

City of Derry

Building Society

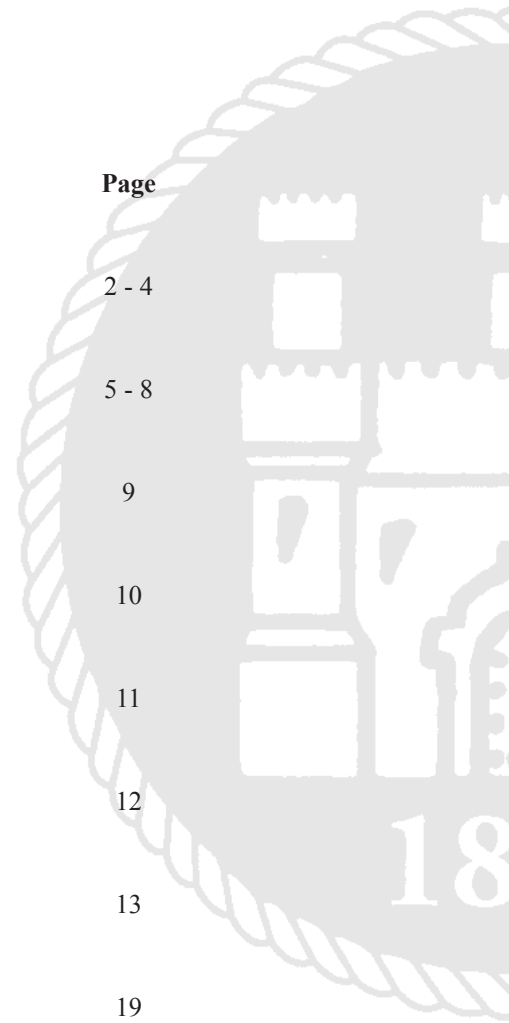


Annual Report & Accounts 2010

CITY OF DERRY BUILDING SOCIETY

CONTENTS

	Page
Directors' Report	2 - 4
Corporate Governance and Directors' Responsibilities	5 - 8
Independent Auditors' Report	9
Income and Expenditure Account	10
Balance Sheet	11
Cash Flow Statement	12
Notes to the Accounts	13
Annual Business Statement	19



CITY OF DERRY BUILDING SOCIETY

DIRECTORS' REPORT FOR THE YEAR ENDED 31st DECEMBER 2010

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31st December 2010.

BUSINESS OBJECTIVES AND ACTIVITIES

The principal purpose of the Society continues to be that of raising funds from investing members in order to make advances secured on land for the residential use of borrowing members. The main business objective is to grow the Society in a prudent and sustainable manner while maintaining a strong capital base. To achieve this aim the Society will offer competitive products appropriate to members' needs, backed by a strong focus on treating its members fairly.

The Directors are fully committed to the Society's future as an independent, mutual building society owned by its members. They remain convinced that there remains a place for the local building society which knows its market and which can offer a personal, friendly and efficient service that provides value and confidence to its members.

The Directors consider that there have been no events since the year end that have had a material effect on the Society.

MARKET REVIEW

2010 saw the Bank of England Monetary Policy Committee maintain the Bank Base Rate at the record low level of 0.50% throughout the year. The rate has remained unchanged since 5th March 2009 to help the Bank and the new UK Coalition Government bring the country out of the worst recession in living memory. The widely feared cuts in government spending have begun to exert their full impact as the Government reduces crippling levels of borrowing and, allied to a post-recession lack of confidence, many market sectors continue to struggle.

In the Society's local market both house prices and transaction levels remained extremely depressed. The market is now in its fourth year of decline since the 2007 peak and, although house price surveys differ, partly because activity is so subdued, most commentators would agree that Northern Ireland house prices have fallen by at least 40%. Although some regional variation within the province is to be expected, there is also evidence of variation by property type, with larger, detached properties tending to display lower rates of decline than starter homes.

Any recovery in local property values is being hampered on several levels. Firstly, the public spending cuts, allied to a perception that Northern Ireland is lagging behind other regions in coming out of recession, are denting consumer confidence. Secondly, the market needs a signal from major lenders through their product provision that they consider the market ready to grow. Such action is being delayed, however, by the impact of the economic concerns in the Republic of Ireland. Although City of Derry Building Society has no cross-border lending, Northern Ireland's indigenous banks have significant exposures and, until impaired loans have been fully provided for, they have neither the capacity nor the appetite to stimulate the market in Northern Ireland.

BUSINESS SUMMARY

Despite the difficult market conditions, both nationally and locally, City of Derry Building Society has once again "punched above its weight" in posting a solid set of financial results. In the past few years we have become accustomed to hearing of major financial institutions posting large losses; yet City of Derry has again delivered sufficient profit to maintain its capital resources at healthy levels.

Operating profit before tax and provisions was a highly satisfactory £272,468. Despite the fact that no actual losses have been incurred to date, the Board has considered it prudent to make mortgage provisions of £224,266 to reflect the reduction in Northern Ireland house prices mentioned previously. Although this is a significant amount, it is wholly achievable because of the Society's capital strength and its mutual status, whereby it does not have to maximise its profits.

Savers' balances increased by over £2.2 million, or 6.3%, to almost £38 million, and these inflows allowed assets to grow to £40.6 million. The Board continues to believe that savers benefit from investing with an organisation like City of Derry that offers simple accounts providing long-term value, rather than in gimmicky products with unsustainable short-term rates or bonuses. The 2010 results suggest that many savers approve of the Board's approach. While low interest rates have been beneficial for borrowers, they have been challenging both for those depending on the return from their savings rates and for the Society, which continues to borrow no money from banks and which relies on receipts from its savers to fund its new mortgage lending and to grow the business.

Mortgage lending in 2010 continued to be depressed both by a lack of activity in the marketplace and by property values that have entered their fourth year of downward movement. The Society lent just over £3 million, a historically low level, yet succeeded in growing total mortgage balances by almost 4% to over £30 million, excluding provisions.

The Directors wish to record their appreciation for the enthusiasm and loyalty of the staff members who have contributed greatly to the Society's excellent performance in 2010, and would also like to thank the Society's members and business associates for their continued and valuable support.

REVIEW OF 2010

Total Assets

The Society's total assets at 31st December 2010 amounted to £40,592,025, an increase of £2,263,864 5.91% for the year.

Liquid Assets

Liquid Assets in the form of cash and securities at 31st December 2010 were £10,131,287 representing 26.76% of total shares and borrowings.

Commercial Assets

During 2010 mortgage advances by the Society amounted to £3,032,350 on 48 mortgages and further advances. Total mortgage balances increased in total by £914,709 to £30,007,116. At the end of the year there were 7 cases where repayments were more than 12 months in arrear, the total amount of arrears in these cases being £76,946.

Fixed Assets

Changes in fixed assets during the year are detailed in note 11 to the Accounts.

Shares And Deposits

Shares and deposits at 31st December 2010 were £37,857,975 an increase of £2,245,866 or 6.31% for the year. Receipts were £6,998,474 withdrawals £5,488,361 and interest added to accounts totalled £735,753.

Capital

The profit for the year after taxation transferred to general reserves was £36,276. At 31st December 2010 the Society's free capital amounted to £2,329,637, or 6.91% of total shares and borrowings, and gross capital was £2,615,420 or 6.15% of shares and deposits.

Gross capital represents the general reserve as shown in the balance sheet. Free capital represents gross capital and general provisions for bad and doubtful debt less fixed assets as shown in the balance sheet.

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. At 31st December 2010 the Society had no debts that could be described as trade creditors.

Auditors

A resolution for the reappointment of Messrs. Fergus McAteer & Co as auditors of the Society will be proposed at the Annual General Meeting.

Directors

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

D.C. Black B.Sc. (Chairman)
J.E. Bradley B.Comm., F.C.A. (Vice Chairman)
D. A. Hill J.P., D.L.
J. C. Love B.Sc., F.C.A.
K. O'Leary B.Sc. (Appointed 27th April 2010)
W.B.S. Buchanan M.B.E., T.D. (Retired 27th April 2010)
C.A. Jeffrey B.Sc. (Chief Executive)

The Director retiring by rotation is Mr C A Jeffrey who, being eligible, offers himself for re-election at the Annual General Meeting.

In accordance with Section 60 (7) of the Building Societies Act 1986, Mr D A Hill, having attained the age of 70 has been approved as eligible for re-election by Resolution of the Board of Directors by reason of his experience and the need for stability.

Mr J E Bradley is retiring from the Board at the 2010 Annual General Meeting, having served on the Board for 12 years. The Board thanks him for his contribution and wishes him well in his retirement.

Remuneration Policy

The Board has voluntarily decided to follow the requirements for listed companies in providing information to members about the Board's policy on the remuneration of Executive and Non-Executive Directors. Details of remuneration are given at Note 6 to the Accounts.

Non-Executive Directors receive fees for their services. They do not have service contracts nor do they receive any salary, pension or other taxable benefits. The level of fees is reviewed annually by the Remuneration Committee with regard to external sources and fees paid at similar sized societies.

The remuneration of the Executive Director takes account of experience, expertise, individual performance and salary levels for similar positions in comparable institutions. It comprises salary, bonus (where appropriate), contributions to a personal pension plan and a company car. He is subject to annual appraisal by the Remuneration Committee and is employed on a service contract which can be terminated on expiry of three months' notice. No bonus was paid in 2010.

PRINCIPAL RISKS AND UNCERTAINTIES

The City of Derry Building Society operates in a competitive environment that requires the management of risk to ensure continued success. The Board has in place a structure of policy statements, exposure limits, mandates and reporting lines to ensure that risks are mitigated. All policy statements are approved by the Board and are subject to regular review.

The principal risks and uncertainties facing the Society are:

Liquidity Risk is the risk that the Society will be unable to meet its financial obligations as they fall due as the result of imbalances in the cash flow of its activities. The Liquidity Policy, which is both approved and reviewed regularly by the Board, seeks to ensure that sufficient funds in liquid form are maintained at all times so that the Society can meet its commitments. Stress tests are carried out regularly to confirm that both normal and abnormal cash outflows can be managed.

Credit Risk is primarily the risk that borrowers to whom the Society has lent money will be unable to make repayments. Also relevant is the risk that treasury counterparties will be unable to meet their obligations as they fall due.

All mortgage applications are assessed in accordance with the Lending Policy, which delegates authority for approval of mortgages to the Chief Executive. All new mortgages are reviewed by the Board. The Liquidity Policy includes limits for counterparties and short-term liquidity, together with credit rating criteria for institutions holding the Society's liquid assets.

Interest Rate Risk is the risk of interest rate mismatches on interest receivable on assets and interest payable on liabilities. The Society mitigates this risk by offering only variable rate savings accounts and mortgages.

Operational Risk is the risk of loss arising from inadequate or failed internal processes and systems. Included here is **Regulatory Risk**, the risk that the volume and complexity of regulatory issues may reduce the Society's capital and make it difficult for the Society to compete over time.

Concentration Risk is the risk arising from over-exposures to individual mortgage borrowers, liquid asset counterparties or by geographical region. The Society manages exposures to borrowers and counterparties via Board-approved policies and sets limits that are regularly monitored. As a small building society that lends only in its local area, the Society's core mortgage lending activity is exposed to the Northern Ireland housing market. To mitigate this risk lending policies are prudent and exposures are monitored over time by use of appropriate house price indices.

CORPORATE GOVERNANCE REPORT

The City of Derry Building Society supports the principles of good corporate governance. The new version of the Combined Code on Corporate Governance (“the Code”) was issued by the Financial Reporting Council (FRC) in June 2010. Despite the Code being directed primarily towards listed companies, the Society has chosen to comply voluntarily with its principles.

Code Principle

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

The Board’s role is to provide leadership of the Society within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Society’s strategy to ensure that the necessary financial and human resources are in place for the Society to meet its objectives and review management performance.

The Board meets on a monthly basis and additionally, when required.

Audit Committee

The following Directors were members of this committee during the year. All members are Non-Executive Directors. The Executive Director and representatives from the External and Internal Auditors attend by invitation.

Mr J C Love (Chairman)
Mr J E Bradley
Mr D A Hill

The committee considers all aspects of audit, compliance and risk management. It is responsible for assessing the effectiveness of the system of inspection and control and whether financial operating information is accurate and complete. It recommends acceptance of the annual accounts to the Board and monitors the performance of and relationship with internal and external auditors.

Remuneration Committee

The following Directors were members of this committee during the year. All members are Non-Executive Directors. The Executive Director and others may attend by invitation.

Mr J E Bradley (Chairman)
Mr D A Hill
Mr W B S Buchanan
Ms K O’Leary

The committee is responsible for the appraisal of the Executive Director and under advice it determines their terms and conditions of employment. It also recommends the level of Non-Executive Director remuneration and salary scales for all staff to the full Board, again under advice. Details of the remuneration policy can be found on page 4 and the Directors’ Remuneration Report is detailed at Note 6 to the Accounts on page 15.

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 Executive responsibility for the running of the company’s business. No one individual should have unfettered powers of decision.

The offices of Chief Executive and Chairman are distinct and held by different people. The Chairman is responsible for the leadership of the Board, ensuring its effectiveness on all its aspects of its role and setting its agenda. He is responsible for ensuring that Directors receive accurate, timely and clear advice and information.

The Chief Executive is responsible for managing the Society’s business 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.

The Board comprises five Non-Executives and one Executive Director providing a balance of skills and experience appropriate for the requirements of the business. All Non-Executive Directors are considered by the Board to be independent in character and judgement.

Appointment to the Board

Code Principle

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

Members have the right under the Society's Rules to nominate candidates for election to the Board. All Directors must meet the tests of fitness and propriety laid down by the Financial Services Authority and all Directors must be registered with the FSA as an Approved Person in order to fulfil their controlled function as a Director. The Board is committed to ensuring that new Directors have sufficient and relevant skills and expertise to fulfil their roles.

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 induction on joining the Board and should regularly update and refresh their skills and knowledge.

The Chairman ensures that the Board receives information sufficient to enable it to discharge its responsibilities. All new Directors receive induction training, and the Society can provide resources and training from external agencies to develop and update Directors' knowledge and capabilities.

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.

The Executive Director is evaluated annually by the Remuneration Committee. The Non-Executive Directors are evaluated by the Chairman taking into account the views of the other Directors. The Chairman is evaluated by the Non-Executive Directors and taking into account the views of the Executive Director. The Board evaluates its own overall performance.

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.

The Society's Rules require that all Directors are submitted for election at the Annual General Meeting (AGM) following their appointment to the Board. Where the 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 three-year term, subject to satisfactory performance. All Directors are required to seek re-election if they have not been elected at either of the two previous AGMs. Directors may submit themselves for re-election voluntarily.

Remuneration

The Report of Directors' Remuneration explains how the Society applies the Code principles and its compliance with the Code provisions relating to remuneration.

Financial Reporting

Code Principle

The Board should present a balanced and understandable assessment of the company's position and prospects.

The responsibilities of the Directors in relation to the preparation of the Society's accounts and the statement that the Society's business is a going concern are contained in the Directors' Responsibilities on page 7.

Internal Control

Code Principle

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

The Board is collectively responsible for determining strategies for risk management and control. Senior management are responsible for designing, operating and monitoring risk management and internal control processes. The Audit Committee reviews the adequacy of these processes and the Internal Audit function provides independent and objective assurance that the processes are appropriate and effectively applied. The Society has a strong compliance culture and the Board is satisfied, following review by the Audit Committee, that the Society's systems are effective and appropriate to the scale and complexity of the Society's business.

Audit and Risk 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.

The Board has an Audit Committee comprising three Non-Executive Directors. The Chairman of the Committee is an independent Director and has current and relevant financial experience. The role of the Committee appears in the section of this report relating to Directors on page 5.

The Audit Committee usually meets 3-4 times a year and the Executive Director attends by invitation only. At least annually the Audit Committee meets with the External and Internal Auditors without the Executive Directors 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.

Relations with Shareholders

Code Principle

There should be 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.

As a mutual organisation the Society's membership consists almost entirely of individuals who are also the Society's customers.

Constructive use of the AGM

Code Principle

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

Each year the Society sends details of the AGM to members who are eligible to vote. The resolutions include the election of Directors and a separate advisory vote on the Directors' Remuneration Report. Members are encouraged to exercise their right to vote and a donation to charity is made for each vote cast. Members are provided with voting forms that allow them to appoint a proxy to vote on their behalf if they are unable to attend the AGM.

DIRECTORS' RESPONSIBILITIES FOR PREPARING THE ANNUAL ACCOUNTS

The following statement, which should be read in conjunction with the statement of the Auditors' responsibilities on page 9, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The Directors are required by the Building Societies Act 1986 (the Act) to prepare, for each financial year, Annual Accounts which give a true and fair view:

- * of the state of the affairs of the Society as at the end of the financial year;
- * of the income and expenditure of the Society for the financial year;

In preparing those accounts, the Directors are required to:

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

In addition to the accounts, the act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROL

The Directors are responsible for ensuring that the Society:

- * keeps accounting records 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 safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GOING CONCERN

The Directors are satisfied that the Society 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 accounts.

David C Black

Chairman

25 March 2011



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CITY OF DERRY BUILDING SOCIETY

This report is made solely to the Society's members, as a body, in accordance with Section 78 of the Building Societies Act 1986 (as amended). 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.

We have audited the Annual Accounts on pages 10 to 18, which have been prepared under the historical cost convention and in accordance with the accounting policies set out on page 13. 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 on pages 19 to 20 and pages 2 to 8 respectively.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Directors' Report, the Annual Business Statement and, as described on page 7 the Annual Accounts in accordance with applicable United Kingdom law and accounting standards. 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 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. We also 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 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.

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 accompanying the Annual Accounts, the Annual Business Statement and the Directors' Report and consider whether it is consistent with those statements. 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.

Basis of opinion

We conducted our audit of the accounts 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 judgements made by the directors in the preparation of the Annual Accounts, and of whether the accounting policies are appropriate to the 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 have 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 affairs of the Society at 31st December 2010 and of the income and expenditure 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 the regulations made under it.

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 require us to report if in our opinion:

- Proper accounting records have not been kept by the Society; or
- The City of Derry Building Society financial statements 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.

Conor McAteer
Senior Statutory Auditor
For and on behalf of:
Fergus McAteer & Co.
Chartered Accountants
Registered Auditors

25 March 2011

CITY OF DERRY BUILDING SOCIETY

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2010**

	NOTE	2010	2009
		£	£
Interest receivable and similar income	2	1,500,099	1,412,181
Interest payable and similar charges	3	(889,791)	(859,816)
		<hr/>	<hr/>
Net Interest receivable		610,308	552,365
Fees and commissions receivable		14,170	14,379
Fees and commission payable		(6,174)	(5,690)
Other operating income		16,963	14,160
		<hr/>	<hr/>
		635,267	575,214
		<hr/>	<hr/>
Administrative expenses	4	(342,429)	(336,404)
Depreciation and amortisation		(20,370)	(20,284)
		<hr/>	<hr/>
Operating Profit before Provisions		272,468	218,526
Provisions for bad and doubtful debts		(224,266)	(92,463)
Provisions for contingent liabilities			
Financial services compensation scheme levy		-	(10,663)
Profit on ordinary activities before tax		48,202	115,400
		<hr/>	<hr/>
Tax on profit on ordinary activities	8	(11,926)	(26,417)
		<hr/>	<hr/>
Profit for the financial year		£36,276	£88,983
		<hr/> <hr/>	<hr/> <hr/>

The above results are all derived from continuing operations.

The Society has no recognised gains/losses other than those included in the profits above.

The accounts are prepared on an unmodified historical cost basis.

The notes on pages 13 to 18 form part of these accounts.

CITY OF DERRY BUILDING SOCIETY

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2010**

	2010	2009
	£	£
Net Cash Inflow/(Outflow) from Operating Activities	38,628	(462,271)
Taxation	(17,434)	(45,031)
Capital Expenditure and Financial Investment		
Purchase of Tangible Fixed Assets	(2,724)	(18,693)
Disposal of Tangible Fixed Assets	-	-
	<hr/>	<hr/>
Increase/(Decrease) in Cash	<u>18,470</u>	<u>(525,995)</u>
Reconciliation of Operating Profit to Net Inflow/(Outflow) from operating activities		
Operating Profit	48,202	115,400
Decrease/(Increase) in Prepayments and Accrued Income	(56,692)	(3,874)
Depreciation and Amortisation	20,370	20,284
	<hr/>	<hr/>
Net Cash Inflow from Trading Activities	11,880	131,810
Net Increase in Loans and Advances to Customers	(914,709)	(1,054,284)
Net Increase in Shares	2,245,868	2,059,195
Net (Increase)/Decrease in Loans and Advances to Credit Institutions	1,205,120	(1,521,893)
Net(Increase)/Decrease in Other Liquid Assets	(2,496,626)	
Net (Increase)/Decrease in Other Assets	-	-
Net Increase/(Decrease) in Other Liabilities	(236)	(73,323)
Net Increase/(Decrease) in Provisions for Liabilities and Charges	(12,669)	(3,776)
	<hr/>	<hr/>
Net Cash Inflow/(Outflow) from Operating Activities	<u>£38,628</u>	<u>(462,271)</u>

RECONCILIATION OF CASH BALANCES

	2009	Cash Flow	2010
	£	£	£
Cash in Hand	60,847	18,470	79,317

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 2010**

1. ACCOUNTING POLICIES

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

Basis of Preparation

The accounts have been prepared under the historical cost convention and in accordance with Building Societies (Accounts and Related Provisions) Regulations 1998 and applicable accounting standards.

Income Tax

Income tax on share and deposit interest relates to interest charged in these accounts.

Corporation Tax

Corporation Tax is charged in the accounts on the excess of income over expenditure as adjusted for taxation purposes.

Deferred Taxation

Provision is made for deferred taxation using the liability method to take account of the timing differences between the incidence of income and expenditure for taxation and accounting purposes. Tax deferred or accelerated is accounted for in respect of all material timing differences.

Tangible Fixed Assets and Depreciation

The cost of premises, equipment, furniture and motor vehicles is written off over the estimated useful life in equal instalments, at the following rates:

Freehold Premises	2%
Office Equipment	20%
Office Furniture	20%
Motor Vehicles	20%

Repairs and Renewals

The cost of repairs and renewals is charged to revenue in the year in which the expenditure is incurred.

Liquid Assets

Debt securities are intended for use on a continuing basis in the Society's activities and as financial fixed assets are stated at cost, adjusted to exclude accrued interest at the date of purchase.

Other liquid assets are stated at cost to the Society adjusted for accrued interest to the Balance Sheet date.

Pension Costs

The Society operates a defined contribution pension scheme administered by Trustees, the funds of which are separate from those of the Society. Contributions to the pension scheme are charged to revenue as incurred.

Provision for bad and doubtful debts

Provisions are made to reduce the value of loans and advances to the amounts which the directors consider is likely ultimately to be received.

Throughout the year, and at year-end, individual assessments are made of all advances and loans which are in arrears by one month or more.

NOTES TO THE ACCOUNTS (CONTINUED)

Deferred Income

Higher Lending Charges are received as an insurance against losses on certain residential secured loans with high loan to value ratios and are to be released to the income and expenditure account over an appropriate number of years. No amount has been released to the Income and Expenditure Account in the current year.

In the balance sheet the premiums received are netted against loans and advances to customers (Note 10).

	2010 £	2009 £
2. INTEREST RECEIVABLE AND SIMILAR INCOME		
Loans fully secured on residential property	1,356,142	1,271,511
On other loans	26,623	27,197
On debt securities	-	-
On other liquid assets	117,334	113,473
	<u>1,500,099</u>	<u>1,412,181</u>
3. INTEREST PAYABLE AND SIMILAR CHARGES		
On shares held by individuals	889,791	859,816
On deposits and other borrowings	-	-
	<u>889,791</u>	<u>859,816</u>
4. ADMINISTRATIVE EXPENSES		
Staff costs (Note 5)		
Wages and salaries	148,116	145,615
Social Security costs	13,866	13,087
Other pension costs	19,943	21,008
	<u>181,925</u>	<u>179,710</u>
Other administrative expenses	160,504	156,694
	<u>342,429</u>	<u>336,404</u>
Included in other administrative expenses		
Remuneration of Auditors		
For Audit Work	12,338	9,887
5. STAFF NUMBERS AND COSTS		
The average number employed by the Society (excluding non-executive directors during the year) was as follows:-		
Full Time	5	5
Part Time	<u>1</u>	<u>-</u>
	<u>6</u>	<u>5</u>

NOTES TO THE ACCOUNTS (CONTINUED)

6. DIRECTORS' REMUNERATION	2010	2009
	Fees	Fees
	£	£
NON-EXECUTIVE DIRECTORS		
D A Hill	4,750	4,650
W B S Buchanan	1,188	4,650
A W Fielding	-	1,163
D C Black	5,500	5,400
J C Love	4,750	4,650
J E Bradley	4,750	4,650
K O'Leary	<u>3,166</u>	<u>-</u>
	<u>24,104</u>	<u>25,163</u>

EXECUTIVE DIRECTORS

	2010				2009			
	Salary	Benefits	Pension Contributions Paid	Total	Salary	Benefits	Pension Contributions Paid	Total
	£	£	£	£	£	£	£	£
C A Jeffrey	57,650	7,454	12,177	77,281	56,450	7,820	11,932	76,202

Details of the remuneration committee and remuneration policy are included in the Directors' Report.

7. DIRECTORS LOANS AND TRANSACTIONS

At 31st December 2010 here were outstanding mortgage loans granted in the ordinary course of business to three directors and connected persons amounting to £229,452.

A register is maintained at the Society's Office under 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 31st December 2010 will be available for inspection at the Society's office for a period of fifteen days up to and including the Annual General Meeting.

8. TAXATION	2010	2009
The taxation charge for the year comprises:		
UK Corporation tax at 21.00% (2009 21.00%)	13,036	24,116
DEFERRED TAX		
Origination and reversal of timing differences	(1,110)	2,301
	<u>11,926</u>	<u>26,417</u>
The actual current tax charge for the year differs from that calculated using the standard rate of corporation tax in the UK. The differences are explained below		
Profit on ordinary activities before tax	48,203	118,384
Tax on profit on ordinary activities at 28% (2009 28%)	13,497	33,148
Effects of		
Depreciation more/ (less) than Capital Allowances	3,884	(1,125)
Increase in provision for mortgage indemnity	-	381
Small companies relief	(4,345)	(8,288)
Current charge for tax	<u>13,036</u>	<u>24,116</u>

NOTES TO THE ACCOUNTS (CONTINUED)

	2010	2009
	£	£
9. LIQUID ASSETS		
a. Treasury Bills and Other Eligible Bills		
Cost		
At 1 st January 2010	-	-
Acquisitions	2,493,832	-
Amortisation	<u>2,794</u>	<u>-</u>
At 31 December 2010	2,496,626	-
b. Loans and Advances to Credit Institutions	£	£
Loans and advances to credit institutions have remaining		
Maturities as follows:		
Accrued Interest	15,609	15,159
Repayable on demand	553,527	2,458,915
Repayable in not more than 3 months	5,486,208	6,286,390
Repayable more than 3 months but not more than one year	<u>1,500,000</u>	<u>-</u>
	<u>7,555,344</u>	<u>8,760,464</u>
	2010	2009
	£	£

10. LOANS AND ADVANCES TO CUSTOMERS

Loans fully secured on residential property	29,509,735	28,563,263
Other loans fully secured on land	497,381	529,144
	<u>30,007,116</u>	<u>29,092,407</u>

Maturity Analysis

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

	2010	2009
	£	£
Repayable on demand	119,380	125,049
In not more than three months	127,217	104,113
In more than three months but not more than one year	536,480	428,969
In more than one year but not more five years	2,948,761	2,712,857
In more than five years	<u>26,707,265</u>	<u>25,929,141</u>
	30,439,103	29,300,129
Less Deferred Mortgage Indemnity Insurance Income	98,908	98,908
Provisions for bad and doubtful debts	<u>333,079</u>	<u>108,814</u>
	<u>30,007,116</u>	<u>29,092,407</u>

The provision for bad and doubtful debts relates entirely to loans fully secured on residential property.

11. TANGIBLE FIXED ASSETS

	Office Equipment £	Office Furniture £	Motor Vehicles £	Premises £	TOTAL £
Cost at 01.01.10	40,252	7,445	34,185	429,302	511,184
Additions	2,724	-	-	-	2,724
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cost at 31.12.10	<u>42,976</u>	<u>7,445</u>	<u>34,185</u>	<u>429,302</u>	<u>513,908</u>
Depreciation at 01.01.10	24,062	7,445	13,674	63,666	108,847
Charge for Year	<u>4,947</u>	<u>-</u>	<u>6,837</u>	<u>8,586</u>	<u>20,370</u>
Depreciation at 31.12.10	<u>29,009</u>	<u>7,445</u>	<u>20,511</u>	<u>72,252</u>	<u>129,217</u>
N.B.V. at 31.12.10	<u>13,967</u>	<u>-</u>	<u>13,674</u>	<u>357,050</u>	<u>384,691</u>
N.B.V. at 31.12.09	<u>16,190</u>	<u>-</u>	<u>20,511</u>	<u>365,636</u>	<u>402,337</u>

NOTES TO THE ACCOUNTS (CONTINUED)

12. OTHER ASSETS

	2010 £	2009 £
Deferred Tax		
At 1 January	(977)	1,324
Amount credited/(charged) to Income and Expenditure A/C for year	1,110	(2,301)
To provisions for liabilities and charges	<u>-</u>	<u>977</u>
At 31 December	<u>133</u>	<u>-</u>

The Deferred Tax Asset represents an Excess of Depreciation over Capital Allowances

13. SHARES

	2010 £	2009 £
Held by individuals	37,857,977	35,612,109
Other shares	<u>-</u>	<u>-</u>
	<u>37,857,977</u>	<u>35,612,109</u>
Repayable from the Balance Sheet date in the ordinary course of business as follows:		
Repayable on Demand	4,228,096	4,252,277
In not more than 3 months	33,629,881	31,359,832
In more than 3 months but not more than 1 year	-	-
In more than 1 year	<u>-</u>	<u>-</u>
	<u>37,857,977</u>	<u>35,612,109</u>

14. OTHER LIABILITIES

	2009 £	2010 £
Falling due within one year		
Corporation Tax	11,679	16,077
Income Tax	64,319	64,874
Other Creditors	21,490	21,171
	<u>97,488</u>	<u>102,122</u>

15. PROVISIONS FOR LIABILITIES AND CHARGES

	2010 £	2009 £
FSCS Levy		
At 1 January	33,809	37,585
Levy paid in year	(12,669)	(14,439)
Charge for year	<u>-</u>	<u>10,663</u>
At 31 December	<u>21,140</u>	<u>33,809</u>
Deferred Tax		
At 1 January	977	(1,324)
Charge for year	(1,110)	2,301
To Other Assets	<u>133</u>	<u>-</u>
At 31 December	<u>-</u>	<u>977</u>
Total at 31 December	<u>21,140</u>	<u>34,786</u>

The FSCS levy provision relates to the Financial Services Compensation Scheme (FSCS) levy. Based on its share of protected deposits, the Society pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts - a management expense levy and a compensation levy. The management expenses levy covers the cost of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries.

In 2008 and 2009 a number of institutions were declared in default by the FSA.

The FSCS has met the claims by way of loans received from HM Treasury on which it is liable to pay interest. The FSCS has, in turn, acquired the rights to the realization of the assets of these institutions.

As a result of notifications the Society has received from The Financial Services Authority the Society had made a provision of £33,809 covering the period April 2010 to March 2011. During the year ended 31 December 2010 a payment of £12,669 was made reducing the provision of £21,140.

Furthermore, no provision has been made in the accounts for the Society's share of interest payments for the period subsequent to 31 March 2011 or for any compensation levy arising from any asset recovery shortfalls which result in the FSCS not being to fully repay the HM Treasury loan.

This matter is therefore considered by the Directors to be a contingent liability for the Society.

The deferred tax provision relates to the excess of capital allowances over depreciation.

NOTES TO THE ACCOUNTS (CONTINUED)

	2010	2009
	£	£
16. RESERVES		
At 1st January	2,579,144	2,490,161
Profit for the year	36,276	88,983
At 31st December	<u>2,615,420</u>	<u>2,579,144</u>

17. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

(a) Financial Services Compensation Scheme. The Society has a contingent liability in respect of contributions to the Scheme provided under the Financial Services and Markets Act 2000.

(Note 16).

(b) **Risk Management and Financial Instruments**

The Society operates on the administered approach to treasury management as defined by the Financial Services Authority. As such, the Society does not offer customers any fixed rate products and hence is not authorised to use off-balance sheet instruments.

Risk management

The Board regularly reviews and agrees policies and procedures for managing the financial risks arising from the Society's activities. These risks include credit risk, liquidity risk and interest rate risk and are discussed below.

Credit risk

The Board is responsible for reviewing and approving the Society's lending policy document. All loan applications are assessed with reference to this document.

Liquidity risk

The Board is responsible for reviewing and approving the Society's liquidity policy statement. The Society will maintain sufficient funds in a liquid form to ensure that the Society can meet its obligations as they fall due.

Interest rate risk

The Society is potentially exposed to movements in interest rates, reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset. The Society does not offer fixed rate savings or mortgage products, substantially reducing this risk. The following table details the repricing exposures at 31 December 2010. Items are allocated to time bands by reference to the earlier of maturity date or next repricing date.

	3 months or less £	More than 3 months less than 6 months £	More than 6 months less than 1 year £	More than 1 year less than 5 years £	Non Interest Bearing £	Total £
ASSETS						
Liquid Assets	8,631,287	-	1,500,000	-	-	10,131,287
Loans and advances to customers	30,007,116	-	-	-	-	30,007,116
Tangible fixed assets	-	-	-	-	384,691	384,691
Other assets	-	-	-	-	68,931	68,931
Total Assets	<u>38,638,403</u>	<u>-</u>	<u>1,500,000</u>	<u>-</u>	<u>453,622</u>	<u>40,592,025</u>
LIABILITIES						
Shares	37,857,977	-	-	-	-	37,857,977
Other liabilities	-	-	-	-	97,488	97,488
Provisions for liabilities and charges	-	-	-	-	21,140	21,140
Reserves	-	-	-	-	2,615,420	2,615,420
Total Liabilities	<u>37,857,977</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,734,048</u>	<u>40,592,025</u>
Interest Rate Sensitivity Gap	<u>780,426</u>		<u>1,500,000</u>		(2,280,426)	

18. PENSIONS

The Society makes a contribution into a defined contribution personal pension scheme in respect of all employees.

The Society's contributions are charged against profits in the year in which contributions are made.

There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

The pension charge for the year was £19,943 (2009 £21,008).

CITY OF DERRY BUILDING SOCIETY

**ANNUAL BUSINESS STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2010**

1. STATUTORY RATIOS AND PERCENTAGES	31.12.10	Statutory Limit
Proportion of business assets not in the form of loans fully secured on residential property (the “lending limit”).	1.63%	25%
Proportion of shares and borrowings not in the form of shares held by individuals (the “funding limit”).	0.00%	50%
<p>The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 (as amended by the Building Societies Act 1997).</p> <p>Business assets are the total assets of the society as shown in the balance sheet <i>plus</i> provisions for bad and doubtful debts, <i>less</i> fixed assets and liquid assets.</p> <p>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 <i>plus</i> provisions for bad and doubtful debts.</p>		
2. OTHER PERCENTAGES	31.12.10	31.12.09
As a percentage of shares and borrowings		
Gross capital	6.91%	7.24%
Free capital	6.15%	6.39%
Liquid assets	26.76%	24.77%
Profit after taxation as a percentage of mean total assets	0.09%	0.24%
Management expenses as a percentage of mean total assets	0.92%	0.96%

EXPLANATION

The above percentages have been calculated from the Society’s accounts.

“Shares and borrowings” represent the total of shares and amounts owed to Credit Institutions.

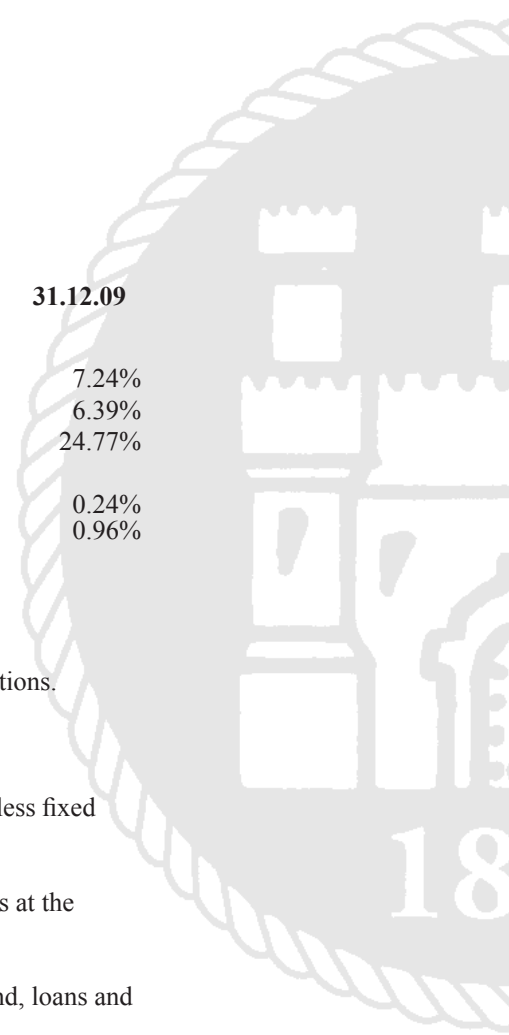
“Gross capital” represents the general reserve.

“Free capital” represents gross capital and general provisions for bad and doubtful debts less fixed assets.

“Mean total assets” represent the amount provided 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.



CITY OF DERRY BUILDING SOCIETY

ANNUAL BUSINESS STATEMENT

2. INFORMATION RELATING TO THE DIRECTORS AND OTHER OFFICERS AT 31 DECEMBER 2010

Director's Name	Occupation	Other Directorships	Date of Birth	Date of Appointment
Karen O'Leary	Solicitor		04.04.68	27.04.10
Donald A. Hill	Company Director	Hills (Derry) Ltd.	20.09.38	29.11.70
David C. Black	Building Developer	Steelstown Development Ltd Black and Adams Homes Ltd Stab Properties Ltd	16.01.57	11.10.91
Colin Jeffrey	Building Society Executive		05.11.60	01.01.94
John E. Bradley	Chartered Accountant	Creggan Enterprises Ltd.	29.11.50	21.01.99
John C. Love	Chartered Accountant		09.07.52	21.01.99

None of the directors has a service contract except for the Executive Director, Mr C A Jeffrey, who is employed on a service contract which can be terminated by either party giving three months' notice.

Correspondence to the Directors, whether individual or collective, should be addressed to the Society's Auditors Messrs Fergus McAteer & Company, 33 Clarendon Street, Londonderry, BT48 7ER.

43 Carlisle Road, Londonderry BT48 6JJ Tel:- 028 71370037 Fax:- 028 71371508

Member of The Building Societies Association
Authorised and Regulated by the Financial Services Authority
Member of the Financial Services Compensation Scheme
www.cityofderrybs.co.uk