



City of Derry

Building Society



**Summary Financial Statement 2010
and Notice of Annual General Meeting**

CITY OF DERRY BUILDING SOCIETY
SUMMARY FINANCIAL STATEMENT
YEAR ENDED 31ST DECEMBER 2010

This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on demand from 29th March 2011.

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 up 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 £224,264 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.

CITY OF DERRY BUILDING SOCIETY

SUMMARY FINANCIAL STATEMENT YEAR ENDED 31ST DECEMBER 2010

	2010 £000's	2009 £000's
RESULTS FOR THE YEAR		
Net Interest Receivable	610	552
Other Income and Charges	25	23
Administrative Expenses	<u>(363)</u>	<u>(357)</u>
Operating Profit before Provisions	272	218
Provisions	<u>(224)</u>	<u>(103)</u>
Profit for the year before taxation	48	115
Taxation	<u>(12)</u>	<u>(26)</u>
Profit for the year	<u>36</u>	<u>89</u>
FINANCIAL POSITION AT YEAR END		
ASSETS		
Liquid Assets	10,131	8,821
Mortgages	30,007	29,092
Fixed and Other Assets	<u>454</u>	<u>415</u>
Total Assets	<u>40,592</u>	<u>38,328</u>
LIABILITIES		
Shares	37,858	35,612
Amounts Due to Credit institutions	-	-
Other Liabilities	98	102
Provisions for Liabilities and Charges	21	35
Reserves	<u>2,615</u>	<u>2,579</u>
Total Liabilities	<u>40,592</u>	<u>38,328</u>

Approved by the Board of Directors on 25th March 2011 and signed on its behalf by:

D. C. Black	Director
J. C. Love	Director
C.A. Jeffrey	Director and Chief Executive

SUMMARY OF KEY FINANCIAL RATIOS

	2010	2009
	%	%
Gross Capital as a percentage of shares and borrowings	6.91	7.24
Liquid assets as a percentage of total shares and borrowings	26.76	24.77
Profit for the year as a percentage of mean total assets	0.09	0.24
Management expenses as a percentage of mean total assets	0.92	0.96

Gross capital as a percentage of shares and borrowings

The gross capital ratio measures the proportion that the Society's capital bears to the Society's liabilities to holders of shares, depositors and other providers of funds (investors).

Liquid assets as a percentage of shares and borrowings

The liquid assets ratio measures the proportion that the Society's assets held in the form of cash, short term deposits and government securities bears to the Society's liabilities to investors.

Most of the Society's assets are long term mortgages which cannot be converted quickly into cash, while many of its liabilities to investors are repayable on demand. Liquid assets are generally readily realisable, enabling the Society to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

Profit for the year as a percentage of mean total assets

The profit/assets ratio measures the proportion that the Society's profit after taxation for the year bears to the average of the Society's total assets during the year.

The Society needs to make a reasonable level of profit each year in order to maintain its capital ratio at a suitable level to protect investors. A building society, however, does not have to pay dividends to equity shareholders as a company does. The Society is therefore able to operate safely with lower profits than a bank and can generally provide better mortgage and savings rates.

Management expenses as a percentage of mean total assets

The management expenses ratio measures the proportion that the Society's administrative expenses bears to the average of the Society's total assets during the year.

Management (or administrative) expenses consist mainly of the costs of employing staff, other staff costs, advertising etc. Expenses need to be controlled so that the Society operates as efficiently as possible while providing the service that members require.

Auditors' Statement on the Summary Financial Statement

Pursuant to Section 76 of the Building Societies Act 1986, we have examined the Summary Financial Statement of City of Derry Building Society set out on the foregoing pages. This report is made solely to the Society's members as a body, in accordance with Section 76 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Summary Financial Statement is the responsibility of the Directors. Our responsibility is to report to you our opinion on its consistency with the Annual Accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

Basis of Opinion

We conducted our examination of this statement in accordance with Auditing Guideline 'The Auditors' Statement on the Summary Financial Statement' adopted by the Auditing Practices Board.

Opinion

In our opinion the Summary Financial Statement is consistent with the Annual Accounts, the Annual Business Statement and Directors' Report of City of Derry Building Society for the year ended 31st December 2010 and conforms with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made thereunder.

Summary Directors' Remuneration Report

This report contains information on the remuneration of Executive and Non-Executive Directors. An advisory vote on this report is included in the Notice of Annual General Meeting.

Remuneration Committee

The Remuneration Committee meets to consider Non-Executive Directors' fees, the Chief Executive's salary, staff salaries and terms and conditions of employment. The Remuneration Committee at 31st December 2010 consisted of the following Non-Executive Directors:

Mr J E Bradley (Chairman), Mr D A Hill, and Ms K O'Leary.

DIRECTORS' REMUNERATION	Fees 2010	Fees 2009
NON-EXECUTIVE DIRECTORS	£000's	£000's
D C Black	5	5
J E Bradley	5	5
D A Hill	5	5
W B S Buchanan (retired 27/4/2010)	1	5
J C Love	5	5
K O'Leary (appointed 27/4/2010)	3	-
EXECUTIVE DIRECTORS		
C A Jeffrey	Pension	
Salary	Benefits	Pension
58	7	Contributions
		Total 2010
		77
		Total 2009
		76

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.

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.

Notice of Annual General Meeting

Notice is hereby given that the 135th ANNUAL GENERAL MEETING of the members of the City of Derry Building Society will be held on TUESDAY, 19th APRIL 2011 at 12 noon, in The WATERFOOT HOTEL, Londonderry for the following purposes.

1. To receive and, if thought fit, approve the Directors' Report, Annual Accounts and Annual Business Statement for the year ended 31st December 2010.
2. To receive and, if thought fit, approve the Auditors' Report, and to pass an Ordinary Resolution to re-appoint Messrs. Fergus McAteer & Co as external auditors.
3. To pass the following Ordinary Resolutions for the election of Directors.
 - (a) To elect Director retiring by rotation. The Director is Mr C A Jeffrey.
 - (b) To re-elect Mr. D. A Hill as a Director. He retired under section 60(8) of the Building Societies Act 1986, as detailed in the Directors' Report.
4. To receive the Directors' Remuneration Report.
5. To transact any other ordinary business permitted by the Rules of the Society.

Any member entitled to attend and vote at this meeting shall be entitled to appoint another person as his proxy to attend and vote for him. Appointment to proxy must be made as prescribed, not later than 48 hours before the meeting.

By Order of the Board
24th February, 2011

Colin A. Jeffrey
Chief Executive

NOTES

1. These Notes form part of the Notice of Meeting.
2. Under the Society's Rules, a member entitled to attend the Meeting and vote may appoint one proxy to attend and vote on his or her behalf. You may appoint the Chairman of the Meeting or anyone else as your proxy, and your proxy does not have to be a member of the Society. Your proxy may vote for you at the Meeting but only on a poll. Your proxy may not speak at the Meeting except to demand or to join in demanding a poll.
3. You may instruct your proxy how to vote at the Meeting. Please read the instructions on the proxy form.
4. The voting date is the date of the Meeting, 19th April 2011, if voting in person and 15th April 2011, if voting by proxy.
5. In order to attend and vote at the Meeting, or appoint a proxy, you must qualify as either a shareholding member or a borrowing member.

Shareholding Members

- (a) To qualify as a shareholding member, you must -
 - (i) if you are an individual, be at least 18 years old on 19th April 2011, and
 - (ii) have held shares to the value of not less than £100 in the Society on 31st December 2010, and
 - (iii) not have ceased to hold a share or shares in the Society at any time between 31st December 2010 and the voting date, and
 - (iv) hold a share or shares in the Society on the voting date.
- (b) Where the shares are held jointly by two or more persons, only the first named in the records of the Society in respect of those shares can have any voting rights.

Borrowing Members

- (a) To qualify as a borrowing member, you must -
 - (i) be at least 18 years old on 19th April 2011, and
 - (ii) have owed the Society not less than £100 in respect of a mortgage debt on 31st December 2010, and owe the Society not less than £100 in respect of a mortgage debt on the voting date.
 - (iii) Where a mortgage debt is owed jointly by two or more persons, only the first named in the records of the Society in respect of that mortgage can have any voting rights.
6. In addition, you can vote only once as a member, irrespective of -
 - (a) the number of accounts you hold and whether you hold accounts in different capacities (for example, on your own behalf and as a trustee), and
 - (b) whether you qualify to vote as both a shareholding member and a borrowing member.
7. Members attending the Meeting will be requested to produce their passbooks or other evidence of membership in order to obtain admission. Please also bring this form with you. If you are appointing a proxy, other than the Chairman of the Meeting, to attend the Meeting and vote on your behalf, please ensure that your proxy brings an appropriate form of identification to the Meeting.

If you appoint a proxy on your behalf and your proxy does not attend the meeting, your vote will not be counted.

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Member of The Building Societies Association
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Member of the Financial Services Compensation Scheme
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