The remuneration of all Non-Executive Directors is reviewed on an annual basis by the Remuneration Committee, using external data for other comparable building societies, and by a performance review process undertaken by the Society's Board Chairman. The remuneration of the Chairman is reviewed and set by the Remuneration Committee. There are no bonus schemes for Non-Executive Directors and they do not qualify for pension entitlement or other benefits. Non-Executive Directors do not have service contracts but serve under letters of appointment following election by the Society's membership.

The Remuneration Committee agreed the Directors' remuneration as follows:

| | 2008 | 2007 |
|------------------------------------|------------|-----------|
| For services as a director: | £000 | £000 |
| E. M. Turner (Chairman) | 32 | 31 |
| Lord Stafford (Vice-Chairman) | 20 | 20 |
| A. Henshaw | 17 | 8 |
| E. V. Jenner | 20 | 19 |
| W. J. Jennings (to 26/9/06) | – | 1 |
| T. P. Walsh (to 31/3/08) | 10 | 17 |
| J. H. Wood (from 22/4/08) | 7 | – |
| | <u>106</u> | <u>96</u> |

For executive services:

| | Salary | Bonus | Benefits | Sub-total | Pension Contribution | Total |
|------------------------------|------------|-----------|-----------|------------|-------------------------|------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| 2008 | | | | | | |
| D. Webster | 142 | 17 | 15 | 174 | 21 | 195 |
| S. Jones | 70 | 5 | 10 | 85 | 9 | 94 |
| D. J. Thompson (from 4/1/08) | 42 | 4 | 4 | 50 | 6 | 56 |
| | <u>254</u> | <u>26</u> | <u>29</u> | <u>309</u> | <u>36</u> | <u>345</u> |
| 2007 | | | | | | |
| D. Webster | 134 | 24 | 16 | 174 | 20 | 194 |
| S. Jones | 67 | 12 | 9 | 88 | 9 | 97 |
| | <u>201</u> | <u>36</u> | <u>25</u> | <u>262</u> | <u>29</u> | <u>291</u> |



The Rt. Hon. the Lord Stafford
Chairman of the Remuneration Committee
16 October 2008

| | | |
|------------------|--|---|
| Directors: | Mr. E. M. Turner F.C.A. The Rt. Hon. the Lord Stafford D.L. Dr. A. Henshaw B.Sc. (Hons.), Ph.D. Mr. E. V. Jenner B.Sc., F.C.M.A. Mr. S. Jones B.Sc., F.C.A., M.B.A. Mrs. D. J. Thompson Mr. D. Webster Mr. J. H. Wood | Chairman Vice-Chairman Finance Director Operations Director Chief Executive |
| Group Secretary: | Mr. C. S. Hassall F.C.I.B., A.Co.I. | |
| Executives: | Mrs. C. Hammond Mr. D. Lownds B.Sc. (Hons.) | Human Resources Manager Head of Business Support |
| Auditors: | PricewaterhouseCoopers LLP | |

Corporate Governance

Corporate Governance

The Hanley is committed to the best practice in corporate governance. This report explains how the group applies the principles of the Combined Code of Corporate Governance 2006.

The Board provides leadership and direction with the strategic aim of promoting success within an effective and controlled framework.

The Directors are committed to best practice in Corporate Governance and as such they have given due consideration to the Combined Code on Corporate Governance, which applies to listed companies. The Building Societies Association has provided guidance on this Combined Code and the Board have reviewed the requirements and, where they are appropriate to the Society, adopted them.

The Board

The Board consists of three Executive Directors and five Non-Executive Directors who provide the appropriate mix of skills and professional expertise required.

The offices of Chairman and Chief Executive are distinct and held by different people.

The Board considers that all its Non-Executive Directors are independent and free of any relationship which could prejudice their use of independent judgement. Within this the Board has considered the individual performance of any Director whose service exceeds nine years and is satisfied that independence is in no way jeopardised. During the year the Board took the decision to appoint Dr Ann Henshaw as the Senior Independent Director to whom members may address any concerns or issues they may wish to raise. However, all Directors are happy to make themselves available to members for such purposes.

There is a formal, rigorous and transparent procedure for the appointment of new Directors. All Non-Executive vacancies are advertised to members and the Nominations Committee make appointments having considered the balance of skills and experience required. All Directors are subject to annual performance and evaluation review, and in addition there is also an annual evaluation of the Board as a whole. New Directors receive full and formal induction training and all Directors are provided with on-going training to provide continual updating of their skills.

All Directors must meet the test of fitness and propriety as laid down by the FSA as 'Approved Persons' to fulfil their Controlled Functions as Directors.

The Society's rules require all Directors to submit themselves for election by the members at the first opportunity after their appointment and for re-election every three years. In addition, the Board has agreed that any Non-Executive Director whose service exceeds nine years, will volunteer themselves for re-election on an annual basis.

All Directors have access to the advice of the Secretary and, if necessary, are able to take independent professional advice at the Society's expense.

The Board has four main sub-committees:-

1. The Assets & Liabilities Committee meets quarterly and monitors and controls balance sheet risk, funding and liquidity in accordance with the Society's policy. The Committee comprises of two Non-Executive Directors, Ted Turner and Francis Stafford, and two Executive Directors, David Webster and Steven Jones (Chair).
2. The Audit & Compliance Committee meets quarterly and reviews the effectiveness of internal controls, the compliance function and the Group's risk management function. It considers and recommends the appointment of the internal and external auditors and monitors their effectiveness and independence. The Committee comprises of three Non-Executive Directors, Edward Jenner (Chair), Ted Turner and John Wood.
3. The Remuneration Committee meets at least twice a year and independently reviews and recommends changes to the terms and conditions of employment of the Directors and Senior Managers. The Committee comprises of two Non-Executive Directors, Francis Stafford (Chair) and Ann Henshaw.
4. The Nominations Committee meets as required to consider Board appointments. All Board members sit on this Committee.

Proceedings of all Committees are formally minuted and minutes are subsequently considered by the full Board.

Attendance at Board and Committee meetings for the year to 31 August 2008 has been recorded as follows:-

| | Board | Audit & Compliance | Assets & Liabilities | Remuneration | Nominations |
|---------------|---------|--------------------|----------------------|--------------|-------------|
| A. Henshaw | 11 (11) | – | – | 2 (2) | 1 (1) |
| E. V. Jenner | 10 (11) | 4 (4) | – | – | 1 (1) |
| S. Jones | 11 (11) | – | 4 (4) | – | 1 (1) |
| Lord Stafford | 9 (11) | – | 3 (4) | 2 (2) | 1 (1) |
| D.J. Thompson | 7 (7) | – | – | – | 1 (1) |
| E. M. Turner | 11 (11) | 4 (4) | 4 (4) | – | 1 (1) |
| T. P. Walsh | 6 (6) | 2 (2) | – | – | – |
| D. Webster | 11 (11) | – | 4 (4) | – | 1 (1) |
| J. H. Wood | 4 (4) | 1 (1) | – | – | – |

() = number of meetings eligible to attend



E.M. Turner
Chairman
16 October 2008

Summary Financial Statement for the year ended 31 August 2008

This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on demand at every office of Hanley Economic Building Society from 10 November 2008, or can be downloaded from the Society's website www.thehanley.co.uk

Approved by the Board of Directors on 16 October 2008 and signed on its behalf by:

E. M. Turner, *Chairman*

D. Webster, *Chief Executive*

S. Jones, *Finance Director*

Summary Directors' Report

A summary review of the events and business of the Group during the year and commentary on the financial position at the end of the year can be found on pages 2 and 3.

Executives and Staff

The Board wish to record their thanks to the staff, and our business contacts. Contending with the rapidly changing financial services landscape has presented numerous challenges to our people and they continue to rise to these challenges with enthusiasm and skill.

Group Results for the year

| | 2008 | 2007 |
|-------------------------------------|---------------------|---------------------|
| | £000 | £000 |
| Net Interest receivable | 4,991 | 5,694 |
| Other income and charges | 656 | 1,008 |
| Administrative expenses | (3,877) | (3,887) |
| Provisions | (166) | (273) |
| Profit for the year before taxation | <u>1,604</u> | <u>2,542</u> |
| Taxation | (474) | (821) |
| Profit for the year | <u><u>1,130</u></u> | <u><u>1,721</u></u> |

Financial Position at end of year

Assets

| | | |
|------------------------|-----------------------|-----------------------|
| Liquid assets | 104,106 | 110,919 |
| Mortgages | 255,616 | 226,343 |
| Fixed and other assets | <u>3,335</u> | <u>3,640</u> |
| Total Assets | <u><u>363,057</u></u> | <u><u>340,902</u></u> |

Liabilities

| | | |
|--------------------------|-----------------------|-----------------------|
| Shares | 293,077 | 284,298 |
| Borrowings | 42,272 | 29,802 |
| Other liabilities | 1,508 | 1,732 |
| Reserves | <u>26,200</u> | <u>25,070</u> |
| Total Liabilities | <u><u>363,057</u></u> | <u><u>340,902</u></u> |

Summary of Key Financial Ratios

| | 2008 | 2007 |
|--|--------|--------|
| Gross capital as a percentage of shares and borrowings | 7.81% | 7.98% |
| Liquid assets as a percentage of shares and borrowings | 31.04% | 35.31% |
| Profit for the year as a percentage of mean total assets | 0.32% | 0.52% |
| Management expenses as a percentage of mean total assets | 1.10% | 1.17% |
| Cost/income | 68.66% | 58.00% |

Key Financial Ratios

The above percentages have been prepared from the Group's accounts and in particular:

Gross Capital

The gross capital ratio measures the proportion that the Group's capital bears to the Group's liabilities to members and other investors. The Group's capital consists of profits accumulated over many years in the form of reserves. Capital provides a financial buffer against any losses which might arise in the Group's business and therefore protects investors.

Liquid Assets

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

Profit

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

Management Expenses

The management expenses/mean total assets ratio measures the proportion which the Group's administrative expenses (including depreciation and amortisation) bears to the average of the Group's total assets at the start and end of the year.

Cost/Income

The cost/income ratio represents the Group's administration expenses (including depreciation and amortisation), expressed as a percentage of the aggregate of net interest receivable and other income and charges less other operating charges.

Independent Auditors' statement to the members and depositors of the Hanley Economic Building Society

We have examined the Summary Financial Statement of the Hanley Economic Building Society on pages 10 and 11 of this document.

Respective Responsibilities of Directors and Auditors

The Summary Financial Statement is the responsibility of the Directors. Our responsibility is to report to you our opinion on its consistency with the full Annual Accounts, Annual Business Statement and Director's Report and its conformity with the requirements of Section 76 of the Building Societies Act 1986 and regulations made under it. We also read the other information contained in the Business Review and Summary Financial Statement, and consider the implications for our statement if we become aware of any apparent mis-statements or material inconsistencies with the Annual Report & Accounts.

This statement, including the opinion, has been prepared for, and only for, the Society's Members as a body and depositors as a body in accordance with Section 76 of the Building Societies Act 1986, and for no other purpose. We, do not, in giving this opinion, accept or assume responsibility for any other purpose, or to any other person to whom this statement is shown, or into whose hands it may come, save where expressly agreed by our prior consent in writing.

Basis of Opinion

We performed our audit work in accordance with the Bulletin 1999/6 'The Auditors' Statement on the Summary Financial Statement' issued by the Auditing Practices Standard Board for use in the United Kingdom.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, Annual Business Statement and Directors' Remuneration Report of the Hanley Economic Building Society Group for the year ended 31 August 2008 and complies with the requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester

16 October 2008

Interest Rates paid

Interest rates paid during the year were:

| Gross rates effective from: | 1 Aug 2007 | 1 Jan 2008 | 1 Mar 2008 | 1 May 2008 |
|-----------------------------|---------------|---------------|---------------|---------------|
|-----------------------------|---------------|---------------|---------------|---------------|

Growth Bonds (Annual Interest)

| | | | | |
|---------------------------|-------|-------|-------|-------|
| Balance less than £10,000 | 3.90% | 3.65% | 3.40% | 3.15% |
| £10,000 - £24,999.99 | 4.45% | 4.20% | 3.95% | 3.70% |
| £25,000 - £49,999.99 | 4.95% | 4.70% | 4.45% | 4.20% |
| £50,000 - £99,999.99 | 5.15% | 4.90% | 4.65% | 4.40% |
| £100,000 and above | 5.40% | 5.15% | 4.90% | 4.65% |

Growth Bonds (Monthly Interest)

| | | | | |
|---------------------------|-------|-------|-------|-------|
| Balance less than £10,000 | 3.83% | 3.59% | 3.35% | 3.11% |
| £10,000 - £24,999.99 | 4.36% | 4.12% | 3.88% | 3.64% |
| £25,000 - £49,999.99 | 4.84% | 4.60% | 4.36% | 4.12% |
| £50,000 - £99,999.99 | 5.03% | 4.79% | 4.55% | 4.31% |
| £100,000 and above | 5.27% | 5.03% | 4.79% | 4.55% |

Cash ISA (Instant Access)

| | | | | |
|--------------------------|-------|-------|-------|-------|
| Balance less than £3,000 | 5.25% | 5.00% | 4.65% | 4.40% |
| Balance £3,000 and above | 5.85% | 5.60% | 5.25% | 5.00% |

Cash ISA (Regular Saver)

| | | | | |
|--|-------|-------|-------|-------|
| | 6.00% | 5.75% | 5.40% | 5.15% |
|--|-------|-------|-------|-------|

Branch Regular Saver

| | | | | |
|--|-------|-------|-------|-------|
| | 6.15% | 5.85% | 5.60% | 5.35% |
|--|-------|-------|-------|-------|

Branch Saver

| | | | | |
|--|--|--|--|-------|
| | | | | 5.00% |
|--|--|--|--|-------|

Notice 28 Shares and Deposits

| | | | | |
|------------------------|-------|-------|-------|-------|
| Balance less than £100 | 1.00% | 0.75% | 0.75% | 0.75% |
| £100 - £9,999.99 | 3.00% | 2.75% | 2.50% | 2.25% |
| £10,000 - £24,999.99 | 3.20% | 2.95% | 2.70% | 2.45% |
| £25,000 - £49,999.99 | 3.45% | 3.20% | 2.95% | 2.70% |
| £50,000 - £99,999.99 | 3.70% | 3.45% | 3.20% | 2.95% |
| £100,000 and above | 4.05% | 3.80% | 3.55% | 3.30% |

Younger Savers

| | | | | |
|--|-------|-------|-------|-------|
| | 5.80% | 5.55% | 5.30% | 5.05% |
|--|-------|-------|-------|-------|

Child Trust Fund

| | | | | |
|--|-------|-------|-------|-------|
| | 7.30% | 8.00% | 8.00% | 7.75% |
|--|-------|-------|-------|-------|

Instant Access Shares

| | | | | |
|------------------------|-------|-------|-------|-------|
| Balance less than £100 | 0.50% | 0.50% | 0.50% | 0.50% |
| £100 - £9,999.99 | 2.65% | 2.40% | 2.15% | 1.90% |
| £10,000 and above | 2.90% | 2.65% | 2.40% | 2.15% |

Closed Issues

| Gross rates effective from: | 1 Aug 2007 | 1 Jan 2008 | 1 Mar 2008 | 1 May 2008 |
|-----------------------------|---------------|---------------|---------------|---------------|
|-----------------------------|---------------|---------------|---------------|---------------|

Monthly Income Bonds

| | | | | |
|--------------------------|-------|-------|-------|-------|
| Balance less than £5,000 | 3.65% | 3.40% | 3.15% | 2.90% |
| £5,000 - £9,999.99 | 3.85% | 3.60% | 3.35% | 3.10% |
| £10,000 - £24,999.99 | 4.14% | 3.90% | 3.65% | 3.40% |
| £25,000 - £49,999.99 | 4.40% | 4.15% | 3.90% | 3.65% |
| £50,000 - £99,999.99 | 4.65% | 4.40% | 4.15% | 3.90% |
| £100,000 and above | 4.90% | 4.65% | 4.40% | 4.15% |

Postal 30 (Annual Interest)

| | | | | |
|---------------------------|-------|-------|-------|-------|
| Balance less than £10,000 | 4.35% | 4.10% | 3.85% | 3.60% |
| £10,000 - £24,999.99 | 4.60% | 4.35% | 4.10% | 3.85% |
| £25,000 - £49,999.99 | 4.95% | 4.70% | 4.45% | 4.20% |
| £50,000 - £99,999.99 | 5.20% | 4.95% | 4.70% | 4.45% |
| £100,000 - £199,999.99 | 5.40% | 5.15% | 4.90% | 4.65% |
| £200,000 and above | 5.50% | 5.25% | 5.00% | 4.75% |

Postal 30 (Monthly Interest)

| | | | | |
|---------------------------|-------|-------|-------|-------|
| Balance less than £10,000 | 4.27% | 4.02% | 3.78% | 3.54% |
| £10,000 - £24,999.99 | 4.51% | 4.27% | 4.02% | 3.78% |
| £25,000 - £49,999.99 | 4.84% | 4.60% | 4.36% | 4.12% |
| £50,000 - £99,999.99 | 5.08% | 4.84% | 4.60% | 4.36% |
| £100,000 - £199,999.99 | 5.27% | 5.08% | 4.79% | 4.55% |
| £200,000 and above | 5.37% | 5.13% | 4.89% | 4.65% |

Postal 90 (Annual Interest)

| | | | | |
|---------------------------|-------|-------|-------|-------|
| Balance less than £25,000 | 5.25% | 5.00% | 4.75% | 4.50% |
| £25,000 - £49,999.99 | 5.45% | 5.20% | 4.95% | 4.70% |
| £50,000 - £99,999.99 | 5.55% | 5.30% | 5.05% | 4.80% |
| £100,000 and above | 5.85% | 5.60% | 5.35% | 5.10% |

Postal 90 (Monthly Interest)

| | | | | |
|---------------------------|-------|-------|-------|-------|
| Balance less than £25,000 | 5.13% | 4.89% | 4.65% | 4.41% |
| £25,000 - £49,999.99 | 5.32% | 5.08% | 4.84% | 4.60% |
| £50,000 - £99,999.99 | 5.41% | 5.18% | 4.94% | 4.70% |
| £100,000 and above | 5.70% | 5.46% | 5.22% | 4.98% |

Cash ISA 30-day notice

| | | | | |
|--------------------------|-------|-------|-------|-------|
| Balance less than £3,000 | 5.25% | 5.00% | 4.70% | 4.45% |
| £3,000 - £8,999.99 | 6.05% | 5.80% | 5.45% | 5.20% |
| £9,000 - £11,999.99 | 6.05% | 5.80% | 5.45% | 5.20% |
| £12,000 and above | 6.05% | 5.80% | 5.45% | 5.20% |

Cash ISA 60-day notice (formerly TESSA)

| | | | | |
|--|-------|-------|-------|-------|
| | 6.15% | 5.90% | 5.55% | 5.30% |
|--|-------|-------|-------|-------|

Target Shares – First Issue

| | | | | |
|--|-------|-------|-------|-------|
| | 3.10% | 2.85% | 2.60% | 2.35% |
|--|-------|-------|-------|-------|

Regular Saver

| | | | | |
|--|-------|-------|-------|-------|
| | 6.35% | 6.10% | 5.75% | 5.50% |
|--|-------|-------|-------|-------|

Base Rate of Bank of England

| | | | | |
|--|-------|-------|-------|-------|
| | 5.75% | 5.50% | 5.25% | 5.00% |
|--|-------|-------|-------|-------|

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