

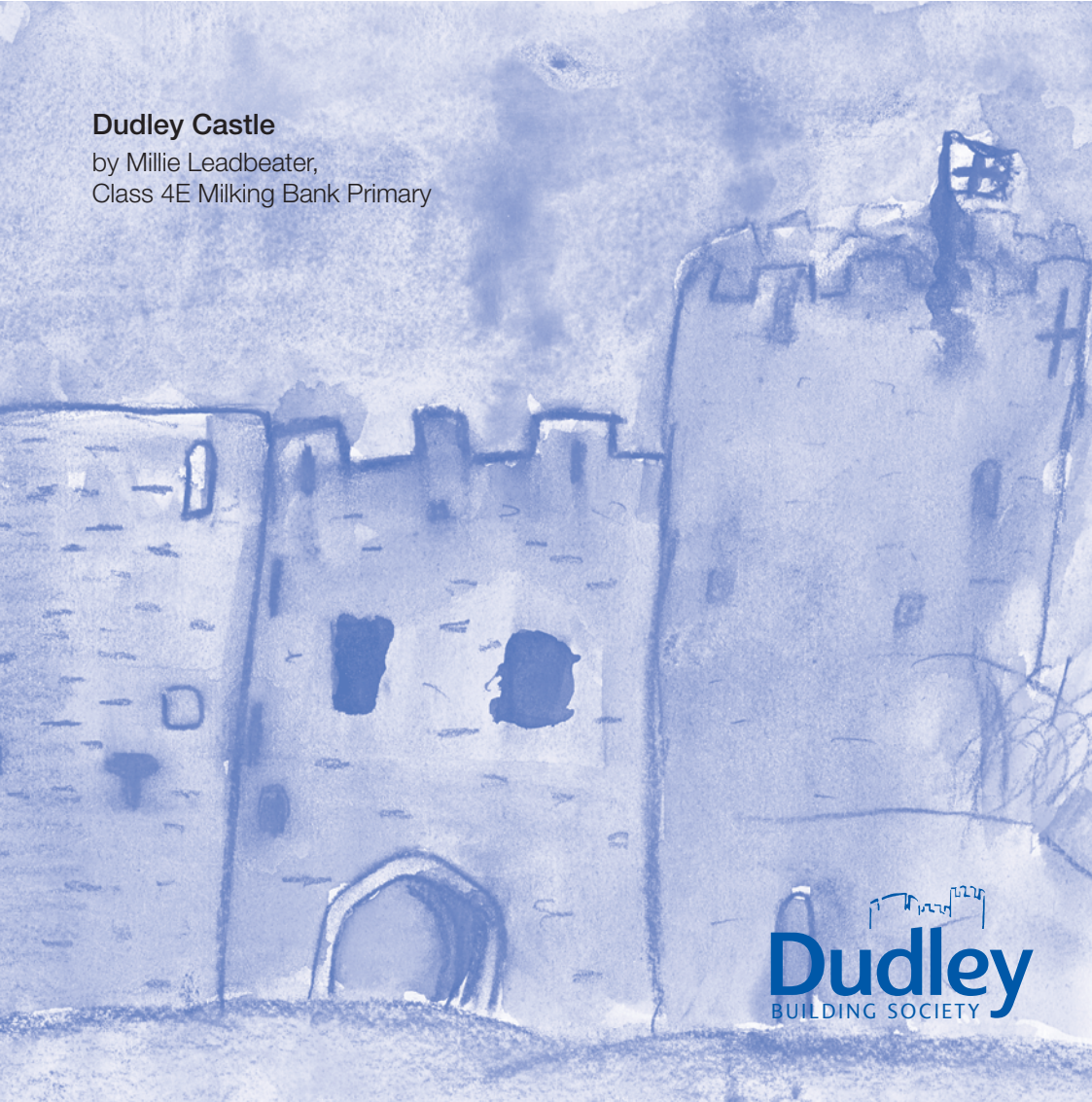
report & accounts

2011

for the year ended 31st March 2011

Dudley Castle

by Millie Leadbeater,
Class 4E Milking Bank Primary



DUDLEY BUILDING SOCIETY

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DIRECTORS, MANAGEMENT AND ADVISERS

DIRECTORS

Chairman

B. W. Frankling, FCA

Deputy Chairman

J. R. D. Anton, MBA, MA (Hons)

J. N. Bland, BSoc Sc, FCA

G. J. Caves, ACIS, FCIB

Mrs A. East, BA

D. A. Gamble, CFCIPD, ACIB

K. A. Langley

D. J. Milner, FCIB

MANAGEMENT

Director and Chief Executive

G. J. Caves, ACIS, FCIB

Finance Director

J. N. Bland, BSoc Sc, FCA

General Manager (Administration) and Secretary

K. E. Robinson, ACIB, ACol

General Manager (Training and Development)

Mrs. K. Rollason, ACIB

AUDITORS

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

BANKERS

The Co-Operative Bank PLC.,
1 Balloon Street,
Manchester,
M60 1GP

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2011

The Directors have pleasure in presenting their 152nd Annual Report, together with the Annual Accounts and Annual Business Statement of Dudley Building Society for the year ended 31 March 2011.

Business Objectives and Principal Activities

The Society's principal activity is the provision of long term residential mortgages to borrowers, financed by personal savings from Members.

The Society's objectives are to:

- provide competitive savings and mortgage products, together with related services for the local community.
- preserve its identity as an independent local Building Society within the community.
- maintain adequate reserves to safeguard Members' funds.
- provide customer care and a quality service to its Members.

Business Review

Review of Events

Overview

In spite of the difficulties with the UK economy and, in particular the housing market, the Society has produced a very solid performance which is testimony to our strategy, prudence and staff. Our mantra of 'owning the locality' continues to bear fruit and we have introduced and undertaken several initiatives that have strengthened our position in the market. We are not 'flashy' but we have ridden the recent storms considerably better than many of our competitors and are in a very sound financial position.

Background

While the UK technically came out of recession, the continuing economic uncertainty, faltering housing market and planned public sector spending cutbacks all had a detrimental effect on consumer confidence. The West Midlands property market was particularly 'soft'. Property values had fallen and few homeowners were able to move or re-mortgage. It was also becoming increasingly difficult for some to maintain mortgage payments. On the savings side, there was intense competition for retail funds as the repayment began of the £400bn that the Bank of England had lent to several large financial institutions.

Mortgages

A persistent struggle throughout the year was the shortage of funds available in the market place to 'lend' and get the property market moving again. One of the biggest hurdles for first time buyers is the deposit that is needed. The Society recognised this and actively sought to target, and assist, first time buyers onto the property ladder. Over 20% of gross lending in the year was to first time buyers.

Our understanding and knowledge of the local property market helped us to maintain business levels in excess of those of our competitors. While cautious in our underwriting of mortgages we were able to help many genuine purchasers of all ages. We also pride ourselves on the fact that while there may be more competitive rates, on the face of it, in the market place, the Society has no hidden charges associated to its mortgage products.

Our 'hands on' and considerate approach to those struggling to keep up with their mortgage repayments is a strength and appreciated by our customers. Unfortunately, however, every now and then, a property has to be repossessed and this happened on six occasions which led to unwelcome losses for the Society. We continue to keep a very close eye on arrears cases.

Savings

In anticipation of pressure on savings balances, the Society placed significant emphasis on maintaining a healthy level of liquid funds. We have continued to offer a competitive one year savings bond, an attractive regular savings account and we introduced a new Access 60 account. Our accounts do 'what it says on the tin' and, unlike many financial institutions, we do not introduce headline grabbing savings accounts that offer an attractive introductory rate before reverting to an uncompetitive level after an initial period.

DIRECTORS' REPORT (continued)

Review of Events (continued)

Branches/Agencies

We continue to invest in our branches and this year the Kingswinford branch was reconfigured in order to improve the staff facilities and provide scope for possible future expansion. Branch based marketing activity significantly increased over the year as, for the first time, branches were assigned individual marketing budgets. This initiative was warmly received and staff grasped the opportunity to develop both their branch and individual profiles within their locality.

In an exciting move for the Society, we also took the decision to take on 5 Nationwide agencies. This has already raised £6million of retail funding. It also serves to raise the profile of the Society and is in keeping with the spirit of the Building Society ethos of serving local communities. While many large financial institutions are closing branches and agencies the Dudley Building Society remains committed to having a presence on the high street.

Compliance and Regulation

The burden of regulation continues to increase and the demands of the Financial Services Authority grow ever more. In recognition of this, and the importance that the Society attaches to compliance, a new Compliance Manager was recruited.

Staff

We have always prided ourselves on our 'excellent' and 'personal' service and this has been borne out by independent mystery shopping exercises which cover the mortgage and savings areas where average scores of over 80 per cent were achieved throughout the year.

In the course of the year we recruited two graduate trainees who we hope will become the future of the Society. Both have settled in very well.

Finally, at the end of the year, Kevin Langley was appointed as a Non-Executive director. Kevin has a strong mortgage lending background having worked for several leading financial institutions. He extends the skill base of our non-Executive directors and will provide the 'challenge' that is required on the lending and arrears side.

Outlook

We remain cautious about the short term outlook for the UK economy and there are many challenges ahead. Risk and margin management are just two key issues while maintaining and indeed increasing our capital will also be important. That said, we are confident that we have a strategy and structure in place that will ensure that we continue to outperform the market and our peer group.

Assets

Total assets grew during the year by £3.5m (2010: £6.1m) and at 31 March 2011 amounted to £317m (2010: £313m) representing growth of 1.13% (2010: 1.99%). Liquid funds as a proportion of Share and Deposit Liabilities ended the year at 25.90% (2010: 28.69%) representing an asset value of £77.1m (2010: £84.5m).

Profitability

The after tax profit of £704,000 (2010: £917,000) represents 0.22% (2010: 0.30%) of mean total assets. The reserves have now grown to £17.7m (2010: £17m) and are considered to offer adequate support for the business.

Management Expenses Ratio

The Society has always been conscious of the need to manage costs carefully and whilst modest growth has been achieved tight control allowed management expenses to remain consistent at 0.97% (2010: 0.96%) of mean total assets.

DIRECTORS' REPORT (continued)

Mortgages

There was an improvement in interest in the mortgage market during the year. As a consequence £37m was advanced in the year compared with £25m last year.

At the end of the year the Society had seven properties in possession (2010: one). This is a worse position than the previous year and hopefully a brighter future will prevail in the new year. The Society has made great strides to help borrowers remain in their homes by using every appropriate means to encourage motivation and enthusiasm to continue as owners. In addition, the Society continues to maintain a prudent policy towards providing for future difficulties in the housing market.

Savings

With a stable bank base rate of 0.5% for the entire year the Society aspired to achieve only a modest increase in savings balances. It was acknowledged that this could be difficult due to the competitive nature of the savings market. However, it was also recognised that the importance of a safe and secure haven could be uppermost in the minds of savers and the convenience of Society offices would offer comfort. Whilst the mix of savings balances in different products may have changed in line with market popularity the Society has achieved its goal with an inflow of new funds amounting to £5.9m.

Directors

The following persons were Directors of the Society during the year:-

B.W. Frankling, FCA	<i>(Chairman)</i>
J.R.D. Anton, MBA, MA(Hons)	<i>(Deputy Chairman)</i>
J.N. Bland, BSoc Sc, FCA	<i>(Finance Director)</i>
G.J. Caves, ACIS, FCIB	<i>(Chief Executive)</i>
Mrs A. East, BA	
D.A. Gamble, CFCIPD, ACIB	
K.A. Langley	(Appointed 21 March 2011)
D.J. Milner, FCIB	

The Directors retiring by rotation are Mr J.R.D Anton and Mr G.J. Caves who offer themselves for re-election at the Annual General Meeting.

During the year the Board appointed Mr K.A.Langley as a Director. He now retires under Rule 31(4) and offers himself for election.

No director had any beneficial interest in the shares of any connected undertaking of the Society at 31 March 2011.

DIRECTORS' REPORT (continued)

Key Performance Indicators

	2011	2010	2009	2008
	£ 000s	£ 000s	£ 000s	£ 000s
Total Assets				
Total assets amounted to:	316,563	313,025	306,910	288,158
An increase over the previous year of:	3,538	6,115	18,752	37,052
Increase in year (%)	1.13%	1.99%	6.51%	14.76%

Liquidity

At 31 March liquid assets amounted to:	77,060	84,501	77,709	60,841
As a proportion of shares and borrowings (%)	25.90%	28.69%	26.90%	22.47%

Loans and Advances to Customers

At 31 March total loans and advances amounted to:	238,758	227,617	228,256	226,594
Advances in the year by way of mortgages amounted to:	37,368	25,025	34,047	61,823
The number of properties on which loans were executed was:	564	482	594	891

Shares and Other Borrowings

At 31 March total shares and borrowings amounted to:	297,556	294,562	288,881	270,753
An increase over the previous year of:	2,994	5,681	18,128	35,794
Increase in year (%)	1.02%	1.97%	6.70%	15.23%

Management Expenses

As a percentage of mean total assets	0.97%	0.96%	1.05%	1.04%
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Profitability

Profit after tax	704	917	541	927
As a percentage of mean total assets	0.22%	0.30%	0.18%	0.34%

Employees

Total staff employed (Full Time Equivalent)	58	55	56	56
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Capital Ratios

At 31 March the following percentage ratios applied:

Gross capital as a percentage of shares and other borrowings	5.96%	5.78%	5.58%	5.75%
Free capital as a percentage of shares and other borrowings	5.92%	5.81%	5.49%	5.72%

The above statistics represent the Key Performance Indicators which the Board monitor to control the activities of the Society. In combination their balance is key to ensuring that appropriate progress is made by the Society.

DIRECTORS' REPORT (continued)

Principal Risks & Uncertainties

As a Building Society, the Dudley is governed by its risk averse culture, and aims to maintain a low exposure to risk in order to protect members interests.

The principal business risks to which the Society is exposed are considered to be:-

- Credit risk which arises primarily from mortgage loans but also as a result of the Society's investments as part of its treasury activities.
- Market risk which incorporates the loss of income as a result of changes to interest rates.
- Liquidity risk which concerns the Society's ability to meet its financial obligations as they fall due as a result of imbalances in the cash flow of its activities.
- Operational risk, which is associated with the Society's internal processes and systems and the potential for these not to function properly.

The most significant uncertainty faced by the Society surrounds the demand for borrowing, which is affected by the economy generally, including employment levels, and the housing market in particular, together with competition for borrowers from other mortgage providers. Additionally the availability of funding is another significant uncertainty as the level of saving varies with economic activity and competition from other providers of retail products.

During the year the Board continued to review its risk profile in view of the requirements of Basel II and its associated Capital Requirements. Accordingly the Societies policies and procedures are updated to reflect current best practise, and the Society publishes details of the Basel II 'Pillar 3' disclosures on its website.

Going Concern

The Directors have prepared forecasts of the Society's capital position, financial position and liquidity for the period ending twelve months from the date of approval of these financial statements. The Directors have also prepared forecasts to consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed, but plausible, operating conditions. The forecasts satisfy the Directors that the Society has adequate resources to continue in business for the foreseeable future. Accordingly the accounts continue to be prepared on a going concern basis.

Financial Risk Management Objectives & Policies

The Society has a formal structure for managing risk, including establishing risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Society's Assets and Liabilities Committee, which is charged with the responsibility for managing and controlling the balance sheet exposures and the use of financial instruments for risk management purposes. For the financial year this has been carried out by the full Board. Full details regarding the risks and the financial instruments used by the Society are given in note 22 to the Accounts.

Donations

During the year, charitable donations totalling £5,000 (2010: £5,682) were made to local organisations. There were no donations for political purposes.

DIRECTORS' REPORT (continued)

Creditor Payment Policy

The Society's continuing policy concerning the payment of its trade creditors is to pay within the agreed terms of credit, once the supplier has discharged its contractual obligations. Trade creditor days at 31 March 2011 amounted to 6 days (2010: 7 days).

Arrears Management

The Society actively managed its mortgage accounts in arrears, taking into account individual customer circumstances. At 31 March 2011 there was one account where payments were twelve months or more in arrears (2010 - two). The total amount outstanding on this account was £12,655 (2010 – £55,274) and the aggregate capital balance was £98,397 (2010 – £326,244).

Auditors

Our Auditors KPMG Audit Plc, have expressed their willingness to continue in office and, in accordance with Section 77 of the Building Societies Act 1986, a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the Board of Directors
J.R.D. Anton,
Deputy Chairman
19 May 2011

CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 MARCH 2011

CORPORATE GOVERNANCE

The Financial Services Authority requires the Board to have regard to the Combined Code on Corporate Governance issued by the Financial Reporting Council when developing its governance policies and practices.

The Board agrees with and supports the principles of the Code and whilst the Society does not have to comply with them, as it is not a listed company, where it does not do so an explanation is given.

Directors/Board

The Board's principal functions concern the Society's corporate direction, the establishment of guidelines within which the business is managed and the review of business performance. The Board has a duty to ensure that the Society operates within relevant legislation and regulation and that proper accounting records and effective systems of business controls are established, maintained, documented and audited. Matters reserved for the Board's attention are in a high-level policy manual, which sets out the structure of delegated authority by the Board to management. The Chairman ensures that the Board receives sufficient, timely and accurate information to fulfil its responsibilities.

The Board meets each calendar month, or more often if necessary, for the proper conduct of business. The attendance record during the year of Directors at meetings of the Board and the Committees listed below is shown on page 12.

Throughout the year the Board had six Committees:-

- Audit and Compliance
- Assets and Liabilities
- Lending Risk
- Remuneration
- Nomination
- Marketing

The Lending Risk Committee, together with Assets and Liabilities and Marketing Committee's membership also includes members of Management. During 2010/11 Working Groups including Board members were also formed in order to formulate policy in the areas of Management Information, Reverse Stress Testing and Treating Customers Fairly.

Details regarding the Audit and Compliance Committee are given below under "Accountability and Audit".

The current composition and remit of the other Board Committees is as follows.

Assets and Liabilities

Members	G.J. Caves (Chairman), J.N. Bland, Mrs A East, D.J. Milner,.
Remit	To monitor the interest rate margin. To assess and monitor risk arising from liquidity and derivative transactions. To review the financial risk management and lending policy and take account of changing circumstances.

Remuneration

Members	D.A. Gamble (Chairman), B.W. Frankling, J.R.D. Anton.
Remit	To recommend for approval by the Board the appropriate remuneration, benefits and contracts of the Directors and Officers of the Society.

Nomination

Members	B.W. Frankling (Chairman), J.R.D. Anton, Mrs A. East, D.A. Gamble, K.A. Langley, D.J. Milner, J.N. Bland, G.J. Caves.
Remit	To discuss and recommend for appointment Directors to the Board of the Society.

CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 MARCH 2011 (continued)

Marketing

Members	J.R.D. Anton (Chairman), J.N. Bland, G.J. Caves, B.W. Frankling.
Remit	To assess marketing opportunities and the range of advertising media, including public relations, to promote the Society.

Lending Risk Committee

Members	B.W. Frankling (Chairman), J.N. Bland, G.J. Caves, Mrs A.East, K.A. Langley.
Remit	To monitor the lending portfolio quality and assess and recommend changes to Lending Policy and Risk, and consider individual mortgage applications which do not specifically comply with policy.

Subsequent to the year end, the Board formed a formal Risk Committee which will meet monthly, membership of which will comprise all Directors of the Society. The Committee will develop, oversee, monitor and regularly review the Society's risk management framework in order to ensure there is a comprehensive understanding of the risks confronting the society, the potential likelihood and impact of occurrence and how such risks are being mitigated.

Chairman and Chief Executive

The offices of Chairman and Chief Executive are distinct and held by different people. The Chairman is responsible for leading the Board and the Chief Executive is responsible for managing the Society's business within the policies established by the Board.

Board Balance and Independence

The Board comprises six non-executive directors (including the Chairman), all of whom are considered to be independent, and two executive directors. During the year an additional non-executive director with mortgage lending experience was appointed.

The Board believes that individual directors have a range of skills and experience which is appropriate for the management of the Society.

The Combined Code recommends that a non-executive director should be designated as the Senior Independent Director, and the Board consider this role is performed by the Deputy Chairman, J.R.D. Anton.

The Senior Independent Director is available to members if they have concerns, which contact through the normal channels has failed to resolve, or for which such contact is inappropriate.

Performance Evaluation

All directors are subject to an annual performance and evaluation review, with the non-executive directors conducting reviews of each other and the executive directors being evaluated by the non-executives, within the appraisal framework for employees generally. The performance of the Chairman is evaluated by the Senior Independent Director.

Annually the Board and its various committees are also subject to review and assessment, and their future membership agreed.

Appointments to the Board

At least annually the Board considers its composition. It considers the Board's succession plan and addresses matters concerning the appointments of new directors. All directors must meet the fit and proper tests as laid down by the Financial Services Authority (FSA) and all directors are required to be registered with the FSA as Approved Persons to fulfil their controlled function responsibilities.

New directors receive induction training. Individual developmental needs are identified as part of the annual appraisal exercise. Ongoing skills and knowledge are kept up to date by use of internal and external training.

CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 MARCH 2011 (continued)

Re-election

The Society's Rules require that all directors submit themselves for election at the Annual General Meeting (AGM) following their appointment. In addition one-third of the other directors must seek re-election annually.

The Chairman and Deputy Chairman are elected annually by the Board.

The Board's current policy is that non-executive directors should not serve for more than 12 years.

The Board's policy for newly appointed non-executive directors is that the appointment will continue for 9 years.

Accountability and Audit

The responsibility of the directors in relation to the preparation of the Society's accounts and the statement that the society's accounts are prepared on the going concern basis can be found on page 14.

The Board has an Audit and Compliance Committee comprising four non-executive directors, current members being, A. East (Chairman), D.A. Gamble, K.A. Langley and D.J. Milner.

The Society has a risk averse culture and a robust system of internal controls, a risk management framework and a compliance function in order to safeguard members' interests and investments. The role of the Audit and Compliance Committee is to review the integrity of the financial statements, to review the effectiveness of internal controls and compliance and risk management systems, to monitor and review the effectiveness of the internal audit function and to consider and recommend to the Board (for approval by the members) the appointment or reappointment of the external auditors. The Committee also has a responsibility for monitoring the independence, objectivity and effectiveness of the external audit function. The independence of the external audit is maintained by ensuring all non-audit services are subject to review by the Committee.

The Audit and Compliance Committee meets at least four times per year. Membership is confined to non-executive directors but is attended by the Chief Executive, Finance Director, Compliance Officer and a representative from Internal Audit, by invitation. The Committee also meets with the External Auditors at least twice per year. The minutes of the Committee meetings are circulated to all Board members.

Relations with Shareholders

The Society encourages member comment and opinion through survey and research work that is undertaken on a regular basis. The content of this research directly affects the Society's business operations in shaping the way we carry out our business.

Constructive Use of the AGM

The Society circulates annually to each eligible member details of the AGM and voting forms so that they may participate in the election of directors, the appointment/re-appointment of auditors and vote on the adoption of the directors' remuneration report and the approval of the annual accounts.

All Board members attend the AGM unless there are exceptional circumstances that prevent attendance and the Chairman of the Audit and Compliance, Remuneration and Nomination Committees are available to answer questions

Once available the votes at the AGM are published on the Society's website.

Committee Terms of Reference

Committee terms of reference are available on request from the Society's Secretary, and are available on the Society's website.

Remuneration

The report of the directors on remuneration, on page 13, explains how the Society applies the Code principles relating to remuneration.

CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 MARCH 2011 (continued)

Board and Committee Membership Attendance Record

The table below shows the number of meetings of the Board and its Committees at which each director was present and in brackets the number of meetings that director was eligible as a member of the Board or Committee to attend during the year.

	Board/ Nomination	Assets & Liabilities	Audit & Compliance	Marketing	Remuneration	Lending Risk
Non-executive Directors						
B.W. Frankling (Chairman)	12(12)	-	-	1(1)	2(2)	12(12)*
J.R.D. Anton (Deputy Chairman)	12(12)	-	-	1(1)*	2(2)	-
Mrs A. East	12(12)	4(4)	5(5)*	-	-	12(12)
D.A.Gamble	12(12)	-	5(5)	-	2(2)*	-
D.J. Milner	11(12)	4(4)	4(5)	-	-	-
Executive Directors						
G.J. Caves (Chief Executive)	12(12)	4(4)*	-	1(1)	-	10(12)
J.N. Bland (Finance Director)	12(12)	4(4)	-	1(1)	-	12(12)

Key: *committee chairman

J.R.D. Anton,
Deputy Chairman
19 May 2011

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 MARCH 2011

This report sets out the Society's policy on the remuneration of executive and non-executive directors. Where appropriate the Society has endeavoured to embrace the Combined Code, which sets out best practice on Corporate Governance relating to remuneration.

REMUNERATION COMMITTEE

The Society's Remuneration Committee is responsible for recommending to the Board the level of executive and non-executive directors pay and benefits. Three non-executive directors are members of the remuneration committee.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Non-executive director fees are based on comparable data from similar financial service organisations and are recommended by the Remuneration Committee. The non-executive directors do not qualify for either a pension or bonus scheme.

EXECUTIVE DIRECTORS' REMUNERATION

The Board's policy is designed to ensure that executive remuneration reflects performance and enables the Society to attract, retain and motivate a sufficient number of executives to lead and direct the Society in an increasingly regulated and competitive market.

The main components are:

Basic Salary

Basic salaries are paid at an appropriate level to take account of job content and responsibilities, external market competitiveness and individual performance in the role.

Benefits

Each executive director is entitled to a fully expensed company car, membership of a private healthcare scheme and subsidised mortgage loan.

Bonus

An annual bonus is paid to all staff and the executive directors on the achievement of the Society's budgeted profit for the financial year, with additional increments for performance in excess of the budget. All staff are entitled to the same level of bonus, pro-rated for hours worked where appropriate.

Pensions

The executive directors are members of the defined contribution Pension Scheme, details of which are set out in note 23 of the accounts.

DIRECTORS' REMUNERATION FOR 2011

Full details of all directors' remuneration are contained within note 6 of the accounts.

J.R.D. Anton
Deputy Chairman
19 May 2011

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, THE ANNUAL BUSINESS STATEMENT, THE DIRECTORS' REPORT AND THE ANNUAL ACCOUNTS

The following statement, which should be read in conjunction with the Statement of Auditor's Responsibilities on page 15, is made by the directors to explain their responsibilities in relation to the preparation of the Report and Accounts, Annual Business Statement, Directors' Report and Annual Accounts.

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

The Building Societies Act 1986 ("the Act") requires the directors to prepare society annual accounts for each financial year. Under that law they have elected to prepare the society annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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

In preparing these accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the annual accounts on a going concern basis, unless it is inappropriate to assume that the 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 Society.

Directors' responsibilities for accounting records and internal controls

The directors are responsible for ensuring that the Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society, in accordance with the Act; and
- 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 Society 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.

Going Concern

The directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, the accounts continue to be prepared on a going concern basis.

J.R.D. Anton
Deputy Chairman
19 May 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DUDLEY BUILDING SOCIETY

We have audited the annual accounts of Dudley Building Society for the year ended 31 March 2011 set out on pages 17 to 33. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 14, the directors are responsible for the preparation of annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the annual accounts

A description of the scope of an audit of annual accounts is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the society as at 31 March 2011 and of the income and expenditure of the society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- 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 thereunder;
- the information given in the Directors' Report for the financial year for which the annual accounts are prepared is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DUDLEY BUILDING SOCIETY (continued)

Matters on which we are required to report by exception

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

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

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

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH
19 May 2011

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 £ 000s	2010 £ 000s
Interest receivable and similar income	2	9,646	9,673
Interest payable and similar charges	3	(5,331)	(5,209)
Net interest receivable		<u>4,315</u>	<u>4,464</u>
Fees and commissions receivable		373	302
Fees and commissions payable		(129)	(78)
Other operating income		8	14
Total operating income		<u>4,567</u>	<u>4,702</u>
Administrative expenses	4	(2,935)	(2,864)
Depreciation and amortisation	12	(124)	(127)
Other operating charges		(148)	(63)
Operating profit before provisions		<u>1,360</u>	<u>1,648</u>
Provisions for bad and doubtful debts	10	(333)	(558)
Operating profit before FSCS levy		<u>1,027</u>	<u>1,090</u>
FSCS levy	18	(46)	189
Profit on ordinary activities before tax		<u>981</u>	<u>1,279</u>
Tax on profit on ordinary activities	7	(277)	(362)
Profit for the financial year	19	<u><u>704</u></u>	<u><u>917</u></u>

The notes on pages 20 to 33 form part of these accounts. The above results are all derived from continuing operations. There are no recognised gains or losses in the year other than the profit for the year.

BALANCE SHEET AS AT 31 MARCH 2011

ASSETS	Note	2011 £ 000s	2010 £ 000s
Liquid Assets	8		
Cash in hand		407	468
Treasury bills		12,985	3,997
Loans and advances to credit institutions		39,113	49,439
Debt securities		<u>24,555</u>	<u>30,597</u>
		77,060	84,501
Loans and advances to customers	9		
Loans fully secured on residential property		235,537	223,901
Other loans - loans fully secured on land		<u>3,221</u>	<u>3,716</u>
		238,758	227,617
Investments			
Investment in subsidiary undertaking	11	-	-
Tangible fixed assets	12	530	557
Other assets	13	120	209
Prepayments and accrued income		95	141
Total Assets		<u><u>316,563</u></u>	<u><u>313,025</u></u>
LIABILITIES			
Shares	14	290,835	282,846
Amounts owed to credit institutions	15	500	2,506
Amounts owed to other customers	16	<u>6,221</u>	<u>9,210</u>
		297,556	294,562
Other liabilities	17	457	515
Accruals and deferred income		564	612
Provisions for liabilities: FSCS Levy	18	252	306
Reserves			
General Reserves	19	<u>17,734</u>	<u>17,030</u>
Total Liabilities		<u><u>316,563</u></u>	<u><u>313,025</u></u>

The notes on pages 20 to 33 form part of these accounts.

These accounts were approved by the Board of Directors on 19 May 2011 and were signed on its behalf by:

J.R.D. Anton
Deputy Chairman

Mrs A. East
Audit & Compliance Chairman

G.J.Caves
Chief Executive

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 £ 000s	2010 £ 000s
Net cash (outflow)/inflow from operating activities (see note below)		(873)	706
Taxation		(376)	(138)
FSCS Levy		(100)	(105)
Capital Expenditure and Financial Investment:			
Purchase of Tangible Fixed Assets		(107)	(67)
Disposal of Tangible Fixed Assets		11	11
Purchase of Treasury bills		(25,937)	(13,980)
Proceeds from sale of Treasury bills		16,963	11,983
Purchase of Debt Securities		(37,502)	(49,500)
Proceeds from sale of Debt Securities		43,500	59,668
Movement in cash	20	<u>(4,421)</u>	<u>8,578</u>

NOTE TO THE CASH FLOW STATEMENT

Reconciliation of operating profit to net cash inflow from operating activities

	£ 000s	2011 £ 000s	£ 000s	2010 £ 000s
Profit on ordinary activities before taxation	981		1,279	
Decrease/(increase) in prepayments and accrued income	46		(19)	
(Decrease)/increase in accruals and deferred income	(48)		550	
Increase in general and specific provisions for bad and doubtful debts	188		239	
Depreciation and amortisation	124		127	
Provisions for liabilities: FSCS levy	46		(189)	
(Profit) on sale of tangible fixed assets	(1)		(2)	
		<u>1,336</u>		<u>1,985</u>
Net cash movement from trading activities				
Net (increase)/decrease in loans and advances to customers		(11,329)		400
Net increase in shares		7,989		5,493
Net (decrease)/increase in amounts owed to credit institutions and other customers		(4,995)		188
Net decrease/(increase) in loans and advances to credit institutions and other customers		5,966		(6,935)
Increase/(decrease) in other liabilities		160		(425)
Net cash (outflow)/inflow from operating activities		<u>(873)</u>		<u>706</u>

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Basis of Preparation and Consolidation

The Accounts have been prepared under the historical cost accounting rules and in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998, the Building Societies Act 1986 and applicable UK accounting standards.

In accordance with Statutory Instrument 504 of the Building Societies (Accounts and Related Provisions) Regulations 1998 the Society has excluded its subsidiary undertaking from consolidation. The subsidiary is dormant and the Directors do not consider it to be material for the purpose of giving a true and fair view of the accounts of the Society.

Mortgage Incentives

Mortgage incentives to borrowers are written off in full in the year of the advance as other operating charges. Interest discounts are charged as incurred against interest receivable.

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 provided using the full provision method and is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date except as otherwise required by Financial Reporting Standard 19. Deferred tax is calculated at rates expected to be applicable when the liability or asset crystallises on a non-discounted basis.

Liquid Assets

Liquid assets are stated at the lower of cost (including accrued interest) and net realisable value.

Debt securities are held for prudential purposes. These securities together with treasury bills are held as liquid assets with the intention of use on a continuing basis in the Society's activities and are therefore classified as financial fixed assets rather than current assets.

Provisions for Loans and Advances

Loans and advances to customers in the balance sheet are shown net of general and specific provisions, and interest suspended.

Such provisions are made to reduce the value of advances and loans to the amount which the Directors consider is likely, ultimately, to be received.

Throughout the year individual assessments are made of all advances and loans on properties which are in possession or where arrears are in excess of two contractual monthly payments. Specific provision is made against those advances and loans which are considered to be impaired. In determining this provision, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale, the amounts recoverable under mortgage indemnity policies and anticipated realisation costs.

A general provision is made against other advances. Such advances have not necessarily been specifically identified as impaired, but are where the Society's experience and the general economic climate indicate that losses may ultimately be realised.

The charge to the income and expenditure account comprises the change in the provisions together with losses written off or recoveries made in the year.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (continued)

Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable, except in relation to advances where the property is taken into possession. Such interest is credited to the interest suspense account.

Fixed Assets and Depreciation

Fixed assets are stated at cost, less depreciation. Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:-

Freehold Land - nil

Freehold Buildings - 50 years

Equipment, fixtures, fittings and vehicles - 3 to 5 years

Operating Leases

All payments under operating lease contracts are charged to the income and expenditure account on a straight line basis over the life of the lease.

Financial Instruments

Interest received or paid under interest rate swap contracts is charged to net interest receivable on an accruals basis equivalent to that used for the underlying asset or liability.

Pensions

The Society operates a defined contribution scheme funded by contributions from the Society and employees. Society contributions are charged to the Income and Expenditure Account as incurred.

NOTES TO THE ACCOUNTS

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2011 £ 000s	2010 £ 000s
On loans fully secured on residential property	10,142	10,144
On other loans	197	232
On debt securities		
Fixed rate interest	315	818
On other liquid assets		
Interest and other income	582	595
Net (expense) on financial instruments	(1,590)	(2,116)
	<u>9,646</u>	<u>9,673</u>

Interest on secured advances has been increased by £14,000 (2010: reduced by £45,000) representing movements in the interest suspense account in accordance with the Society's accounting policy. Movements in the suspended interest account are as follows:

	£ 000s
At 1 April 2010	9
Interest suspended in year	(31)
Interest released in year	(3)
Interest utilised in year	(14)
At 31 March 2011	<u>23</u>

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2011 £ 000s	2010 £ 000s
On shares held by individuals	5,189	4,910
On deposits and other borrowings	142	299
	<u>5,331</u>	<u>5,209</u>

NOTES TO THE ACCOUNTS

4. ADMINISTRATIVE EXPENSES

	2011 £ 000s	2010 £ 000s
Employee costs:		
Wages and salaries	1,264	1,221
Social security costs	140	132
Pension costs:		
Contributions to defined contribution arrangements	160	141
	<u>1,564</u>	<u>1,494</u>
Other administrative expenses	1,371	1,370
	<u>2,935</u>	<u>2,864</u>
Other administrative expenses include:		
Remuneration of auditor and their associates (excluding VAT)		
- audit of financial statements	31	30
- other services relating to taxation	3	3
- all other services	1	1
Operating lease costs		
- land and buildings	108	106

5. EMPLOYEES

The average number of persons employed by the Society (including Executive Directors) during the year was as follows:-

	2011	2010
Full Time		
Principal office & administration centre	30	28
Branch offices	17	16
	<u>47</u>	<u>44</u>
Part Time		
Principal office & administration centre	8	8
Branch offices	13	13
	<u>21</u>	<u>21</u>

NOTES TO THE ACCOUNTS

6. REMUNERATION OF AND TRANSACTIONS WITH DIRECTORS

a) Remuneration of Directors	2011 £ 000s	2010 £ 000s
Directors' emoluments		
Services as Directors	92	90
Services in connection with Management	235	232
	<u>327</u>	<u>322</u>
Details of individual Directors' emoluments are as follows:-	2011	2010
Non-Executive	£	£
B W Frankling (Chairman)	23,483	23,250
J R D Anton (Deputy Chairman)	19,869	19,675
A East	16,455	16,300
D J Milner	15,655	15,500
D A Gamble	15,805	15,500
K A Langley (Appointed 21 March 2011)	429	-
Total	<u>91,696</u>	<u>90,225</u>

Non-Executive Directors' receive only fees for their services.

	Salary	Bonus	Benefits	Subtotal	Pension Contributions	Total
Executive	£	£	£	£	£	£
G J Caves	88,350	300	7,148	95,798	35,867	131,665
J N Bland	74,540	300	9,674	84,514	18,635	103,149
Total 2011	<u>162,890</u>	<u>600</u>	<u>16,822</u>	<u>180,312</u>	<u>54,502</u>	<u>234,814</u>
G J Caves	97,375	300	9,219	106,894	24,344	131,238
J N Bland	73,800	300	7,722	81,822	18,450	100,272
Total 2010	<u>171,175</u>	<u>600</u>	<u>16,941</u>	<u>188,716</u>	<u>42,794</u>	<u>231,510</u>

The Executive Directors have the option to sacrifice part of their salary in exchange for the Society making additional pension contributions on their behalf. During the year G.J.Caves exercised this option.

b) Directors' loans and transactions

At 31st March 2011, there were 2 (2010: 2) outstanding mortgage loans granted in the ordinary course of business to Directors or connected persons, amounting in aggregate to £28,098 (2010: £64,319). Such loans were made on normal commercial terms, other than the rates applied to the executive directors' loans being at rates available to all members of staff. A Register is maintained at the Principal Office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and persons connected to them. A statement of the appropriate details contained in the Register, for the financial year ended 31 March 2011 will be available for inspection at the Principal Office for a period of 15 days up to and including the Annual General Meeting.

NOTES TO THE ACCOUNTS

7. TAXATION

	2011 £ 000s	2010 £ 000s
The taxation charge for the year comprises:-		
Corporation tax at 28% (2010: 28%) on the profit for the year on ordinary activities	188	374
Deferred Taxation (note 13)	<u>89</u>	<u>(12)</u>
Total Tax	<u>277</u>	<u>362</u>
Reconciliation of Current Tax charge		
Profit on ordinary activities before tax	<u>981</u>	<u>1,279</u>
Profit on ordinary activities multiplied by the standard rate of Corporation Tax in the UK of 28% (2010: 28%)	275	359
Differences between tax allowances and depreciation	-	16
Other timing differences	(70)	79
Pensions	-	(70)
Overprovisions in previous year	<u>(17)</u>	<u>(10)</u>
Current Tax Charge	<u>188</u>	<u>374</u>

8. LIQUID ASSETS

	2011 £ 000s	2010 £ 000s
(a) Loans and advances to credit institutions		
Repayable from the date of the balance sheet in the ordinary course of business as follows:-		
Accrued interest	123	89
Repayable on demand	13,490	17,850
In not more than three months	10,500	25,500
In more than three months but not more than one year	15,000	4,000
In more than one year but not more than five years	-	2,000
	<u>39,113</u>	<u>49,439</u>
(b) Debt securities - issued by other borrowers (unlisted)		
Repayable from the date of the balance sheet in the ordinary course of business as follows:-		
Accrued interest	62	106
Repayable in not more than one year	22,502	28,500
Repayable in more than one year	1,991	1,991
	<u>24,555</u>	<u>30,597</u>

Movement during the year of treasury bills and debt securities held as financial fixed assets are analysed as follows (excluding accrued interest):

	Treasury Bills £ 000s	Debt Securities £ 000s
At 1 April 2010	3,992	30,491
Additions and renewals	25,937	37,502
Disposals and maturities	<u>(16,963)</u>	<u>(43,500)</u>
At 31 March 2011	<u>12,966</u>	<u>24,493</u>

NOTES TO THE ACCOUNTS

9. LOANS AND ADVANCES TO CUSTOMERS

The maturity of advances secured on residential property, and advances secured on land from the date of the balance sheet is as follows:-

	2011 £ 000s	2010 £ 000s
On call and at short notice	1,000	356
In not more than three months	3,289	1,856
In more than three months but not more than one year	10,084	9,508
In more than one year but not more than five years	35,548	33,806
In more than five years	<u>190,138</u>	<u>183,204</u>
	240,059	228,730
Less provisions (Note 10)	<u>(1,301)</u>	<u>(1,113)</u>
	<u>238,758</u>	<u>227,617</u>

In common with most mortgage lenders, the Society anticipates that many loans will be repaid earlier than the contractual maturity dates disclosed above.

10. LOANS AND ADVANCES TO CUSTOMERS: PROVISIONS

Provisions against loans and advances to customers have been made as follows:-

	Loans fully secured on residential property General £ 000s	Loans fully secured on residential property Specific £ 000s	Loans fully secured on land General £ 000s	Loans fully secured on land Specific £ 000s	Group & Society Total £ 000s
At 1 April 2010	625	450	30	8	1,113
Amounts written off	-	(145)	-	-	(145)
Charge/(Credit) to income and expenditure account	(231)	552	(5)	17	333
At 31 March 2011	<u>394</u>	<u>857</u>	<u>25</u>	<u>25</u>	<u>1,301</u>

NOTES TO THE ACCOUNTS

11. INVESTMENT IN SUBSIDIARY UNDERTAKING

Cost and net book value	£
At 1 April 2010 and 31 March 2011	<u>100</u>

The Society owns 100% of the ordinary share capital of The Energy Efficient Mortgage Company Limited, which is registered in England. The company did not trade during the year and has been dormant since April 2007.

12. TANGIBLE FIXED ASSETS

	Land and Buildings	Equipment Fixtures, Fittings and Vehicles	Total
	£ 000s	£ 000s	£ 000s
Cost			
At 1 April 2010	399	875	1,274
Additions	-	107	107
Disposals	-	(32)	(32)
At 31 March 2011	<u>399</u>	<u>950</u>	<u>1,349</u>
Depreciation			
At 1 April 2010	124	593	717
Charge for the year	11	113	124
Disposals	-	(22)	(22)
At 31 March 2011	<u>135</u>	<u>684</u>	<u>819</u>
Net Book Value			
At 31 March 2011	<u>264</u>	<u>266</u>	<u>530</u>
At 31 March 2010	<u>275</u>	<u>282</u>	<u>557</u>

All land and buildings are freehold, and the proportion owned but not occupied by the Society is considered immaterial.

NOTES TO THE ACCOUNTS

13. OTHER ASSETS

	2011 £ 000s	2010 £ 000s
Deferred taxation at 26% (2010: 28%) in respect of timing differences	<u>120</u>	<u>209</u>
Comprising:		
Accelerated capital allowances	(13)	-
General mortgage loss provision	110	183
Other timing differences	<u>23</u>	<u>26</u>
	<u>120</u>	<u>209</u>

The movement on the deferred tax asset during the year was as follows:

	£ 000s
At 1 April 2010	209
Taxation charge for the year (note 7)	<u>(89)</u>
At 31 March 2011	<u>120</u>

14. SHARES

Shares are all held by individuals and are repayable from the date of the balance sheet in the ordinary course of business as follows:-

	2011 £ 000s	2010 £ 000s
Accrued interest	1,983	2,204
Repayable on demand	104,775	102,462
In not more than three months	123,112	109,419
In more than three months, but not more than one year	<u>60,965</u>	<u>68,761</u>
	<u>290,835</u>	<u>282,846</u>

15. AMOUNTS OWED TO CREDIT INSTITUTIONS

Shares are all held by individuals and are repayable from the date of the balance sheet in the ordinary course of business as follows:-

	2011 £ 000s	2010 £ 000s
Accrued interest	-	6
In not more than three months	<u>500</u>	<u>2,500</u>
	<u>500</u>	<u>2,506</u>

NOTES TO THE ACCOUNTS

16. AMOUNTS OWED TO OTHER CUSTOMERS

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

	2011 £ 000s	2010 £ 000s
Accrued interest	27	50
Repayable on demand	1,049	1,059
In not more than three months	3,051	3,979
In more than three months, but not more than one year	2,094	4,122
	<u>6,221</u>	<u>9,210</u>

17. OTHER LIABILITIES

	2011 £ 000s	2010 £ 000s
Falling due within one year:-		
Income tax	226	106
Corporation tax	205	374
Other creditors	26	35
	<u>457</u>	<u>515</u>

18. PROVISIONS FOR LIABILITIES

FSCS Levy	£ 000s
At 1 April 2010	306
Provided in the year	46
Paid in the year	(100)
At 31 March 2011	<u>252</u>

For details of the FSCS (Financial Services Compensation Scheme) Levy, see note 21(a)

19. GENERAL RESERVES

	£ 000s
At 1 April 2010	17,030
Profit for the financial year	704
At 31 March 2011	<u>17,734</u>

NOTES TO THE ACCOUNTS

20. CASH BALANCES

	Movement	2011	2010
	£ 000s	£ 000s	£ 000s
Cash balances comprise:			
Cash in Hand	(61)	407	468
Liquid assets repayable on demand	(4,360)	13,490	17,850
	<u>(4,421)</u>	<u>13,897</u>	<u>18,318</u>

21. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

(a) Financial Services Compensation Scheme Levy.

Based on its share of protected deposits, the Society, in common with all regulated UK 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 a number of claims were triggered against the FSCS as a result of a number of institutions being declared in default by the FSA. The FSCS met the claims by way of loans received from HM Treasury. The FSCS, 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 HM Treasury. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to fully repay the respective loans from HM Treasury. To the extent that the loans have not been repaid in full by the 31 March 2012, the FSCS will agree a schedule of repayments with HM Treasury and levy the industry, including The Dudley Building Society accordingly.

As a result of notifications it has received from the Financial Services Authority, the Society has incorporated a provision of £252,000 at 31 March 2011. This balance represents a charge for the management expenses levy due in respect of the 2010/11 levy year and the 2011/12 levy year and has been calculated by reference to the level of protected deposits the Society held at 31 December 2009 and 31 December 2010, together with an estimate of management expense levies over the period. The charge for the year ended 31 March 2011 has been calculated on the assumption that the initial three year loan facility has been refinanced for a further period and therefore covers a full levy year. No amounts have been set aside to take into account management expense levies for future scheme years, compensation levies which may arise or anticipated proceeds from the eventual disposal of assets.

As further information is provided by the FSCS, the Society will continue to refine the estimate of the amount it will ultimately be required to pay.

	2011	2010
	£ 000s	£ 000s
(b) Capital commitments	<u>15</u>	<u>-</u>
(c) Annual commitments including VAT under non cancellable operating leases for the Society are as follows:-		
	2011	2010
	£ 000s	£ 000s
In respect of land and buildings which expire within		
one to five years	12	-
over five years	<u>96</u>	<u>105</u>

NOTES TO THE ACCOUNTS

22. FINANCIAL INSTRUMENTS

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

The Society has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Society's Assets and Liabilities Committee which is responsible for managing and controlling balance sheet exposures and the use of financial instruments for risk management purposes.

Instruments used for risk management purposes include derivative financial instruments ("derivatives"). Derivatives are only used by the Society in accordance with The Building Societies Act 1986 to reduce risk of loss arising from changes in interest rates or other factors specified in the legislation. Derivatives are not used in trading activity or for speculative purposes.

Derivatives

The principal derivatives used by the Society in balance sheet risk management are interest rate swaps which are used to hedge exposures arising from fixed rate mortgage lending and some wholesale borrowing. The Society's policy for accounting for hedging is detailed in note 1 to the accounts. During the year ended 31 March 2011 the Society has continued to utilise interest rate swaps. The table below shows the notional principal amounts, credit risk weighted amounts and replacement costs of derivatives outstanding at the year end. The notional principal amount indicates the volume of business outstanding at the balance sheet date and does not represent the amount at risk. The credit risk weighted amount is calculated according to rules specified by the Financial Services Authority and is based on replacement cost, but also takes into account the extent of potential future exposure and the nature of the counterparty. Replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date and reflects the Society's maximum exposure should all counterparties default.

	2011 £ 000s	2010 £ 000s
Unmatured interest rate contracts:		
- Notional principal amount	51,000	40,000
- Risk weighted amount	72	60
- Replacement cost	136	-

Liquidity risk

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

At 31 March 2011 Debt Securities with a book value of £24,555,000 (including accrued interest) were valued at £24,556,837. At 31 March 2010 debt securities had a book value of £30,597,000 and were valued at £30,612,563.

NOTES TO THE ACCOUNTS

22. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The Society is exposed to movements in interest rates and manages this exposure on a continuous basis, within limits set by the Board, using both on and off balance sheet instruments.

At 31 March 2011 the Society's interest rate exposure was:

	Next Interest reset date				Non Interest Bearing £000s	Total £000s
	In not more than 3 Months £000s	In more than 3 Months, but not more than 6 Months £000s	In more than 6 Months, but not more than 1 Year £000s	In more than 1 Year, but not more than 5 Years £000s		
ASSETS						
Liquid Assets	40,959	15,988	19,502	-	611	77,060
Loans and Advances to Customers	193,798	2,555	9,531	34,175	(1,301)	238,758
Other Assets	-	-	-	-	745	745
	<u>234,757</u>	<u>18,543</u>	<u>29,033</u>	<u>34,175</u>	<u>55</u>	<u>316,563</u>
LIABILITIES						
Shares and amounts owed to customers	232,487	29,217	33,842	-	2,010	297,556
Reserves	-	-	-	-	17,734	17,734
Other Liabilities	-	-	-	-	1,273	1,273
	<u>232,487</u>	<u>29,217</u>	<u>33,842</u>	<u>-</u>	<u>21,017</u>	<u>316,563</u>
Off Balance Sheet items:						
Interest Rate Swap	47,000	(2,000)	(10,000)	(35,000)	-	-
Interest Rate Sensitivity Gap	<u>49,270</u>	<u>(12,674)</u>	<u>(14,809)</u>	<u>(825)</u>	<u>(20,962)</u>	<u>-</u>

At 31 March 2010 the Society's interest rate exposure was:

	Next Interest reset date				Non Interest Bearing £000s	Total £000s
	In not more than 3 Months £000s	In more than 3 Months, but not more than 6 Months £000s	In more than 6 Months, but not more than 1 Year £000s	In more than 1 Year, but not more than 5 Years £000s		
ASSETS						
Liquid Assets	52,338	7,995	23,500	-	668	84,501
Loans and Advances to Customers	187,007	158	1,441	40,124	(1,113)	227,617
Other Assets	-	-	-	-	907	907
	<u>239,345</u>	<u>8,153</u>	<u>24,941</u>	<u>40,124</u>	<u>462</u>	<u>313,025</u>
LIABILITIES						
Shares and amounts owed to customers	222,025	33,070	37,207	-	2,260	294,562
Reserves	-	-	-	-	17,030	17,030
Other Liabilities	-	-	-	-	1,433	1,433
	<u>222,025</u>	<u>33,070</u>	<u>37,207</u>	<u>-</u>	<u>20,723</u>	<u>313,025</u>
Off Balance Sheet items:						
Interest Rate Swap	37,000	2,000	(2,000)	(37,000)	-	-
Interest Rate Sensitivity Gap	<u>54,320</u>	<u>(22,917)</u>	<u>(14,266)</u>	<u>3,124</u>	<u>(20,261)</u>	<u>-</u>

NOTES TO THE ACCOUNTS

22. FINANCIAL INSTRUMENTS (continued)

Hedges

At the balance sheet date there were unrecognised gains of £136,048 (2010: £nil) and losses of £1,237,488 (2010: £2,301,000) on hedge transactions, which also represents the fair value of outstanding financial instruments. These positions represent the expected future position of interest rate hedges to the Society, given interest rate expectations at the balance sheet date.

The Society recognised gains of £nil (and losses of £1,563,142) during the year ended 31 March 2011, which related to unrecognised gains and losses at the start of the reporting period. Of the unrecognised gains and losses at 31 March 2011 it is anticipated that gains of £58,895 (and losses of £925,336) will be realised in the forthcoming financial year. However, this is dependent on market conditions and may not crystallise. Offset against such unrecognised gains and losses are the associated costs and benefits of related assets which carry fixed interest rates.

23. RETIREMENT BENEFITS

All current members of staff, including the executive directors, are offered membership of a defined contribution pension scheme. The assets of the scheme are held separately from those of the Society in an independently administered fund.

Contributions payable by the Society and the charge for the year was £160,000 (2010 - £141,000). There were no outstanding or prepaid contributions at either the beginning or end of the year.

ANNUAL BUSINESS STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

1. STATUTORY PERCENTAGES	2011	Statutory limit
	%	%
Lending Limit	1.45	25.00
Funding Limit	2.26	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.

The funding limit measures the proportion of shares and borrowings other than those from individuals.

Business assets are the total assets of the Society as shown in the balance sheet plus provisions for bad and doubtful debts, less tangible fixed assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the balance sheet plus provisions for bad and doubtful debts.

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

2. OTHER PERCENTAGES

	2011	2010
	%	%
As a percentage of shares and borrowings		
Gross capital	5.96	5.78
Free Capital	5.92	5.81
Liquid assets	25.90	28.69
As a percentage of mean total assets		
Profit after tax	0.22	0.30
Management expenses	0.97	0.96

The above percentages have been prepared from the Society's accounts.

'Shares and borrowings' represent the aggregate of shares and amounts owed to credit institutions and other customers.

'Gross capital' comprises general reserves.

'Free capital' comprises gross capital and general provisions for bad and doubtful debts less tangible fixed assets.

'Liquid assets' represents the total of cash in hand, treasury bills, loans and advances to credit institutions and debt securities as shown in the balance sheet.

'Mean total assets' are the average of the total assets at the beginning and end of the relevant financial years.

'Profit after taxation' represents the profit for the financial year as shown in the income and expenditure account.

'Management expenses' represent the aggregate of administrative expenses and depreciation and amortisation.

ANNUAL BUSINESS STATEMENT FOR THE YEAR ENDED 31 MARCH 2011 (continued)

3. INFORMATION RELATING TO THE DIRECTORS AND OTHER OFFICERS AT 31 MARCH 2011

DIRECTORS

Names	Date of Appointment	Occupation	Other Directorships
J. R. D. Anton, MBA, MA(Hons) (22.6.1965)	22.11.2001	Company Director	The Carpet Foundation The Energy Efficient Mortgage Co. Ltd.
J. N. Bland, BSoc Sc, FCA (21.6.1961)	20.7.2000	Building Society Finance Director	The Energy Efficient Mortgage Co. Ltd.
G. J. Caves, ACIS, FCIB (20.7.1957)	31.3.1999	Building Society Chief Executive	The Energy Efficient Mortgage Co. Ltd. Castle & Crystal Credit Union Ltd.
Mrs A East, BA (26.5.1961)	1.1.2008	Solicitor	Heart of England NHS Foundation Trust Midland Heart Housing Association
B. W. Frankling, FCA (19.6.1949)	2.1.2003	Chartered Accountant	The Energy Efficient Mortgage Co. Ltd. Birchfield Educational Trust Ltd. Griffin Promotions Ltd.
D. A. Gamble, CFCIPD, ACIB (8.3.1959)	1.1.2007	Director of Organisational Development	-
K.A. Langley (6.6.1954)	21.3.2011	Consultant	-
D. J. Milner FCIB (19.1.1956)	1.1.2009	Company Director	Summit Corporate Finance Ltd. Summit Insurance Services Ltd. Summit Financial Services Ltd. Brighthand Ltd. Lantern Housing Ltd. Genesis Special Risks Ltd.

Directors' dates of birth are shown in brackets.

Documents may be served on the above named Directors at Wakeman, 200, Wolverhampton Street, Dudley, DY1 1DZ.

The Society's Non-Executive Directors each have a service agreement. The Executive Directors have rolling service contracts entered into on 15 March 2007, termination of which may be effected by the Director giving not less than six months written notice, and the Society not less than one years written notice.

OTHER OFFICERS

	Occupation	Other Directorships
K. E. Robinson, ACIB	General Manager (Administration) & Secretary	None
Mrs. K. Rollason, ACIB	General Manager (Training and Development)	None

branch offices

Principal Office Dudley

Dudley House, Stone Street, Dudley DY1 1NP

Tel: (01384) 231414

Brierley Hill

107 High Street, Brierley Hill DY5 3AU

Tel: (01384) 70420

Gornal Wood

20 Abbey Road, Gornal Wood DY3 2PG

Tel: (01384) 214671

Kingswinford

802 High Street, Kingswinford DY6 8AA

Tel: (01384) 278326

Perton

6 Anders Square, Perton, Wolverhampton WV6 7QH

Tel: (01902) 755540

Sedgley

20 Dudley Street, Sedgley DY3 1SB

Tel: (01902) 661772

Stourbridge

59 High Street, Stourbridge DY8 1DE

Tel: (01384) 393616

agencies

Bishops Castle

Simon Harris

30 Church Street, Bishops Castle, Shropshire SY9 5AE

Tel: (01588) 638778

Brownhills

Fresh Start Financial Advice

41 High Street, Brownhills, Walsall WS8 6ED

Tel: (01543) 379217

Burntwood

Fresh Start Financial Advice

3 Lichfield Road, Burntwood

Staffs WS7 0HQ

Tel: (01543) 674445

Church Stretton

McCartneys

4 High Street, Church Stretton, Shropshire

SY6 6BU

Tel: (01694) 722288

Craven Arms

McCartneys

Corvedale Road, Craven Arms, Shropshire

SY7 9NE

Tel: (01588) 672385

Hamstead

Hamstead Financial Services

8 Railway Terrace, Old Walsall Road, Hamstead,

Birmingham B42 1NR

Tel: (0121) 357 1073

Hednesford

West Midlands Estates

84-90 Market Street, Hednesford, Staffs

WS12 1AG

Tel: (01543) 422001

Kington

Mark Williams

14 High Street, Kington, Herefordshire

HR5 3AX

Tel: (01544) 232795

Knighton

Garner Southall Partnership

3 Broad Street, Knighton, Powys LD7 1BL

Tel: (01547) 520130

Llandrindod Wells

Haydn Lewis Financial Services Ltd

2a Temple Street, Llandrindod Wells, Powys

LD1 5DL

Tel: (01597) 824338

Rubery

Gordon Jones & Company

137 New Road, Rubery, Birmingham B45 9JR

Tel: (0121) 453 8151

Tenbury Wells

Edward Gallimore FRICS

The Forum, Market Square, Tenbury Wells,

Worcs WR15 8EA

Tel: (01584) 810436