

Report and Accounts

for the year ended 31 December 2009



themelton
melton mowbray building society



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DIRECTORS' REPORT

The Directors are pleased to present their Annual Report & Accounts for the Group's year ended 31 December 2009.

Business Objectives

The principal business objective is to continue as a strong mutual building society, trusted by members to provide savings schemes, mortgage finance, personal financial advice and a high level of fair customer service, primarily within the local communities served by the Society's branches and agents.

Business Review of the Year

Overview

The 2009 Group profit before tax was £0.1 million. This was the result of the core Society making an operating profit of £1.6 million offset by losses within the subsidiary trading companies, although these were largely in line with budget expectations. MBS Lending Ltd, our specialist lending division, made a small loss of £27,000, Melton Intermediary Services made a loss of £503,000 before amortisation and impairment of goodwill and Melton Financial Services a loss of £92,000.

There are a number of one off items included in these results as follows:

- There has been a net gain of £0.9 million resulting from further reduction this year in pension liabilities.
- A further charge of £0.1 million has been provided in respect of levies by the Financial Services Compensation Scheme (FSCS) relating to compensation to savers in the banks that failed in 2008.
- A one off cost of £0.1 million relating to our investment in operating systems to deliver the new online savings proposition.
- We decided to eliminate the residual goodwill and systems investment purchased on the acquisition of Praxis in 2007 (now Melton Intermediary Services) which required additional £0.5 million charge over and above the normal amortisation and depreciation cost.
- In addition we decided to waive intercompany loans between the Society and MMBS Services Ltd of £1.4 million. This write down is not allowable for tax and so the Society profit before tax of £0.2 million becomes a loss after tax of £0.3 million. The write down has no impact in the Group accounts.

During the year assets reduced by £25.8 million, due to lower mortgage lending in the core Society. Liquidity has been maintained at high levels at 26% of total savings and borrowings and capital remains strong at £30.4 million.

In a challenging economic climate characterised by historically low interest rates, the Society's core operations produced a creditable operating profit before one off items of £0.7 million. Although the Group subsidiaries continue to face challenging trading conditions, their performance was broadly in line with the plan set out by the Directors at the start of the year. In its second full year of trading MBS Lending Ltd has produced a small operating loss having made prudent provision against potential losses in its mortgage book. Although Melton Intermediary Services showed a trading loss of £503,000, before amortisation and impairment of goodwill, we have now reduced the cost base to a minimum and the Group will no longer carry the cost of the goodwill going forward.

Business Environment

2009 has been characterised by historically low central bank interest rates set against a fiercely competitive market for retail deposits, as the larger banks in particular, seek to attract retail depositors and reduce their reliance upon funding from the wholesale markets. The severe lack of liquidity in the financial markets has led us to restrict lending this year with the consequent effect that we have managed a reduction in the overall size of our balance sheet. A portion of the lending we have undertaken this year in the Society has been funded by a £26 million tranche of wholesale borrowing as this has presented a more cost effective funding strategy for the Society. The Society continues to have a lower level of reliance upon wholesale funding than its peer group and in the fourth quarter of 2009 it launched an online savings proposition in support of its strategy to broaden the range of funding options available to the Society.

The lack of liquidity in the financial markets has again presented challenging trading conditions for Melton Intermediary Services (MIS) where trading volumes have continued to be depressed. However, there are signs that whilst 2010 will again be a challenging year for MIS, trading volumes will return to a satisfactory level with modest returns being generated for the Group against a much reduced cost base.

Conversely, for MBS Lending Ltd the liquidity shortage and scarcity of mortgage supply has presented some niche market opportunities for this business to lend at attractive margins and relatively low loan to values. MBS Lending Ltd has continued to grow at a modest pace and in this business environment achieving a small loss of £27,000 in 2009. This represents a solid performance when taking into account that the business has now absorbed the majority of its original set up costs and achieved profitable trading in the second half of 2009.

As set out in our Report last year, the Group's provision of pension benefits to its staff now has a lower level of impact on the Society's financial performance. This position has been further enhanced during 2009 by the conclusion of a pension transfer programme operated in conjunction with the Pension Trustees, which led to a total reduction of £3.7 million of pension liabilities shown as the value of funded obligations in the Society's balance sheet. This has contributed to an increase in the net pension asset which has improved the surplus of £2.8 million in 2008 to £4.0 million as reported in these accounts.

Turning to 2010, we expect the economic conditions to remain challenging and the intense competition for funding to remain throughout the year particularly in the market for retail savings. However, having focused management attention over the last twelve months on our subsidiaries we expect improved trading performance from these entities in 2010.

Core Operations: Society

The Society produced an operating profit of £1.6 million. This was reduced by a one off charge to net profit before tax of £0.2 million. This operating performance is acceptable when taking into account the decision to waive intercompany debt in relation to MIS of £1.4 million.

The business has benefitted from a pension settlement gain of £0.9 million this year, but this should be viewed in the context of the additional longer term benefits for members derived from our planned management of the Society's pension obligations. Long term pension liabilities have been reduced over the last two years and there is a more general reduction in risk achieved from the removal of future potential for significant fluctuations in the balance sheet and profit and loss account of the Society going forward.

The Society made a significant step forward in October when introducing online savings and online offset mortgages. These online services are supported by new image and workflow technology in our back office and we expect this to become an important part of our overall service offering in 2010 and beyond. We attracted in the region of £7 million of new savings through the online channel in the last two months of 2009. However, the Society remains committed to its traditional savings base and throughout the year it has offered a range of traditional passbook based savings products and loyalty accounts.

Society lending in the year totalled £22 million. We continue to adopt a cautious approach to mortgage lending. Although we have seen a modest increase in arrears levels during the year, provisions in these accounts for the Society total £0.3 million to cover any potential losses that could arise from the Society's loan book.

Throughout 2009 the Society has maintained high levels of liquidity at an average for the year of 26% of savings, deposits and loans. As we indicated in our Report last year the returns we have obtained from our treasury operations have significantly reduced on previous years as the effects of the sustained low base rate feed through to treasury transactions on renewal. The Directors are mindful of the consequent impact on profitability, but will continue to favour high quality counterparty arrangements for its investments with budgets adjusted to take into account the associated lower returns.

Directors' Report

A major consequence of the reduction in our treasury margins in 2009 has been the imperative set by the Board for the Society to reduce its overall cost base. For the Society administrative expenses have been reduced from £4.7 million in 2008 to £3.7 million in 2009, a 21% reduction: attributable to curtailment of final salary pension costs and to £0.2 million savings achieved this year in operational management expense.

The Society remains committed to a programme of activities in support of the local communities we serve and also receives tremendous support from its local members. In particular, the Directors would like to pay tribute to its staff and members who for the third year in succession raised in excess of £1,500 for Children In Need.

The Society continues to support the work of the Melton Mowbray Building Society Charitable Foundation, providing £15,000 during the year to support its charitable giving. A portion of the Foundation's funds are set aside each year to be used for 'kick-start' projects and we are pleased to report that in 2009 our kick-start funds represented the major contribution to the construction of a replacement community facility for the 4th Melton Mowbray Scout Group.

Subsidiary Operations

MBS Lending Ltd

MBS Lending Ltd continues to offer specialist mortgage products to borrowers who do not meet our criteria to become members. In 2009 MBS Lending Ltd has tightened its lending criteria to focus on provision of loans to the near prime borrower at lower loans to value, thereby reducing its overall risk profile. During the year, MBS Lending Ltd advanced a total of £12 million in new mortgages. Although we have seen an increase in the total level of arrears on the MBS Lending Ltd mortgage book, we have made specific and general provisions during the year of £0.7 million to provide insulation against potential losses on the book. MBS Lending Ltd has loans outstanding at the year end of £36 million and has produced a small loss before tax for the year of £27,000 after raising the provisions of £0.7 million indicated. The arrears position has stabilised on the book in the second half of 2009 which has also produced an improved trading performance. We expect MBS Lending Ltd to make a valuable contribution to Group profits in 2010.

MMBS Services Ltd – Melton Intermediary Services (MIS)

We re-branded Praxis as Melton Intermediary Services in 2009 to reflect the management decision to diversify from the business' mortgage packaging roots. As forecast in our Report last year, the trading environment for MIS has been extremely challenging. In 2009 the business produced a loss of £0.5 million before amortisation and impairment of goodwill and although this was in line with our budget expectation we decided to write off the residual goodwill acquired at the purchase of this business in 2007.

Our view remains that there will be a role for a well managed mortgage services business in the future when economic conditions are more stable and we are forecasting that MIS will move close to breakeven position in 2010. In light of the decision to eliminate the remainder of the goodwill in MIS, the Society's Directors have consequently waived £1.4 million of its debt due from MIS to the Society.

MMBS Services Ltd - Melton Financial Services (MFS)

Our IFA division continues to offer independent financial advice to members and during 2009 we saw an increasing level of demand from borrowers seeking independent mortgage advice, evidencing the difficulty being experienced in the market generally to obtain mortgage finance. However, the depressed economic climate and the limited availability of mortgage finance has again constrained the opportunity for MFS to achieve its income targets. Overheads have been cut back to reflect the reduced business levels and although the division made a loss of £92,000 before tax we have seen an improved trading performance in the second half of 2009. We believe it is important the Group continues to offer its members access to good independent financial advice and we expect to achieve modest growth in our performance in 2010 as the market for financial services returns to more conventional trading levels.

Group Assets

Group total assets decreased by £25.8 million during the year and at 31 December 2009 amounted to £410 million.

Liquid Assets

Liquid assets in the form of cash and investments, including interest accrued amounted to £100 million at 31 December 2009 representing 26% of total shares and borrowings in line with our target to maintain 25% liquidity.

Group Loans and Advances

The value of loans and advances to borrowers by the Group during the year amounted to £34 million secured on new mortgages and further advances. The total of Group loans and advances outstanding at 31 December 2009 was £296 million which is a reduction of £9 million in the total loans and advances at the end of the previous year.

Costs

As a consequence of our decision to reduce the size of the overall balance sheet this year, we have managed a reduction in the Society's cost base. This follows our strategic objective of continuing to reduce the Society management expense ratio. Underlying management expenses including depreciation were £4.0 million compared with £5.0 million in 2008. Accordingly, the management expense ratio has reduced this year to 0.95% from 1.14% in 2008.

Fixed Assets

There has been planned fixed asset expenditure this year relating to the new online workflow and image systems delivered in the fourth quarter. However, Group fixed assets (including investment properties) overall have reduced from £9.4 million to £8.9 million at 31 December 2009 principally due to charging of scheduled depreciation.

Shares and Deposits

In line with our reduction in total Group assets, we have seen a net reduction in shares and deposits during the year of £25.5 million with total shares and deposits as at 31 December 2009 totalling £378 million.

Principal Risks and Uncertainties

The Group operates in a business environment which contains commercial risks. The Executive, the Board and Audit & Compliance Committee regularly review existing risks and identify new risks as part of the Group's risk assessment process. As a recent development of this process, the Board has decided to initiate a separate Risk Committee reporting to the Board. Examples of potential risk or uncertainty being closely monitored by the Board are:

- overall Society liquidity levels
- impact of interest rate changes on the Group's finance
- consumer confidence in house prices
- level of mortgage demand
- financial strength of investment counterparties
- the potential for operational loss arising from inadequate internal systems or procedures
- unemployment levels and levels of mortgage arrears
- mortgage fraud

Financial Risk Management Objectives and Policies

The Group seeks to eliminate a significant proportion of financial risk by the use of hedging instruments. However, this year has seen an unprecedented level of dislocation between base rate and the three month LIBOR rate against which hedging instruments are generally linked. For this reason, during 2009 the Society maximised the opportunity to hedge internally by matching savings and mortgage product maturities. We continue to use external hedging instruments where appropriate and a full disclosure of the Group's approach to financial risk management is detailed in Note 25 to the Accounts.

Capital Ratios

Group profit after tax for 2009 of £16,000 has been transferred to general reserves. Gross capital now amounts to £30.4 million representing 8.05% of total shares and

deposits and 20.8% of risk weighted assets. Free capital now amounts to £24.3 million representing 6.43% of total shares and borrowings. The Society adopted the Basel II standardised approach to capital requirements monitoring in January 2007 and Pillar III disclosure information is available from the Society Secretary upon request and the Society's website.

Mortgage Arrears

The Group's lending book is primarily secured on residential property where the average loan to value of the Society's book is 32% and MBS Lending Ltd 60%, reflecting the higher risk, higher return business this subsidiary undertakes. Overall, there remains a low level of arrears which totalled £385,000, in respect of accounts one month or more in arrears at the year end.

At the end of 2009 the Directors have set aside total Group provisions of £1,433,000 comprising a general mortgage provision of £267,000 and specific provisions of £1,166,000 in respect of accounts one month or more in arrears. At the year end there were three accounts on the Society's loan book with balances totalling £142,000 and

arrears of £8,000 which were twelve months or more in arrears. In view of the low loan to values against these cases there has been no need to raise specific provisions on these accounts. MBS Lending Ltd had five accounts twelve months or more in arrears at the year end with balances totalling £732,000 and arrears of £76,000. Specific provisions of £280,000 have been raised against these accounts.

Financial Services Compensation Scheme

The Group continues to be required to contribute to the Financial Services Compensation Scheme in relation to exceptional levy charges applied to provide compensation to savers in the banks which failed during 2008. Accordingly, the Directors have adjusted the provision in these accounts to £0.4 million as at 31 December 2009.

Creditor Payment Policy

Although the Society does not follow a code or standard on prompt practices, it seeks to pay its trade creditors within agreed payment terms for fulfilment by the suppliers of their contractual obligations. The creditor days were 48 at 31 December 2009.

Key Performance Indicators

Throughout the year your Directors regularly monitor the significant areas of Group and Society activity by the use of key performance indicators. The more important of these are shown below:

	2009	2008	2007	2006	2005
Group Total Assets (£ million)	410	436	439	413	385
Group Profit Before Tax (£ million)	0.1	0.3	1.0	1.4	1.6
Group Profit After Tax (£ million)	0.0	0.2	0.4	1.2	1.1
Group Gross Capital (£ million)	30.4	31.0	38.8	37.4	35.8
Society Underlying Management Expense Ratio (as a % of Mean Total Assets)	0.95%	1.14%	1.10%	1.17%	1.01%
Group Net Profit Margin (as a % of Mean Total Assets)	0.00%	0.03%	0.10%	0.29%	0.29%
Group Mortgage Arrears at 31 December (£,000)	385	153	42	39	35

Directors

The following persons served as Directors of the Society during the year:

Non-Executive Directors:	
R D Wood BA	Chairman
R V N Jones BSc (Hons) Chem Eng	Vice Chairman
N J Townsend	
P A Coates BSc MBA	
D J Wood ACIB MCIM FRSA DMS	
R H Clegg MBA FCA	
Executive Directors:	
M J Reason BSc (Hons)	Chief Executive
D R Pickard BA ACA MCT	Finance Director (resigned 31 May 2009)
G E Parkes BSc FCA	Finance Director (appointed 29 June 2009)

The Finance Director, Damian Pickard, resigned from the service of the Society on 31 May 2009. Graham Parkes, formerly Head of Finance at Nottingham Building Society, was appointed on a fixed term contract to succeed Damian as Finance Director on 29 June 2009.

No Director has any beneficial interest in the shares or debentures of any connected undertaking of the Society.

Going Concern

The Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual accounts.

Auditors

The External Auditors, KPMG Audit Plc, have indicated their willingness to continue in office and accordingly a resolution for their re-appointment will be proposed at the Annual General Meeting.

Acknowledgements

The Directors wish to record their appreciation of the dedication and commitment of all members of staff during what has proved to be a challenging year for the Group.

The Directors also thank all members, agents and suppliers for their continued support.

2 March 2010

R D Wood
Chairman

Directors' Remuneration Report

This report together with the disclosures in Note 7 of the Annual Report and Accounts is provided to give members an explanation of the policy and application of Directors' remuneration. A resolution will be put to the Annual General Meeting inviting members to receive and accept this report. The vote is advisory, and the Board will consider whether any consequent action is required.

Executive Directors

Remuneration of the Group's Executive Directors comprises a number of elements: basic salary, membership of a pension scheme and other taxable benefits.

The Group's policy is to position salaries and benefits so that they are in line with those offered for comparable positions within similar financial services organisations. This policy is designed to enable the Society to attract and retain staff possessing the skills and experience to lead the Group and develop it for the long term advantage of members.

Executive Directors are members of the Melton Mowbray Building Society Staff Pension and Life Assurance Scheme ("the Scheme"). The Scheme was defined benefit in nature up to 30 September 2008 at which point accrual ceased and all active members at that time accrue future benefits in the defined contribution section of the Scheme. The Scheme also includes financial provision for death in service. Contributions to the defined contribution section are 2.5% of basic salary for members. The Society contributed 17.5% of basic salaries for each member up until May 2009 when the Directors agreed with employees that this level of contribution should be reduced to 10% of basic salary.

In respect of Martin Reason, Chief Executive, Society contributions of £18,760 were paid into the defined contribution section of the Scheme during the year. In October, Mr Reason elected to transfer out the accrued value of his deferred final salary pension scheme. A transfer value of £299,594 was attributed to this request and, in addition, the Society provided a payment of £22,470 to Mr Reason as part of an overall enhancement programme offered to all staff and deferred pension member leavers.

Damian Pickard, the former Finance Director, left the Scheme on 31 July 2009 and Society contributions of £9,635 have been paid into the defined contribution section of the Scheme up to the year end.

Graham Parkes, the new Finance Director, joined the Scheme on 1 June 2009 and Society contributions of £5,833 have been paid into the defined contribution section of the Scheme up to the year end.

The Group provides other taxable benefits including a car or car allowance, health care provision and mortgage protection insurance under the Group Scheme with CUNA Mutual.

Contractual terms for the Chief Executive include a notice period of six months by either party, and for the Finance Director a notice period of three months by either party.

The policy and practice relating to the remuneration of Executive Directors is considered by the Remuneration, HR Management & Selection Committee. The Chief Executive appraises the individual performance of the Finance Director and makes recommendations to the Remuneration, HR Management & Selection Committee. The Chief Executive is appraised by the Chairman.

Non-Executive Directors

Non-Executive Directors are remunerated solely by fees. They do not receive any salary, pension, or bonus incentives although they are eligible for health care provision from which a taxable benefit arises.

Total Directors' fees are calculated by reference to the total assets of the Society as prescribed by the Society's rules. The allocation of fees to each Director is considered by the Remuneration, HR Management & Selection Committee.

A Director who is also a Trustee of the Melton Mowbray Building Society Staff Pension and Life Assurance Scheme is granted a fee of £150 per meeting attendance.

2 March 2010

R D Wood
Chairman

Report of the Directors on Corporate Governance
For the year ended 31 December 2009

The Board of Directors (the Board) is committed to best practice in corporate governance. This report on Corporate Governance explains how the Group applies the principles in the Combined Code on Corporate Governance (the Code) issued by the Financial Reporting Council as well as meeting guidance for building societies issued by the Financial Services Authority (the FSA). The Board considers that the Group complies with all provisions of the June 2008 Code, in so far as relevant to Building Societies, except where stated.

Directors

The Board

Code Principle: Every company should be headed by an effective Board, which is collectively responsible for the success of the company.

Board Comment: The terms of reference of the Board and its committees are published on the Society's website. The principal functions of the Board are to determine the strategy and policies of the Group, to establish guidelines within which the business is managed and to review business performance and its management. The Board has a general duty to ensure that the Group operates in accordance with the Memorandum and Rules, complies with relevant legislation and regulation, maintains proper accounting records and adopts effective systems of business control that are documented, followed and audited. The Board has delegated certain powers and responsibilities to the following Committees.

Audit and Compliance Committee: This Committee considers systems of procedures and controls, risk assessment, audit and accounting matters, and monitors compliance with regulatory requirements.

Assets and Liabilities Committee: This Committee considers the principal business policies of the Group including those relating to lending, treasury management and financial risk.

Remuneration HR Management & Selection Committee: This Committee considers staff pay, benefits and Directors' fees and salaries.

As appropriate, the Executive Directors attend Board Committee meetings. The meetings are complemented by an annual strategic seminar attended by Directors and Executive Management when business strategy planning is considered in detail.

The Board meets regularly for the proper conduct of business, and there will be at least 7 formal Board meetings each year. The Non-Executive Directors meet alone when issues relating to the Executive Directors are to be discussed at Board meetings and each time at the conclusion of the Audit and Compliance Committee meetings. Directors also meet without the Chairman present to appraise the Chairman's performance as part of the annual Board assessment. Terms of reference for Board Committees are published on the Society's website.

The composition and attendance record of the Board and Committees is shown on page 7.

All Board members have the benefit of appropriate liability insurance at the Group's expense. All Board members have access to independent legal advice if required.

Chairman and Chief Executive

Code Principle: There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

Board Comment: The offices of Chairman and Chief Executive are distinct and held by different people. The role of each is set out in their respective job descriptions. The Chairman is responsible for leading the Board, ensuring its effectiveness and communicating with the Society's members on behalf of the Board. The Chief Executive is responsible for managing the Group's business and operations within the parameters set by the Board. Under the Rules of the Society, the Chairman is elected by the Board for a twelve month period.

Board Balance and Independence

Code Principle: The Board should include a balance of Executive and Non-Executive Directors (and in particular independent Non-Executive Directors) such that no individual or small group of individuals can dominate the Board's decision taking.

Board Comment: The Board currently comprises six Non-Executive Directors (including the Chairman) and two Executive Directors. All Non-Executive Directors are considered by the Board to be independent in character and judgement and free of any relationship or circumstances which could materially interfere with the exercise of their judgement.

The Board has appointed Nicolas Townsend as the Senior Independent Director. He is available to members who may have concerns which the Chairman or Chief Executive have failed to resolve or for which contact with them is inappropriate.

Appointments to the Board

Code Principle: There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

Board Comment: The Group does not have a Nominations Committee. Instead the balance of skills and experience on the Board and the requirements of the business are assessed each year by the whole Board, with a view to determining whether there are any skill shortages. Appointments to the Board are made on merit and against objective criteria. The most recent candidates for Non-Executive Directorship were identified after placing advertisements in the local press. Members have the right, under the Society's Rules to nominate candidates to the Board. All Directors must meet the tests of fitness and propriety laid down by the FSA and all Directors must be registered with the FSA as an Approved Person in order to fulfil their controlled function as a Director.

Corporate Governance Report

The service contracts of Executive Directors and the letters of appointment of Non-Executive Directors are available for inspection on request from the Secretary during normal business hours and at the AGM.

Information and Professional Development

Code Principle: The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All Directors should receive an induction on joining the Board and should regularly update and refresh their skills and knowledge.

Board Comment: The Chairman ensures that the Board receives information sufficient to enable it to fulfil its responsibilities. All new Directors receive induction training and ongoing training is provided by attendance at courses and seminars organised by outside bodies, in particular, the Building Societies Association. Training and development needs are identified as part of the annual appraisal assessment of the Board's and individual Director's performance and effectiveness.

Performance Evaluation

Code Principle: The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors.

Board Comment: Each Director completes a written Board Performance Appraisal assessing the Boards and its committees performance, their own performance and the performance of other members of the Board. This is collated anonymously and discussed by the Board. In addition, each Non-Executive Director is evaluated by the Chairman. The evaluations are recorded in writing and retained by the Group. The Chairman is appraised by the Non-Executive Directors, facilitated by the Senior Independent Director. The Chief Executive is appraised by the Chairman. The Chief Executive appraises the individual performance of the Finance Director and makes recommendations to the Remuneration HR Management & Selection Committee.

Re-election

Code Principle: All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The Board should ensure planned and progressive refreshing of the Board.

Board Comment: The Society's Rules require that all Directors are submitted for election at the Annual General Meeting (the AGM) following their first appointment to the Board. Where their appointment occurs in the period between the end of the Society's financial year and the AGM itself, they must seek election at the AGM in the following year. Directors are appointed for a 3 year term, subject to satisfactory performance. All Directors are required to seek re-election if they have not been re-elected at either of the 2 previous AGMs. Directors may submit themselves for re-election voluntarily. The Board's general policy is that Non-Executive Directors offer themselves voluntarily for annual re-election if they have served more than 3, full 3 year terms. Any term lasting beyond the normal

maximum will be subject to particularly rigorous review by the Board and to annual re-election by the members.

Remuneration

The Directors' Remuneration Report (on page 4) explains how the Group applies the Code principles and its compliance with the Code provisions relating to remuneration.

Accountability and Audit

Financial Reporting

Code Principle: The Board should present a balanced and understandable assessment of the Company's position and prospects.

Board Comment: The responsibilities of the Directors in relation to the preparation of the Group's accounts and the statement that the Group's business is a going concern are contained in the Statement of Directors' Responsibilities on page 8 and the Directors' Report on page 3.

Internal Control

Code Principle: The Board should maintain a sound system of internal control to safeguard shareholders' investment and the Company's assets.

Board Comment: The Board is responsible for the system of internal control and the effectiveness of its operation. Such a system is designed to mitigate rather than eliminate the risks inherent in the Group's business activities.

Directors and senior management are committed to maintaining a control conscious culture across all areas of operation. This is communicated to all employees by way of published policies and procedures. Key business risks are identified, and controlled by means of procedures such as physical controls, credit, authorisation limits and segregation of duties. There are well established budgeting and forecasting procedures in place and reports are presented regularly to the Board detailing the results of the Group with comparisons to budget.

During the year, the Group has maintained and enhanced its risk assessment process for identifying, evaluating and managing the significant risks faced by the Group. Since year end the Board has introduced a separate Risk Committee reporting to the Board specifically on risk management matters.

Audit Committee and Auditors

Code Principle: The Board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

Board Comment: The Board has an Audit and Compliance Committee comprising 3 Non-Executive Directors, one of whom is the Chairman of the Committee and has current and relevant financial experience. The role of the Committee is described in the section of this report relating to Directors (on page 5) and the terms of reference are published on the Society's website.

The Audit and Compliance Committee usually meets 4 times a year and the Executive Directors and senior management, along with representatives of both the Group's Internal and External Auditors attend by invitation. At least quarterly the Audit and Compliance Committee meets with the Internal and External Auditors without the Executive Directors and senior management being present. Minutes of the Committee's meetings are distributed to all Board members and the Chairman of the Committee reports to the Board at the Board meeting following a meeting of the Committee.

The Committee reviews and monitors the External Auditors' independence, ensuring that if they or their associates are invited to undertake non-audit work it will not compromise auditor objectivity and independence. Details of the fees paid to the External Auditors for audit and non-audit services are set out in Note 4 to these Accounts

Relations with Members

Dialogue with Institutional Shareholders

Code Principle: There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Board Comment: As a mutual organisation, the Society's membership consists almost entirely of individuals who are also the Society's customers. The Society seeks its members' views through regular newsletters and members' meetings attended by Executive and Non-Executive Directors.

Board and Committee Membership Attendance Record

The number of Board and Committee meetings attended by each Director, as a member, during the year is shown below. The number in brackets indicates the number of such meetings that the Director was eligible, as a member, to attend during the year.

	Board	Audit and Compliance	Assets and Liabilities	Remuneration HR Management and Selection
P A Coates	9 (11)	-	-	4 (4)*
R H Clegg	11 (11)	-	-	4 (4)
R V N Jones	11 (11)	4 (4)*	-	-
D R Pickard	5 (5)	1 (1)	3 (5)	-
M J Reason	11 (11)	4 (4)	10 (11)*	4 (4)
N J Townsend	11 (11)	4 (4)	-	4 (4)
D J Wood	9 (11)	3 (4)	-	-
R D Wood	11 (11)*	-	-	4 (4)
G E Parkes	6 (6)	3 (3)	6 (6)	-

* Denotes Chairman of the Board or Committee as at 31 December 2009

Constructive use of the AGM

Code Principle: The Board should use the AGM to communicate with investors and to encourage their participation.

Board comment: Each year the Society issues details of the AGM and offers proxy voting facilities, for members unable to attend, to all members eligible to vote. Members are sent voting forms and are encouraged to vote either by post, internet, at a local branch, in person or by proxy at the AGM. All postal and proxy votes are counted under independent scrutiny. A poll is called in relation to each resolution at the AGM and all proxy votes cast are included in the results. The results of the AGM voting are published on the Society's web site.

All members of the Board are present at the AGM each year (unless exceptionally their absence is unavoidable) and the Chairmen of the Board and each of its Committees are therefore available to answer questions.

Directors' Responsibilities

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Directors' responsibilities in respect of the Report and Accounts, the Annual Business Statement, the Directors' Report and the annual accounts

The Directors are responsible for preparing the Report and Accounts, Annual Business Statement, Directors' Report and the annual accounts in accordance with applicable law and regulations.

The Building Societies Act ("the Act") requires the Directors to prepare Group and Society annual accounts for each financial year. Under that law they have elected to prepare the Group and Society annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group and Society annual accounts are required by law to give a true and fair view of the state of affairs of the Group and of the Society as at the end of the financial year and of the income and expenditure of the Group and of the Society for the financial year.

In preparing each of the Group and Society annual accounts, 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 accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

In addition to the annual 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 Group.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society, in accordance with the Act;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group 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 Society's website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

2 March 2010

R D Wood
Chairman

Independent Auditors' Report to the members of Melton Mowbray Building Society

Independent Auditors' Report to the members of Melton Mowbray Building Society

We have audited the group and society annual accounts of Melton Mowbray Building Society for the year ended 31 December 2009 which comprise the Group and Society Income and Expenditure Accounts, the Group and Society Statements of Total Recognised Gains and Losses, the Group and Society Balance Sheets, the Group Cash Flow Statement and the related notes. These annual accounts have been prepared under the accounting policies set out therein.

We have examined the Annual Business Statement (other than the details of directors and officers upon which we are not required to report) and the Directors' Report.

This report is made solely to the society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the society'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 society and the society'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 Report and Accounts including the Directors' Report, the Annual Business Statement and the annual accounts 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 8.

Our responsibility is to audit the annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We are also responsible for examining the Annual Business Statement (other than the details of directors and officers) and for reading the information in the Directors' Report and assessing whether it is consistent with the accounting records and the annual accounts.

We report to you our opinion as to whether the annual accounts give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. In addition, we report to you our opinion as to whether certain information in the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information in the Directors' Report is consistent with the accounting records and the annual accounts and whether the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

We also report to you if, in our opinion, the annual accounts are not in agreement with the accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Report and Accounts and consider whether it is consistent with the audited annual accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the annual accounts, Annual Business Statement and Directors' Report. Our responsibilities do not extend to any other information.

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 annual accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the group's and society'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 annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the annual accounts.

Opinion

In our opinion:

- a) the annual accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the affairs of the group and of the society as at 31 December 2009 and of the income and expenditure of the group and of the society for the year then ended;
- b) 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;
- c) the information given in the Directors' Report is consistent with the accounting records and the annual accounts; and
- d) the annual accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

Birmingham
2 March 2010

Income and Expenditure Accounts - for the year ended 31 December 2009

	Notes	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Interest receivable and similar income	2	9,918	8,980	23,269	23,088
Interest payable and similar charges	3	(5,031)	(5,032)	(17,585)	(17,593)
Net interest receivable		4,887	3,948	5,684	5,495
Other finance income	6	315	315	803	803
Fees and commissions receivable		1,014	381	2,708	619
Fees and commissions payable		(275)	(127)	(1,217)	(144)
Other operating income		431	479	520	511
Total income		6,372	4,996	8,498	7,284
Administrative expenses					
- underlying	4	(4,292)	(3,687)	(6,860)	(4,669)
- pension scheme settlement and curtailment gains	4 & 6	1,602	1,602	1,610	1,610
- cost of reducing pension obligations	4	(730)	(730)	0	0
		(3,420)	(2,815)	(5,250)	(3,059)
Depreciation and amortisation	14 & 15	(1,095)	(318)	(990)	(344)
Other operating charges		(296)	(15)	(576)	(89)
Operating profit before provisions		1,561	1,848	1,682	3,792
Provisions for bad and doubtful debts	12	(863)	(151)	(619)	(16)
Provisions for contingent liabilities and commitments	22	(91)	(91)	(424)	(424)
Operating profit		607	1,606	639	3,352
Amounts written off fixed asset investments	13 & 14	(492)	(1,354)	(500)	(2,000)
(Loss) / profit on sale of assets		(3)	(4)	114	(2)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		112	248	253	1,350
Tax on profit on ordinary activities	8	(96)	(510)	(103)	(980)
PROFIT / (LOSS) FOR THE FINANCIAL YEAR	23	16	(262)	150	370

The Notes on pages 13 to 31 form part of these accounts. The above results are all derived from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 2009

	Notes	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Profit / (loss) for the financial year		16	(262)	150	370
Unrealised losses on revaluation of investment properties	16	(45)	(85)	(720)	(640)
Actuarial losses recognised in the pension scheme	6	(713)	(713)	(10,052)	(10,052)
Deferred tax arising on losses in the pension scheme		200	200	2,815	2,815
TOTAL RECOGNISED LOSSES IN THE YEAR		(542)	(860)	(7,807)	(7,507)

Balance Sheets - as at 31 December 2009

	Notes	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
ASSETS					
Liquid assets					
Cash in hand and balances with the Bank of England		187	187	137	137
Loans and advances to credit institutions	9	33,292	33,213	34,330	34,222
Debt securities	10	66,350	66,350	81,855	81,855
		99,829	99,750	116,322	116,214
Loans and advances to customers					
Loans fully secured on residential property	11	291,102	255,346	299,714	274,410
Other loans	11	5,375	5,375	5,536	5,536
		296,477	260,721	305,250	279,946
Investments					
Investment in subsidiaries and other undertakings	13	0	39,225	0	30,275
Intangible fixed assets	14	0	0	897	0
Tangible fixed assets	15	6,394	5,361	6,970	5,545
Investment property	16	2,500	2,300	2,400	2,240
Net pension asset	6	2,854	2,854	2,005	2,005
Prepayments and accrued income		404	225	641	233
Other assets	17	1,288	10	1,041	350
TOTAL ASSETS		409,746	410,446	435,526	436,808
LIABILITIES					
Shares	18	348,323	348,323	401,337	401,337
Amounts owed to credit institutions	19	25,072	25,072	0	0
Amounts owed to other customers	20	4,567	4,834	2,132	2,328
Other liabilities	21	13	201	32	381
Accruals and deferred income		935	646	595	473
Provisions for liabilities	22	398	398	450	457
		379,308	379,474	404,546	404,976
Reserves					
Revaluation reserve	23	870	910	915	995
General reserves	23	29,568	30,062	30,065	30,837
TOTAL LIABILITIES		409,746	410,446	435,526	436,808

The Notes on pages 13 to 31 form part of these accounts.

These accounts were approved by the Board of Directors on 2 March 2010 and were signed on its behalf by:

R D Wood
Chairman

M J Reason
Director and Chief Executive

G E Parkes
Director and Finance Director

Cash Flow Statement - for the year ended 31 December 2009

	Group 2009 £,000	Group 2008 £,000
Net cash (outflow) / inflow from operating activities	(14,389)	26,511
Taxation paid	(158)	(651)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(175)	(257)
Purchase of investment property	(145)	(30)
Disposal of tangible fixed assets	53	33
Disposal of intangible fixed assets	0	61
Purchase of debt securities	(128,848)	(242,408)
Sale of debt securities	143,719	220,044
Net increase in cash	57	3,303
Reconciliation of profit on ordinary activities before tax to net cash inflow from operating activities		
Profit on ordinary activities before tax	112	253
Decrease in prepayments and accrued income	1,117	720
Decrease in accruals and deferred income	(6,417)	(1,535)
Provisions for bad and doubtful debts	716	520
Pension gains and charges	(1,892)	(1,509)
Depreciation and amortisation charge	1,590	1,490
Non cash adjustments to goodwill	5	64
Net cash (outflow) / inflow from trading activities	(4,769)	3
Net decrease / (increase) in loans and advances to customers	8,057	(2,938)
Net (decrease) / increase in shares	(46,164)	5,363
Net increase in deposits and other borrowings	27,414	687
Net decrease in loans and advances to credit institutions	799	22,908
Net (decrease) / increase in provisions for contingencies and commitments	(52)	411
Net decrease in other liabilities	(19)	(48)
Net decrease in other assets	345	125
Net cash (outflow) / inflow from operating activities	(14,389)	26,511
Analysis of increase in cash		
Cash in hand and balances with Bank of England	187	137
Loans and advances to credit institutions repayable on demand	16,744	16,737
Balance at 31 December	16,931	16,874
Balance brought forward, 1 January	16,874	13,571
Net increase in year	57	3,303

1. Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's and Society's accounts.

1.1 Basis of Preparation

The Accounts are drawn up under the historical cost convention as modified by the revaluation of investment property and in accordance with applicable UK accounting standards, the Building Societies Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations 1998.

1.2 Basis of Consolidation

The Group accounts consolidate the state of affairs, income and expenditure and cash flows of the Society and all its subsidiary undertakings, all of which have accounting periods ending 31 December. Under the equity method of accounting the Group's share of the result of associated undertakings is included in the income and expenditure account. Transactions and balances between Group companies are eliminated on consolidation. The acquisition method of accounting has been adopted, under which the results of subsidiary undertakings or businesses acquired or disposed of in a year are included in the income and expenditure account from the date of acquisition or up to the date of disposal. Investments in subsidiary and associated undertakings are stated at cost less provisions for impairment in value.

1.3 Goodwill

Goodwill arising on the acquisition of subsidiary undertakings or businesses represents the excess of consideration over the fair value of net assets or liabilities acquired at the date of acquisition. Goodwill is amortised on a straight line basis over its estimated useful economic life of 5 years or such shorter period as the directors deem appropriate.

1.4 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, and is calculated at rates expected to be applicable when the liability or asset crystallises.

1.5 Tangible Fixed Assets and Depreciation

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

Office Equipment	3 to 8 years straight line basis.
Motor Vehicles	30% per annum reducing balance basis.
Freehold Buildings	50 years straight line basis.

Freehold Land is not depreciated.

1.6 Investment Properties

In accordance with Statement of Standard Accounting Practice No 19 investment properties are valued annually at open market value. All surpluses and deficits arising on valuations are taken directly to revaluation reserve except that any permanent diminution in the value of an investment property is taken to the income and expenditure account. No depreciation or amortisation is provided in respect of freehold investment properties. This treatment, as regards the Group's investment properties, is a departure from the regulations which require all properties to be depreciated. However, these properties are not held for consumption but for investment and the Directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or qualified.

1.7 Liquid Assets

Liquid assets are shown at cost including debt securities which are intended for use on a continuing basis. Premiums and discounts arising from the purchase of debt securities held as financial fixed assets are amortised on a straight line basis over the period to maturity. Any amounts so amortised are charged or credited to the income and expenditure account for the relevant financial years. Where there is a permanent diminution in the value of a financial fixed asset a provision is made so as to write down the cost of the security to its recoverable amount.

1.8 Provisions for Loans and Advances

Losses on secured advances are provided based upon a year end appraisal of loans and advances. The amount charged in the income and expenditure account comprises amounts written off during the year, less recoveries, and the net change in the ongoing provision.

No interest is recognised in the income and expenditure account on advances secured on properties taken into possession where a foreseeable loss arises. Specific provisions have been made in respect of the anticipated losses on loans, not only where properties are in the possession of the Group, but also on a case by case basis. The amounts so provided are the amounts needed to reduce the book value of the loans to their expected realisable values. In addition, general provisions are made to cover losses which, although not yet specifically identified, are anticipated from experience to exist in the Group's portfolio of loans.

Notes to the Accounts

1. Principal Accounting Policies (continued)

1.9 Hedging Contracts and Instruments

The Group uses interest rate contracts solely for hedging purposes. All interest rate related contracts are classified at the balance sheet date as hedging contracts. For an instrument to be classified as a hedge, the transaction should be expected to reduce significantly the risks inherent in the financial assets, liabilities or cash flows being hedged, arising at the outset of the transaction. Income or expenditure on hedging contracts is recognised on an equivalent basis to the assets, liabilities or positions that are being hedged. If the hedge contract is terminated early the gain or loss is amortised over the remaining life of the item being hedged. If the underlying item is redeemed, the unamortised amounts are recognised immediately. Amounts accrued on hedging instruments are included within prepayments and accrued income or accruals and deferred income.

1.10 Operating Leases

Rentals under operating leases are charged to management expenses on a straight line basis over the period of the lease.

1.11 Income and Cost Recognition

Cashbacks and other non interest incentives to borrowers are written off to other operating charges in the year in which they are incurred. Interest discounts reduce interest receivable over the period of the relevant discount. Other fees, commissions and costs are recognised on an accruals basis in the period during which they are earned or incurred.

1.12 Pension Costs

The Group operates a pension scheme consisting of a defined benefit pension scheme in respect of members service up to its curtailment on 30th September 2008 and a defined contribution scheme which commenced on 1st October 2008. The assets of the defined benefit scheme are measured at market value at each balance sheet date and the liabilities are measured using the projected unit valuation method, discounted using a corporate bond rate. The resultant pension scheme surplus is recognised as an asset on the balance sheet, net of associated deferred taxation, up to an amount not exceeding the amount recoverable from reduced contributions in the future. Following the curtailment, any increase in the present value of the liabilities of the defined benefit scheme is expected to arise only from changes in actuarial assumptions surrounding the existing liabilities which would be charged to the Statement of Recognised Gains and Losses.

The expected return on the defined benefits scheme's assets and the increase in the scheme's liabilities, arising from the passage of time, are disclosed as a pension finance charge / income. Any resulting actuarial gains or losses, that is gains or losses arising from differences in the expected return on scheme assets compared to the actual return and changes in assumptions, or factors which affect those assumptions, used in measuring the scheme liabilities, are recognised immediately in the Statement of Recognised Gains and Losses. As noted above, the Group also operates a defined contribution scheme, contributions to which are charged to the income and expenditure account as they fall due.

2. Interest Receivable and Similar Income

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
On loans fully secured on residential property	9,107	6,599	16,014	14,814
On other loans	180	180	366	366
On other loans to connected undertakings	0	654	0	1,066
On interest debt securities				
Interest and other income	2,310	2,310	3,723	3,723
On other liquid assets				
Interest and other income	570	570	2,979	2,979
Net (expense) / income on financial instruments	(2,249)	(1,333)	187	140
	9,918	8,980	23,269	23,088

Included within Society interest receivable is £654,000 (2008: £1,066,000) in respect of amounts receivable from subsidiary and associated undertakings.

Interest on debt securities includes £1,282,000 (2008: £3,415,000) in respect of income from fixed income securities.

3. Interest Payable and Similar Charges

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
On shares held by individuals	(4,781)	(4,782)	(17,523)	(17,531)
On deposits and other borrowings	(270)	(270)	(63)	(63)
Net income on financial instruments	20	20	1	1
	(5,031)	(5,032)	(17,585)	(17,593)

4. Administrative Expenses

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Staff costs				
Wages and salaries	(1,960)	(1,726)	(3,092)	(1,836)
Social security costs	(209)	(185)	(256)	(159)
Other pension costs:				
Defined benefit scheme	(25)	(25)	(904)	(904)
Defined contribution schemes	(238)	(218)	(129)	(77)
Pension scheme settlement and curtailment gains	1,602	1,602	1,610	1,610
Cost of reducing pension obligations	(730)	(730)	0	0
Other administrative expenses	(1,860)	(1,533)	(2,479)	(1,693)
	(3,420)	(2,815)	(5,250)	(3,059)
Other administrative expenses include:				
Amounts charged under operating leases	(24)	(68)	(42)	(67)
Group auditors and their associates only:				
Audit of financial statements	(55)	(55)	(62)	(62)
Audit of financial statements of subsidiaries	(10)	0	(9)	0

The items shown above in respect of the pension scheme settlement and curtailment gains and cost of reducing pension obligations are explained in Note 6.

5. Employees

	Group 2009	Society 2009	Group 2008	Society 2008
The average number of persons employed during year was:				
Full Time	62	56	94	57
Part Time	22	20	26	22
	84	76	120	79
Building Society				
Central Administration	49	49	52	51
Branches	27	27	28	28
Subsidiaries	8	0	40	0
	84	76	120	79

Notes to the Accounts

6. Pension Schemes

Since 2008 the structure of the pension scheme has been changed.

The Group operates a defined contribution pension scheme which opened on 1 October 2008. From this date employer contributions were 17.5% of base salary, reducing to 10% with effect from 1 May 2009. Scheme members contribute 2.5% of salary and may contribute further amounts which are matched by the Group up to a further 2.5% of base salary.

The defined benefit scheme was closed to future accrual with effect from 30 September 2008. In December 2008 an agreement was reached to sell to Aegon plc the liabilities in respect of some of the pensioners in payment. The combined effect of these two events was a gain of £1,610,000 recognised in the 2008 accounts.

During 2009 a pension transfer programme was offered to members of the closed defined benefit scheme. At its conclusion the effect was a reduction in liabilities related to transfers of £4,704,000 and creation of a transfer settlement gain of £1,602,000 recognised in these accounts. The Society incurred costs of £730,000 in implementing this programme.

The Society does not expect to contribute to the defined benefit scheme in the next financial year.

A full actuarial valuation of the defined benefit scheme was carried out as at 1 August 2006 and updated to 31 December 2009 by the Scheme actuary, allowing for the actuarial method and assumptions prescribed under Financial Reporting Standard 17 'Retirement Benefits'

The scheme assets include no property occupied by, or other assets used by, the Society.

The major categories of scheme assets as a percentage of total scheme assets are as follows:	2009	2008
Equities	0%	21%
Bonds	65%	35%
Property	0%	11%
Annuities	33%	28%
Cash	2%	5%

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages)	2009	2008
Discount rate	5.60%	5.50%
Weighted average expected return on scheme assets	6.14%	6.60%
Future revaluation of pensions in deferment	3.60%	3.20%
Future pension increases (5% LPI)	3.60%	3.20%
Mortality		
Actuarial tables used	PA92 Year of Birth Medium Cohort 1.5%/1.0% underpin for males/females	PA92 Year of Birth Medium Cohort 1.5%/1.0% underpin for males/females
Male / female life expectancy from age 60	28.7 / 31.0	28.6 / 30.8

Where investments are held in bonds and cash, the expected long term rate of return is taken to be the yields generally prevailing on the assets held at the balance sheet date, less an adjustment for default risk and expenses. A higher rate of return is expected on equity and property investments, which is based more on realistic future expectations than on the returns that have been available historically. The overall expected long term rate of return on assets is then the average of these rates taking into account the underlying asset portfolio of the pension scheme. The expected returns quoted are net of all scheme expenses. The interest on insured annuities has been included in both the expected return on assets and the interest on liabilities.

The expected returns for each asset class were:	2009	2008
Equities	n/a	7.70%
Bonds	6.50%	6.00%
Property	n/a	7.70%
Annuities	5.60%	5.50%
Cash	4.30%	3.70%

6. Pension Schemes (continued)

	2009 £,000	2009 £,000	2008 £,000	2008 £,000
The amounts recognised in the balance sheet are as follows:				
Present value of funded obligations	(15,590)		(19,262)	
Fair value of scheme assets	19,554		22,047	
Surplus	3,964		2,785	
Related deferred tax liability	(1,110)		(780)	
Net asset	<u>2,854</u>		<u>2,005</u>	
The amounts recognised in the income and expenditure account are as follows:				
Current service cost	25		852	
Past service cost	0		52	
Included within administration expenses		25		904
Interest on obligations	1,043		1,059	
Expected return on scheme assets	(1,358)		(1,862)	
Included within other finance income		(315)		(803)
Gains on curtailment and settlements	(1,602)		(1,610)	
Included within administration expenses		(1,602)		(1,610)
Total		(1,892)		(1,509)
Actual return on scheme assets	<u>2,665</u>		<u>(6,165)</u>	
Changes in the present value of the defined benefit obligations are as follows:				
Opening defined benefit obligation	19,262		17,766	
Service cost	25		852	
Past service costs	0		52	
Interest cost	1,043		1,059	
Actuarial losses	2,020		2,025	
Gains on curtailment / settlements	(1,602)		(1,610)	
Liabilities extinguished on settlements	(4,704)		0	
Benefits paid	(454)		(882)	
Closing defined benefit obligation	<u>15,590</u>		<u>19,262</u>	
Changes in the fair value of scheme assets are as follows:				
Opening fair value of scheme assets	22,047		29,094	
Expected return	1,358		1,862	
Actuarial gains / (losses)	1,307		(8,027)	
Assets distributed on settlements	(4,704)		0	
Benefits paid	(454)		(882)	
Closing fair value of scheme assets	<u>19,554</u>		<u>22,047</u>	

Notes to the Accounts

6. Pension Schemes (continued)

Amounts for the current and previous periods are as follows:

	2009 £,000	2008 £,000	2007 £,000	2006 £,000	2005 £,000
Defined benefit obligation	(15,590)	(19,262)	(17,766)	(16,590)	(15,477)
Scheme assets*	19,554	22,047	29,094	29,309	27,930
Surplus	3,964	2,785	11,328	12,719	12,453
Experience adjustments on scheme liabilities	0	(634)	(837)	(202)	0
Experience adjustments on scheme assets	1,307	(8,027)	(1,454)	576	869

* The Society has elected not to restate amounts from mid-market price to bid price for 2005 as permitted by the amendment to FRS17. The fair values of plan assets for 2005 have not been restated at bid price as the impact of the restatement is not considered to be material.

The total amount recognised in the consolidated statement of total recognised gains and losses in respect of actuarial losses is £513,000 (2008: £7,237,000).

Cumulative actuarial losses reported in both the Society and consolidated statement of total recognised gains and losses for accounting periods ending on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 69 of FRS 17, are £2,497,000 (2008: £1,984,000).

The Group operates a separate defined contribution scheme for employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group and amounted to £238,000 (2008: £129,000). There were no contributions payable at the year end (2008: £Nil).

7. Directors' Emoluments

Society 2009	Salary / Fees £	Bonus £	Benefits £	Sub Total £	Increase in Accrued Pension £	Total £
Non-Executive						
R D Wood	26,248	0	410	26,658	n/a	26,658
R V N Jones	18,976	0	410	19,386	n/a	19,386
N J Townsend	18,976	0	410	19,386	n/a	19,386
P A Coates	18,976	0	410	19,386	n/a	19,386
D J Wood	18,976	0	410	19,386	n/a	19,386
R H Clegg	23,976	0	410	24,386	n/a	24,386
Executive						
M J Reason	130,967	0	32,550	163,517	611	164,128
G E Parkes (appointed 29 June 2009)	48,653	0	12,110	60,763	n/a	60,763
D R Pickard (resigned 31 May 2009)	60,481	0	14,552	75,033	n/a	75,033
	366,229	0	61,672	427,901	611	428,512

Included in benefits above are defined contribution pension payments for M J Reason £18,760 (2008: £6,266), G E Parkes £5,833 (2008: £Nil) and D R Pickard £9,635 (2008: £6,355).

7. Directors' Emoluments (continued)

Society 2008	Salary / Fees £	Bonus £	Benefits £	Sub Total £	Increase in Accrued Pension £	Total £
Non-Executive						
R D Wood	27,436	0	417	27,853	n/a	27,853
R V N Jones	20,053	0	0	20,053	n/a	20,053
N J Townsend	20,053	0	417	20,470	n/a	20,470
P A Coates	20,053	0	417	20,470	n/a	20,470
D J Wood	20,053	0	417	20,470	n/a	20,470
R Clegg (appointed 20 May 2008)	11,769	0	36	11,805	n/a	11,805
K Hallam (resigned 29 April 2008)	6,546	0	131	6,677	n/a	6,677
Executive						
M J Reason	130,079	8,195	19,768	158,042	3,774	161,816
D R Pickard (appointed 16 September 2008)	42,426	2,665	9,495	54,586	n/a	54,586
P H Loveday (retired 31 August 2008)	53,210	0	7,279	60,489	3,431	63,920
	351,678	10,860	38,377	400,915	7,205	408,120

In respect of 2008 certain items have been reclassified from bonus to salary/fees for M J Reason (£5,860) and D R Pickard (£2,000). These relate to non-performance related Christmas and attendance bonus which has been traditionally paid to all staff.

Directors' loans and transactions

At 31 December 2009, there were outstanding mortgage loans granted in the ordinary course of business to 1 (2008: 1) Director and 1 (2008: 1) connected person, amounting in aggregate to £546,312 (2008: £549,011). A register is maintained in accordance with the requirements of Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and their connected persons. A statement of the appropriate details contained in the register, for the financial year ended 31 December 2009, will be available for inspection at the Society's Principal Office for a period of 15 days up to and including the Annual General Meeting.

8. Tax on Profit on Ordinary Activities

a) Analysis of charge in year

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Current tax				
UK corporation tax on profits of the year at 28% (2008: 28.5%)	0	0	0	(571)
Adjustment in respect of prior periods	3	3	0	0
Total current tax	3	3	0	(571)
Deferred tax at 28% (2008: 28%)				
Tax losses recognised	394	65	276	0
Pension asset	(530)	(530)	(422)	(422)
Reversal of timing differences	37	(48)	43	13
(See note 22)	(99)	(513)	(103)	(409)
Tax on profit on ordinary activities	(96)	(510)	(103)	(980)

Notes to the Accounts

8. Tax on Profit on Ordinary Activities (continued)

b) Factors affecting current tax charge in year

The current tax charge for the year differs to the standard rate of corporation tax in the UK of 28% (2008: 28.5%).

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
The differences are explained below:				
Current tax reconciliation				
Profit on ordinary activities before tax	112	248	253	1,350
Current tax at 28% (2008: 28.5%)	(32)	(69)	(73)	(385)
Effects of:				
Amount written off fixed asset investments	0	(379)	0	(570)
Expenses not deductible for tax purposes	(6)	0	(1)	(1)
Tax losses recognised	(394)	(65)	(276)	0
Pension asset movement	530	530	430	430
Depreciation in excess of capital allowances	(107)	(26)	(66)	(51)
Movement in provisions for bad and doubtful debts	9	9	(14)	6
Adjustment in respect of prior periods	3	3	0	0
Total current tax charge (see above)	3	3	0	(571)

9. Loans and Advances to Credit Institutions

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Accrued interest	40	40	286	286
Repayable on demand	16,744	16,665	16,737	16,629
Other loans and advances by residual maturity, repayable:				
In not more than three months	14,000	14,000	8,667	8,667
In more than three months but not more than one year	2,508	2,508	8,640	8,640
	33,292	33,213	34,330	34,222

10. Debt Securities

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Debt securities issued by other borrowers have remaining maturities as follows:				
Accrued interest	334	334	968	968
In not more than one year	56,276	56,276	74,292	74,292
In more than one year	9,740	9,740	6,595	6,595
	66,350	66,350	81,855	81,855
Unlisted transferable debt securities (excluding accrued interest)	66,016	66,016	80,887	80,887

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

10. Debt Securities (continued)

Movements during the year of debt securities held as financial fixed assets are analysed as follows:

	2009 £,000
Cost (excluding accrued interest)	
At 1 January 2009	80,887
Acquisitions during the year	128,848
Amortisation of premiums	(336)
Disposals and maturities during the year	(143,383)
At 31 December 2009	66,016

Included in the balance sheet total is £751,000 (2008: £27,000) of unamortised premiums and £14,000 (2008: £Nil) of unamortised discounts.

11. Loans and Advances to Customers

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Loans fully secured on residential property	291,102	255,346	299,714	274,410
Other loans				
Loans fully secured on land	5,375	5,375	5,536	5,536
	296,477	260,721	305,250	279,946

The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
On call and at short notice	0	0	202	202
Other loans and advances by residual maturity, repayable:				
In not more than three months	5,161	4,709	4,098	4,022
In more than three months but not more than one year	11,872	11,475	8,437	8,210
In more than one year but not more than five years	69,357	66,733	58,711	57,297
In more than five years	211,520	178,114	234,519	210,377
	297,910	261,031	305,967	280,108
Less:				
Provisions for bad and doubtful debts (see note 12)	(1,433)	(310)	(717)	(162)
	296,477	260,721	305,250	279,946

Notes to the Accounts

12. Provisions for Bad and Doubtful Debts

Provision against loans and advances has been made as follows:

	Loans Fully Secured on Residential Property		Loans Fully Secured on Land		Total £,000
	Specific £,000	General £,000	Specific £,000	General £,000	
Group					
At 1 January 2009	435	248	0	34	717
Income and expenditure account	558	(15)	173	0	716
At 31 December 2009	993	233	173	34	1,433
Society					
At 1 January 2009	0	128	0	34	162
Income and expenditure account	9	(34)	173	0	148
At 31 December 2009	9	94	173	34	310

The charge shown in the Income and Expenditure account for provisions is made up as follows:

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Movement in loss provision (above)	(716)	(148)	(520)	(16)
Losses written off	(245)	(3)	0	0
Impairment recovery / (loss)	98	0	(99)	0
Total	(863)	(151)	(619)	(16)

13. Investments

(a) Investments at cost and net book value

	Society 2009 £,000	Society 2008 £,000
Investment in subsidiary undertakings - shares	140	140
Investment in subsidiary undertakings - loans	39,085	30,135
	39,225	30,275
Movement in subsidiary undertakings - loans		
At 1 January 2009	30,135	
New loans	10,304	
Loan waiver	(1,354)	
At 31 December 2009	39,085	

Following a review of the value of the investments in subsidiaries at the end of 2009, it was decided that the carrying value of the intercompany liability with MMBS Services Ltd was above its likely recoverable value. The Society has agreed to a waiver of £1.4m (2008: £2.0m) of the intercompany loan as a result of this review.

13. Investments (continued)

(b) Subsidiary undertakings

	Principal Activity	Place of Incorporation	Class of Share Held	Society's Interest
MBS Lending Limited	Mortgage Lending	England	Ordinary	100%
MMBS Trading Limited	Property Management	England	Ordinary	100%
MMBS Services Limited	Independent Financial Advice and Mortgage Packaging	England	Ordinary	100%

14. Intangible Fixed Assets

	Group £,000
Goodwill	
COST	
At 1 January 2009	1,875
Adjustments to purchased goodwill	(5)
At 31 December 2009	1,870
AMORTISATION	
At 1 January 2009	978
Charge for year	400
Impairment	492
At 31 December 2009	1,870
NET BOOK VALUE	
At 31 December 2009	0
At 31 December 2008	897

During the course of the year the Directors conducted an assessment of the carrying value of the goodwill acquired during 2007 as part of the acquisition of Praxis. In view of the continuing difficult trading conditions and expected shortfall against the original budget projections, the Directors decided to accelerate the goodwill amortisation by removing any residual value from the balance sheet.

The opening goodwill has been adjusted by £5,000, which has been transferred to other assets.

Notes to the Accounts

15. Tangible Fixed Assets - Group

	Freehold Land & Buildings £,000	Office Equipment £,000	Motor Vehicles £,000	Total £,000
COST				
At 1 January 2009	5,847	3,097	136	9,080
Additions	1	166	8	175
Disposals	0	0	(120)	(120)
At 31 December 2009	5,848	3,263	24	9,135
DEPRECIATION				
At 1 January 2009	349	1,690	71	2,110
Charged in year	89	594	12	695
Disposals	0	0	(64)	(64)
At 31 December 2009	438	2,284	19	2,741
NET BOOK VALUE				
At 31 December 2009	5,410	979	5	6,394
At 31 December 2008	5,498	1,407	65	6,970

15. Tangible Fixed Assets - Society

	Freehold Land & Buildings £,000	Office Equipment £,000	Motor Vehicles £,000	Total £,000
COST				
At 1 January 2009	4,933	2,293	99	7,325
Additions	1	163	8	172
Disposals	0	0	(83)	(83)
At 31 December 2009	4,934	2,456	24	7,414
DEPRECIATION				
At 1 January 2009	325	1,401	54	1,780
Charged in year	77	231	10	318
Disposals	0	0	(45)	(45)
At 31 December 2009	402	1,632	19	2,053
NET BOOK VALUE				
At 31 December 2009	4,532	824	5	5,361
At 31 December 2008	4,608	892	45	5,545

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Land and buildings occupied by the Group & Society for its own activities	5,410	4,532	5,498	4,608

16. Investment Property

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Cost or valuation and net book value				
At 1 January	2,400	2,240	3,090	2,850
Additions at cost	145	145	30	30
Revaluation - unrealised loss	(45)	(85)	(720)	(640)
At 31 December, at valuation	2,500	2,300	2,400	2,240

The last formal valuation of the investment properties was performed as at 31 December 2009. The valuations were performed by Mr Jonathan Emmerson BSc (Hons) MRICS on the basis of open market value.

Notes to the Accounts

17. Other Assets

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Corporation Tax	589	0	428	0
Deferred Tax Asset (see note 22)	694	10	263	0
Properties for resale	0	0	350	350
Other Assets	5	0	0	0
	1,288	10	1,041	350

18. Shares

	Group & Society 2009 £,000	Group & Society 2008 £,000
Held by individuals	348,323	401,337
Shares are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	1,802	8,652
Repayable on demand	280,623	321,644
Other shares by residual maturity, payable:		
In not more than three months	3,833	31,274
In more than three months but not more than one year	12,079	31,111
In more than one year but not more than five years	49,986	8,656
	348,323	401,337

19. Amounts Owed to Credit Institutions

Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Accrued interest	72	72	0	0
In not more than three months	24,000	24,000	0	0
In more than three months but not more than one year	1,000	1,000	0	0
	25,072	25,072	0	0

20. Amounts Owed to Other Customers

Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Accrued interest	43	43	22	22
Repayable on demand	1,294	1,561	1,359	1,555
In not more than three months	1,000	1,000	5	5
In more than three months but not more than one year	186	186	746	746
In more than one year but not more than five years	2,044	2,044	0	0
	4,567	4,834	2,132	2,328

21. Other Liabilities

Amounts falling due within one year:

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Income tax	13	13	32	32
Corporation tax	0	188	0	349
	13	201	32	381

22. Provisions for Liabilities

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Regulatory compensation	0	0	0	0
FSCS Levy	370	370	450	450
Deferred tax	0	0	0	7
Affordable Housing	28	28	0	0
	398	398	450	457
Regulatory compensation				
At 1 January	0	0	39	39
Amounts utilised in year	0	0	(13)	(13)
Release of Provision	0	0	(26)	(26)
At 31 December	0	0	0	0
The regulatory compensation provision is in respect of claims and potential claims relating to the sale of endowment policies to customers before 1994.				
FSCS Levy				
At 1 January	450	450	0	0
Charge to the income and expenditure account	215	215	450	450
Release of provisions	(124)	(124)	0	0
Payments made in year	(171)	(171)	0	0
At 31 December	370	370	450	450
Deferred tax				
At 1 January	(263)	7	56	20
Charge to the income and expenditure account (see note 8)	99	513	103	409
Offset against pension asset	(530)	(530)	(422)	(422)
At 31 December (see note 17)	(694)	(10)	(263)	7
The amounts provided for deferred taxation are set out below:				
Capital allowances in excess of depreciation	51	91	92	52
Timing differences related to general provisions	(75)	(36)	(79)	(45)
Tax losses	(670)	(65)	(276)	0
	(694)	(10)	(263)	7

In accordance with FRS 19 (Deferred Tax) the potential deferred tax liability arising on property gains rolled over and on the surplus on revaluation of an investment property have not been provided. At 31 December 2009 this amounted to £461,000 (2008: £481,000).

Deferred tax has been calculated at a rate of 28% (2008: 28%).

Notes to the Accounts

Financial Services Compensation Scheme

Based on its share of protected deposits, the Society, in common with all regulated deposit takers, 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 2008 claims were triggered against the FSCS by the transfer of Bradford & Bingley plc's retail deposit business to Abbey National plc, 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 and failure of London and Scottish Bank plc.

The FSCS is meeting the claims by way of loans 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 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.

In 2008 the Society recognised a provision for the FSCS levy of £450,000 relating to the FSCS scheme years 2008/9 and 2009/10. The provision was calculated with reference to the protected deposits held as at 31 December 2007 and 2008 based on the Financial Services Authority's estimate of the management expense levies to be raised. In 2009 the Society has recognised a further charge of £215,000 in relation to the levy for the scheme year 2010/11, which is calculated by reference to protected deposits held as at 31 December 2009, adjusted for a release of £124,000 in respect of an over accrual in 2008. The provision does not include any estimate for management expense levies for future years or for compensation levies which may arise.

23. Reserves

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
General Reserves				
At 1 January	30,065	30,837	37,152	37,704
Profit for the year	16	(262)	150	370
Actuarial gains and losses net of deferred tax (see note 6)	(513)	(513)	(7,237)	(7,237)
As at 31 December	29,568	30,062	30,065	30,837
General reserves (excluding pension asset)	26,714	27,208	28,060	28,832
Pension asset	2,854	2,854	2,005	2,005
General reserves	29,568	30,062	30,065	30,837
Revaluation Reserve : Investment properties				
At 1 January	915	995	1,635	1,635
Deficit on revaluation (see note 16)	(45)	(85)	(720)	(640)
At 31 December	870	910	915	995

24. Guarantees and Other Financial Commitments

	Group 2009 £,000	Society 2009 £,000	Group 2008 £,000	Society 2008 £,000
Capital commitments				
Capital commitments at the end of the financial year				
Capital expenditure contracted for but not provided in the accounts at the end of the financial year	0	0	317	317
Annual commitments				
Annual commitments under non-cancellable operating leases are as follows :				
In respect of land and buildings :				
Operating leases expiring over five years	0	56	0	56
In respect of other leases :				
Operating leases expiring in less than one year	2	2	11	8
Operating leases expiring between two and five years	0	0	6	6

Subsidiary Undertakings

It is the intention of the Society to continue to support fully its subsidiary undertakings.

25. Risk Management and Financial Instruments

Risk management

Through its normal operations the Group is exposed to a number of risks, the most significant of which are liquidity, credit and interest rate. The Group has a formal structure for managing these, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Assets and Liabilities Committee (ALCO) which is charged with responsibility for managing and controlling the balance sheet exposures of the Group.

Liquidity risk

Liquidity risk is the risk of failing to meet demands and commitments to provide funds to customers and other third parties. The Group's policy is to maintain sufficient liquid funds at all times to ensure that liabilities can be met as they fall due. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities thereby maintaining public confidence in the solvency of the Group. In addition it is the Group's policy to maintain committed borrowing facilities in order to provide additional flexibility in the management of the Group's liquidity. At the year end the Group had undrawn committed facilities of £2.0 million (2008: £2.0 million).

Credit risk

Credit risk is the risk of default by counterparties to transactions. All loan applications are assessed with reference to the Group's lending policy. Changes to the lending policy are approved by the Board. Appropriate credit limits have been established by the Board for individual treasury counterparties and sectors and ALCO ensures that these limits are monitored.

Notes to the Accounts

25. Risk Management and Financial Instruments (continued)

Interest rate risk

The Group is exposed to movements in interest rates in relation to fixed rate savings and mortgage lending. This risk is managed, within limits set by ALCO, using interest rate cap and swap contracts. No transactions of a speculative nature are undertaken. After taking into account the interest rate cap and swap contracts entered into by the Group, the interest rate sensitivity exposures of the Group at 31 December 2009 and 31 December 2008 were as follows:

Group 31 December 2009	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	63,910	12,509	14,273	8,242	0	895	99,829
Loans and advances to customers	227,220	2,607	17,045	50,281	757	(1,433)	296,477
Tangible fixed assets	0	0	0	0	0	6,394	6,394
Investment properties	0	0	0	0	0	2,500	2,500
Pension asset	0	0	0	0	0	2,854	2,854
Other assets	0	0	0	0	0	1,692	1,692
Total assets	291,130	15,116	31,318	58,523	757	12,902	409,746
Liabilities							
Shares	284,456	9,064	3,015	49,986	0	1,802	348,323
Amounts owed to credit institutions	24,000	1,000	0	0	0	72	25,072
Amounts owed to other customers	2,294	184	2	2,044	0	43	4,567
Other liabilities	0	0	0	0	0	1,346	1,346
Reserves	0	0	0	0	0	30,438	30,438
Total liabilities	310,750	10,248	3,017	52,030	0	33,701	409,746
Off balance sheet items	37,500	500	(16,000)	(21,500)	(500)	0	0
Interest rate sensitivity gap	17,880	5,368	12,301	(15,007)	257	(20,799)	0
Group 31 December 2008							
Total assets	292,880	25,219	48,017	54,401	518	14,491	435,526
Total liabilities	355,074	7,046	24,019	8,656	0	40,731	435,526
Off balance sheet items	58,500	(4,000)	(12,500)	(41,500)	(500)	0	0
Interest rate sensitivity gap	(3,694)	14,173	11,498	4,245	18	(26,240)	0

Liquid assets include cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

25. Risk Management and Financial Instruments (continued)

Unmatured forward transactions	Group 2009 £,000	Group 2008 £,000
At the year end, the contract or underlying principal amounts of off balance sheet instruments, together with their risk weighted amount and replacement cost were:		
Interest rate contracts		
Underlying principal amount	59,000	60,000
Risk weighted amount	35	42
Replacement cost	17	0

The risk weighted amount of interest rate contracts has been calculated according to Financial Services Authority Solvency Ratio principles and the replacement cost obtained by marking to market contracts and aggregating those with a positive value.

Fair values of financial assets and financial liabilities

Set out below is a comparison of carrying values and fair values of some of the Group's and Society's financial assets and financial liabilities as at 31 December 2009. The Group does not undertake transactions for trading or speculative purposes. 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. All fair values have been calculated using market rates.

	Group 2009 Book Value £,000	Group 2009 Fair Value Amount £,000	Group 2008 Book Value £,000	Group 2008 Fair Value Amount £,000
Financial assets and liabilities for which active financial markets exist				
Debt securities	66,016	66,076	80,887	81,428
Off balance sheet instruments - interest rate swaps	0	(2,182)	0	(3,010)

Hedges

Hedges which comprise the "off balance sheet instruments" referred to above are used to reduce the risk of loss arising from changes in interest rates. 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:

Group Year to 31 December 2009	Unrecognised Gains £,000	Unrecognised Losses £,000	Net Gain / (Loss) £,000
Unrecognised gains and losses on hedges at 1 January 2009	0	(3,010)	(3,010)
Gains and losses unrecognised at 1 January recognised in 2009	0	415	415
Gains and losses arising before 1 January and not recognised in 2009	0	(2,595)	(2,595)
Gains and losses arising in 2009 and not recognised in 2009	17	396	413
Unrecognised gains and losses on hedges at 31 December 2009	17	(2,199)	(2,182)
Of which:			
Expected to be recognised in the year to 31 December 2010	17	(790)	(773)
Expected to be recognised after 31 December 2010	0	(1,409)	(1,409)
	17	(2,199)	(2,182)

1. Statutory Percentages

	Group 2009	Statutory Limit
Lending Limit	4.14%	25.00%
Funding Limit	7.84%	50.00%

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property.

Business assets are the total assets of the Group as shown on 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 owed by borrowers and interest accrued not yet payable. This is the amount shown in the balance sheet plus provisions for bad and doubtful debts.

The Funding Limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The statutory limits are as laid down under the Building Societies Act 1986 and ensure that the principal purpose of the Group is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other Percentages

	Group 2009	Group 2008
As a percentage of shares and borrowings		
Gross capital	8.05%	7.68%
Free capital	6.43%	5.80%
Liquid assets	26.41%	28.83%
Profit for the financial year as a percentage of mean total assets	0.00%	0.03%
Management expenses as a percentage of mean total assets:		
- Group	1.07%	1.43%
- Society underlying	0.95%	1.14%

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 the general reserves and revaluation reserve.

'Free capital' represents the aggregate of gross capital and general provisions for bad and doubtful debts less tangible and intangible 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.

Annual Business Statement - for the year ended 31 December 2009

3. Information Relating to Directors and Other Officers at 31 December 2009

Directors

Name	Date Of Appointment	Business Occupation	Date Of Birth	Other Directorships
Roger David WOOD BA	1 Jul 2002	Chief Executive	12 Mar 1947	PETO UK Ltd
Robin Vivian Nigel JONES BSc (Hons) Chem Eng	1 Aug 2007	Private Equity Investment	14 Mar 1950	Catapult Holdings Ltd Catapult Venture Managers Ltd Catapult Growth Manager Ltd Catapult Growth Fund Ltd East Midlands Regional Venture Capital Fund Ltd East Midlands GP Ltd AEIF (Carried Interest GP) Ltd AEIF (General Partner) Ltd
Richard Hilton CLEGG MBA, FCA	20 May 2008	Consultant	10 Sep 1949	Buying Solutions (a trading fund of HM Treasury)
Penelope Ann COATES BSc, MBA	1 Jun 2004	Chief Executive	20 Feb 1963	The Manchester Airport Group Plc East Midlands International Airport Ltd Bournemouth International Airport Ltd Humberside International Airport Ltd Airport Operators Association Ltd Prospect Leicestershire Ltd Loughborough University Council
Graham Edward PARKES BSc, FCA	29 Jun 2009	Finance Director	26 Feb 1958	MBS Lending Ltd MMBS Services Ltd MMBS Trading Ltd
Martin John REASON BSc (Hons)	1 May 2006	Chief Executive	11 Jul 1960	None
Nicolas John TOWNSEND	1 May 2007	Consultant	8 Apr 1946	Cottage and Rural Enterprise Ltd Leicester Games 2009 Ltd SOL Trading Ltd BWB Consulting Ltd Shireplot Ltd Care Community Sales Ltd
David J WOOD ACIB, MCIM, FRSA, DMS	1 May 2007	Managing Director	6 Feb 1957	Yardstick Contracts Ltd Commercial Services Circle Anglia Ltd

Documents may be served on any of the Directors at the offices of Latham & Co., Solicitors, 15 High Street, Melton Mowbray, Leicestershire.

Directors' Service Contracts

The Chief Executive has a service contract, entered into on 17 January 2006 which may be terminated by either party giving 6 months prior notice.

The Finance Director has an interim service contract, entered into on 3 August 2009 which may be terminated by either party giving 3 months prior notice.

Officers

Name	Business Occupation	Group Directorships
Michael Christopher McDERMOTT FCIB, CeMAP	Director of Operations	None
Christopher Paul ROWLEY FCIB, CeMAP, MCMI	Director of Risk and Compliance	MBS Lending Ltd MMBS Services Ltd MMBS Trading Ltd
Karen MIDDLETON	Group Marketing Director	MBS Lending Ltd
Colin LLOYD ACIB	Group Internal Auditor	None
Matthew Eric HELM BA (Hons), Adv CeMAP	Society Secretary	None



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Principal Office

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Melton Financial Services

Leicester Road, Melton Mowbray, Leics., LE13 0DB
Tel: 01664 414180 Fax: 01664 414101 E-mail: contact@meltonfinancialservices.co.uk

Branch Offices

18 Nottingham Street, Melton Mowbray, Leics., LE13 1NW.
Tel: 01664 480214 Fax: 01664 560321 E-mail: meltonbranch@mmbs.co.uk

48 High Street, Grantham, Lincs., NG31 6NE.
Tel: 01476 564528 Fax: 01476 575231 E-mail: grantham@mmbs.co.uk

23 High Street, Oakham, Rutland, LE15 6AH.
Tel: 01572 757911 Fax: 01572 757946 E-mail: oakham@mmbs.co.uk

Agency Offices of the Society

Bingham	Richard Watkinson & Partners, 10 Market Street, Bingham, Notts., NG13 8AB. Tel: 01949 836678.
Blaby	Dixon Coles & Goddard, 33 Lutterworth Road, Blaby, Leics., LE8 4DW. Tel: 0116 277 5899.
Bottesford	J.A. Ellis, The Old Exchange, Market Street, Bottesford, Notts., NG13 0BW. Tel: 01949 843323.
Nottingham	Melton Financial Services, 15 Trinity Square, Nottingham, NG1 4AF. Tel: 0115 947 6255.
Radcliffe on Trent	Richard Watkinson & Partners, 34 Main Road, Radcliffe on Trent, Notts., NG12 2FH. Tel: 0115 933 6666.
Sleaford	Waldeck, Snarey & Brown trading as Winkworth, 3 Northgate, Sleaford, Lincs., NG34 7BH. Tel: 01529 303377.
Uppingham	Freeway Travel, 1 High Street East, Uppingham, Rutland, LE15 9PY. Tel: 01572 822702.

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