Report & Accounts 2014

for the year ended 31 August 2014

Finest 2014 Awards for Collaborative Partnership and Outstanding Contribution to Professional Services

THE HANLEY ECONOMIC Building Society

www.thehanley.co.uk

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.

Building on our 2012/13 Apprenticeship Scheme we have continued to grow our own talent with the addition of five Apprentices this year, pictured above from left to right Megan Scragg, Giovanni Neglia, Olivia Jones, Gemma Collyer and Marcus Bailey. In addition to receiving a nationally recognised qualification our Apprentices have the opportunity to gain experience and confidence in a wide range of financial services.

2012/13 Apprentices

“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 Report and Accounts for our financial year ended 31 August 2014.

Our business performance this year has been strong, with total assets rising by 7.25% to £361m and an annual surplus of £660,000 which is a rise of 225%. Against a backdrop of improving economic conditions, a marked recovery in the housing market, falling unemployment and above target growth in the UK's GDP, The Hanley has achieved balanced growth and a significant uplift in both savings balances and new mortgage business. Such a creditable achievement underlines the robustness of The Hanley's business strategy, which is to build a platform of capital strength by generating sufficient levels of annual profits via the delivery of competitive products and outstanding customer service. Our balanced approach enables The Hanley to reinvest in the Society and ensures that long term security is never jeopardised by short term income maximisation, and The Hanley Board remains fully committed to an independent future as a local, mutual building society.

The landscape of UK financial services is virtually unrecognisable from that which prevailed in the 'boom years' prior to the banking crises of 2008/09, but the resilience of the local building society has been a remarkably consistent feature. At The Hanley our approach has remained fairly straightforward; to help our members make the most of their savings and assist them with mortgage advice they can trust. Such simplicity has clear virtues and is at the heart of our success, alongside a passion for developing our people and helping them achieve their very best. This latter point has attracted external recognition again this year as The Hanley was crowned winner of the prestigious Chamber of Commerce Commitment to People Development Award for the West Midlands, a further testimony to our long-standing goal of nurturing our own talent to improve business performance and made us distinctive in a congested marketplace.

> "The Hanley has achieved balanced growth and a significant uplift in both savings balances and new mortgage business."

This year has seen the retirement of Lord Stafford from The Hanley Board after over 20 years' service as a Non-Executive Director. Lord Stafford has a unique presence in the county and his support, his insight and broad experience will be greatly missed, but his contribution to The Hanley will be sustained as the Board is delighted that he has agreed to accept an invitation to be our Honorary President.

This will also be my final year as Chairman of The Hanley. I will complete my 5 year term in October and retire from the Board after nearly 17 years. It has been an honour to have been a part of The Hanley family. The Society, after 160 years of operation, remains strong having passed through the worst market conditions by being responsive to customers' needs, being resolute in our values and through the dedication of all the people who work at the Hanley.

It gives me great pleasure to welcome Philip Dearing to the Chair. Philip has been a Non-Executive on your Board for 5 years. He has a wealth of experience in financial services and has made a significant contribution to the governance of the Society during his period as Non-Executive Director. I am very confident that Philip and the Board will direct your Society through a prosperous and independent future.

E. V. Jenner
Chairman
21 October 2014

Chief Executive's Strategic Business Review

Overview

As a mutual, run for the benefit of members, we are constantly balancing the needs of savers and borrowers, whilst seeking to invest in the business and retain sufficient annual profits to bolster our capital base. I am delighted to report that this year The Hanley has achieved precisely that balancing act. Our assets are now £361m, an increase of 7.25% from a year ago and our membership has grown by more than any year since before the 2008/2009 financial crisis. Combined with an uplift in profit (pre-tax, pre Financial Services Compensation Scheme levy) of 144.03% to £1.10m, this gives The Hanley the ability to reinvest in the Society and strengthen our capital and reserves so that we remain well equipped to handle future uncertainty in our core markets. Conditions in the UK economy and consumer confidence improved in 2014 but we are still cautious about the immediate future. Falling unemployment and rising Gross Domestic Product (GDP) are reasons for optimism but this has to be tempered with some unease about the likely impact of future increases in the Bank of England base rate (BBR). The historically low BBR of 0.5% has been the defining characteristic of UK financial markets for over five years and indications that rates will rise in the next 12 months will offer welcome respite to savers, but may stretch affordability for some borrowers and cause the housing market to falter if rises occur too steeply. Additionally, the housing market has benefited from government interventions such as the Funding for Lending Scheme (FLS) and various Help to Buy initiatives as well as the Quantitative Easing programme, so the unwinding of such stimuli should make us hesitate before predicting any inevitable upward trajectory in the fortunes of the UK economy.

However, coping with the vagaries of a dynamic housing market has been the hallmark of the traditional building society model, and this year The Hanley's financial results exemplify that resilience. Simplicity is not a characteristic normally associated with financial services firms, as opaque products and bewildering marketing often overshadow the true ethos of a business, but in a mutual building society the purpose is clear, to attract retail savings from customers and make loans to homebuyers whilst ensuring strong capital and liquidity positions. By growing our retail balances, increasing the number of savers, growing our mortgage balances and increasing the level of new advances, whilst uplifting our retained surplus (our only source of capital), The Hanley has achieved impressive financial results by behaving exactly as a local, independent, mutual building society should behave. By doing so our reputation continues to flourish and the impact on our heartland territory extends beyond that of a successful business and leads to prestigious accolades such as the 2014 Finest award for Partnership Collaboration in recognition of our work with Ormiston Horizon Academy, a local school with whom we have been working for some time.

Human Resources Manager Cris Hammond and Chief Executive David Webster with The Hanley's two Finest 2014 awards

Finally, an overview of our financial performance in the year would be incomplete without a comment on the Financial Services Compensation Scheme. The FSCS continues to make a significant negative impact on The Hanley, as a result of the failures of Bradford & Bingley Plc and certain Icelandic banks in 2008. The Society's contribution to FSCS increased to £215,000 in 2014 and in total we have paid £848,000 to FSCS over the past five years. Whilst the security of savers' funds is of paramount importance to The Hanley, your Board continues to regard the share of costs borne by us as a small building society, to be disproportionate and punitive.

Mortgages

As our core purpose is to lend on residential property by raising funds from retail savers, it is very pleasing to report an impressive rise in mortgage lending this year with gross mortgage advances up by 39% to £65m (2013: £47m). This is testimony to our continued commitment to bespoke mortgage advice via our branch-based mortgage advisers and our flourishing reputation in the mortgage intermediary market. Such a twin-pronged approach to distributing our mortgage products can only gain forward momentum if our service proposition is robust, and in the current market our approach to tailored underwriting has been central to our success. The Hanley has for several years taken full responsibility for assessing mortgage affordability on a case-by-case basis, so this dimension of the Financial Conduct Authority's Mortgage Market Review (MMR) was not a difficult transition for us and we remain very supportive of the aims of the MMR, notably in its encouragement of qualified professionals as the primary source of mortgage advice. Our net lending (excluding capital payments) also increased this year to £33.7m from £23.7m last year, an increase of 42.19%. This is a commendable result, underpinned by our success in retaining over 80% of borrowers reaching the end of a fixed term product.

> "An impressive rise in mortgage lending is testimony to our continued commitment to bespoke advice."

The plight of first time buyers with a modest deposit continues to feature in the national media but we were able to help provide mortgages to 85 such borrowers this year. Clearly the supply-side weaknesses in the UK housing market are deep rooted and are due mainly to the shortfall in new housing being built, a problem which won't be resolved quickly. Nevertheless it is gratifying for us to play a part in helping aspiring home owners, as The Hanley has always done.

We pride ourselves in being nimble and adaptable enough to succeed in different market niches. This is well illustrated by our consistent success in self-build lending. This year we assisted 41 new borrowers through our pioneering self-build mortgage product in partnership with Buildstore, the experts in this increasingly important market segment.

However, whether it is lending to first-time buyers or to self-builders, The Hanley adopts a cautious, prudent and measured policy, always acknowledging that it is our members' money we are lending, so there is no scope for speculative lending or taking unnecessary risks. Such a responsible approach to mortgage lending has served the Society well and at the end of our financial year only 11 cases were 3 months or more in arrears. This represents just 0.43% of our total number of mortgages (2013: 10 cases 0.46%), less than half the average in our industry. We have just 3 cases of mortgage arrears exceeding 12 months (2013: 2) and our aggregate arrears balances are now £42,762 (2013: £65,000). These figures show that a prudent approach to lending over a sustained period has guarded The Hanley against extravagant personal debt which has damaged other lenders.

Our mortgages have continued to help first time buyers and were recognised in the Moneyfacts 2014 Awards.

David Lownds, of Hanley Economic Building Society, says his company has helped out more first-time buyers this year.

Buyers turning to mutuals for help getting on ladder

FIRST time buyers are streaming into the housing market and many of them are turning to building societies for their mortgage loan, new figures have revealed.

The Council of Mortgage Lenders said this week that the amount approved by its members to first-time ...

says: "First-time buyers, and in particular those with smaller deposits are being actively supported by mutuals. In the first seven months of the year over a quarter of lending by mutuals to first time buyers was to those with a deposit of ten per cent or less."

David Lownds, head of operations ...

few days its products have again been rated as among the best on the market by comparison website, Moneyfacts.

David adds: "During the year we were rated the best regional mortgage lender in the country by the independent financial comparison company, Moneyfacts, and last week we launched a ...

"We are mindful of our responsibilities to savers and we remain committed to offering long-term value."

Savings

The compression of savings rates in the UK has been a consequence of the prolonged period of low BBR, extensive Quantitative Easing measures and the introduction of the FLS, which furnished some lenders with an attractive and cheaper funding source than the retail market. Savings products which match the prevailing rate of inflation are rare, and so savers have seen the real value of their savings tumble in recent years. At The Hanley we are mindful of our responsibilities to savers and we remain committed to offering long-term value by providing competitive but sustainable interest rates across a broad range of products.

This year I am delighted to report a substantial increase of £32m in our savings balances, a rise of 12% to £310m (2013: £278m). Clearly The Hanley is regarded as a safe and secure place for savings deposits and this is further exemplified by the fact that we retained 86% of savings balances in maturing fixed rate bonds during the year (2013: 86%). Member feedback during these bond maturities tells us that the transparent and helpful way we outline their options and the personal service they receive, is a powerful reason for their decisions to reinvest funds, alongside their belief that The Hanley offers competitive interest rates without any gimmicks such as introductory bonus rates.

Our savings product range was enhanced 18 months ago by the launch of our DMH Saver account in partnership with our chosen charity, the Douglas Macmillan Hospice and balances grew by £14,636 (2013: £2,512), an achievement of which our staff and members are rightly proud.

Our Members, Our Community and Our People

Having lived and worked in North Staffordshire for over a decade, I can authoritatively claim that The Hanley punches above its weight in our local community. Our reputation as a local business with a resounding local heartbeat is well established, not just because of our 160 year old history, but also because of the impact we make on the contemporary environment we serve. Moreover, as a mutual, having an intent to put something tangible back into our local community is part of our DNA. Clearly the single, most potent contribution The Hanley can make to our local community is to thrive as a local business. The financial results this year demonstrate that we are achieving that goal. However our aim is to go further than that:

- we believe in engaging with local members so we:
  - a) aim to have the highest AGM voting turnout in the building society sector and we have done so again this year (22.15% of members voted at our AGM);
  - b) hold quarterly Customer Forum meetings hosted by myself or our Deputy Chief Executive, Steve Jones, so that members can talk informally about the progress of their Society;
  - c) increased the number of new members to the Society by 2,215 this year.

As part of our support and mentoring partnership with Ormiston Horizon Academy, students packed goodie bags and acted as stewards for the Potters 'Arf marathon, sponsored by The Hanley.

- we believe in connecting with our local community so we:
  a) Sponsored the Potters 'Arf marathon for the seventh consecutive year and achieved the highest ever number of race entrants raising over £15,000 for DMH;
  b) Sponsored local junior sports teams such as Porthill Cricket Club and Newcastle Town FC;
  c) Linked with Ormiston Horizon Academy in the "business class" initiative offering mentoring and support to the school in a structured programme;
  d) Encourage our staff to play an active role in supporting a wide variety of local good causes.
- we believe in setting the highest standards of professionalism and service for all our staff so we:
  a) grow our own talent by recruiting five local apprentices this year as we did last year, thereby offering a genuine career path to local youngsters choosing to enter workplace as they leave school;
  b) articulate our expectations of all our people by insisting that we all adopt the Hanley's Active Behaviours, designed to deliver outstanding service to our members.

The Hanley is 160 years old this year and so is mature enough to contend with the challenges of the modern business world, but the Society is also rooted in values which carry a contemporary resonance. In many ways such values as trust, integrity and excellence have never been more relevant to our members and those are brought to life by our outstanding staff, whose hard work and commitment continue to mould The Hanley as a distinctive modern mutual.

David Webster
Chief Executive
21 October 2014

"Having an intent to put something tangible back into our local community is part of our DNA."

In addition to our DMH Saver account, support for the Douglas Macmillan Hospice included a 'Bring a pound to work' appeal (above), and donating old uniforms (right).

Board of Directors

Edward Jenner, aged 59, 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.

Philip Dearing, age 64, joined the Board as a Non-Executive Director five years ago and has served as a member of the Audit, Risk & Compliance Committee, Remuneration Committee and as a Director of our two subsidiary companies, Hanley Financial Services Ltd and Hanley Mortgage Services Ltd.

Philip will take over as Chairman of the Board after October 2014, bringing a spectrum of experience including roles within The Hanley as well as his wider commercial experience in the retail financial services sector and as a Board member of two other mutual-ethos firms.

Fionnuala Earley, aged 50, joined 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.

Andrew Macdonald, age 59, was co-opted to the Board as a Non-Executive Director in September 2014. He is to be Chairman of the Audit, Risk and Compliance Committee, and a member of the Assets and Liabilities Committee.

Andrew has spent his career as a specialist in Treasury and Asset and Liability Risk Management in the building society sector. He was Group Treasurer for the Skipton Building Society and Group Head of Asset and Liability Management of the Nationwide Building Society. He was made a Fellow of the Association of Corporate Treasurers in acknowledgement of his contribution to Financial risk management in the Building Society sector.

Andrew is married, with three children and five grandchildren and enjoys golf and skiing in his leisure time.

John Wood, age 58, was appointed to the Board as a Non-Executive Director in April 2008. He is currently a member of the Society's Audit, Risk and Compliance Committee having previously served as Chairman. From October 2014 he will also become Chairman of the Remuneration 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 is a supporter of the local voluntary sector and is an Independent Board member of Brighter Futures. He enjoys running and this year again ran in the Potters 'Arf Marathon sponsored by The Hanley.

Steven Jones, age 51, was appointed Finance Director in May 2004 and Deputy Chief Executive in June 2012. He is a member of the Assets & Liabilities Committee, 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.

David Webster, age 55, 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 is a former Chairman of the Building Societies Association, a role to which he was elected on two occasions, 2010 and 2012.

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 2014.

Business objectives and activities

Our Mission Statement is "To be the chosen provider of savings and mortgages within our heartland, built on trusted values and exceptional service".

We value –
• the support of our members,
• the commitment, loyalty and continued development of our staff, and
• the diversity that mutuality brings to the financial services market.

We are dedicated to –
• promoting savings and home ownership,
• outstanding customer service,
• fairness in all that we do, and
• making a positive impact in our local community.

The Society's primary objective is the provision of mortgage finance for the purchase and improvement of residential property, funded substantially by its members. The Society strives to seek a balance between profitability and capital strength ensuring that member confidence remains high.

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 Strategic Business Review on pages 4 to 7 and demonstrated by the strength of our high level key performance indicators.

Key Performance Indicators

	2014	2013	2012
Total assets	£361m	£337m	£331m
Mortgage lending	£65m	£47m	£41m
Growth in mortgage assets	9.30%	6.11%	2.26%
Savings balances	£281m	£259m	£248m
Management expenses as % of total assets	1.09%	1.03%	1.03%
Operating profit (before FSCS Levy and provisions)	£1.10m	£0.5m	£0.5m
Net profit	£0.66m	£0.20m	£0.38m
Profit as a % of total assets	0.19%	0.06%	0.12%
Gross capital	8.91%	9.37%	9.49%
Free capital	7.98%	8.33%	8.40%

Total assets

The total assets of the Group at the end of the financial year amounted to £361.4m (2013: £337.0m), an increase of £24.4m or 7.25% on the previous year. This has been achieved as a result of significant inflows of retail savings used to fund considerably higher levels of mortgage lending during the year.

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 £0.66m (2013: £0.2m) and represents a ratio of 0.19% of our mean total assets. The profit after taxation has been added to the General Reserve which now totals £29.5m (2013: £28.8m).

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 8.91% (2013: 9.37%) and free capital was 7.98% (2013: 8.33%).

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 £79.7m (2013: £79.2m), representing 24.10% (2013: 25.77%) of total shares and deposit liabilities.

Shares

Share balances at 31 August 2014 were £280.7m (2013: £259.4m), an increase of £21.3m 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.

Principally as a result of additional staff to support business growth and continue to provide a high quality service proposition to our members, the overall management expenses ratio increased to 1.09% (2013: 1.03%).

Loans and advances to customers

(a) During the year new loans and advances to customers amounted to £64.9m (2013: £46.9m).

(b) Group mortgage assets as at 31 August 2014 were £277.9m (2013: £254.0m). Redemptions during the year were £31.2m (2013: £23.2m), including £0.16m (2013: £1.1m) within our subsidiary company, Hanley Mortgage Services Ltd.

(c) Society mortgage balances secured on residential property and other loans increased during the year to £270.5m (2013: £246.2m).

(d) At 31 August 2014 there were 3 cases (2013: 2) in which the borrowers were 12 months or more in arrears. The total amount of arrears on these cases was £3,504 (2013: £27,099) and the capital balance was £58,721 (2013: £366,532). 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 2014, 4 of the 34 mortgage accounts remained under a forbearance measure with total balances of £0.2m (2013: £1.4m) and arrears totalling £6,337 (2013: £1,378). The Board assesses 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 2014, 2 properties (2013: 3) were in possession, with a capital balance outstanding of £4.01m (2013: £5.6m). As at 31 August 2014 there were 0 cases (2013: 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 2014 represented 9 days of purchases (2013: 9).

Charitable and political donations

During the year The Hanley made donations of £2,762 (2013: £4,162) to local charities. No contributions were made for political purposes. In addition, as highlighted in the Chief Executive's Strategic Business Review, the Society sponsors, and its staff commit their time to, a range of local charitable and community causes.

Directors' Report *continued*

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.

The Board retains ultimate responsibility for ensuring the Society operates in a framework of prudent and effective controls which enables risk to be assessed and managed. This framework includes risk policy statements, exposure limits, mandates and reporting lines, along with an active risk review process.

Building societies operate within a highly competitive financial services market, consequently many of the risks arise simply from competing within such an environment, the most significant of which are detailed below.

Credit risk

Credit risk is the risk of a customer or counterparty not meeting their financial obligations to the Society as they fall due. This risk is most likely to arise in the potential inability of a customer to make repayments on their mortgage, and of treasury counterparties to repay loan commitments.

The risk of treasury counterparty default is managed through Board approved Liquidity, Funding and Structural Risk policies. Counterparty credit quality and exposure limits are monitored by the Assets & Liabilities Committee who make recommendations to the Board on changes in any of its related policies.

Mortgage credit risk is managed through the Society's underwriting process which seeks to ensure that customers can afford to repay their debt. All mortgage applications are rigorously assessed with reference to the Society's Lending policy, changes to policy are approved by the Board and the approval of mortgage applications is mandated. All applications are supported by an independent valuation sourced from the Society's authorised panel of valuers. In the unfortunate event of customers experiencing financial difficulties the Society is highly proactive in providing support which can include working with them to clear arrears, making arrangements, or forbearance.

In respect of residential development loans, the Society additionally has potential exposure 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.

The Society manages this risk through continuous forecasting of cashflow requirements and assessment of retail and wholesale funding risk. The required amount, quality and type of liquid assets required to ensure obligations can be met at all times is maintained in accordance with the Liquidity policy. Regular stress tests are performed to ensure the Society can meet its obligations in both normal and stressed circumstances. The Society's management of liquidity risk is overseen by the Assets & Liabilities Committee.

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.

Conduct risk

The risk is that the Society does not treat its customers fairly and delivers inappropriate consumer outcomes. The Board acknowledges the requirement to fully embrace the Financial Conduct Authority's Principle 6, namely to ensure that the Society pays due regard to the interests of its customers and to treat them fairly at all times. These principles are firmly embedded within the Society's culture and working practices.

Operational risk

Operational risk is the risk of loss through failed or inadequate systems, human error or other external factors. The Society mitigates this risk through having a robust and effective internal control framework in which risks are monitored and controlled on a regular and timely basis by senior management and the Audit, Risk and Compliance Committee.

Regulatory and legal risk

Regulatory and legal risk is the risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU regulatory requirements. The Society has an independent compliance function which monitors compliance with existing legislation, controls implemented to ensure compliance and the impact of new requirements. The compliance function reports to the Audit, Risk and Compliance Committee.

Business risk

Business risk means any risk to the Society arising from changes in the business or economic conditions, including the risk that the Society may not be able to carry out its business plan or implement its required strategy. Business risk is managed through regular review and development of the business plan, management oversight and an embedded corporate governance framework.

Financial risk management

The Society has a formal structure for managing financial risk which is closely monitored and controlled by the Board, supported by the Audit, Risk & Compliance Committee and the Assets & Liabilities Committee. The Society uses financial instruments for risk management purposes, details of which are set out in Note 23.

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.

The European Union's Capital Requirement Directive came into effect on 1 January 2014 and sets the transition path towards full implementation of the Basel III capital framework by 2019. Basel III has introduced a leverage ratio to supplement the risk weighted capital requirement. The Society is well placed to meet these requirements given the nature and strength of its capital base, the size of its Balance Sheet relative to its capital base and the relative risk weightings of the assets on its Balance Sheet.

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, FRAgS (Vice-Chairman) (Retired 31.8.2014)
P. R. Dearing BEd (Hons), FCIB
F. B. Earley BSc, MSc
A. S. Macdonald (Appointed 1.9.2014)
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 J. H. Wood retires by rotation in accordance with the Society's rule 26(1). Mr A. S. Macdonald 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
21 October 2014

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 role 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.

The total emoluments detailed below are audited numbers.

Directors' Remuneration	Group and Society 2014 £000	Group and Society *2013* *£000*
Directors' emoluments:		
For services as a Director	119	*116*
For executive services	326	*313*
	445	*429*

Emoluments of the Society's Directors are listed below.

Non-Executive Directors:	Fees £000	*Fees* *£000*
E. V. Jenner (Chairman)	34	*33*
Lord Stafford (Vice-Chairman)	23	*22*
P. R. Dearing	21	*21*
F. B. Earley	19	*–*
A. Henshaw	–	*18*
J. H. Wood	22	*22*
	119	*116*

Executive Directors:	Salary	Bonus	Benefits	Sub-total	Pension Contribution	Total
2014	£000	£000	£000	£000	£000	£000
D. Webster	179	–	13	192	27	219
S. Jones	90	–	6	96	11	107
	269	–	19	288	38	326
2013	£000		£000	£000	£000	£000
D. Webster	170	–	13	183	26	209
S. Jones	88	–	5	93	11	104
	258	–	18	276	37	313

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

The payment of a pension to the widow of a former Director is detailed in Note 4 to the Annual Accounts.

P. R. Dearing
Chair of the Remuneration Committee
21 October 2014

Corporate Governance

Corporate Governance

The Hanley is committed to best practice in Corporate Governance. This report explains how the Group has regard to the principles of the UK Corporate Governance Code 2010, as updated in September 2012.

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 2014 John Wood was the Senior Independent Director available to members to 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 Regulators 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.

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 *continued*

Each year the Society sends details of the Annual General Meeting (AGM), including appointment of proxy and voting forms, to members who are eligible to vote. Consistent with the Code the AGM voting forms include a “Vote withheld” option. The Society’s normal practice is that a poll is called in relation to each resolution at the AGM and all proxy votes cast are included in the voting results which are published subsequently on the Society’s website. All members of the Board and its four committees are therefore available to answer any questions.

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 2014 the Committee comprised three Non-Executive Directors, Fionnuala Earley, Edward Jenner and Francis Stafford, and two Executive Directors, David Webster (Chairman) and Steven Jones. Andrew Macdonald joined the Committee on 1 September 2014.

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 (Chairman to 31 August 2014). Andrew Macdonald joined the Committee on 1 September 2014 and will become Chairman.

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 2014 the Committee comprised two Non-Executive Directors, Francis Stafford and Philip Dearing (Chairman). With effect from 1 September 2014 the Committee comprised two Non-Executive Directors, John Wood (Chairman from October 2014) and Philip Dearing.

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 2014 has been recorded as follows:-

	Board	Audit, Risk & Compliance	Assets & Liabilities	Remuneration	Nominations
P. R. Dearing	9 (9)	3 (3)	–	2 (2)	1 (1)
F. B. Earley	8 (9)	–	4 (4)	–	1 (1)
E. V. Jenner	9 (9)	2 (3)	4 (4)	–	1 (1)
S. Jones	9 (9)	–	4 (4)	–	1 (1)
Lord Stafford	8 (9)	–	3 (4)	2 (2)	– (1)
D. Webster	9 (9)	–	4 (4)	–	1 (1)
J. H. Wood	9 (9)	3 (3)	–	–	1 (1)

( ) = number of meetings eligible to attend

E. V. Jenner
Chairman
21 October 2014

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 Conduct Authority and Prudential Regulation 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
21 October 2014

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 Hanley Economic Building Society for the year ended 31 August 2014 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 Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of financial statements annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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 Society 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
21 October 2014

Income and Expenditure Accounts

For the year ended 31 August 2014

	Notes	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Interest receivable and similar income	2	9,852	*9,492*	9,641	*9,311*
Interest payable and similar charges	3	(4,900)	*(5,665)*	(4,900)	*(5,665)*
Net interest receivable		4,952	*3,827*	4,741	*3,646*
Fees and commissions receivable		549	*444*	420	*366*
Fees and commissions payable		(324)	*(268)*	(303)	*(254)*
Total income		5,177	*4,003*	4,858	*3,758*
Administrative expenses	4	(3,530)	*(3,201)*	(3,393)	*(3,071)*
Depreciation and amortisation	12	(268)	*(249)*	(265)	*(242)*
Other operating charges		(276)	*(101)*	(276)	*(101)*
Provisions for bad and doubtful debts	6	–	*–*	–	*–*
Profit before FSCS levy		1,103	*452*	924	*344*
Provision for FSCS levy	19	(215)	*(168)*	(215)	*(168)*
Profit on ordinary activities before tax		888	*284*	709	*176*
Tax on profit on ordinary activities	7	(228)	*(81)*	(189)	*(58)*
Profit for the financial year	21	660	*203*	520	*118*

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 2014

	Notes	Group		Society	
		2014	*2013*	2014	*2013*
ASSETS		£000	*£000*	£000	*£000*
Liquid assets					
Cash in hand		461	*403*	461	*403*
Treasury bills	9	19,466	*4,993*	19,466	*4,993*
Loans and advances to credit institutions	8	17,939	*18,706*	17,833	*18,621*
Debt securities	9	41,846	*55,088*	41,846	*55,088*
		79,712	*79,190*	79,606	*79,105*
Loans and advances to customers					
Loans fully secured on residential property	10	272,176	*248,624*	264,725	*240,785*
Other loans	10	5,747	*5,400*	5,747	*5,400*
		277,923	*254,024*	270,472	*246,185*
Investments in subsidiary undertakings	11	–	*–*	5,147	*5,678*
Tangible fixed assets	12	3,200	*3,350*	3,200	*3,347*
Prepayments and accrued income	13	606	*446*	605	*445*
Total assets		361,441	*337,010*	359,030	*334,760*
LIABILITIES					
Shares	14	280,713	*259,432*	280,713	*259,432*
Amounts owed to credit institutions	15	12,055	*14,803*	12,055	*14,803*
Amounts owed to other customers	16	38,032	*33,053*	38,032	*33,053*
Other liabilities	17	523	*379*	496	*370*
Accruals and deferred income	18	354	*254*	351	*254*
Provisions for liabilities – FSCS Levy	19	305	*290*	305	*290*
Reserves					
General reserves	21	29,459	*28,799*	27,078	*26,558*
Total liabilities		361,441	*337,010*	359,030	*334,760*

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

Approved by the Board of Directors
on 21 October 2014

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 2014	Group 2014 £000	*Group 2013 £000*
Net cash inflow/(outflow) from operating activities	7,828	*(4,077)*
Taxation	(76)	*(171)*
Capital expenditure and financial investment		
Purchase of debt securities and treasury bills	(130,594)	*(106,903)*
Proceeds from disposal and maturity of debt securities and treasury bills	129,267	*109,853*
Purchase of tangible fixed assets	(118)	*(183)*
Proceeds from disposal of tangible fixed assets	–	*16*
Increase/(decrease) in cash	6,307	*(1,465)*

Reconciliation of operating profit to net cash flow from operating activities		
Profit on ordinary activities before taxation	888	*284*
(Increase) in prepayments and accrued income	(48)	*(140)*
(Decrease) in accruals and deferred income	(492)	*(148)*
Loans and advances written off net of recoveries	(47)	*–*
Depreciation and amortisation	268	*249*
Net cash inflow from trading activities	569	*245*
Loans and advances made to customers	(64,905)	*(46,920)*
Loans and advances repaid by customers	41,053	*32,142*
Net increase in shares	21,871	*11,558*
Increase/(decrease) in amounts owed to credit institutions and other customers	2,233	*(5,684)*
Decrease in loans and advances to credit institutions	7,000	*4,500*
Net (decrease)/increase in other liabilities	(8)	*22*
Increase in provision for FSCS Levy	15	*60*
Net cash inflow/(outflow) from operating activities	7,828	*(4,077)*

Reconciliation of cash balances	*2013 £000*	Cash flow £000	2014 £000
Cash in hand and balances with the Bank of England	*403*	58	461
Loans and advances to credit institutions – repayable on demand	*9,668*	6,249	15,917
	10,071	6,307	16,378

Notes to the Accounts

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 2014. 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

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 general 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. Additionally 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 restructuring, 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.

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.

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

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.

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 2013 to March 2015, 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	
	2014	*2013*	2014	*2013*
	£000	*£000*	£000	*£000*
On loans fully secured on residential property	9,000	*8,255*	8,703	*7,918*
On other loans	179	*190*	179	*190*
On debt securities	487	*800*	487	*800*
On other liquid assets	186	*247*	186	*247*
Interest receivable from subsidiary undertaking	–	*–*	86	*156*
	9,852	*9,492*	9,641	*9,311*

3. Interest payable and similar charges

	Group		Society	
	2014	*2013*	2014	*2013*
	£000	*£000*	£000	*£000*
On shares held by individuals	3,872	*4,488*	3,872	*4,488*
On deposits and other borrowings	562	*603*	562	*603*
Net expense on financial instruments	466	*574*	466	*574*
	4,900	*5,665*	4,900	*5,665*

4. Administrative expenses and staff numbers

	Group		Society	
	2014	*2013*	2014	*2013*
Administrative expenses	£000	*£000*	£000	*£000*
Directors' emoluments:				
(i) Fees	119	*116*	119	*116*
(ii) For executive services	326	*313*	326	*313*
(iii) Pension to the widow of a former Director	8	*7*	8	*7*
Remuneration and expenses of staff:				
(i) Salaries and wages	1,338	*1,204*	1,222	*1,100*
(ii) Social security costs	173	*164*	168	*158*
(iii) Other pension costs	112	*111*	112	*111*
Remuneration of auditors*:				
For audit work	67	*64*	67	*64*
For other services	–	*–*	–	*–*
Operating leases – land and buildings	92	*92*	92	*92*
Other administrative expenses	1,295	*1,130*	1,279	*1,110*
	3,530	*3,201*	3,393	*3,071*

* Remuneration of the auditors disclosed above includes VAT.

Staff numbers	2014		*2013*	
The average monthly number of persons employed during the year was:	Full Time	Part Time	*Full Time*	*Part Time*
At head office	22	15	*21*	*14*
At branch offices	20	10	*19*	*10*
Society	42	25	*40*	*24*
Subsidiary undertakings	1	1	*2*	*–*
Group	43	26	*42*	*24*

5. Directors' Remuneration

Total remuneration of the Society's Directors for the year was £445,000 (2013: £429,000). 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 2014 there were 3 (2013: 4) outstanding mortgage loans granted in the ordinary course of business to Directors and connected persons, amounting in aggregate to £1,535,378 (2013: £1,560,747). 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 2013	2,385	138	–	12	2,535
Utilised	(47)	–	–	–	(47)
Movement in provision for the year	–	–	–	–	–
Balance 31 August 2014	2,338	138	–	12	2,488

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 2013	2,385	88	–	12	2,485
Utilised	(47)	–	–	–	(47)
Movement in provision for the year	–	–	–	–	–
Balance 31 August 2014	2,338	88	–	12	2,438

	Group		Society	
	2014	*2013*	2014	*2013*
7. Tax on profit on ordinary activities	£000	*£000*	£000	*£000*
a) Analysis of charge in year:				
Current tax	206	*55*	168	*34*
Under provision of tax in prior years	1	*2*	–	*1*
Total current tax (see note (b) below)	207	*57*	168	*35*
Deferred tax (see note 20):				
Origination and reversal of timing differences	21	*24*	21	*23*
Tax on profit on ordinary activities	228	*81*	189	*58*
b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	888	*284*	709	*176*
Tax on profit on ordinary activities at UK standard rate of 22.16% (2013: 23.58%)	195	*67*	157	*42*
Effects of:				
Capital allowances in excess of depreciation and other timing differences	9	*(40)*	9	*(40)*
Expenses not deductible for tax purposes	2	*35*	2	*35*
Marginal relief	–	*(7)*	–	*(3)*
Prior year adjustments	1	*2*	–	*1*
Current tax charge for year	207	*57*	168	*35*

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly the Society's profits have been taxed at an effective rate of 22.16% (2013: 23.58%). Tax assessed for the year is higher (2013: lower) than the effective rate, as explained above. The standard rate of corporation tax in the UK will be reduced from 21% 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	2014	*2013*	2014	*2013*
Loans and advances to credit institutions have remaining maturities as follows:	£000	*£000*	£000	*£000*
Accrued interest	22	*38*	22	*38*
Repayable on demand	15,917	*9,668*	15,811	*9,583*
In not more than three months	–	*1,000*	–	*1,000*
In more than three months but not more than one year	2,000	*6,000*	2,000	*6,000*
In more than one year but no more than 5 years	–	*2,000*	–	*2,000*
	17,939	*18,706*	17,833	*18,621*

	Group and Society	
9. Debt securities and Treasury bills	2014	*2013*
Issued by other borrowers	£000	*£000*
Debt securities have remaining maturities as follows:		
Accrued interest	113	*225*
In not more than one year	33,198	*15,005*
In more than one year	8,535	*39,858*
	41,846	*55,088*
Transferable debt securities (excluding accrued interest) comprise:		
Listed	8,500	*38,915*
Unlisted	33,200	*15,500*
Unamortised premiums	33	*448*
	41,733	*54,863*
Market value of listed debt securities	8,514	*39,345*
Movements during the year of debt securities excluding accrued interest:		
At 1 September 2013	54,863	*49,826*
Additions	90,169	*84,427*
Disposals and maturities	(103,299)	*(79,390)*
At 31 August 2014	41,733	*54,863*
Treasury bills		
Treasury bills have remaining maturities as follows:		
Accrued interest	17	*1*
In not more than one year	19,449	*4,992*
	19,466	*4,993*
Movements during the year of treasury bills excluding accrued interest:		
At 1 September 2013	4,992	*12,979*
Additions	40,425	*22,476*
Disposals and maturities	(25,968)	*(30,463)*
At 31 August 2014	19,449	*4,992*

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	2014	*2013*	2014	*2013*
Loans and advances to customers have remaining maturities as follows:	£000	*£000*	£000	*£000*
Repayable on demand	13,108	*12,964*	13,108	*12,964*
In not more than three months	2,012	*1,754*	2,012	*1,754*
In more than three months but not more than one year	10,366	*17,794*	10,366	*17,794*
In more than one year but not more than five years	55,392	*45,805*	55,392	*45,805*
In more than five years	199,533	*178,242*	192,032	*170,353*
	280,411	*256,559*	272,910	*248,670*
Less: Provisions (note 6)	(2,488)	*(2,535)*	(2,438)	*(2,485)*
	277,923	*254,024*	270,472	*246,185*
The maturity analysis comprises:				
Loans fully secured on residential property	272,176	*248,624*	264,725	*240,785*
Other loans – fully secured on land	5,747	*5,400*	5,747	*5,400*
	277,923	*254,024*	270,472	*246,185*

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. 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 2013	–	5,678	5,678
Advances	–	243	243
Repayments	–	(774)	(774)
At 31 August 2014	–	5,147	5,147

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

	Land and Buildings Freehold £000	Long Lease £000	Short Lease £000	Equipment, Fixtures, Fittings & Vehicles £000	Total £000
Cost at 1 September 2013	1,012	2,124	249	2,143	5,528
Additions during the year	–	–	–	118	118
Disposals during the year	–	–	–	(16)	(16)
Cost at 31 August 2014	1,012	2,124	249	2,245	5,630
Depreciation at 1 September 2013	208	160	173	1,637	2,178
Charge for the year	20	39	22	187	268
Disposals during the year	–	–	–	(16)	(16)
Depreciation at 31 August 2014	228	199	195	1,808	2,430
Net book value:					
at 31 August 2013	804	1,964	76	506	3,350
at 31 August 2014	784	1,925	54	437	3,200

Society

	Land and Buildings Freehold £000	Long Lease £000	Short Lease £000	Equipment, Fixtures, Fittings & Vehicles £000	Total £000
Cost at 1 September 2013	1,012	2,124	249	2,127	5,512
Additions during the year	–	–	–	118	118
Disposals during the year	–	–	–	–	–
Cost at 31 August 2014	1,012	2,124	249	2,245	5,630
Depreciation at 1 September 2013	208	160	173	1,624	2,165
Charge for the year	20	39	22	184	265
Disposals during the year	–	–	–	–	–
Depreciation at 31 August 2014	228	199	195	1,808	2,430
Net book value:					
at 31 August 2013	804	1,964	76	503	3,347
at 31 August 2014	784	1,925	54	437	3,200

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

		Group		Society	
		2014	*2013*	2014	*2013*
13.	**Prepayments and accrued income**	£000	*£000*	£000	*£000*
	Prepayments and accrued income	606	*446*	605	*445*
		606	*446*	605	*445*

		Group and Society	
		2014	*2013*
14.	**Shares**	£000	*£000*
	Held by individuals	280,713	*259,432*
		280,713	*259,432*
	Repayable from the date of the balance sheet in the ordinary course of business as follows:		
	Accrued interest	1,253	*1,843*
	Repayable on demand	179,144	*168,842*
	In not more than three months	93,888	*79,762*
	In more than three months but not more than one year	6,038	*8,720*
	In more than one year	390	*265*
		280,713	*259,432*

		Group and Society	
		2014	*2013*
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	55	*53*
	In not more than three months	4,000	*5,000*
	In more than three months but not more than one year	8,000	*9,750*
		12,055	*14,803*

		Group and Society	
		2014	*2013*
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	33	*37*
	Repayable on demand	29,941	*19,685*
	In not more than three months	458	*5,881*
	In more than three months but not more than five years	7,600	*7,450*
		38,032	*33,053*

	Group		Society	
	2014	*2013*	2014	*2013*
17. Other liabilities	£000	*£000*	£000	*£000*
Income tax	199	*228*	199	*228*
Corporation tax due within one year	206	*54*	168	*34*
Deferred tax (see note 20)	118	*97*	129	*108*
	523	*379*	496	*370*

	Group		Society	
	2014	*2013*	2014	*2013*
18. Accruals and deferred income	£000	*£000*	£000	*£000*
Other accruals	354	*254*	351	*254*
	354	*254*	351	*254*

	Group		Society	
	2014	*2013*	2014	*2013*
19. Provision for liabilities – FSCS Levy	£000	*£000*	£000	*£000*
Provision for FSCS Levy	305	*290*	305	*290*
	305	*290*	305	*290*

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 UK deposit takers.

The loans are repayable by FSCS on 31 March 2016 for all failures except Bradford & Bingley Plc which is repayable on 29 February 2024. The FSCS confirmed it expects to receive full repayment of the debt of £1.6bn owed to it by Bradford & Bingley Plc by the repayment date. The non-Bradford & Bingley Plc loans will be repaid by a levy on deposit takers in three roughly equal instalments, the first two instalments having been paid in September 2013 and September 2014, with one instalment remaining payable in September 2015.

As at 31 August 2013, the Society had a provision of £290,000 in relation to the levy for the 2012/13 and 2013/14 scheme years. During the year, £200,000 was paid in relation to the 2012/13 scheme year and an additional provision made for £112,000 in relation to the 2013/14 scheme year and £103,000 in relation to the 2014/15 scheme year. This resulted in a provision of £305,000 as at 31 August 2014 which does not include provision for any levies for any scheme year after 2014/15.

		Group		Society	
		2014	*2013*	2014	*2013*
20.	**Deferred taxation**	£000	*£000*	£000	*£000*
	At 1 September 2013	(97)	*(73)*	(108)	*(85)*
	Charge to the Income and Expenditure account for the year (see note 7)	(21)	*(24)*	(21)	*(23)*
	At 31 August 2014	(118)	*(97)*	(129)	*(108)*
	The deferred tax liabilities are set out below:				
	Differences between accumulated depreciation and amortisation and capital allowances	(138)	*(128)*	(149)	*(128)*
	General mortgage loss provision	20	*31*	20	*20*
		(118)	*(97)*	(129)	*(108)*

		Group	Society
		2014	2014
21.	**General reserves**	£000	£000
	At 1 September 2013	28,799	26,558
	Profit for the year	660	520
	At 31 August 2014	29,459	27,078

22. **Guarantees and other financial commitments**

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

	Group and Society	
	2014 Land and buildings	*2013 Land and buildings*
Operating leases which expire:	£000	*£000*
Within one year	–	*22*
Within two to five years	77	*55*
	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 2014 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 principal amount 2014 £000	Credit risk weighted amount 2014 £000	Replacement cost 2014 £000	*Nominal principal amount 2013 £000*	*Credit risk weighted amount 2013 £000*	*Replacement cost 2013 £000*
Interest rate swaps	71,250	72	124	*63,950*	*53*	*125*

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 Prudential Regulation 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

Risk Management

The main financial risks arising from the Group's activities are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks; more details about these risks are provided in the Directors' Report on pages 12 and 13 under the sub-heading 'Principal Risks and Uncertainties'. After taking account of the various derivatives entered into by the Group, the interest rate sensitivity exposure of the Group at 31 August 2014 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 2014	£000	£000	£000	£000	£000	£000	£000
Assets							
Liquid assets	27,877	16,000	27,200	8,500	–	135	79,712
Loans fully secured on residential property and other loans	190,576	5,144	29,285	55,406	–	(2,488)	277,923
Tangible fixed assets	–	–	–	–	–	3,200	3,200
Prepayments and accrued income	–	–	–	–	–	606	606
Total assets	218,453	21,144	56,485	63,906	–	1,453	361,441
Liabilities							
Shares	234,485	7,545	33,190	4,240	–	1,253	280,713
Amounts owed to credit institutions and other customers	33,888	6,852	9,259	–	–	88	50,087
Other liabilities	–	–	–	–	–	1,182	1,182
Reserves	–	–	–	–	–	29,459	29,459
Total liabilities	268,373	14,397	42,449	4,240	–	31,982	361,441
Net assets/(liabilities)	(49,920)	6,747	14,036	59,666	–	(30,529)	–
Off balance sheet items	70,750	–	(23,500)	(47,250)	–	–	–
Interest rate sensitivity gap	20,830	6,747	(9,464)	12,416	–	(30,529)	–
Cumulative gap	20,830	27,577	18,113	30,529	30,529	–	–

23. Financial instruments continued

The interest rate sensitivity of the Group at 31 August 2013 was:

Interest reset date At 31 August 2013	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	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

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 2013	125	(368)	(243)
Gains and losses arising in previous years that were recognised during 2014	–	205	205
Gains and losses arising before 31 August 2013 that were not recognised during 2014	125	(163)	(38)
Gains and losses arising in 2014 that were not recognised in 2014	(1)	(24)	(25)
Unrecognised gains and losses on hedges at 31 August 2014	124	(187)	(63)
Of which:			
Gains and losses expected to be recognised in 2015	5	(6)	(1)

Fair values of financial instruments

Set out below is a comparison of carrying values and fair values for derivatives as at 31 August 2014. 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.

	2014		*2013*	
	Book value	Fair value	*Book value*	*Fair value*
	£000	£000	*£000*	*£000*
Interest rate swaps	–	(187)	*–*	*(368)*

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 2014

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')	2.26	25
Proportion of shares and deposits not in the form of shares held by individuals (the 'funding limit')	15.14	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 2014	*31 August 2013*
	%	*%*
Gross capital as a percentage of shares and borrowings	8.91	*9.37*
Free capital as a percentage of shares and borrowings	7.98	*8.33*
Liquid assets as a percentage of shares and borrowings	24.10	*25.77*
As a percentage of mean assets:		
Profit after taxation	0.19	*0.06*
Management expenses	1.09	*1.03*
Cost/income	77.49	*88.42*

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 2014

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 The Dynamic Boardroom Ltd
F. B. Earley BSc, MSc	Economist	12.10.1964	1.9.2013	–
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, FRAgS	Landowner	13.3.1954	21.1.1993	Brighter Futures Costessy Ltd Delamere Forest Properties Ltd Countryside Learning
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	–

Staff

The Board would like to thank all the staff for their continued hard work and dedication to The Hanley.

Branches

Head of Branches	Tracy-Ann Ratcliffe
Biddulph	Deb Ward, Andrew Parsons, Emma Dawson, Mark Cooper, Megan Scragg
Festival Park	Julie Barlow, Cathryn Dudley, Emma Wootten, Joanne Tittensor
Hanley	Mark Wilson, Jill Thomasson, Sherry Phillips, Jordan Stevenson, Joanne Hield, Olivia Jones, Nikita Patel
Longton	Anna Whitehead, Sue King, Claire Hopwood, Rachel Ecclestone
Newcastle	Mark Watson, Tom Ward, Marcus Bailey
Stone	Charmaine Cameron-Reale, Julie Harvey, Sue Wilkinson
Cheadle Agency	Yvonne Prince
Advisory Services	Richard Finney, Anne Robinson, Neil Clappison, David Brown, Richard Jones

Head Office

Compliance	Shirley Johnson, Debbie Holmes
Customer Services	Nicola Wilson, Joanne Cooper, Christine Allen-Fletcher, Helen Mulroy, Gail Wood, Rob Brittain, Lauren Ainsworth, Dan Rockey, Gemma Collyer, Rachel Edge, Rita Adams
Finance	Larne Barlow, Janet Thorley, Phil Tyler, Jack Tatton, Chris Darby
HR	Angela Finney, John Hollins
IT	Ian Stone, Matt Nelson, Joanne Skellern, Jason Smith
Marketing & Business Development	Rob Hassall, Sue Pedley
PA to the CEO	Joy Nicholls
Risk & Underwriting	Sarah Brundrett, Jill Condliffe, Alison Shaw, Louise McGuinness, Laura Marshall, Lucy Olszewski, Giovanni Neglia

THE HANLEY ECONOMIC Building Society

www.thehanley.co.uk

Granville House, Festival Park, Hanley, Stoke-on-Trent, Staffordshire ST1 5TB
Tel: 01782 255000
Email: hebs@thehanley.co.uk

Branches at Biddulph, Cheadle, Festival Park, Longton,
Newcastle, Stone and Hanley City Centre

Find us on Facebook

@hanleyeconomic