



HAMPSHIRE TRUST

PRIVATE BANKERS

Annual Report and Financial Statements

Year Ended 31 December 2009

# Hampshire Trust Plc

## Annual Report and Financial Statements - Year Ended 31 December 2009

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Registered no: 1311315

# **Hampshire Trust Plc**

## **Directors and Advisers**

### **Directors**

A P Gration (Chairman)  
M J Wilks (Managing Director)  
J E Pakenham-Walsh (Finance Director)  
J Sinclair

### **Company Secretary**

A P Gration

### **Registered office**

30 Church Street  
Epsom  
Surrey  
KT17 4NL

### **Independent Auditors**

KPMG Audit Plc  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

### **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

The directors have pleasure in submitting their annual report together with the financial statements for the year ended 31 December 2009.

### 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

2009 has been a challenging time for all UK financial institutions and, like many others, the Bank has been impacted by the aftermath of the global difficulties experienced during 2008.

One of the Bank's primary business activities is lending to solicitors and their clients and the legal profession has had a particularly difficult time during the economic downturn, with traditional legal work relating to the property market stopping completely in many areas. Regrettably, this has resulted in many previously profitable and long-established solicitors' practices suffering financial difficulties with some entering administration and partners facing bankruptcy. It was inevitable that the Bank would be adversely affected by such unprecedented events. While the Bank has endeavoured to work with its solicitor clients to minimise the impact of the recession it has been necessary for it to make substantial provisions which have taken it into a net loss situation for the first time in its history. The Bank's review of its loan book has been both extensive and thorough. As a result, the directors believe that full provision has been made for doubtful debts and that the Bank will return to profit in 2010.

The Bank's savings products, being a combination of fixed term bonds and notice accounts, have continued to prove popular with both its established depositors and the general public. During the year, the deposit book has grown by 15% to £43,071,087 (2008: £37,261,213) which has reduced its reliance on wholesale funding from its parent, National Counties Building Society, to a modest £2,105,243 (2008: £8,257,290) at the year end. This has since been repaid. Notwithstanding that the bulk of the Bank's funding throughout the year has been by way of public deposits, the Bank's net interest income of £2,144,710 (2008: £1,763,049) has increased by £381,661 (21%) over the previous year. This enabled the Bank to maintain its operating profit, prior to provisioning, at a very respectable £1,269,945 (2008: £1,359,206) in trading conditions which can at best be described as turbulent.

The Bank being a separately licensed institution has continued to meet its regulatory obligations and has enjoyed the full support of its parent which injected substantial capital during the year to ensure that all regulatory requirements were met comfortably. As a result the Bank's capital of £10,892,955 (2008: £10,212,180) remains substantially ahead of its regulatory requirement (£7,051,530 (2008: £8,047,854)).

During the year, the Bank imposed an embargo on staff salary increases and bonus payments against a background of fiscal prudence and the Board would like to record its thanks to the staff for their on-going support and commitment in what have been difficult times. As the Bank approached the third anniversary of its acquisition by National Counties Building Society, the opportunity was taken to restructure the Board with the resignation of two non-executive directors who were executive directors of its parent.

Towards the end of the year Stephen Hunter, one of the founder directors, retired from the Board to enable him to reduce to working on a part time basis, as part of its succession planning.

# Hampshire Trust Plc

## Directors' Report (cont)

### 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.

### 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.

### Dividends And Transfer To Reserves

Following discussions with the Bank's parent, the directors are not recommending the payment of a dividend (2008: £nil).

The post tax loss for the year was £2,243,362 (2008: £188,899 (profit)). After deductions for dividends on equity shares of £nil (2008: £nil), £2,243,362 (2008: £188,899 (profit)) 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 (2008: nil). It is the Bank's usual practice to make payment on receipt of invoice.

# **Hampshire Trust Plc**

## **Directors' Report (cont)**

### **Donations**

The Bank made charitable donations of £550 (2008: £686) during the year and made no political donations (2008: £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.

### **Directors**

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

A P Gration

S M B Hunter (retired 31 October 2009)

A Loizides (appointed 17 February 2009, resigned 31 May 2009)

J E Pakenham-Walsh

M J Wilks

P A Batchelor (resigned 28 February 2009)

J S Milton (resigned 28 February 2009)

J Sinclair

The Bank's chairman, Mr Gration, and Messrs Batchelor, Milton and Sinclair are all directors of the parent, National Counties Building Society.

### **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

**23 February 2010**

# Hampshire Trust Plc

## Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. 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).

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

# Hampshire Trust Plc

## Independent Auditors' Report

We have audited the financial statements of Hampshire Trust plc for the year ended 31 December 2009 set out on pages 8 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements 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.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Simon Clark (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
One Snowhill  
Snow Hill Queensway  
Birmingham B4 6G

# Hampshire Trust Plc

## Profit and Loss Account – Year Ended 31 December 2009

	Note	2009 £	2008 £
Interest receivable from loans and advances	2	3,942,453	4,163,003
Interest payable	3	<u>(1,797,743)</u>	<u>(2,399,954)</u>
<b>Net interest income</b>		<b>2,144,710</b>	1,763,049
Fees and commissions receivable	4	1,715,952	2,021,769
Fees and commissions payable		<u>(188,857)</u>	<u>(169,078)</u>
Other operating income	5	<u>136,335</u>	<u>77,814</u>
<b>Operating income</b>		<b>3,808,140</b>	3,693,554
Administrative expenses	6	<u>(2,377,662)</u>	<u>(2,205,022)</u>
Depreciation	14	<u>(160,533)</u>	<u>(129,326)</u>
Operating profit before provisions for bad and doubtful debts		<b>1,269,945</b>	1,359,206
Provisions for bad and doubtful debts	12b	<u>(4,381,418)</u>	<u>(1,086,290)</u>
<b>Operating (loss)/profit</b>		<b>(3,111,473)</b>	272,916
Tax on loss/(profit) on ordinary activities	9	<u>868,111</u>	<u>(84,017)</u>
<b>(Loss)/profit on ordinary activities after taxation and for the financial period</b>	23,24	<b><u>(2,243,362)</u></b>	<u>188,899</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 20. The figures include a credit of £16,518 (2008: £57,881, expense) in relation to the levy attributable to the Bank.

The notes on pages 10 to 24 form part of these financial statements.

# Hampshire Trust Plc

## Balance Sheet as at 31 December 2009

	Note	2009 £	2008 £
<b>ASSETS</b>			
Cash		<b>1,000</b>	940
Loans and advances to banks	10	<b>10,408,576</b>	6,467,968
Loans and advances to customers	11	<b>43,838,267</b>	48,434,632
Shares in group undertakings	13	<b>105</b>	105
Tangible fixed assets	14	<b>813,604</b>	752,559
Other assets	15	<b>1,433,894</b>	493,232
Prepayments and accrued income		<b><u>46,802</u></b>	<u>54,122</u>
Total assets		<b><u>56,542,248</u></b>	<u>56,203,558</u>
<b>LIABILITIES</b>			
Customer accounts	16	<b>43,071,087</b>	37,261,213
Deposits from building societies	17	<b>2,105,243</b>	8,257,290
Other liabilities	18	<b>110,634</b>	102,801
Accruals and deferred income	19	<b>328,859</b>	312,193
Provisions for liabilities	20	<b><u>33,470</u></b>	<u>57,881</u>
		<b><u>45,649,293</u></b>	<u>45,991,378</u>
<b>Equity capital and reserves</b>			
Called up equity share capital	22	<b>7,500,000</b>	4,575,863
Share premium account	23	<b>195,829</b>	195,829
Profit and loss account	23	<b><u>3,197,126</u></b>	<u>5,440,488</u>
	24	<b><u>10,892,955</u></b>	<u>10,212,180</u>
Total liabilities		<b><u>56,542,248</u></b>	<u>56,203,558</u>
<b>MEMORANDUM ITEMS</b>			
Other commitments	25	<b><u>14,899,197</u></b>	<u>11,821,590</u>

The notes on pages 10 to 24 form part of these financial statements.

The financial statements were approved by the Board of Directors on 23 February 2010 and were signed on its behalf by:

**M J Wilks**  
Director

**A P Gratton**  
Director

# Hampshire Trust Plc

## Notes To The Financial Statements – Year Ended 31 December 2009

### 1. Accounting policies

#### Basis of preparation

The financial statements are prepared in accordance with the special provisions of the Companies Act 2006 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 2006 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 30.

#### 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.

#### 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 continued 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.

# Hampshire Trust Plc

## 1. Accounting policies (cont)

### 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 quarterly 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. Whilst no such provision has been deemed necessary for the property book where the identification of problem loans is more apparent, the directors have decided to include a general provision for the practice funding book based on their best estimate of potential losses.

Interest and fees on impaired advances are suspended until the directors are satisfied as to their 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.

In May 2008 the Bank joined the National Counties Building Society Pension and Life Assurance Scheme operated by its parent. The scheme is a defined benefit pension 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.

# Hampshire Trust Plc

## 2. Interest receivable from loans and advances

	2009 £	2008 £
Disbursement funding	2,569,602	2,177,339
Property lending	1,298,479	1,686,283
Intra-group loans	40,766	137,241
Other	<u>33,606</u>	<u>162,140</u>
	<u>3,942,453</u>	<u>4,163,003</u>

Interest reported above is after deduction of £388,056 (2008: £39,183), being interest suspended on non-performing loans. Movements in the suspended interest/fees account are detailed in note 12(a).

## 3. Interest payable

	2009 £	2008 £
Payable to depositors	1,670,577	1,777,560
Intra-group loans	<u>127,166</u>	<u>622,394</u>
	<u>1,797,743</u>	<u>2,399,954</u>

## 4. Fees and commissions receivable

	2009 £	2008 £
Disbursement funding	1,260,303	1,638,210
Property lending	<u>455,649</u>	<u>383,559</u>
	<u>1,715,952</u>	<u>2,021,769</u>

Fees reported above are after deduction of £130,261 (2008: £nil), being fees suspended on non-performing loans. Movements in the suspended interest/fees account are detailed in note 12(a).

## 5. Other operating income

	2009 £	2008 £
Consultancy income	20,967	52,814
Release of discount on purchase of loan book	114,748	-
Other income	<u>620</u>	<u>25,000</u>
	<u>136,335</u>	<u>77,814</u>

# Hampshire Trust Plc

## 6. Administrative expenses

	2009	2008
	£	£
Staff costs:		
Wages and salaries	1,438,014	1,320,174
Pension costs	150,645	113,009
Social security costs	157,302	143,320
Other staff costs	<u>75,200</u>	<u>62,562</u>
	1,821,161	1,639,065
Less staff costs capitalised	(105,169)	(99,554)
Remuneration of auditors and their associates excluding VAT		
Audit of these financial statements	35,000	35,000
Tax	1,750	1,750
Other administrative expenses	<u>624,920</u>	<u>628,761</u>
	<u>2,377,662</u>	<u>2,205,022</u>

## 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:

	2009	2008
	£	£
Aggregate emoluments		
- contributions to group personal pension plan	-	9,490
- contributions to defined benefit pension plan	49,405	31,454
- long term incentive scheme	6,243	-
- other emoluments	<u>490,123</u>	<u>462,152</u>
	<u>545,771</u>	<u>503,096</u>
Highest paid director		
- contributions to group personal pension plan	-	3,851
- contributions to defined benefit pension plan	17,024	10,976
- long term incentive scheme	2,692	-
- other emoluments	<u>168,165</u>	<u>164,340</u>
	<u>187,881</u>	<u>179,167</u>

Retirement benefits accrued to 3 directors under the group personal pension plan until 30 April 2008 and to 4 (2008: 3) directors under the parent's defined benefit scheme thereafter of which only 2 (2008:3) were directors throughout the year.

Other emoluments include an amount of £63,000 (2008: £55,567) due to the parent, National Counties Building Society, in respect of the provision of services provided by the non-executive directors.

# Hampshire Trust Plc

## 8. Employee information

The average number of persons employed during the year was:

	2009	2008
Directors	3	3
Other staff	<u>34</u>	<u>31</u>
	<u>37</u>	<u>34</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

	2009 £	2008 £
UK corporation tax:		
- current period	(791,361)	85,498
- previous periods	<u>6,390</u>	<u>1,536</u>
Current tax	(784,971)	87,034
Deferred tax (origination and reversal of timing differences) - current year (see note 21)	<u>(83,140)</u>	<u>(3,017)</u>
Tax on profit on ordinary activities	<u>(868,111)</u>	<u>84,017</u>

The tax assessed in the period differs from the standard rate of corporation tax in the UK (28.0%) (2008: 28.5%), as indicated below:

	2009 £	2008 £
Profit/(loss) on ordinary activities before tax	<u>(3,111,473)</u>	<u>272,916</u>
Profit/(loss) on ordinary activities multiplied by standard rate of UK corporation tax (28.0%) (2008: 28.5%)	(871,212)	77,781
Effects of:		
Non tax deductible expenses		
- Non specific provisions	67,473	-
- Other	2,238	4,734
Other timing differences	10,140	2,983
Adjustment to tax charge re previous periods	<u>6,390</u>	<u>1,536</u>
Current tax charge for period	<u>(784,971)</u>	<u>87,034</u>

# Hampshire Trust Plc

## 10. Loans and advances to banks

	2009 £	2008 £
Repayable on demand*	<b>10,408,576</b>	6,467,968
Remaining maturity of three months or less	-	-
Remaining maturity of twelve months or less but over three months	-	-
	<u><b>10,408,576</b></u>	<u>6,467,968</u>

\* includes £4,366,566 (2008: £3,561,134) due from the Bank's parent, National Counties Building Society, on which interest accrues at a margin above Bank of England base rate.

## 11. Loans and advances to customers

	2009 £	2008 £
Remaining maturity:		
- on demand or at short notice	<b>15,402,155</b>	8,850,719
- not more than three months	<b>5,257,111</b>	6,867,904
- more than three months but not more than one year	<b>10,956,910</b>	9,016,042
- more than one year but not more than five years	<b>15,851,432</b>	22,820,012
- more than five years	<u><b>2,252,301</b></u>	<u>2,005,138</u>
	<b>49,719,909</b>	49,559,815
Suspended interest/fees	<b>(554,738)</b>	(39,183)
Specific bad debt provisions	<b>(5,085,930)</b>	(1,086,000)
General bad debt provisions	<u><b>(240,974)</b></u>	-
	<u><b>43,838,267</b></u>	<u>48,434,632</u>

Non-performing advances, which include those against which a specific provision has been made or for which interest or fees have been suspended (in whole or part), totalled £15,160,524 (2008: £3,779,304).

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

	2009 £	2008 £
Disbursement funding	<b>26,253,224</b>	31,624,275
Property	<u><b>17,585,043</b></u>	<u>16,810,357</u>
	<u><b>43,838,267</b></u>	<u>48,434,632</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 £27,470,636 (2008: £33,578,795).

# Hampshire Trust Plc

## 12. Provisions for bad and doubtful debts

### (a) Balance sheet

	2009 £	2008 £
<b>Specific - suspended interest/fees</b>		
At 1 January	39,183	-
Charge to profit and loss account	518,317	39,183
Amounts written off/back	<u>(2,762)</u>	-
At 31 December	<u>554,738</u>	<u>39,183</u>
<b>Specific - capital</b>		
At 1 January	1,086,000	-
Charge to profit and loss account	4,143,206	1,086,290
Amounts written off	<u>(143,276)</u>	<u>(290)</u>
At 31 December	<u>5,085,930</u>	<u>1,086,000</u>
<b>General provision</b>		
At 1 January	-	-
Charge to profit and loss account	240,974	-
Amounts written off	-	-
At 31 December	<u>240,974</u>	-

### (b) Profit and loss

	2009 £	2008 £
Specific provisions	4,143,206	-
General provisions	240,974	1,086,290
Suspended interest written back	<u>(2,762)</u>	-
	<u>4,381,418</u>	<u>1,086,290</u>

## 13. Shares in group undertakings

	2009 £	2008 £
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.

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## 14. Tangible fixed assets

	Freehold Land and Buildings £	Equipment £	Fixtures and Fittings £	Total £
<b>Cost</b>				
At 1 January 2009	406,942	1,009,037	86,893	1,502,872
Additions		212,584	12,244	224,828
Disposals	-	(450,976)	(39,899)	(490,875)
<b>At 31 December 2009</b>	<b><u>406,942</u></b>	<b><u>770,645</u></b>	<b><u>59,238</u></b>	<b><u>1,236,825</u></b>
<b>Depreciation</b>				
At 1 January 2009	-	685,455	64,858	750,313
Charge for year	-	153,530	7,003	160,533
Disposals	-	(450,298)	(37,327)	(487,625)
<b>At 31 December 2009</b>	<b><u>-</u></b>	<b><u>388,687</u></b>	<b><u>34,534</u></b>	<b><u>423,221</u></b>
<b>Net book value at 31 December 2009</b>	<b><u>406,942</u></b>	<b><u>381,958</u></b>	<b><u>24,704</u></b>	<b><u>813,604</u></b>
Net book value at 31 December 2008	<u>406,942</u>	<u>323,582</u>	<u>22,035</u>	<u>752,559</u>

## 15. Other assets

	2009 £	2008 £
Outstanding fees	106,760	100,775
Corporation tax	988,319	128,504
Deferred taxation (see note 21)	84,906	1,766
Other debtors	<u>253,909</u>	<u>262,187</u>
	<b><u>1,433,894</u></b>	<b><u>493,232</u></b>

## 16. Customer accounts

	2009 £	2008 £
With agreed maturity dates or periods of notice by remaining maturity:		
- accrued interest	104,742	694,769
- on demand	1,432,721	1,553,777
- not more than three months	3,755,456	10,094,476
- more than three months but not more than one year	31,678,385	19,833,623
- more than one year but not more than five years	<u>6,099,783</u>	<u>5,084,568</u>
	<b><u>43,071,087</u></b>	<b><u>37,261,213</u></b>

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## 17. Deposits by building societies

	2009	2008
	£	£
With agreed maturity dates or periods of notice by remaining maturity:		
- accrued interest	707	108,257
- on demand	102,810	46,690
- not more than three months	2,001,726	8,102,343
- more than three months but not more than one year	-	-
	<u>2,105,243</u>	<u>8,257,290</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.

## 18. Other liabilities

	2009	2008
	£	£
Other taxation and social security	43,502	44,292
Other liabilities	<u>67,132</u>	<u>58,509</u>
	<u>110,634</u>	<u>102,801</u>

## 19. Accruals and deferred income

	2009	2008
	£	£
Accruals	276,038	289,123
Deferred income	<u>52,821</u>	<u>23,070</u>
	<u>328,859</u>	<u>312,193</u>

## 20. Provisions for liabilities

	2009	2008
	£	£
At 1 January	57,881	-
Charge for the year	(16,518)	57,881
Utilised during the year	<u>(7,893)</u>	-
At 31 December	<u>33,470</u>	<u>57,881</u>

## Hampshire Trust Plc

### 20. Provisions for liabilities (cont)

**Financial Services Compensation Scheme (FSCS):** the Bank, in common with all regulated UK deposit takers, pays levies to the FSCS to enable the scheme 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 running costs of 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 2008, claims were triggered against the FSCS by the transfer of Bradford & Bingley Plc's retail deposit business to Abbey National Plc, together with similar issues in respect of various Icelandic Banks and London Scottish Bank Plc. In the first half of 2009, the possibility of further claims arose, as a result of the transfer of core parts of Dunfermline Building Society to Nationwide Building Society, although no compensation payments have yet been made by the scheme in this respect.

It is understood that the FSCS has met, or will meet, these 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 and these interest payments are included within the scheme's management expenses levy.

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. To the extent that the loans have not been repaid in full by 31 March 2012, the FSCS will agree a schedule of repayments with HM Treasury. The FSCS will then levy the industry (including the Bank) accordingly.

As a result of notifications it received from the Financial Services Authority, the Bank recognised in last year's results a provision of £57,881 in respect of the management expenses levy, to cover all three scheme years to September 2011. Since then, the Financial Services Authority has revised its position and notified firms that accruals should now be made only for liabilities incurred as a result of market participation up to the balance sheet date. This notification limits the period of interest accruals at 31 December 2009 to the two-year period ending March 2011 and has resulted in a provision release of £16,518 (2008: a charge of £57,881).

The first FSCS invoice, of £7,893 was paid during 2009 (2008: £nil) which, together with the abovementioned provision release, results in a year end provision of £33,470 (2008: £57,881).

These provisions do not include management expense levies for any scheme periods beyond March 2011. Neither do they include any compensation levies that may eventually arise as a result of there being insufficient funds available from the realisation of assets.

# Hampshire Trust Plc

## 21. Deferred taxation

	2009 £	2008 £
Tax effect of timing differences because of:		
- excess of tax allowances over depreciation	(17,651)	219
- short term timing differences	<u>(65,489)</u>	<u>(1,985)</u>
	<u>(83,140)</u>	<u>(1,766)</u>
<b>Movement in (assets)/liabilities</b>		
At 1 January	(1,766)	1,251
Credit to profit (note 9)	<u>(83,140)</u>	<u>(3,017)</u>
At 31 December	<u>(84,906)</u>	<u>(1,766)</u>

The deferred tax asset is included in Other Assets on the balance sheet (note 15).

## 22. Called up equity share capital

	2009 £	2008 £
<b>Authorised</b>		
£1 ordinary shares	<u>7,500,000</u>	<u>7,500,000</u>
<b>Allotted, called up and fully paid</b>		
£1 ordinary shares		
At 1 January	4,575,863	4,575,863
New issues	<u>2,924,137</u>	-
At 31 December	<u>7,500,000</u>	<u>4,575,863</u>

## 23. Reserves

	2009 £	2008 £
<b>Profit and loss</b>		
At 1 January	5,440,488	5,251,589
(Loss)/ profit for the financial period	<u>(2,243,362)</u>	<u>188,899</u>
At 31 December	<u>3,197,126</u>	<u>5,440,488</u>
<b>Share premium</b>		
At 1 January/ 31 December	<u>195,829</u>	<u>195,829</u>

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### 24. Reconciliation of movements in equity shareholders' funds

	2009 £	2008 £
Opening equity shareholders' funds	<b>10,212,180</b>	10,023,281
(Loss)/profit for the financial period	<b>(2,243,362)</b>	188,899
New £1 ordinary shares - nominal value	<b><u>2,924,137</u></b>	<u>-</u>
<b>Closing equity shareholders' funds</b>	<b><u>10,892,955</u></b>	<u>10,212,180</u>

### 25. Memorandum commitments

	2009 £	2008 £
Commitments/retentions re loans and advances:		
- property	<b>7,864,001</b>	4,601,292
- disbursement funding*	<b><u>7,035,196</u></b>	<u>7,220,298</u>
	<b><u>14,899,197</u></b>	<u>11,821,590</u>

\* of which £6,949,000 can be withdrawn without notice (2008: £7,135,000).

In addition to the above the Bank had commitments relating to the purchase of fixed assets totalling £nil (2008: £8,625).

Details of the Bank's ongoing commitments concerning the Financial Services Compensation Scheme can be found in Note 20.

### 26. 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 mis-matches 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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## 26. Financial instruments (cont)

### Contractual Interest Rate Re-pricing Date, or Maturity Date if earlier

	0-3	Months 4-6	7-12	Years 1-5	Non Interest Bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>As at 31 December 2009</b>						
<b><u>Assets</u></b>						
Loans and advances						
- financial institutions	10,409	-	-	-	-	10,409
- customers	43,193	-	-	-	645	43,838
Other assets	-	-	-	-	2,295	2,295
Total assets	<u>53,602</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,940</u>	<u>56,542</u>
<b><u>Liabilities</u></b>						
Customer accounts						
- external/deposits	31,954	5,757	4,792	463	105	43,071
- group	2,002	-	-	-	103	2,105
Other liabilities	-	-	-	-	473	473
Equity shareholders' funds	-	-	-	-	10,893	10,893
Total liabilities	<u>33,956</u>	<u>5,757</u>	<u>4,792</u>	<u>463</u>	<u>11,574</u>	<u>56,542</u>
Interest rate sensitivity gap						
- period	19,646	(5,757)	(4,792)	(463)	(8,634)	-
- cumulative	<u>19,646</u>	<u>13,889</u>	<u>9,097</u>	<u>8,634</u>	<u>-</u>	<u>-</u>
<b>As at 31 December 2008</b>						
<b><u>Assets</u></b>						
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>
<b><u>Liabilities</u></b>						
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>

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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## 27. 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, 10 and 17 respectively.

## 28. 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 from information available to the Bank. 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). Full disclosure details, on a group basis, are provided in the accounts of the parent.

Relevant financial information relating to the schemes is as follows:

	2009	2008
	£	£
Pension costs		
- defined contribution schemes	-	21,491
- defined benefit scheme	<u>150,645</u>	<u>91,518</u>
	<u>150,645</u>	<u>113,009</u>
Contributions payable	<u>-----</u>	<u>-----</u>

## 29. 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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## 29. Segmental analysis (cont)

	<u>Disbursement</u> <u>Funding</u> £	<u>Property</u> £	<u>Other</u> £	<u>Total</u> £
<b>31 December 2009</b>				
<b><u>P &amp; L - Income</u></b>				
Interest receivable	2,569,602	1,298,479	74,372	3,942,453
Fees receivable	1,260,303	455,649	-	1,715,952
Other income	-	-	<u>136,335</u>	<u>136,335</u>
	<u>3,829,905</u>	<u>1,754,128</u>	<u>210,707</u>	<u>5,794,740</u>
<b><u>Balance Sheet – Assets</u></b>				
Loans and advances to customers	26,253,224	17,585,043	-	43,838,267
Other current assets	314,520	-	11,575,857	11,890,377
Fixed assets	-	-	<u>813,604</u>	<u>813,604</u>
	<u>26,567,744</u>	<u>17,585,043</u>	<u>12,389,461</u>	<u>56,542,248</u>
<b>31 December 2008</b>				
<b><u>P &amp; L - Income</u></b>				
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>
<b><u>Balance Sheet – Assets</u></b>				
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>

## 30. 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

**Hampshire Trust Plc**

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