

Hampshire Trust Plc

Annual Report and Financial Statements

Year Ended 31 December 2008

Hampshire Trust Plc

Annual Report and Financial Statements - Year Ended 31 December 2008

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Registered no: 1311315

Hampshire Trust Plc

Directors and advisers

Directors

A P Gration (Chairman)
M J Wilks (Managing Director)
S M B Hunter (Deputy Managing Director)
J E Pakenham-Walsh (Finance Director)
P A Batchelor
J S Milton
J Sinclair

Company Secretary

A P Gration

Registered office

30 Church Street
Epsom
Surrey
KT17 4NL

Independent Auditors

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Clearing Bank

Bank of Scotland
144-148 High Street
Southampton
Hants SO14 2JF

Solicitors

Stephenson Harwood
One, St Paul's Churchyard
London
EC4M 8SH

Hampshire Trust Plc

Directors' Report – Year Ended 31 December 2008

The directors have pleasure in submitting their annual report together with the financial statements for the year ended 31 December 2008.

Activity

The company is a bank (“the Bank”), authorised under the Financial Services and Markets Act 2000 to accept deposits, and provides a range of banking services.

Business Review

The Bank's long established strategy of being funded by retail deposits coupled with a conservative approach to lending has served it well in the economic downturn the effect of which has been particularly severe in the financial sector. The Bank has not been involved in the activities which have caused problems for so many other Banks, but nonetheless some of its customers have been affected by the deteriorating economic climate and accordingly the Board has considered it necessary to make provisions against bad and doubtful debts. The Bank's pre-tax profit before such provisions was a creditable £1,359,206 (2007: £1,587,396) but with provisions of £1,086,290 during the year (2007: £160) reducing this figure to £272,916 (2007: £1,587,236).

The Bank utilises a number of Key Performance Indicators to assess its performance. One such Indicator is Loan Book Growth and notwithstanding the very difficult market conditions, the Bank has achieved 40% organic growth in the loan book to £48,434,632 (2007: £34,873,809) which provides an excellent base for profit growth in 2009. The Bank's capital at the year end totalled £10,212,180 (2007: £10,023,281) against a regulatory capital requirement of £8,047,854 (2007: £6,603,046). The Bank's parent, National Counties Building Society, has confirmed its continuing support to the Bank for the coming year.

The directors have considered the option of moving to International Financial Reporting Standards but continue to believe it is not appropriate at present.

Principal Risks And Uncertainties

Whilst the Bank has direct access to the retail deposit market for its own liquidity, it is a wholly owned subsidiary of National Counties Building Society and accordingly the principal risks, uncertainties and financial risk management objectives generally are managed in the context of the National Counties Group as a whole. Full disclosure is made in the Directors' Report of the National Counties Building Society Annual Report and Accounts which can be obtained from the Bank's registered office.

The Bank's primary risk as an entity is the credit risk associated with financial difficulties which may be experienced by its borrowers in the present economic climate. The Bank continues to take a very cautious view and the directors are confident that the controls and processes in place are sufficient to minimise credit risk.

Going Concern

The directors have considered the Bank's ability to continue as a going concern and, after due enquiry, believe that the Bank has sufficient resources to continue operating for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

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Directors' Report – Year ended 31 December 2008 (cont)

Financial Instruments

FRS 13 (Derivatives and Other Financial Instruments: Disclosures) requires all banks to include in their annual report information relating to derivatives and other financial instruments. The Bank has not engaged in derivatives or other complex financial instruments, either for trading or non-trading purposes, nor has it conducted business in foreign currencies. The Bank pays interest on its public deposits and receives interest on its loan assets. The Bank closely monitors the sources and maturities of assets and liabilities to ensure that it can meet its cash financial obligations as and when they fall due. All credit decisions are made in accordance with the Bank's lending policies and all loan assets are reviewed at least annually. All of the policies noted above have been followed during the year.

Dividends And Transfer To Reserves

Following discussions with the Bank's parent, the directors are not recommending the payment of a dividend (2007: £250,000).

The post tax profit for the year was £188,899 (2007: £1,088,163). After deductions for dividends on equity shares of £nil (2007: £250,000), £188,899 (2007: £838,163) will be transferred to reserves.

Creditor Payment Policy

The Bank's policy concerning the payment of its creditors is to:

- (a) settle the terms of payment with those suppliers when agreeing the terms of each transaction,
- (b) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

Creditor days are nil (2007: nil). It is the Bank's usual practice to make payment on receipt of invoice.

Donations

The Bank made charitable donations of £686 (2007: £585) during the year and made no political donations (2007: £nil).

Disclosure Of Information To Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as each director is aware, there is no relevant audit information of which the Bank's auditors are unaware. Furthermore each director has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

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Directors' Report – Year ended 31 December 2008 (cont)

Directors

The directors of the Bank during the year were as follows:

A P Gration
M J Wilks
S M B Hunter
J E Pakenham-Walsh
P A Batchelor
D McCrickard (retired 29 February 2008)
J S Milton
J Sinclair (appointed 1 March 2008)

In addition to the above, Mr A Loizides was appointed as a director on 17 February 2009.

The Bank's chairman, Mr Gration, and its non-executive directors at the year end, Messrs Batchelor, Milton and Sinclair are all directors of the parent, National Counties Building Society. Mr McCrickard, who retired during the year, had been a director of the parent but retired on 25 April 2007.

Corporate Governance

The Bank does not have its own Internal Audit function or Audit Committee, both of which are carried out by its parent National Counties Building Society.

The remuneration of the Bank's directors is decided by the Remuneration Committee of National Counties Building Society.

Auditors

A resolution to reappoint KPMG Audit Plc as auditors to the Bank will be proposed at the annual general meeting.

By order of the board

A P Gration
Company Secretary

26 February 2009

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Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HAMPSHIRE TRUST PLC

We have audited the financial statements of Hampshire Trust plc for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of directors' Responsibilities on page 6.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also

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evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants

Registered Auditor, Birmingham

26 February 2009

Hampshire Trust Plc

Profit and Loss Account – Year Ended 31 December 2008

	Note	2008 £	2007 £
Interest receivable from loans and advances	2	4,163,003	3,011,501
Interest payable	3	<u>(2,399,954)</u>	<u>(1,211,188)</u>
Net interest income		1,763,049	1,800,313
Fees and commissions receivable	4	2,021,769	1,934,581
Fees and commissions payable		<u>(169,078)</u>	<u>(176,214)</u>
Other operating income	5	<u>77,814</u>	<u>54,462</u>
Operating income		3,693,554	3,613,142
Administrative expenses	6	<u>(2,205,022)</u>	<u>(1,916,629)</u>
Depreciation	15	<u>(129,326)</u>	<u>(109,117)</u>
Operating profit before provisions for bad and doubtful debts		1,359,206	1,587,396
Provisions for bad and doubtful debts	13	<u>(1,086,290)</u>	<u>(160)</u>
Operating profit		272,916	1,587,236
Tax on profit on ordinary activities	9	<u>(84,017)</u>	<u>(499,073)</u>
Profit on ordinary activities after taxation and for the financial period	24,25	<u>188,899</u>	<u>1,088,163</u>

The Bank has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been prepared. All of the operations of the Bank are continuing.

Details of ongoing commitments concerning the Financial Services Compensation Scheme can be found in Note 21. The figures include a charge of £57,881 (2007: £nil) in relation to the levy attributable to the Bank.

The notes on pages 11 to 26 form part of these financial statements.

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Balance Sheet at 31 December 2008

	Note	2008 £	2007 £
ASSETS			
Cash		940	750
Loans and advances to banks	11	6,467,968	5,574,921
Loans and advances to customers	12	48,434,632	34,873,809
Shares in group undertakings	14	105	105
Tangible fixed assets	15	752,559	729,940
Other assets	16	493,232	600,564
Prepayments and accrued income		<u>54,122</u>	<u>51,096</u>
Total assets		<u>56,203,558</u>	<u>41,831,185</u>
LIABILITIES			
Customer accounts	17	37,261,213	18,654,775
Deposits from building societies	18	8,257,290	12,339,302
Other liabilities	19	102,801	295,971
Accruals and deferred income	20	312,193	517,856
Provisions for liabilities	21	<u>57,881</u>	<u>-</u>
		<u>45,991,378</u>	<u>31,807,904</u>
Equity capital and reserves			
Called up equity share capital	23	4,575,863	4,575,863
Share premium account	24	195,829	195,829
Profit and loss account	24	<u>5,440,488</u>	<u>5,251,589</u>
	25	<u>10,212,180</u>	<u>10,023,281</u>
Total liabilities		<u>56,203,558</u>	<u>41,831,185</u>
MEMORANDUM ITEMS			
Other commitments	26	<u>11,821,590</u>	<u>16,691,623</u>

The notes on pages 11 to 26 form part of these financial statements.

The financial statements were approved by the Board of Directors on 26 February 2009 and were signed on its behalf by:

M J Wilks
Director

J Sinclair
Director

Hampshire Trust Plc

Notes To The Financial Statements – Year Ended 31 December 2008

1. Accounting policies

Basis of preparation

The financial statements are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking companies, applicable United Kingdom Accounting Standards and Statements of Recommended Practice issued by the British Bankers' Association and under the historical cost accounting rules.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

The Bank is exempt by virtue of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the Bank as an individual undertaking and not about its group.

As the Bank is a wholly owned subsidiary of National Counties Building Society, the Bank has taken advantage of the exemption contained in FRS 8 (Related Party Disclosures) and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of National Counties Building Society, within which the Bank is included, can be obtained from the address given in note 31.

Cash flow statement

The Bank is exempt from the requirement to present a cash flow statement under FRS 1 (Revised 1996) (Cash Flow Statements) on the basis that it is a wholly owned subsidiary of National Counties Building Society and cash flow information relating to the Bank is included within the consolidated Financial Statements of National Counties Building Society.

Investments

Investments are stated at cost less any provision for a diminution in value.

Interest receivable and payable

Interest is recognised in the profit and loss account as it accrues, except in the case of doubtful debts (see below). Fixed credit charges are recognised over the expected duration of the loan.

Fees receivable

Fees are generally credited to the profit and loss account as earned. However certain property related fees are not credited to the profit and loss account until receipt.

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1. Accounting policies (cont)

Tangible fixed assets

Tangible fixed assets are stated in the balance sheet at cost less depreciation. Tangible fixed assets are depreciated over their expected useful lives as follows:

	Annual Depreciation	Method
Computer hardware and software	25%	Straight line
Other fixed assets	25%	Reducing balance

No depreciation is provided on the Bank's only property, a listed freehold. Based on the impairment test undertaken in accordance with FRS 15 (Tangible Fixed Assets), it is the directors' opinion that since the property is maintained in a continual state of sound repair and due to the longevity of the useful economic life of the asset, any depreciation would be immaterial. The directors are of the opinion that there has been no diminution in the value of the property during the year.

Secured deposits

Where the holder of a deposit account has provided a legally enforceable right of set-off over one of the Bank's loans and that loan is fully secured as a result, the corresponding loan is reported net of that security.

Bad and doubtful debts

The level of provisioning is reviewed monthly and a specific provision is made against any advance considered to be impaired. When there is no longer any realistic prospect of recovery, the outstanding debt is written off.

The need for a general provision is reviewed annually in light of the history of actual losses. Currently no such provision is considered appropriate.

Interest on impaired advances is suspended until the directors are satisfied as to its recoverability.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 (Deferred Tax).

Pensions

The Bank operated two defined contribution pension schemes, but ceased contributions in April 2008. The assets of the schemes are held separately from those of the Bank in independently administered funds.

During the year the Bank joined the National Counties Building Society Pension and Life Assurance Scheme operated by its parent. The scheme is a defined benefit pension

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1. Accounting policies (cont)

scheme. The Bank is currently unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis, and therefore, as required by FRS17 (Retirement Benefits), it accounts for the scheme as if it were a defined contribution scheme.

The amounts charged to the profit and loss account therefore represent the employer's contributions payable to the schemes in respect of the accounting period.

2. Interest receivable from loans and advances

	2008 £	2007 £
Disbursement funding	2,177,339	1,731,179
Property lending	1,686,283	999,242
Intra-group loans	137,241	68,115
Other	<u>162,140</u>	<u>212,965</u>
	<u>4,163,003</u>	<u>3,011,501</u>

3. Interest payable

	2008 £	2007 £
Payable to depositors	1,777,560	933,495
Intra-group loans	<u>622,394</u>	<u>214,695</u>
	<u>2,399,954</u>	<u>1,211,188</u>

4. Fees and commissions receivable

	2008 £	2007 £
Disbursement funding	1,638,210	1,381,335
Property lending	<u>383,559</u>	<u>553,246</u>
	<u>2,021,769</u>	<u>1,934,581</u>

5. Other operating income

Other operating income is comprised largely of consultancy fee income.

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6. Administrative expenses

	2008	2007
	£	£
Staff Costs:		
Wages and salaries	1,320,174	1,276,496
Pension costs	113,009	64,865
Social security costs	143,320	140,192
Other staff costs	<u>62,562</u>	<u>39,330</u>
	1,639,065	1,520,883
Less staff costs capitalised	(99,554)	(80,677)
Remuneration of auditors and their associates excluding VAT		
Audit of these financial statements*	35,000	36,400
Tax	1,750	1,750
Other administrative expenses**	<u>628,761</u>	<u>438,273</u>
	<u>2,205,022</u>	<u>1,916,629</u>

* comparative figure includes £3,000 relating to the previous period.

** excluding "Other staff costs".

7. Directors' emoluments

The remuneration receivable by the directors of Hampshire Trust Plc or amounts payable to third parties in respect of services provided by those directors were:

	2008	2007
	£	£
Aggregate emoluments		
- contributions to group personal pension plan	9,490	27,913
- contributions to defined benefit pension plan	31,454	-
- long term incentive scheme	-	3,988
- other emoluments	<u>462,152</u>	<u>487,432</u>
	<u>503,096</u>	<u>519,333</u>
Highest paid director		
- contributions to group personal pension plan	3,851	11,367
- contributions to defined benefit pension plan	10,976	-
- long term incentive scheme	-	3,323
- other emoluments	<u>164,340</u>	<u>173,545</u>
	<u>179,167</u>	<u>188,235</u>

In addition to the above, 3 (2007: 3) directors are entitled to a retention bonus of £nil (2007: £6,283) (highest paid director £nil (2007: £2,725)).

Retirement benefits accrued to 3 (2007: 3) directors under the group personal pension plan until 30 April 2008 and to 3 (2007: nil) directors under the parent's defined benefit scheme thereafter.

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7. Directors' emoluments (cont)

Other emoluments include an amount of £55,567 (2007: £60,000) due to the parent, National Counties Building Society, in respect of the provision of services provided by the non-executive directors.

8. Employee information

The average number of persons employed during the year was:

	2008	2007
Directors	3	3
Other staff	<u>31</u>	<u>29</u>
	<u>34</u>	<u>32</u>

The analysis includes both full-time and part-time staff but does not include non-executive directors.

9. Tax on profit on ordinary activities

	2008	2007
	£	£
UK corporation tax:		
- current period	85,498	496,601
- previous periods	<u>1,536</u>	<u>102</u>
Current tax	87,034	496,703
Deferred tax (origination and reversal of timing differences) - current year (see note 22)	<u>(3,017)</u>	<u>2,370</u>
Tax on profit on ordinary activities	<u>84,017</u>	<u>499,073</u>

The tax assessed in the period differs from the standard rate of corporation tax in the UK (28.5%) (2007: 30%), as indicated below:

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9. Tax on profit on ordinary activities (cont)

	2008 £	2007 £
Profit on ordinary activities before tax	<u>272,916</u>	<u>1,587,236</u>
Profit on ordinary activities multiplied by standard rate of UK corporation tax (28.5%) (2007: 30%)	77,781	476,171
Effects of:		
Non tax deductible expenses		
- Preference share dividend	-	18,899
- Other	4,734	1,292
Other timing differences	2,983	239
Adjustment to tax charge re previous periods	<u>1,536</u>	<u>102</u>
Current tax charge for period	<u>87,034</u>	<u>496,703</u>

10. Equity dividends

	2008 £	2007 £
Dividend on ordinary shares (nil; 2007: 6.75p)	<u>-</u>	<u>250,000</u>

11. Loans and advances to banks

	2008 £	2007 £
Repayable on demand*	6,467,968	5,574,921
Remaining maturity of three months or less	-	-
Remaining maturity of twelve months or less but over three months	<u>-</u>	<u>-</u>
	<u>6,467,968</u>	<u>5,574,921</u>

* includes £3,561,134 (2007: nil) due from the Bank's parent, National Counties Building Society, on which interest accrues at a margin above Bank of England base rate.

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12. Loans and advances to customers

	2008 £	2007 £
Remaining maturity:		
- on demand or at short notice	8,850,719	2,102,552
- not more than three months*	6,867,904	4,233,679
- more than three months but not more than one year	9,016,042	17,479,737
- more than one year but not more than five years	22,820,012	11,057,841
- more than five years	<u>2,005,138</u>	-
	49,559,815	34,873,809
Suspended interest	(39,183)	-
General and specific bad debt provisions	<u>(1,086,000)</u>	-
	<u>48,434,632</u>	<u>34,873,809</u>

* includes disbursement funding loans which have passed their initial credit term.

Non-performing advances totalled £3,779,304 (2007: £nil).

The net amounts due may be analysed between the constituent areas of business, as follows:

	2008 £	2007 £
Disbursement funding	31,624,275	18,964,441
Property	<u>16,810,357</u>	<u>15,909,368</u>
	<u>48,434,632</u>	<u>34,873,809</u>

The figures reported on the disbursement funding book represent the net amounts due after adjusting for cash deposited as security. The gross value of the disbursement funding book totalled £33,578,795 (2007: £20,700,782).

13. Provisions for bad and doubtful debts

	2008 £	2007 £
Specific		
At 1 January	-	-
Charge to profit and loss account	1,086,290	160
Amounts written off	<u>(290)</u>	<u>(160)</u>
At 31 December	<u>1,086,000</u>	-
General		
At 1 January/ 31 December	<u>-</u>	<u>-</u>

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14. Shares in group undertakings

	2008 £	2007 £
Hampshire Bank Limited	2	2
Hampshire Trust Nominees Limited	100	100
Litigation Funding Limited	1	1
Nationwide Compensation Service Limited	<u>2</u>	<u>2</u>
	<u>105</u>	<u>105</u>

The Bank's investments in subsidiaries are shown at cost.

All the subsidiaries are fully owned, non-trading and registered in England.

15. Tangible fixed assets

	Freehold Land and Buildings £	Equipment £	Fixtures and Fittings £	Total £
Cost				
At 1 January 2008	406,482	865,417	79,028	1,350,927
Additions	460	143,620	7,865	151,945
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2008	<u>406,942</u>	<u>1,009,037</u>	<u>86,893</u>	<u>1,502,872</u>
Depreciation				
At 1 January 2008	-	561,419	59,568	620,987
Charge for year	-	124,036	5,290	129,326
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2008	<u>-</u>	<u>685,455</u>	<u>64,858</u>	<u>750,313</u>
Net book value at 31 December 2008	<u>406,942</u>	<u>323,582</u>	<u>22,035</u>	<u>752,559</u>
Net book value at 31 December 2007	<u>406,482</u>	<u>303,998</u>	<u>19,460</u>	<u>729,940</u>

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16. Other assets

	2008	2007
	£	£
Outstanding fees	100,775	446,880
Corporation tax	128,504	-
Deferred taxation (see note 22)	1,766	-
Other debtors	<u>262,187</u>	<u>153,684</u>
	<u>493,232</u>	<u>600,564</u>

17. Customer accounts

	2008	2007
	£	£
With agreed maturity dates or periods of notice by remaining maturity:		
- accrued interest	694,769	58,648
- on demand	1,553,777	1,590,909
- not more than three months	10,094,476	1,028,221
- more than three months but not more than one year	19,833,623	9,033,396
- more than one year but not more than five years	<u>5,084,568</u>	<u>6,943,601</u>
	<u>37,261,213</u>	<u>18,654,775</u>

18. Deposits by building societies

	2008	2007
	£	£
With agreed maturity dates or periods of notice by remaining maturity:		
- accrued interest	108,257	121,921
- on demand	46,690	160,908
- not more than three months	8,102,343	8,046,288
- more than three months but not more than one year	<u>-</u>	<u>4,010,185</u>
	<u>8,257,290</u>	<u>12,339,302</u>

All the amounts detailed above are due to the Bank's parent, National Counties Building Society. Loans other than those on demand attract interest at the appropriate LIBOR rate.

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19. Other liabilities

	2008	2007
	£	£
Corporation tax	-	233,338
Deferred tax (note 22)	-	1,251
Other taxation and social security	44,292	39,941
Other liabilities	<u>58,509</u>	<u>21,441</u>
	<u>102,801</u>	<u>295,971</u>

20. Accruals and deferred income

	2008	2007
	£	£
Accruals	289,123	264,439
Deferred income	<u>23,070</u>	<u>253,417</u>
	<u>312,193</u>	<u>517,856</u>

21. Provisions for liabilities

	2008	2007
	£	£
At 1 January	-	-
Charge for the year	<u>57,881</u>	<u>-</u>
At 31 December	<u>57,881</u>	<u>-</u>

Financial Services Compensation Scheme: In common with all regulated UK deposit takers, the Bank pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. In September 2008 a claim was triggered against the FSCS by the transfer of Bradford and Bingley plc's retail deposit business to Abbey National plc. In October 2008 an additional claim was triggered against the FSCS by the transfer of Kaupthing Singer and Friedlander's (KSF) internet deposit business ('Kaupthing Edge') and Heritable Bank's (a subsidiary of Landsbanki hf) deposit business to ING Direct. The FSCS will also be liable to claims from depositors of Heritable Bank and KSF whose balances have not been transferred to ING Direct, but are covered by the FSCS. In December 2008 a further claim was also triggered against the FSCS when London and Scottish Bank plc was placed in administration.

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21. Provisions for liabilities (cont)

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

As a result of notifications it has received from the Financial Services Authority, the Bank has recognised in this year's results a provision for a levy of £57,881, which is the directors' best estimate of the total levy to be paid over the scheme years 2008/09 to 2011/12. This amount is calculated with reference to the protected deposits the Bank holds. At the date of signing these accounts, there remains uncertainty over the amounts provided as additional levies for open scheme years may be raised in the future. The amount above does not take account of any compensation levies which may arise from any ultimate payout on claims.

22. Deferred taxation

	2008	2007
	£	£
Tax effect of timing differences because of:		
- Excess of tax allowances over depreciation	219	4,183
- Short term timing differences	(1,985)	(2,069)
- Pension contribution provision	<u>-</u>	<u>(863)</u>
	<u>(1,766)</u>	<u>1,251</u>
Movement in liabilities/(assets)		
At 1 January	1,251	(1,119)
(Credit)/charge to profit (note 9)	<u>(3,017)</u>	<u>2,370</u>
At 31 December	<u>(1,766)</u>	<u>1,251</u>

The deferred tax (asset)/liability is included in Other Assets/Other Liabilities on the balance sheet (note 16/19).

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23. Called up equity share capital

	2008 £	2007 £
Authorised		
£1 Ordinary Shares	<u>7,500,000</u>	<u>7,500,000</u>
Allotted, called up and fully paid		
£1 Ordinary Shares		
At 1 January	4,575,863	3,075,863
New issues	<u>-</u>	<u>1,500,000</u>
At 31 December	<u>4,575,863</u>	<u>4,575,863</u>

The issue of new shares in 2007 related entirely to the conversion of a similar number of £1 Preference Shares.

24. Reserves

	2008 £	2007 £
Profit and loss		
At 1 January	5,251,589	4,413,426
Profit for the financial period	188,899	1,088,163
Equity dividends (see note 10)	<u>-</u>	<u>(250,000)</u>
At 31 December	<u>5,440,488</u>	<u>5,251,589</u>
Share premium		
At 1 January/ 31 December	<u>195,829</u>	<u>195,829</u>

25. Reconciliation of movements in equity shareholders' funds

	2008 £	2007 £
Opening shareholders' funds	10,023,281	7,685,118
Profit for the financial period	188,899	1,088,163
Equity dividends	-	(250,000)
New £1 Ordinary Shares		
- nominal value	<u>-</u>	<u>1,500,000</u>
Closing equity shareholders' funds	<u>10,212,180</u>	<u>10,023,281</u>

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26. Memorandum commitments

	2008	2007
	£	£
Commitments/retentions re loans and advances:		
- property	4,601,292	9,868,862
- disbursement funding	<u>7,220,298</u>	<u>6,822,761</u>
	<u>11,821,590</u>	<u>16,691,623</u>

In addition to the above the Bank had commitments relating to the purchase of fixed assets totalling £8,625 (2007: £9,890).

Details of the Bank's ongoing commitments concerning the Financial Services Compensation Scheme can be found in Note 21.

27. Financial instruments

Part of the Bank's return on its assets is obtained from controlled mis-matching of the dates on which interest receivable on assets and interest payable on liabilities are varied or, if earlier, maturity dates. The following table summarises these re-pricing mismatches and include short term debtors and creditors. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

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27. Financial instruments (cont)

	Contractual Interest Rate Re-pricing Date, or Maturity Date if earlier					Total £'000
	0-3	Months 4-6	7-12	Years 1-5	Non Interest Bearing	
	£'000	£'000	£'000	£'000	£'000	
As at 31 December 2008						
<u>Assets</u>						
Loans and advances						
- financial institutions	6,468	-	-	-	-	6,468
- customers	47,377	-	-	-	1,058	48,435
Other assets	-	-	-	-	1,301	1,301
Total assets	<u>53,845</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,359</u>	<u>56,204</u>
<u>Liabilities</u>						
Customer accounts						
- external/deposits	23,545	3,219	9,805	-	692	37,261
- group	8,103	-	-	-	155	8,258
Other liabilities	-	-	-	-	473	473
Equity shareholders' funds	-	-	-	-	10,212	10,212
Total liabilities	<u>31,648</u>	<u>3,219</u>	<u>9,805</u>	<u>-</u>	<u>11,532</u>	<u>56,204</u>
Interest rate sensitivity gap						
- period	22,197	(3,219)	(9,805)	-	(9,173)	-
- cumulative	<u>22,197</u>	<u>18,978</u>	<u>9,173</u>	<u>9,173</u>	<u>-</u>	<u>-</u>
As at 31 December 2007						
<u>Assets</u>						
Loans and advances						
- financial institutions	5,570	-	-	-	5	5,575
- customers	30,164	2,353	1,560	-	797	34,874
Other assets	-	-	-	-	1,382	1,382
Total assets	<u>35,734</u>	<u>2,353</u>	<u>1,560</u>	<u>-</u>	<u>2,184</u>	<u>41,831</u>
<u>Liabilities</u>						
Customer accounts						
- external/deposits	15,295	558	1,603	1,135	64	18,655
- group	8,046	4,010	-	-	283	12,339
Other liabilities	-	-	-	-	814	814
Equity shareholders' funds	-	-	-	-	10,023	10,023
Total liabilities	<u>23,341</u>	<u>4,568</u>	<u>1,603</u>	<u>1,135</u>	<u>11,184</u>	<u>41,831</u>
Interest rate sensitivity gap						
- period	12,393	(2,215)	(43)	(1,135)	(9,000)	-
- cumulative	<u>12,393</u>	<u>10,178</u>	<u>10,135</u>	<u>9,000</u>	<u>-</u>	<u>-</u>

The Bank has not traded in derivatives or other complex financial instruments (see the Directors' Report concerning Financial Instruments, page 4).

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28. Related party transactions

A number of directors and persons connected with the directors held deposit accounts with the Bank. Such amounts have not been disclosed, as permitted under the banking confidentiality exemption.

Details of amounts due to the Bank's parent, National Counties Building Society, concerning the provision of non-executive directors and intragroup finances are provided in notes 7, 11 and 18 respectively.

29. Pensions

Up until 30 April 2008, all directors and staff were able to contribute to one of two defined contribution pension schemes, one of which is a stakeholder pension scheme. The assets of the schemes are held separately from those of the Bank. The schemes are managed and administered by third parties.

From 1 May 2008, the Bank joined the National Counties Building Society Pension and Life Assurance scheme operated by its parent (see note in Accounting Policies). There is a contingent liability in respect of the valuation of that scheme, the value of which can not be identified on a consistent and reasonable basis. The financial effect of that liability can similarly not be estimated. The uncertainties relating to the amount or timing of the resulting outflow are those affecting any defined benefit pension scheme (eg staff retirement dates, length of service and investment return).

Relevant financial information relating to the schemes is as follows:

	2008	2007
	£	£
Pension costs		
- defined contribution schemes	21,491	64,865
- defined benefit scheme	<u>91,518</u>	-
	<u>113,009</u>	<u>64,865</u>
Contributions payable (included in other liabilities)	<u>-</u>	<u>3,082</u>

30. Segmental analysis

The Bank, which operates only in the United Kingdom, has two business lines. Both are lending businesses, the first relating to the financing of disbursements and other costs of solicitors and their clients and the second relating to loans secured on property. Each department is managed, and their success evaluated, by the income generated and the size/growth of their respective books. All financing relating to the two departments together with overhead costs of the entire Bank are managed centrally. The segmental information is therefore as follows:

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30. Segmental analysis (cont)

	<u>Disbursement Funding</u>	<u>Property</u>	<u>Other</u>	<u>Total</u>
	£	£	£	£
31 December 2008				
<u>P & L - Income</u>				
Interest receivable	2,177,339	1,686,283	299,381	4,163,003
Fees receivable	1,638,210	383,559	-	2,021,769
Other income	-	-	<u>77,814</u>	<u>77,814</u>
	<u>3,815,549</u>	<u>2,069,842</u>	<u>377,195</u>	<u>6,262,586</u>
<u>Balance Sheet – Assets</u>				
Loans and advances to customers	31,624,275	16,810,357	-	48,434,632
Other current assets	446,880	-	6,569,487	7,016,367
Fixed assets	-	-	<u>752,559</u>	<u>752,559</u>
	<u>32,071,155</u>	<u>16,810,357</u>	<u>7,322,046</u>	<u>56,203,558</u>
31 December 2007				
<u>P & L - Income</u>				
Interest receivable	1,731,179	999,242	281,080	3,011,501
Fees receivable	1,381,335	553,246	-	1,934,581
Other income	-	-	<u>54,462</u>	<u>54,462</u>
	<u>3,112,514</u>	<u>1,552,488</u>	<u>335,542</u>	<u>5,000,544</u>
<u>Balance Sheet – Assets</u>				
Loans and advances to customers	18,964,441	15,909,368	-	34,873,809
Other current assets	446,880	-	5,780,556	6,227,436
Fixed assets	-	-	<u>729,940</u>	<u>729,940</u>
	<u>19,411,321</u>	<u>15,909,368</u>	<u>6,510,496</u>	<u>41,831,185</u>

31. Ultimate holding entity

The ultimate parent undertaking and controlling party is National Counties Building Society which is the smallest and largest group to consolidate these accounts. The consolidated financial statements of this group may be obtained from National Counties Building Society, Church Street, Epsom, Surrey, KT17 4NL