Report & Accounts 2013

for the year ended 31 August 2013

WINNER

Moneyfacts® Awards 2013

Regional Lending Provider of the Year

THE HANLEY ECONOMIC Building Society

www.thehanley.co.uk

investor in excellence

INVESTOR IN PEOPLE

POSITIVE ABOUT DISABLED PEOPLE

Contents

Member of the Building Societies Association
Shares and deposits in this Society are trustee investments
Established 1854
Registered Head Office **Granville House, Festival Park, Hanley, Stoke-on-Trent, ST1 5TB**
Telephone: Stoke-on-Trent (01782) 255000
Email: hebs@thehanley.co.uk
Register No. **248B**
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

Our apprenticeship scheme commenced 18 months ago, standing are Lauren Ainsworth and Jordan Stevenson, our longest serving apprentices who have both been successful in obtaining permanent full time contracts with The Hanley. Lucy Olszewski, Jack Tatton and Kelsey Emery (seated from left) are our newest recruits who are proving to be great additions to their teams. The apprenticeship scheme is an ongoing commitment we make to support employment and training of young people within our community.

> “ We have always believed in the benefits of growing our own talent and developing our people. ”

Chairman's Statement

It is my pleasure to present to you The Hanley's Annual Report and Accounts for the financial year ended 31 August 2013.

The year has been one of changing economic climate. For the first few months we were operating in the 2012 zero-growth UK economy and a lacklustre housing market. However 2013 has seen the first shoots of recovery with predictions of economic growth and the first real signs of activity within the UK housing market since the collapse of 2008. The Hanley continued to show resilience through the difficult times and has embraced the up-turn to show during the year increased levels of retail savings, significant increases in the levels of mortgages granted and an increase in assets as at 31 August 2013.

These successes have been achieved by a continuation of our strategy of helping members make the most of their savings and of supporting aspiring home buyers, with a particular focus on first time buyers and those self building their new homes. These increases again confirm our assertion that distinctive niches can be created by a local mutual prepared to tailor its service around the needs of its customers.

Of course, the strong performance outlined in this Annual Report and Accounts is attributable to the focus, professionalism and flexibility of all the staff at The Hanley, and on behalf of The Board I would like to record our appreciation of their consistent dedication to delivering excellent service to our members.

In particular, at The Hanley we have always believed in the benefits of growing our own talent and developing our people. This year we recruited three business apprentices, having taken on two apprentices the previous year, both of whom quickly secured permanent jobs with us. Bringing young people into our business, who have typically grown up and been educated in this area, is one way in which we can demonstrate tangible engagement with our heartland community, whilst at the same time ensuring that a blend of fresh talent prepares the Society for a contemporary future.

In August of this year Ann Henshaw retired from her role as Non-Executive Director of the Society after 6½ years of quality service where in particular she has been a great champion for Treating Customers Fairly and the maintenance of high levels of corporate conduct. We would like to record our thanks for her contribution to the Society. I am very pleased to announce that in September, following a rigorous review process, we co-opted Fionnuala Earley to the Board. Fionnuala has a wealth of experience as an expert in the economics of the housing market and we look forward to the additional perspectives she will bring to the Society.

The Hanley continues to thrive as an independent, local mutual building society and it is your Board's intention for this to be the case for many years to come.

E. V. Jenner
Chairman
15 October 2013

"The Hanley continued to show resilience through difficult times and has embraced the up-turn to show increased levels of savings, mortgages and assets."

Chief Executive's Business Review

> " In our 159 year history we have overcome many challenges and survived many storms which have overwhelmed our larger competitors. "

Overview

I am very pleased to report The Hanley's results for our financial year ended 31 August 2013 which emphatically underline our resilience and core strength as a mutually owned business.

The UK economy's gross domestic product (GDP) grew by 0.7% in the second quarter of 2013 and business surveys suggest that economic activity will continue to rise in the coming months due largely to improved credit conditions. The Organisation for Economic Co-operation and Development (OECD) recently revised upwards its forecast for UK economic growth in 2013 to 1.51% from its previous estimate of 0.8%. Additionally the Bank of England's Monetary Policy Committee (MPC) has issued "forward guidance" declaring that there is no intention to raise the Bank Base Rate (BBR) above the 0.5% level at which it has been set since March 2009, until the unemployment rate falls to 7% (subject to certain "knock outs" not occurring) which it does not expect before 2016.

The prospect of a low BBR environment persisting and improved confidence in the housing market, alongside the Government's various intervention schemes, notably Funding for Lending (FLS) and Help to Buy, have combined to stimulate demand in the housing market to the extent that the most recent Royal Institution of Chartered Surveyors survey revealed that new buyer enquiries have reached their highest levels for four years, and the Nationwide House Price Index shows that prices have risen 3.5% in the year to August 2013. Additionally, the most recent Property Tracker survey from the Building Societies Association (BSA) revealed that most consumers now believe that house prices will continue to rise in the year ahead and that signs of recovery are bolstered by wider availability of mortgages for first time buyers with modest deposits.

Clearly any sense of a recovery gaining momentum needs to be treated cautiously as the picture is not uniformly rosy across the UK and of course the impact of the artificial stimuli put in place by the Government should not be underestimated. However, the housing market now shows signs of an uplift in activity and optimistic sentiment which was absent a year ago.

Coping with the inevitable changes which accompany a dynamic market such as the UK financial services marketplace has been a hallmark of the building society sector. The Hanley is characterised by our status as a local, independent mutual with a strong capital base, a cautious approach to residential lending, a reliance on retail savings and a powerful franchise in our heartland. In our 159 year history we have overcome many challenges and indeed survived many storms which have overwhelmed larger competitors. This has required clarity of purpose in doing what is right for our members, alongside a commercially viable business strategy with medium and long term objectives, which exemplify contemporary standards of business behaviour and deliver sustainable success. As a mutual we do not seek to maximise annual profits but instead focus on achieving a level of profit which will bolster our reserves and reinforce our capital strength. Also, we do not have to pay dividends to external shareholders and so all our profits each year can be added to reserves, which in the current jargon are known as Core Equity Tier 1 (CET1) capital. This is designed to absorb any future losses, should they ever emerge. Of course a key feature of the banking crisis in 2008/09 was that many large banks held insufficient capital to cover the losses they incurred in those years and so became reliant on Government bailouts to stay in existence. Since the financial crisis regulators in the UK and worldwide have understandably insisted upon higher levels of CET1 capital and it is reassuring to report that The Hanley already exceeds the standards demanded by our regulators. Our gross capital ratio of 9.37% is amongst the strongest in the mutual sector and we remain financially robust. In this context our reduction in pre-tax profits to £284k this year from £548k the year before should be viewed as a demonstration of our mutual ethos. Put simply, we chose not to reduce interest rates on all our members' savings accounts during the year in view of our underlying capital strength. Such a measured approach is only feasible because The Hanley returned significant profits to our reserves during the "boom market" in the early years of the past decade.

Society's success a shining example of giving added value

The Hanley's success is often recognised in the local media.

Mortgages

The business model of a traditional building society such as The Hanley is a simple one; it centres on lending on residential property by raising funds from our retail savers. So it is particularly pleasing to report another year of increased mortgage lending with gross advances (mortgage completions) up by 15% to £47million. This reflects our continued commitment to tailored mortgage advice via our branch network and our blossoming success in the intermediary market. We pride ourselves in being adept in niche lending and a superb example of this is our success in assisting 40 new borrowers through our self-build mortgage product, in partnership with Buildstore the acknowledged experts in this evolving segment of the housing market. In fact The Hanley gained national recognition during the financial year when we won the prestigious 'Build It' award for Innovation in the self-build mortgage market. We were also proud to receive the Regional Lending Provider of the Year award from Moneyfacts, which fortifies our claim to be a lender that punches above its weight in a congested marketplace.

> "We pride ourselves at being adept in niche lending."

During 2013 there was considerable media coverage of the paucity of choice for aspiring first time buyers with less than a 10% deposit, but we were able to provide mortgages to 60 such local first time buyers during the year, an achievement which brought us a Highly Commended accolade from Moneywise.

Hanley strikes gold after helping first time buyers

Another year of increased mortgage lending included receiving the Regional Lending Provider of the Year award from Moneyfacts.

Our net lending (excluding capital payments) totalled £23.7m this year. This is a 47% increase on our previous financial year and is particularly pleasing given the pattern of negative net lending reported across the market in 2013, even amongst those banks which have taken funds from the Government's Funding for Lending Scheme.

Prudent lending has served The Hanley well over many years and we now have the lowest levels of mortgage arrears in our recent history with only 0.40% (2012: 0.46%) of our mortgages in arrears of three months or more. This is just ten cases out of 2,509 residential mortgages and means that our percentage of mortgage arrears is now around a third of the sector average. Only two cases are in arrears of over 12 months (2012: 1) and in total The Hanley has only 39 borrowers in mortgage arrears with our aggregate residential mortgage arrears now £65,000 (2012: 52 cases, £72,000). This figure exemplifies our cautious approach to underwriting over a long period of time and distinguishes The Hanley as a responsible lender.

Our Buildstore product won the prestigious 'Build It' award for Innovation in the self-build mortgage market.

David Critchley,100th customer to open a Douglas Macmillan Hospice Saver account, joins Business Development and Marketing Co-ordinator Sue Pedley (centre) to present a cheque for money raised from the account to Rachel Jones, Fundraiser with the hospice.

Savings

To note that these are harsh times for savers is to make an obvious but accurate statement. Compression of savings rates has been a consequence of the prolonged period of BBR at 0.5% and the introduction of the FLS, which enabled participants to utilise cheap Government funding rather than rely on retail savers. Savings products which exceed the prevailing rate of inflation are very rare and the incentive for individuals to save is elusive. At The Hanley we are mindful that the low BBR has been beneficial for our borrowing members but punishing for our saving members and so a concerted effort was made to redress the balance this year. Within the bounds of affordability, we have attempted to protect savers' rates and to uplift our savings balances in a measured way. Consequently our savings balances have increased by 5% in 2013 adding £12 million to our retail funds. We opened 30% more accounts in 2013 than during the previous year and in a modest way we have reinforced the importance of a savings culture against a backdrop of the obvious disincentives to save. We have a suite of fixed rate bonds which matured during 2013 and our retention rate of 86% (2012 : 82%) suggests that members appreciate our efforts to offer competitive interest rates and members also value the personal service they receive from The Hanley and the transparent way we handle such bond maturities.

We also took great pride in launching the DMH Saver Account in January 2013 in partnership with our chosen charity the Douglas Macmillan Hospice which was celebrating its 40th anniversary. Savers get the benefit of an instant access account knowing that The Hanley will donate an amount equivalent to 1% of the total annual balance to the hospice. We have already donated £2,512 to DMH and opened 100 new accounts which is a fine example of your Society working in the community in which we serve and extending the reach of our mutual business.

A successful Home & Garden Show was just one of the events which gave us valuable exposure during the year.

Our Community and Our People

As a mutual we are owned by our members, we are answerable to them and eager to engage with them in a meaningful way. An important dimension of this member engagement is our aim to achieve the highest AGM voting turnout in the building society sector. We did so again this year with 21.9% of our membership exercising their vote. We strive to achieve open, candid and transparent communications with our members and this is enhanced by our regular Forum meetings hosted by myself or the Deputy Chief Executive, Steve Jones, and attended

Building societies are healthy and open for business

Speaking at the annual Building Societies Association lunch, BSA chairman David Webster stated that building societies and other mutuals are open for business.

As the reputation of banks has been damaged in recent years Webster finds it amusing that banks are now highlighting the virtues of "customer service, per-

"Net lending in the UK as a whole has been subdued at £6 billion so far in 2012, but £4.9 billion of that was contributed by the mutual sector. At a more granular level, building societies continue to grapple with the often quoted plight of first-time buyers, and currently mutuals account for 50 per cent of all mortgages at 90 per cent

Chief Executive David Webster reflects on the strengths of mutual societies in his role as last year's chairman of the Building Societies Association.

by one of our Non-Executive Directors. The agenda is set by the members who attend and any member of the Society is welcome to join us.

Connecting with our local community in North Staffordshire is as vital now as it has always been and our branches are pivotal in demonstrating the friendly and approachable way we do business. Our continued commitment to a branch network is neither old fashioned nor altruistic; on the contrary we believe that The Hanley has a responsibility to stay in proximity to the communities we serve by remaining accessible. We also regard the evacuation of local high streets by large Plc banks as a potential opportunity for The Hanley to succeed where they have failed.

“Connecting with our local community is as vital now as it has always been.”

Once again in 2013 our flagship fundraising event was the Potters ‘Arf marathon which we sponsored for the 6th consecutive year and which achieved its highest ever number of race entrants as well as raising over £15,000 for the Douglas Macmillan Hospice. The austere economic climate has been damaging for many charities. However, we wish to continue to assist whenever we can so that local people can see that their local building society has carved a unique position in this area based on both financial performance and relevance as an influential employer.


Town colours for U7s team

Happy with their new kits. Back from left, secretary of Biddulph Town FC Andy Vincent, U7 team assistant Jack Watson and Mr Cooper with the players. Front from left, Tyler Haywood, Jack Walker, James Grocott, Solomon Rogers, John Parker and Mackenzie Taylor. ("Chronicle" photo. 4141a/12).

The players of Biddulph Town U7s were said to be thrilled with ... new kits, which have ... ored by the Hanley ... uilding so...

Mark Cooper, investments advisor with the building socie-ty, which has a Bidd... said: "I was havi... with my ma... and we do...

"We came up with the idea of sponsoring a football team."

Mr Coo...

Community activities included sponsorship of a junior football team in Biddulph.

At The Hanley we believe that “Values Drive Value”. Our members can see tangible benefits from being a part of the Hanley Economic Building Society, but this is only possible because of the outstanding calibre of our people. During this past year our people have shone as ambassadors of the Society and have been rewarded with a unique hat-trick of external awards -

- Investors in Excellence re-accreditation
- National Skills Academy for Financial Services training accreditation
- Best Companies 2013 - 1 Star re-accreditation

Such accolades reinforce our belief that The Hanley has a culture, a strategy and a reputation of which our members can be justifiably proud and which will continue to provide sustainable success as a local, independent mutual for many years to come.

David Webster
Chief Executive
15 October 2013

The Potters ’Arf was our flagship fundraising event, attracting vast numbers of runners and spectators and thousands of pounds for charity.

Board of Directors

Edward Jenner, aged 58, was appointed to the Board as a Non-Executive Director in January 1998 and has been Chairman since October 2009.

He is a member of the Assets & Liabilities Committee and the Audit, Risk & Compliance Committee. He has a wealth of business experience which has included a Non–Executive Directorship of CORGI, the former gas safety body, roles with the Wedgwood Group as both Strategic Development Director and Finance Director, before which he spent 20 years in Unilever. Today he manages a property development business and is on the board of an insurance company.

Francis Stafford, age 59, was appointed to the Board as a Non-Executive Director in January 1993, and appointed Vice Chairman in December 1997. He has served on both the Assets & Liabilities Committee and the Remuneration Committee as Chairman and is still a member of both. His past positions have been as Chairman of the Audit Committee at the NHS Foundation Hospital and also Chairman of both Keele and Harper Adams Universities. He has recently been appointed as Chairman of Countryside Learning which helps educate inner city schoolchildren about the countryside through farm and estate visits.

Lord Stafford currently manages his family estate at Swynnerton Park, some of which has been in his family for over 900 years.

Philip Dearing, age 63, joined the Board as a Non-Executive Director in October 2009. Philip is currently Chair of the Remuneration Committee, a member of the Society's Audit Risk & Compliance Committee and a Board member of The Hanley's two subsidiary companies, Hanley Mortgage Services Ltd and Hanley Financial Services Ltd.

Philip brings over 30 years' experience of the mutual Bank and Building Society sector to his role as a Non-Executive Director of the Society, with the principal objective of ensuring The Hanley remains a vibrant and competitive organisation dedicated to the needs of its members and the wider community.

Fionnuala Earley, aged 49, was co-opted to the Board as a Non-Executive Director on 1 September 2013 and is a member of the Assets and Liabilities Committee.

Fionnuala has spent her career as a specialist in housing market economics. She has a wide experience of the industry from many perspectives having worked in both the mutual and non-mutual mortgage lending sector, with the FSA and also in Europe. She is currently Director of Residential Research at Hamptons International.

Steven Jones, age 50, was appointed Finance Director in May 2004 and Deputy Chief Executive in June 2012. He currently Chairs the Assets & Liabilities Committee and is a member of the Risk, Treasury and Credit Committees. His executive management responsibilities include finance, risk and treasury.

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 actively supports the local voluntary sector and is the Chairman of Age UK North Staffs. In addition Steven is an Independent Board member of Wulvern Housing Ltd and a member of the Audit Committee for Newcastle-under-Lyme College.

John Wood, age 57, was appointed to the Board as a Non-Executive Director in April 2008 and is Chairman of the Audit, Risk and Compliance Committee.

He joined the Board after a successful career with Staffordshire Police from where he retired as acting Assistant Chief Constable. In 2006 he was awarded the Queen's Police Medal for distinguished service.

John brings a broad range of strategic and practical experience of working in a professional environment at a high level and is a strong advocate of doing what is right for our members' long term interests. Amongst his activities outside the Society he enjoys running and this year again ran in the Potters 'Arf Marathon sponsored by The Hanley.

David Webster, age 54, has been Chief Executive at The Hanley since April 2002 and is fully committed to The Hanley's future as an independent, local mutual Building Society with strong roots in the community of North Staffordshire. He is a keen supporter of local businesses and community initiatives in North Staffordshire. David was elected onto the Council of Keele University in August 2010 and in August 2012 he assumed the role of Honorary Treasurer at the University.

In July 2011 David was awarded an Honorary Doctorate by Staffordshire University in recognition of his contribution to the local business community.

David was elected to the Building Societies Association Council in 2007 and was appointed Chairman of the BSA in May 2012 for a second time, having undertaken the role previously in 2010.

David is married to Michelle and has two children, Grace and Paul. He spends most of his leisure time either with his family or at Trentham Golf Club.

Directors' Report

The Directors are pleased to present their Annual Report, together with the Group Accounts and Annual Business Statement, for the year ended 31 August 2013.

Business objectives and activities

The principal purpose of the Group is that of making loans which are secured on residential property and are funded substantially by its members.

The primary business objectives are to continue to promote saving and home ownership particularly in North Staffordshire and South Cheshire through competitive rates of interest and a high quality of service.

Review of the year and key performance indicators

The Directors are satisfied with the Group's business performance during the year, as described in the Chief Executive's Business Review and demonstrated by the strength of our high level key performance indicators.

Key Performance Indicators

	2013	2012	2011
Total assets	£337m	£331m	£333m
Mortgage lending	£47m	£41m	£36m
Growth in mortgage assets	6.61%	2.26%	1.69%
Savings balances	£259m	£248m	£269m
Management expenses as % of total assets	1.03%	1.03%	1.06%
Operating profit (before FSCS Levy and provisions)	£0.5m	£0.5m	£0.5m
Net profit	£0.20m	£0.38m	£0.32m
Profit as a % of total assets	0.06%	0.12%	0.10%
Gross capital	9.37%	9.49%	9.28%
Free capital	8.33%	8.40%	8.13%

Total assets

The total assets of the Group at the end of the financial year amounted to £337.0m (2012: £331.1m), an increase of £5.9m or 1.78% on the previous year, reflecting our cautious approach in an uncertain market.

Group net profit and reserves

An appropriate level of profit is required to re-invest in the business and to maintain the capital required to satisfy regulatory requirements and to protect investors.

Profit after taxation for the year amounted to £0.2m (2012: £0.4m) and represents a ratio of 0.06% of our mean total assets. The profit after taxation has been added to the General Reserve which now totals £28.8m (2012: £28.6m).

Capital

Gross capital is defined as general reserves as shown in the Group's balance sheet, and free capital as the aggregate of gross capital and general loss provisions less tangible fixed assets. The Directors ensure that a satisfactory level of capital is maintained to protect the Society against adverse market movements or changes in economic conditions.

At the year end the ratio of gross capital as a percentage of total share and deposit liabilities was 9.37% (2012: 9.49%) and free capital was 8.33% (2012: 8.40%).

Liquid assets

By maintaining sufficient liquidity the Society can ensure that it meets its liabilities as they fall due. The liquid assets comprising cash, bank balances and authorised investments amounted to £79.2m (2012: £88.1m), representing 25.77% (2012: 29.25%) of total shares and deposit liabilities.

Shares

Share balances at 31 August 2013 were £259.4m (2012: £247.7m), an increase of £11.7m on the previous year.

Management expenses ratio

The ratio expresses management expenses as a percentage of average total assets. The Society continually reviews its management expenses and endeavours to contain expenditure in order to support its ability to offer excellent rates to savers and borrowers.

The overall management expenses ratio remains at 1.03% (2012: 1.03%).

Loans and advances to customers

(a) During the year new loans and advances to customers amounted to £46.9m (2012: £40.9m).

(b) Group mortgage assets as at 31 August 2013 were £254.0m (2012: £239.2m). Redemptions during the year were £23.2m (2012: £24.8m), including £1.1m (2012: £0.5m) within our subsidiary company, Hanley Mortgage Services Ltd.

(c) Society mortgage balances secured on residential property and other loans increased during the year to £246.2m (2012: £230.0m).

(d) At 31 August 2013 there were 2 cases (2012: 1) in which the borrowers were 12 months or more in arrears. The total amount of arrears on these cases was £27,099 (2012: £6,072) and the capital balance was £366,532 (2012: £29,909). In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty, for example, agreeing a temporary transfer to interest only payments in order to reduce the borrowers' financial pressures. In each case an individual assessment is made to ensure forbearance is in the best interests of both the borrower and the Society. It is expected that the borrowers will resume normal payments once they are able. During the year, the Society undertook forbearance measures on 34 mortgage accounts. As at 31 August 2013 18 of the 34 mortgage accounts remained under a forbearance measure with total balances of £1.4m (2012 £1.1m) and 5 cases (2012:1) in arrears totalling £1,378 (2012: £231). The Society's Risk Committee assess the impact of forbearance and considers that if there is a possibility of loss, a provision is made in accordance with the Society's policies.

(e) In respect of the portfolio of residential development loans at 31 August 2013, 3 properties (2012: 3) were in possession, with a capital balance outstanding of £5.6m (2012: £4.9m). As at 31 August 2013 there were 0 cases (2012: 0) with arrears outstanding greater than 12 months or more.

Creditor payment policy

The Group's continuing policy concerning the payment of its trade creditors is to pay invoices within the agreed terms of credit once the supplier has discharged their contractual obligations. Amounts due to relevant creditors of the Society as at 31 August 2013 represented 9 days of purchases (2012: 5).

Charitable and political donations

During the year The Hanley made donations of £4,162 (2012: £4,096) to local charities. No contributions were made for political purposes. In addition, as highlighted in the Chief Executive's Business Review, the Society sponsors, and its staff commit their time to, a range of local charitable and community causes.

Executives and staff

The Society maintains an open recruitment and staff development policy, affording equal opportunities regardless of age, gender, race or disability. Staff communication and training continue to remain priorities with the Society.

The Board wish to record their thanks to the staff for the vital contribution they continue to make. Adapting to new methods of working and changing long-standing practices is not always easy, but doing so is essential in the rapidly changing financial services marketplace in which the Society competes. The support, co-operation and flexibility of the staff is critical to the ongoing success of The Hanley.

Principal risks and uncertainties

The Society has a risk averse culture which together with its prudent nature ensures that it maintains a low exposure to risk, so as to maintain public confidence and to allow the achievement of its corporate objectives and long term success of the Society.

The Board has put in place a formal risk management structure for both prudential and conduct control which includes a Risk Committee, risk policy statements, exposure limits, mandates and reporting lines, along with an active risk review process.

Through its normal operations the Society is exposed to a number of risks the most significant of which are credit, liquidity, interest rate and operational risk. The Society has a formal structure for managing these including established risk limits, reporting lines, mandates and other control procedures.

Credit risk

Credit risk is the risk of a customer or counterparty not meeting their obligations as they fall due. All loan applications are assessed with reference to the Society's lending policy. The Assets & Liabilities Committee ensures that appropriate credit limits are established for individual counterparties, sectors and countries and ensures that these limits are adhered to.

In respect of residential development loans the Society additionally has potential exposure to movements in the value of new build properties and development land. This is mitigated by taking a longer term approach to the management of its loans to this sector, which enables the Society to take advantage of any positive cyclical movements in underlying property values.

Liquidity risk

Liquidity risk is the risk that the Society is not able to meet its financial obligations as they fall due. The Society's liquidity policy is to maintain sufficient liquid resources to cover cashflow imbalances and fluctuations in funding, to maintain full public confidence in the solvency of the Society and to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through management control of the growth of the business.

Interest rate risk

Interest rate risk represents the Society's exposure to movements in interest rates and is managed on a continuous basis, within limits set by the Board, using interest rate swap and cap products. All transactions in such instruments are undertaken to manage the risks arising from underlying business activities. No transactions of a speculative nature are undertaken.

The interest rate sensitivity exposure of the Group is set out in Note 23 to the Annual Accounts.

Operational risk

Operational risk is the risk of loss through failed or inadequate systems, human error or other external factors. All business areas have responsibility for putting in place appropriate controls and these are monitored by senior management and the Audit, Risk & Compliance Committee.

Financial risk management

The Group has a formal structure for managing financial risks arising from its operations. These comprise credit risk, liquidity and interest rate risk. A further explanation of these risks and the controls in place to manage them (including the use of derivatives) is given in Note 23 to the Annual Accounts.

Capital adequacy

The Board complies with the Basel II Capital Requirements Directive (CRD) which requires the Society to assess the adequacy of its capital through an Internal Capital Adequacy Assessment Process (ICAAP). Through the application of the ICAAP the Board is satisfied that the Society holds a level of capital more than sufficient to satisfy both the CRD's Pillar 1 minimum capital requirements and to cover those risks that the Board has identified under Pillar 2. The Pillar 3 disclosures required under the CRD are available from the Society's Group Secretary, or on our website www.thehanley.co.uk.

Disclosure of information to auditors

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

Directors

The following persons were Directors of the Society during the year and up to the date of signing the Annual Accounts:

Non-Executive Directors

E. V. Jenner BSc (Hons), FCMA (Chairman)
The Rt. Hon. the Lord Stafford DL (Vice-Chairman)
P. R. Dearing BEd (Hons), FCIB
F. B. Earley (Appointed 1.9.2013)
A. Henshaw BSc (Hons), PhD (Retired 31.8.2013)
J. H. Wood QPM, LLB

Executive Directors

D. Webster BA (Hons), DUniv (Chief Executive)
S. Jones BSc (Hons), FCA, MBA (Deputy Chief Executive & Finance Director)

Mr D. Webster retires by rotation and The Rt. Hon. the Lord Stafford and Mr E. V. Jenner have volunteered, in view of their years of service, to seek annual re-election in accordance with the Society's rule 26(1). Miss F. B. Earley retires in accordance with rule 25(4). Being eligible, they offer themselves for (re-)election.

Post balance sheet events

The Directors do not consider that there have been any events since the year end that have a material effect on the financial position of the Society.

On behalf of the Board
E. V. Jenner
Chairman
15 October 2013

Directors' Remuneration Report

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 is reviewed annually 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 performances of the Chief Executive and Deputy Chief Executive & Finance Director are 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.

Directors' Remuneration Report *continued*

The total emoluments detailed below are audited numbers.

Directors' Remuneration	Group and Society 2013 £000	*2012 £000*
Directors' emoluments:		
For services as a Director	116	*113*
For executive services	313	*296*
	429	*409*

Emoluments of the Society's Directors are listed below.

Non-Executive Directors:	Fees £000	*Fees £000*
E. V. Jenner (Chairman)	33	*33*
Lord Stafford (Vice-Chairman)	22	*21*
P. R. Dearing	21	*20*
A. Henshaw	18	*18*
J. H. Wood	22	*21*
	116	*113*

Executive Directors:	Salary	Bonus	Benefits	Sub-total	Pension Contribution	Total
2013	£000	£000	£000	£000	£000	£000
D. Webster	170	–	13	183	26	209
S. Jones	88	–	5	93	11	104
	258	–	18	276	37	313
2012	£000	£000	£000	£000	£000	£000
D. Webster	163	–	14	177	24	201
S. Jones	80	–	5	85	10	95
	243	–	19	262	34	296

The Executive Directors waived their entitlement to any Bonus earned during the year.

Payment of pensions for former Directors and the widows of former Directors are detailed in Note 4 to the Annual Accounts.

P. R. Dearing
Chair of the Remuneration Committee
15 October 2013

Corporate Governance

Corporate Governance

The Hanley is committed to best practice in Corporate Governance. This report explains how the Group applies the principles of the UK Corporate Governance Code 2010.

The Board provides leadership and direction with the strategic aim of promoting success and the long term success of the Society 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 UK Corporate Governance Code, which applies to listed companies. The Building Societies Association has provided guidance on this Combined Code and the Board has reviewed the requirements and, where they are appropriate to the Society, adopted them.

The Board

The Board consists of two 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 Chairman is responsible for the leadership of the Board and ensuring its effectiveness on all aspects of its role. The Chairman is responsible for setting the Board's agenda and promoting a culture of openness and debate.

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. For the year to 31 August 2013 Dr Ann Henshaw was the Senior Independent Director to whom members have addressed any concerns or issues they may wish to raise. From 1 September 2013 the Senior Independent Director is John Wood. 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 PRA as 'Approved Persons' to fulfil their Controlled Functions as Directors.

The Board is mindful of the Walker Report on diversity.

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 Group 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. For the year to 31 August 2013 the Committee comprised two Non-Executive Directors, Edward Jenner and Francis Stafford, and two Executive Directors, David Webster and Steven Jones (Chair). Fionnuala Earley joined the Committee on 1 September 2013.

2. The Audit, Risk & 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 three Non-Executive Directors, Philip Dearing, Edward Jenner and John Wood (Chair).

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. For the year to 31 August 2013 the Committee comprised two Non-Executive Directors, Francis Stafford and Ann Henshaw (Chair). With effect from 1 September 2013 the Committee comprises two Non-Executive Directors, Francis Stafford and Philip Dearing (Chair).

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 2013 has been recorded as follows:-

	Board	Audit, Risk & Compliance	Assets & Liabilities	Remuneration	Nominations
P.R. Dearing	9 (9)	4 (4)	–	–	1 (1)
A. Henshaw	9 (9)	–	–	2 (2)	– (1)
E. V. Jenner	9 (9)	4 (4)	4 (4)	–	1 (1)
S. Jones	9 (9)	–	4 (4)	–	1 (1)
Lord Stafford	8 (9)	–	4 (4)	2 (2)	1 (1)
D. Webster	9 (9)	–	4 (4)	–	– (1)
J. H. Wood	9 (9)	4 (4)	–	–	1 (1)

( ) = number of meetings eligible to attend

E. V. Jenner
Chairman
15 October 2013

Directors' Responsibilities

Directors' responsibilities for preparing the Annual Accounts

The following statement, which should be read in conjunction with the statement of the respective responsibilities of Directors and Auditors, 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 and of the Group as at the end of the financial year;
- of the income and expenditure of the Society and of the Group for the financial year;
- of the cash flows of the Group 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 Group 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 and of the Group.

The Directors are responsible for the maintenance and integrity of the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Group:

- keeps accounting records in accordance with the Building Societies Act 1986;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

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

Going concern

The Directors have prepared forecasts of the Group's financial position for the period ending 12 months from the date of approval of these financial statements. In doing so they have also considered the effects on the Society's business of operating under stressed but plausible operating conditions. As a result they are satisfied that the Society and the Group have adequate resources to continue in business for the foreseeable future. For this reason, the accounts continue to be prepared on a going concern basis.

On behalf of the Board
E. V. Jenner
Chairman
15 October 2013

Independent Auditors’ Report

Independent Auditors’ Report to the Members of The Hanley Economic Building Society

We have audited the Group and Society Annual Accounts of the The Hanley Economic Building Society for the year ended 31 August 2013 which comprise the Group and Society Income and Expenditure Accounts, the Group and Society Balance Sheets, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and Auditors

As explained more fully in the Director’s Responsibilities statement, as set out on page 18, the directors are responsible for the preparation of Annual Accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the Annual Accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report, including the opinions, has been prepared for, and only for, the Society’s Members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the Annual Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Annual Accounts sufficient to give reasonable assurance that the Annual Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group’s and Society’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Annual Accounts. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Annual Accounts

In our opinion the Annual Accounts:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group’s and the Society’s affairs as at 31 August 2013 and of the Group’s and the Society’s income and expenditure and the Group’s cash flows for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors’ Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors’ Report for the financial year for which the Annual Accounts are prepared is consistent with the accounting records and the Annual Accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Matters on which we are required to report by exception

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

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

Other Matter

At the request of the directors, we have also audited the part of the Directors’ Remuneration Report that is described as having been audited. In our opinion, the part of the Directors’ Remuneration Report to be audited has been properly prepared as if the Society was required to report in accordance with the Companies Act 2006.

Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
15 October 2013

Income and Expenditure Accounts

For the year ended 31 August 2013

		Group		Society	
	Notes	2013 £000	*2012 £000*	2013 £000	*2012 £000*
Interest receivable and similar income	2	9,492	*9,578*	9,311	*9,351*
Interest payable and similar charges	3	(5,665)	*(5,704)*	(5,665)	*(5,704)*
Net interest receivable		3,827	*3,874*	3,646	*3,647*
Fees and commissions receivable		444	*479*	366	*371*
Fees and commissions payable		(268)	*(247)*	(254)	*(226)*
Total income		4,003	*4,106*	3,758	*3,792*
Administrative expenses	4	(3,201)	*(3,150)*	(3,071)	*(3,012)*
Depreciation and amortisation	12	(249)	*(261)*	(242)	*(257)*
Other operating charges		(101)	*(159)*	(101)	*(159)*
Provisions for bad and doubtful debts	6	–	*182*	–	*182*
Profit before FSCS levy		452	*718*	344	*546*
Provision for FSCS levy	19	(168)	*(170)*	(168)	*(170)*
Profit on ordinary activities before tax		284	*548*	176	*376*
Tax on profit on ordinary activities	7	(81)	*(165)*	(58)	*(126)*
Profit for the financial year	21	203	*383*	118	*250*

There is no material difference between profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

The Group and Society have no recognised gains or losses other than the profit for the years reported above.

The notes on pages 24 to 38 form part of these accounts.

All income and expenditure relates to continuing operations.

Balance Sheets

As at 31 August 2013

	Notes	Group 2013 £000	Group *2012 £000*	Society 2013 £000	Society *2012 £000*
ASSETS					
Liquid assets					
Cash in hand		403	*321*	403	*321*
Treasury bills	9	4,993	*12,991*	4,993	*12,991*
Loans and advances to credit institutions	8	18,706	*24,728*	18,621	*24,671*
Debt securities	9	55,088	*50,101*	55,088	*50,101*
		79,190	*88,141*	79,105	*88,084*
Loans and advances to customers					
Loans fully secured on residential property	10	248,624	*233,559*	240,785	*224,401*
Other loans	10	5,400	*5,687*	5,400	*5,687*
		254,024	*239,246*	246,185	*230,088*
Investments in subsidiary undertakings	11	–	*–*	5,678	*7,044*
Tangible fixed assets	12	3,350	*3,432*	3,347	*3,422*
Prepayments and accrued income	13	446	*270*	445	*268*
Total assets		337,010	*331,089*	334,760	*328,906*
LIABILITIES					
Shares	14	259,432	*247,717*	259,432	*247,717*
Amounts owed to credit institutions	15	14,803	*26,583*	14,803	*26,583*
Amounts owed to other customers	16	33,053	*27,044*	33,053	*27,044*
Other liabilities	17	379	*447*	370	*422*
Accruals and deferred income	18	254	*472*	254	*470*
Provisions for liabilities – FSCS Levy	19	290	*230*	290	*230*
Reserves					
General reserves	21	28,799	*28,596*	26,558	*26,440*
Total liabilities		337,010	*331,089*	334,760	*328,906*

The notes on pages 24 to 38 form part of these accounts.

Approved by the Board of Directors
on 15 October 2013

E. V. Jenner
Chairman

D. WEBSTER
Chief Executive

S. JONES
Deputy Chief Executive & Finance Director

Group Cash Flow Statement

For the year ended 31 August 2013	Group 2013 £000	*Group 2012 £000*
Net cash (outflow) from operating activities	(4,077)	*(10,561)*
Taxation	(171)	*(94)*
Capital expenditure and financial investment		
Purchase of debt securities and treasury bills	(106,903)	*(144,309)*
Proceeds from disposal and maturity of debt securities and treasury bills	109,853	*160,967*
Purchase of tangible fixed assets	(183)	*(50)*
Proceeds from disposal of tangible fixed assets	16	*12*
(Decrease)/increase in cash	(1,465)	*5,965*

Reconciliation of operating profit to net cash flow from operating activities	Group 2013 £000	*Group 2012 £000*
Profit on ordinary activities before taxation	284	*548*
(Increase)/decrease in prepayments and accrued income	(140)	*74*
(Decrease)/increase in accruals and deferred income	(148)	*205*
Decrease in provisions for loans and advances	–	*(182)*
Depreciation and amortisation	249	*261*
Net cash inflow from trading activities	245	*906*
Loans and advances made to customers	(46,920)	*(40,881)*
Loans and advances repaid by customers	32,142	*35,549*
Net increase/(decrease) in shares	11,558	*(21,898)*
(Decrease)/increase in amounts owed to credit institutions and other customers	(5,684)	*19,132*
Decrease/(increase) in loans and advances to credit institutions	4,500	*(3,500)*
Net increase in other liabilities	22	*56*
Increase in provision for FSCS Levy	60	*75*
Net cash (outflow) from operating activities	(4,077)	*(10,561)*

Reconciliation of cash balances	*2012 £000*	Cash flow £000	2013 £000
Cash in hand and balances with the Bank of England	*321*	82	403
Loans and advances to credit institutions – repayable on demand	*11,215*	(1,547)	9,668
	11,536	(1,465)	10,071

1. Accounting policies

Basis of preparation

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

The accounts are prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP) and British Bankers Association statements of recommended practice (SORPs) in all material respects.

Basis of consolidation

The Group accounts consolidate the accounts of the Society and all its subsidiary undertakings, and exclude any profits or losses on intra Group transactions. These accounts are made up to 31 August 2013. Unless otherwise stated, the acquisition method of accounting has been adopted. In the Society's accounts, investments in subsidiary undertakings are stated at the lower of cost and recoverable amount. Uniform accounting policies are applied throughout the Group.

Taxation

Corporation tax is provided on the profit for the year, as adjusted for taxation purposes.

Deferred tax is recognised at the appropriate future rate on a non-discounted basis in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19 Deferred Tax (See note 20).

Deferred tax assets are only recognised to the extent that they are considered recoverable.

Tangible fixed assets

The cost of additions and major alterations to office premises and equipment is capitalised.

Depreciation

Depreciation is provided to write off the cost, less the estimated residual value, of tangible fixed assets over their estimated useful economic lives as follows:

Freehold buildings and leasehold properties (long)	–	50 years on a straight line basis
Leasehold land and leasehold properties (short)	–	Life of lease on a straight line basis
Equipment, fixtures and fittings	–	5 to 10 years on a straight line basis
Vehicles	–	25% on the reducing balance

Leases

Operating lease rentals are charged to the Income and Expenditure account on a straight line basis over the period of the lease.

Liquid assets

Liquid assets are stated in the balance sheet at the lower of cost and net realisable value. Debt securities and treasury bills are stated at cost adjusted to exclude accrued interest at the date of purchase. Interest on debt securities, bank deposits and certificates of deposit includes interest accrued to the date of the balance sheet. Premiums and discounts arising on the purchase of financial fixed assets are amortised on a straight line basis over the period to the maturity date of the asset.

1. Accounting policies (continued)

Provision for loans and advances

Individual assessments are made of all advances on properties which are in possession and specific provision is made for any shortfall that may arise. A specific provision is also made against all properties in arrears by three months or more or an amount in excess of £1,000 based on the likelihood of the property reaching the possession stage and the potential shortfall on disposal. The charge to the Income and Expenditure account comprises the net movement in the provisions together with any losses written off during the year and amounts received in respect of loans previously written off.

A general provision is made against those advances which have not been specifically provided for, but where the general economic climate and the Society's experience, for example via indicators of potential impairment such as forbearance or loan restructuing, would indicate that losses may ultimately be realised.

Specific provision is also made for any residential development loan where the borrower has gone into receivership and it appears probable that the Society may incur a loss on the repossession and realisation of the underlying security immediately or following a rental period. The calculated provision incorporates the Society's expectation of the future underlying collateral value of the loan. No provision is made for loans which have been restructured and which are not currently in arrears, or where interest is being rolled up in accordance with the terms of the original loan agreement.

Income recognition

Interest in respect of all loans is credited to the Income and Expenditure Account as it is earned on an accruals basis. Fees and commissions receivable represent sales commissions receivable in the year net of clawback of any commissions repayable.

Interest which is considered irrecoverable, where the property has been taken into possession or the normal lending relationship has ceased, is suspended. Interest up to that time is credited to income and provision is made as appropriate. Subsequent recovery of suspended interest is credited to interest receivable in the period in which recovery is made.

Pension costs

The Group contributes to personal pension plans of its Staff. The Group's contributions are charged against profits in the year to which they relate. The charge to the Income and Expenditure Account for the year is shown in Note 4 to the accounts.

Front-end mortgage expenses and incentives

During the year, Group policy in respect of front-end mortgage expenses and incentives was changed. Incentives are charged as an operating charge over the incentive period, whilst front-end expenses are amortised as an operating charge on a level yield basis over the period which they are expected to be recovered. Previously, these items were charged against profit as incurred. The change did not have a material impact on these accounts.

Derivatives

The Society enters into off-balance sheet transactions as a means of hedging the risk of interest rate fluctuations as described in Note 23.

The income and charges on these instruments are included in interest receivable and interest payable on an accruals basis. Amounts accrued on off-balance sheet instruments are included within prepayments or accruals as appropriate.

Financial Services Compensation Scheme

The Society has accrued a levy covering the period from April 2012 to March 2014, the period for which loans to the FSCS from HM Treasury have been granted. The accrual includes both interest and capital payable under the scheme. The amount has been determined by reference to the Society's share of industry protected deposits, future interest rates and the balance of the loans outstanding. Changes to these factors over the period of the levy, together with any future requests for payment to cover capital shortfalls from banks, will impact the final amount of the payment.

2. Interest receivable and similar income

	Group		Society	
	2013	*2012*	2013	*2012*
	£000	*£000*	£000	*£000*
On loans fully secured on residential property	8,255	*8,074*	7,918	*7,702*
On other loans	190	*210*	190	*210*
On debt securities	800	*1,102*	800	*1,102*
On other liquid assets	247	*192*	247	*192*
Interest receivable from subsidiary undertaking	–	*–*	156	*145*
	9,492	*9,578*	9,311	*9,351*

3. Interest payable and similar charges

	Group		Society	
	2013	*2012*	2013	*2012*
	£000	*£000*	£000	*£000*
On shares held by individuals	4,488	*4,599*	4,488	*4,599*
On deposits and other borrowings	603	*582*	603	*582*
Net expense on financial instruments	574	*523*	574	*523*
	5,665	*5,704*	5,665	*5,704*

4. Administrative expenses and staff numbers

	Group 2013	Group *2012*	Society 2013	Society *2012*
Administrative expenses	£000	*£000*	£000	*£000*
Directors' emoluments:				
(i) Fees	116	*113*	116	*113*
(ii) For executive services	313	*296*	313	*296*
(iii) Pensions to former Directors and widows of former Directors	7	*7*	7	*7*
Remuneration and expenses of staff:				
(i) Salaries and wages	1,204	*1,220*	1,100	*1,108*
(ii) Social security costs	164	*165*	158	*157*
(iii) Other pension costs	111	*106*	111	*106*
Remuneration of auditors*:				
For audit work	64	*59*	64	*59*
For other services	–	*–*	–	*–*
Operating leases – land and buildings	92	*92*	92	*92*
Other administrative expenses	1,130	*1,092*	1,110	*1,074*
	3,201	*3,150*	3,071	*3,012*

* Remuneration of the auditors disclosed above includes VAT.

Staff numbers	2013		*2012*	
The average monthly number of persons employed during the year was:	Full Time	Part Time	*Full Time*	*Part Time*
At head office	21	14	*18*	*13*
At branch offices	19	10	*18*	*9*
Society	40	24	*36*	*22*
Subsidiary undertakings	2	–	*2*	*–*
Group	42	24	*38*	*22*

5. Directors' Remuneration

Total remuneration of the Society's Directors for the year was £429,000 (2012: £409,000). Full details are given in the Directors' Remuneration Report on page 15.

The Society does not contribute to Non-Executive Directors' pensions.

Directors' loans and transactions

At 31 August 2013 there were 4 (2012: 5) outstanding mortgage loans granted in the ordinary course of business to Directors and connected persons, amounting in aggregate to £1,560,747 (2012: £1,929,773). A register is maintained at the Head Office of the Society which shows details of all loans, transactions and arrangements with directors and connected persons. A statement, for the current financial year, of the appropriate details contained in the register will be available for inspection at the Head Office for a period of 15 days up to and including the Annual General Meeting.

6. Provision for loans and advances: Group

Provision for losses on:	Loans fully secured on residential property		Loans fully secured on land		Total
	£000 Specific	£000 General	£000 Specific	£000 General	£000
Balance 1 September 2012	2,385	138	–	12	2,535
Utilised	–	–	–	–	–
Movement in provision for the year	–	–	–	–	–
Balance 31 August 2013	2,385	138	–	12	2,535

Provision for loans and advances: Society

Provision for losses on:	Loans fully secured on residential property		Loans fully secured on land		Total
	£000 Specific	£000 General	£000 Specific	£000 General	£000
Balance 1 September 2012	2,385	88	–	12	2,485
Utilised	–	–	–	–	–
Movement in provision for the year	–	–	–	–	–
Balance 31 August 2013	2,385	88	–	12	2,485

	Group		Society	
	2013	*2012*	2013	*2012*
7. Tax on profit on ordinary activities	£000	*£000*	£000	*£000*
a) Analysis of charge in year:				
Current tax	55	*144*	34	*106*
Under/(over) provision of tax in prior years	2	*(2)*	1	*(2)*
Total current tax (see note (b) below)	57	*142*	35	*104*
Deferred tax (see note 20):				
Origination and reversal of timing differences	24	*23*	23	*22*
Tax on profit on ordinary activities	81	*165*	58	*126*
b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	284	*548*	176	*376*
Tax on profit on ordinary activities at UK standard rate of 23.58% (2012: 25.16%)	67	*138*	42	*94*
Effects of:				
Capital allowances in excess of depreciation and other timing differences	(40)	*(28)*	(40)	*(28)*
Expenses not deductible for tax purposes	35	*42*	35	*42*
Marginal relief	(7)	*(7)*	(3)	*(1)*
Prior year adjustments	2	*(3)*	1	*(3)*
Current tax charge for year	57	*142*	35	*104*

The standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly the Society's profits have been taxed at an effective rate of 23.58% (2012: 25.16%). Tax assessed for the year is lower (2012: higher) than the effective rate, as explained above. The standard rate of corporation tax in the UK will be reduced from 23% to 20% with effect from 1 April 2015. Accordingly, deferred tax has been measured based on the future effective rate of 20%.

	Group		Society	
8. Loans and advances to credit institutions	2013	*2012*	2013	*2012*
Loans and advances to credit institutions have remaining maturities as follows:	£000	*£000*	£000	*£000*
Accrued interest	38	*13*	38	*13*
Repayable on demand	9,668	*11,215*	9,583	*11,158*
In not more than three months	1,000	*9,500*	1,000	*9,500*
In more than three months but not more than one year	6,000	*4,000*	6,000	*4,000*
In more than one year but no more than 5 years	2,000	*–*	2,000	*–*
	18,706	*24,728*	18,621	*24,671*

	Group and Society	
9. Debt securities and Treasury bills	2013	*2012*
Issued by other borrowers	£000	*£000*
Debt securities have remaining maturities as follows:		
Accrued interest	225	*275*
In not more than one year	15,005	*32,500*
In more than one year	39,858	*17,326*
	55,088	*50,101*
Transferable debt securities (excluding accrued interest) comprise:		
Listed	38,915	*17,000*
Unlisted	15,500	*32,500*
Unamortised premiums	448	*326*
	54,863	*49,826*
Market value of listed debt securities	39,345	*17,354*
Movements during the year of debt securities excluding accrued interest:		
At 1 September 2012	49,826	*79,463*
Additions	84,427	*125,836*
Disposals and maturities	(79,390)	*(155,473)*
At 31 August 2013	54,863	*49,826*
Treasury bills		
Treasury bills have remaining maturities as follows:		
Accrued interest	1	*12*
In not more than one year	4,992	*12,979*
	4,993	*12,991*
Movements during the year of treasury bills excluding accrued interest:		
At 1 September 2012	12,979	*–*
Additions	22,476	*18,473*
Disposals and maturities	(30,463)	*(5,494)*
At 31 August 2013	4,992	*12,979*

The Directors consider that the primary purpose of holding debt securities and treasury bills is prudential. The securities are held as financial assets with the intention of use on a continuing basis in the Group's activities and are therefore classified as financial fixed assets.

	Group		Society	
10. Loans and advances to customers – maturity analysis	2013	*2012*	2013	*2012*
Loans and advances to customers have remaining maturities as follows:	£000	*£000*	£000	*£000*
Repayable on demand	15,582	*14,206*	15,582	*14,206*
In not more than three months	1,754	*1,664*	1,754	*1,664*
In more than three months but not more than one year	17,794	*10,051*	17,794	*10,051*
In more than one year but not more than five years	43,295	*49,586*	43,295	*49,586*
In more than five years	178,134	*166,274*	170,245	*157,066*
	256,559	*241,781*	248,670	*232,573*
Less: Provisions (note 6)	(2,535)	*(2,535)*	(2,485)	*(2,485)*
	254,024	*239,246*	246,185	*230,088*
The maturity analysis comprises:				
Loans fully secured on residential property	248,624	*233,559*	240,785	*224,401*
Other loans – fully secured on land	5,400	*5,687*	5,400	*5,687*
	254,024	*239,246*	246,185	*230,088*

This analysis assumes that each mortgage account will continue under its current terms and, in particular, that it will not be redeemed before the contractual maturity date (except the mortgage balances on properties in possession which have been allocated equally over the first twelve months). However, the Society's mortgage conditions give the Society the right to demand repayment of the mortgage debt in full after three months written notice to the borrower. When the borrower is in default repayment is due immediately.

	Society		
11. Investments in subsidiary undertakings	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
At 1 September 2012	–	7,044	7,044
Advances	–	324	324
Repayments	–	(1,690)	(1,690)
At 31 August 2013	–	5,678	5,678

The Society directly holds 100% of the issued ordinary share capital of the following companies which are registered in England and Wales:

	Principal Activity
Hanley Mortgage Services Limited	Mortgage lender
Hanley Financial Services Limited	Financial advisory services

Both subsidiary undertakings operate within the United Kingdom and are included in the Group's accounts.

12. Tangible fixed assets

Group	Freehold £000	Land and Buildings Long Lease £000	Short Lease £000	Equipment, Fixtures, Fittings & Vehicles £000	Total £000
Cost at 1 September 2012	1,012	2,124	249	2,026	5,411
Additions during the year	–	–	–	183	183
Disposals during the year	–	–	–	(66)	(66)
Cost at 31 August 2013	1,012	2,124	249	2,143	5,528
Depreciation at 1 September 2012	188	121	151	1,519	1,979
Charge for the year	20	39	22	168	249
Disposals during the year	–	–	–	(50)	(50)
Depreciation at 31 August 2013	208	160	173	1,637	2,178
Net book value:					
at 31 August 2012	824	2,003	98	507	3,432
at 31 August 2013	804	1,964	76	506	3,350

Society	Freehold £000	Land and Buildings Long Lease £000	Short Lease £000	Equipment, Fixtures, Fittings & Vehicles £000	Total £000
Cost at 1 September 2012	1,012	2,124	249	1,988	5,373
Additions during the year	–	–	–	183	183
Disposals during the year	–	–	–	(44)	(44)
Cost at 31 August 2013	1,012	2,124	249	2,127	5,512
Depreciation at 1 September 2012	188	121	151	1,491	1,951
Charge for the year	20	39	22	161	242
Disposals during the year	–	–	–	(28)	(28)
Depreciation at 31 August 2013	208	160	173	1,624	2,165
Net book value:					
at 31 August 2012	824	2,003	98	497	3,422
at 31 August 2013	804	1,964	76	503	3,347

All land and buildings are occupied by the Group and the Society.

	Group		Society	
	2013	*2012*	2013	*2012*
13. Prepayments and accrued income	£000	*£000*	£000	*£000*
Prepayments and accrued income	446	*270*	445	*268*
	446	*270*	445	*268*

	Group and Society	
	2013	*2012*
14. Shares	£000	*£000*
Held by individuals	259,432	*247,717*
	259,432	*247,717*
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	1,843	*1,686*
Repayable on demand	168,842	*160,400*
In not more than three months	79,762	*81,387*
In more than three months but not more than one year	8,720	*4,127*
In more than one year	265	*117*
	259,432	*247,717*

	Group and Society	
	2013	*2012*
15. Amounts owed to credit institutions	£000	*£000*
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	53	*83*
In not more than three months	5,000	*19,500*
In more than three months but not more than one year	9,750	*7,000*
	14,803	*26,583*

	Group and Society	
	2013	*2012*
16. Amounts owed to other customers	£000	*£000*
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	37	*94*
Repayable on demand	19,685	*14,017*
In not more than three months	5,881	*8,933*
In more than three months but not more than five years	7,450	*4,000*
	33,053	*27,044*

		Group		Society	
		2013	*2012*	2013	*2012*
17.	**Other liabilities**	£000	*£000*	£000	*£000*
	Income tax	228	*230*	228	*230*
	Corporation tax due within one year	54	*144*	34	*107*
	Deferred tax (see note 20)	97	*73*	108	*85*
		379	*447*	370	*422*

		Group		Society	
		2013	*2012*	2013	*2012*
18.	**Accruals and deferred income**	£000	*£000*	£000	*£000*
	Other accruals	254	*472*	254	*470*
		254	*472*	254	*470*

		Group		Society	
		2013	*2012*	2013	*2012*
19.	**Provision for liabilities – FSCS Levy**	£000	*£000*	£000	*£000*
	Provision for FSCS Levy	290	*230*	290	*230*
		290	*230*	290	*230*

In common with all regulated UK deposit takers, the Society pays levies to the Financial Services Compensation Scheme (FSCS) based on its share of protected deposits, to enable the FSCS to meet claims against it.

In 2008 a claim was triggered against the FSCS by the transfer of Bradford & Bingley Plc's retail deposit business to Abbey National Plc and similar issues with various Icelandic Banks, London Scottish Bank Plc and the transfer of core parts of Dunfermline Building Society to Nationwide Building Society in the first half of 2009. The FSCS has met, or will meet, the claims by way of loans received from HM Treasury with the interest on these loans being recovered through levies on the UK deposit takers.

The FSCS has acquired rights in the realisation of the assets of the failed banks. The latest FSCS levy projections estimate that there could be a shortfall of approximately £1,086m. This estimated shortfall is to be recovered through a levy on the industry over three scheme years commencing 2013/14. There is still uncertainty around the final amount of the shortfall.

As at 31 August 2012, the Society had a provision of £230,000 in relation to the levy for the 2011/12 and 2012/13 scheme years. During the year, £108,000 was paid in relation to the 2011/12 scheme year and an additional provision made for £168,000 in relation to the 2013/14 scheme year, resulting in a provision of £290,000 as at 31 August 2013. This provision does not include provision for any levies for any scheme year after 2013/14.

		Group		Society	
		2013	*2012*	2013	*2012*
20.	**Deferred taxation**	£000	*£000*	£000	*£000*
	At 1 September 2012	(73)	*(50)*	(85)	*(63)*
	Charge to the Income and Expenditure account for the year (see note 7)	(24)	*(23)*	(23)	*(22)*
	At 31 August 2013	(97)	*(73)*	(108)	*(85)*

The deferred tax liabilities are set out below:

	Group 2013 £000	*Group 2012 £000*	Society 2013 £000	*Society 2012 £000*
Differences between accumulated depreciation and amortisation and capital allowances	(128)	*(111)*	(128)	*(107)*
General mortgage loss provision	31	*38*	20	*22*
	(97)	*(73)*	(108)	*(85)*

		Group	Society
		2013	2013
21.	**General reserves**	£000	£000
	At 1 September 2012	28,596	26,440
	Profit for the year	203	118
	At 31 August 2013	28,799	26,558

22. Guarantees and other financial commitments

Annual commitments under non-cancellable operating leases, excluding VAT, are as follows:

	Group and Society	
	2013 Land and buildings	*2012 Land and buildings*
Operating leases which expire:	£000	*£000*
Within one year	22	*–*
Within two to five years	55	*77*
	77	*77*

23. Financial instruments

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

The Group has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Group's Assets and Liabilities Committee, who set policy and review balance sheet exposures.

Instruments used for risk management purposes include derivative financial instruments ("derivatives"), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates.

Derivatives are only used by the Group in accordance with the Building Societies Act 1986, to reduce the risk of loss arising from changes in interest rates. Derivatives are not used in trading activity or for speculative purposes.

Types of derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps and caps which are used to hedge group balance sheet exposures arising from fixed and capped rate mortgage lending and savings products.

As at 31 August 2013 the Group had entered into interest rate caps and swaps in connection with fixed rate mortgage products to enable it to manage the risks arising from changes in interest rates.

The table below analyses the derivatives by type of contract and shows the nominal principal amounts, credit risk weighted amount and replacement costs of contracts.

	Nominal notional amount 2013 £000	Credit risk weighted amount 2013 £000	Replacement cost 2013 £000	*Nominal notional amount 2012 £000*	*Credit risk weighted amount 2012 £000*	*Replacement cost 2012 £000*
Interest rate swaps	63,950	53	125	*56,200*	*42*	*–*

The nominal principal amount indicates the volume of business outstanding at the balance sheet date and does not represent amounts at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date, reflecting the Group's maximum exposure should the counterparty default. The credit risk weighted amount, which is calculated according to rules specified by the Financial Services Authority, is based on the replacement cost, but also takes into account a measure of the extent of potential future exposure and the nature of the counterparty.

The accounting policies for derivatives are described in note 1 to the accounts.

23. Financial instruments continued

Liquidity risk

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

Credit risk

Credit risk is the risk that counterparties will not meet their obligations as they fall due. All loan applications are assessed with reference to the Society's lending policy. Changes to the policy are approved by the Board and the approval of loan applications is mandated.

In assessing credit risk in respect of treasury counterparties the Board uses credit ratings provided by a recognised credit rating agency. The financial health of treasury counterparties is also monitored on an ongoing basis using "market intelligence" and where it is considered that the rating agency's credit ratings may not yet fully recognise the credit risk associated with a particular counterparty, this can result in the counterparty concerned being immediately removed from the Society's approved list. As a result of this approach the Society has not been affected by exposures to failed financial institutions. The approved list is reviewed by the Assets & Liabilities Committee.

Interest rate risk

The Group is exposed to movements in interest rates, and manages this exposure on a continuous basis, within limits set by the Board, using a combination of on and off balance sheet instruments. The interest rate sensitivity of the Group at 31 August 2013 was:

Interest reset date	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
At 31 August 2013	£000	£000	£000	£000	£000	£000	£000
Assets							
Liquid assets	39,156	2,000	19,830	17,500	–	704	79,190
Loans fully secured on residential property and other loans	178,340	2,561	29,659	45,999	–	(2,535)	254,024
Tangible fixed assets	–	–	–	–	–	3,350	3,350
Prepayments and accrued income	–	–	–	–	–	446	446
Total assets	217,496	4,561	49,489	63,499	–	1,965	337,010
Liabilities							
Shares	205,420	7,500	34,476	10,193	–	1,843	259,432
Amounts owed to credit institutions and other customers	30,086	8,825	8,835	21	–	89	47,856
Other liabilities	–	–	–	–	–	923	923
Reserves	–	–	–	–	–	28,799	28,799
Total liabilities	235,506	16,325	43,311	10,214	–	31,654	337,010
Net assets/(liabilities)	(18,010)	(11,764)	6,178	53,285	–	(29,689)	–
Off balance sheet items	53,550	(2,000)	(24,000)	(27,550)	–	–	–
Interest rate sensitivity gap	35,540	(13,764)	(17,822)	25,735	–	(29,689)	–
Cumulative gap	35,540	21,776	3,954	29,689	29,689	–	–

23. Financial instruments continued

The interest rate sensitivity of the Group at 31 August 2012 was:

Interest reset date At 31 August 2012	Not more than three months £000	More than three months but not more than six months £000	More than six months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Assets							
Liquid assets	55,536	4,000	22,000	6,000	–	605	88,141
Loans fully secured on residential property and other loans	174,160	5,255	8,686	53,680	–	(2,535)	239,246
Tangible fixed assets	–	–	–	–	–	3,432	3,432
Prepayments and accrued income	–	–	–	–	–	270	270
Total assets	229,696	9,255	30,686	59,680		1,772	331,089
Liabilities							
Shares	204,594	5,020	25,614	10,803	–	1,686	247,717
Amounts owed to credit institutions and other customers	33,328	5,317	14,769	36	–	177	53,627
Other liabilities	–	–	–	–	–	1,149	1,149
Reserves	–	–	–	–	–	28,596	28,596
Total liabilities	237,922	10,337	40,383	10,839	–	31,608	331,089
Net assets/(liabilities)	(8,226)	(1,082)	(9,697)	48,841	–	(29,836)	–
Off balance sheet items	53,450	(3,500)	(8,000)	(41,950)	–	–	–
Interest rate sensitivity gap	45,224	(4,582)	(17,697)	6,891	–	(29,836)	–
Cumulative gap	45,224	40,642	22,945	29,836	29,836	–	–

23. Financial instruments continued

Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Gains	Losses	Total gains/losses
	£000	£000	£000
Unrecognised gains and losses on hedges at 31 August 2012	–	(1,030)	(1,030)
Gains and losses arising in previous years that were recognised during 2013	–	180	180
Gains and losses arising before 31 August 2012 that were not recognised during 2013	–	(850)	(850)
Gains and losses arising in 2013 that were not recognised in 2013	125	482	607
Unrecognised gains and losses on hedges at 31 August 2013	125	(368)	(243)
Of which:			
Gains and losses expected to be recognised in 2014	–	205	205

Fair values of financial instruments

Set out below is a comparison of carrying values and fair values for derivatives as at 31 August 2013. The table excludes certain financial assets and financial liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. It therefore excludes items such as mortgages, share accounts and deposits with banks. The fair values of listed debt securities are disclosed in note 9.

	2013		*2012*	
	Book value	Fair value	*Book value*	*Fair value*
	£000	£000	*£000*	*£000*
Interest rate swaps	–	(368)	*–*	*(1,030)*

24. Related party transactions

In accordance with the provisions of FRS8 ‘Related Party Disclosures’, transactions and balances with subsidiary companies are not separately disclosed. Transactions with the Directors are separately disclosed in note 5.

Annual Business Statement

For the year ended 31 August 2013

1. STATUTORY PERCENTAGES

	Percentages at	Statutory Limit
	%	%
Proportion of business assets not in the form of loans fully secured on residential property (the 'lending limit')	2.28	25
Proportion of shares and deposits not in the form of shares held by individuals (the 'funding limit')	15.57	50

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 as amended by the Buildings Societies Act 1997.

Business assets are the total assets of the Group 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.

2. OTHER PERCENTAGES

	Ratio at	
	31 August 2013	*31 August 2012*
	%	*%*
Gross capital as a percentage of shares and borrowings	9.37	*9.49*
Free capital as a percentage of shares and borrowings	8.33	*8.40*
Liquid assets as a percentage of shares and borrowings	25.77	*29.25*
As a percentage of mean assets:		
Profit after taxation	0.06	*0.12*
Management expenses	1.03	*1.03*
Cost/income	88.42	*86.42*

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

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.
- 'Gross capital' represents general reserves.
- 'Free capital' represents the aggregate of gross capital and general loss provisions for bad and doubtful debts less tangible fixed assets.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Liquid assets' represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.
- 'Cost/income' represents the aggregate of administration expenses, depreciation and amortisation expressed as a percentage of total income less other operating charges.

3. INFORMATION RELATING TO THE DIRECTORS AT 31 AUGUST 2013

Name	Occupation	Date of Birth	Date of Appointment	Directorships
P. R. Dearing BEd (Hons), FCIB	Consultant	18.2.1950	1.10.2009	Hanley Financial Services Ltd Hanley Mortgage Services Ltd Northamptonshire Trading Ltd Olympus Care Services Ltd Philipdearingworks Ltd Waterloo Housing Group
A. Henshaw BSc (Hons), PhD	Psychologist	30.1.1947	28.2.2007	–
E. V. Jenner BSc (Hons), FCMA	Consultant	11.3.1955	1.1.1998	Avalon Affiliates Ltd Congregational & General Insurance plc Hawkesbury Properties Ltd Jenard Properties Ltd Jenard Ystalyfera Ltd
S. Jones BSc (Hons), FCA, MBA	Society's Deputy Chief Executive & Finance Director	6.12.1962	1.5.2004	Age UK North Staffordshire Wulvern Housing Ltd
The Rt. Hon. the Lord Stafford DL	Landowner	13.3.1954	21.1.1993	Costessy Ltd Delamere Forest Properties Ltd The Lord Stafford Awards LLP
D. Webster BA (Hons), DUniv	Society's Chief Executive	9.6.1959	14.1.2002	Hanley Financial Services Ltd Hanley Mortgage Services Ltd Honorary Treasurer Keele University
J. H. Wood QPM, LLB	Retired Assistant Chief Constable	5.9.1956	22.4.2008	Brighter Futures

Documents may be served on the above named Directors c/o PricewaterhouseCoopers LLP, 101 Barbirolli Square, Lower Mosley Street, Manchester M2 3PW.

SERVICE CONTRACTS
Mr D. Webster entered into a one-year rolling contract on 14 January 2002 which is terminable by the Society or Mr Webster on one year's notice. Mr S. Jones is employed under a contract that is terminable by the Society on one year's notice or the Director on six months' notice.

4. OFFICERS

Name	Occupation	Directorships
C. Hammond	Human Resources Manager	North Staffs MIND
C. S. Hassall FCIB, MCSI	Group Secretary	–
D. Lownds BSc (Hons)	Head of Operations	–

THE HANLEY ECONOMIC Building Society

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