

2008

Annual Report & Accounts 2008 Cambridge Building Society

**CAMBRIDGE**  
BUILDING SOCIETY

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"The Cambridge Building Society is an independent, local, mutual society. It aims through responsible administration to offer competitive rates of interest to both savers and borrowers; and to provide a first class service to the community from conveniently situated offices."

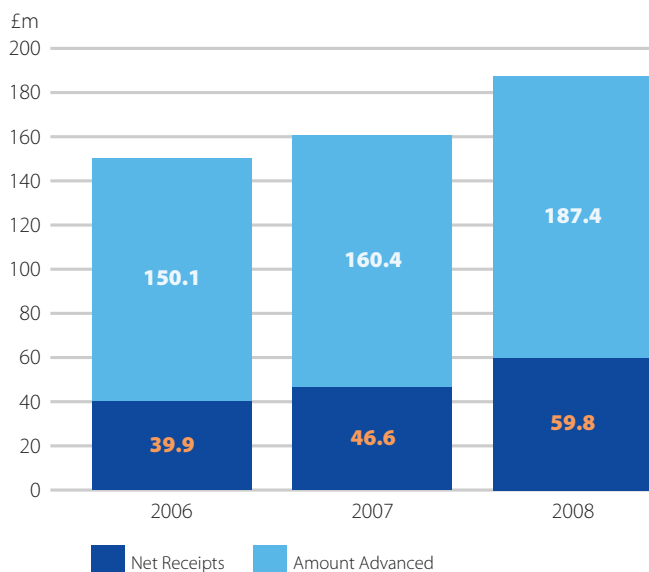
# CHIEF EXECUTIVE'S STATEMENT

## for the year ended 31st December 2008

Looking back over my first full year as Chief Executive I am pleased at how well our Society has performed and reacted to the challenges presented by the extreme changes in economic conditions.

Despite a turbulent period the Society has attracted record savings whilst also lending more money than at any time in its history. It is evident that there continues to be strong support for an organisation that offers good long term value savings and mortgage products to people who live in the Greater Cambridge area. This commitment to delivering good value products combined with a personal, professional service will help see the Society through these difficult times.

Graph showing lending and savings 2006 - 2008



The Society's growth has been achieved through our branches and long term relationships in the community. Our risk appetite remained low and we have no exposure to sub-prime lending. Our mortgages have been used by local people to buy local property. It was pleasing to note that our long term value was recognised once again by 'What Mortgage' magazine when we were voted 'Best Regional Building Society' for 2008.

Whilst we have been able to deliver an impressive set of results for 2008 it is clear our Society and the building society sector as a whole are not immune from the economic downturn. We have always ensured we understand the ability of our borrowers to afford their mortgage payments but it is prudent to increase provisions for loan impairment during times of economic downturn. Despite seeing little evidence of loss we have increased our mortgage provision to £1.52 million. The overall charge is just 0.2% of total mortgage balances. Although much is written about falling property prices our risk averse policies have meant that our average Loan to Value is still under 46%. Our responsible attitude to mortgage lending has ensured that we are not overly exposed to extreme fluctuations in house prices.

### Financial Services Compensation Scheme

In the latter part of 2008 we were advised that owing to failings in the wider banking sector the Financial Services Compensation Scheme would need to be called upon to protect savers' investments. As has been well publicised some banks have risked savers' money by following short term, high risk strategies leading ultimately to failure.

Whilst I understand the imperative for savers to have an underlying confidence that their funds are safe it is unfortunate that prudent building societies, such as Cambridge, have been burdened with a significant levy. For mutual, member-owned organisations, any additional cost such as this ultimately works to the detriment of societies' members - our savers and borrowers. Both the Building Societies Association and individual societies themselves consider that the amounts we are being required to contribute are disproportionately high.

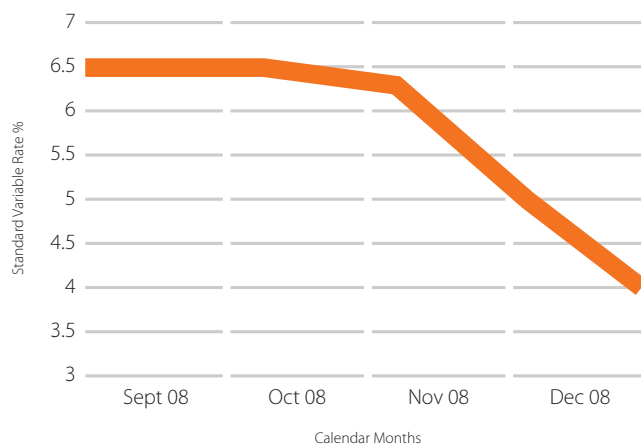
As a result, this levy has had an impact on the Society's profits this year and could do so over at least the next three years. Although this levy is a significant burden the Society's strong financial position means that our overall capital strength will be maintained.

### Looking ahead

Looking ahead our growth targets for 2009 are based on our expectations of challenging market conditions and are lower than in recent years. Despite the difficult times in which we now operate, we will continue to strive to maintain good quality lending and seek to balance fairly the needs of savers and borrowers.

Currently our Standard Variable Rate is amongst the lowest in the market, benefiting thousands of local people who are seeing significantly reduced monthly payments during difficult times.

Recent reductions in Standard Variable Rate



I am pleased to say that we are now benefiting from the review of business operations that commenced in late 2007. We are a more flexible organisation with the right structure to take us forward. This has enabled us to react successfully to changing market conditions. We will continue to invest in developing our staff and they are receiving training that will enhance their ability to deliver outstanding service.

### Branches

We have reviewed our distribution channels in light of changing customer needs and will be rolling out some changes during the coming year. Our extensive branch network performs well in the main and continues to be at the core of our service. However, we have identified four branches that do not provide sufficient value and have little potential to do so. These branches will be closed during 2009 (see note 27). Where possible we will transfer customers to nearby branches where we can deliver a comprehensive range of services. With 19 branches we will still have better coverage than any other bank or building society in our region.

## CHIEF EXECUTIVE'S STATEMENT (continued) for the year ended 31st December 2008

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### Service Improvement

Our customers have told us they wish to do business with us outside core hours, so to complement the branch network we have established an 'out of hours' customer response team. This development will enable members to contact us by telephone in the evenings and at weekends. To further extend our reach we are developing an on-line service for savers which will be launched during 2009.

### Community



Busy Bees cheque presentation - Sunshine Club

The Society continues to invest time and money in the communities it serves. A number of initiatives have been developed by staff over the years to provide ongoing support to a range of locally based charities. This year's staff charity day raised over £8,000 for three charities; East Anglia's Children's Hospice (EACH) - Milton, Dogs for the Disabled and The Sunshine Club in Cambridge. During the year staff contributed 2,580 hours of their own time to support local causes and the Society recognised that commitment by matching the time donated with funding for community support.

### Staff

During 2008 I have been proud of how my staff have helped the Society continue to deliver true value and service to our members. Whilst 2009 will be challenging, I am confident that with the support of my professional and committed staff our Society will continue to prosper and develop.



Stephen Mitcham, Chief Executive

17th February 2009

# DIRECTORS' REPORT

## for the year ended 31st December 2008

The directors have pleasure in presenting their annual report together with the group accounts and business statement for the year ended 31st December 2008.

### BUSINESS OBJECTIVES AND ACTIVITIES

Cambridge Building Society is an independent, local, mutual society. It aims through responsible administration to offer competitive rates of interest to both savers and borrowers; and to provide a first class service to the community from conveniently situated offices.

The principal objective of the Society is to make loans which are secured on residential property and are funded substantially by its members.

### BUSINESS REVIEW

The following sets out a number of key indicators, which the directors use to monitor the development, performance and position of the Society on an ongoing basis. The table on page 5 sets out the trends over a 5 year period.

#### Total assets

Asset growth and managing reserves are key corporate goals. Total assets now exceed £919 million. Reserves have increased by £1.5 million in the year and now exceed £53 million. In view of current market conditions growth in 2009 is not expected to be at similar levels.

#### Liquid assets

Liquid assets are vital to meet obligations to investing and borrowing members. At the year-end liquid assets totalled £232.8 million, representing 27.1% of shares and deposits. A similar level is anticipated in 2009.

#### Mortgages

2008 was a record year for business. The Society's gross lending was £187.4 million, an increase of £22 million on the previous year and a new Society record for advances.

This has been achieved in a year where market conditions were unprecedented. Most lenders found themselves having to restrict lending due to lack of funding. The Society's ability to fund advances through savings rather than money markets helped it to continue supporting its members through these difficult trading conditions. Mortgage advances remain a principal focus for the Society. In keeping with our growth objectives in 2009, gross lending will be substantially lower than in 2008.

The policy of offering value for money to our members by providing very competitive mortgage products continued throughout the year.

At 31st December 2008 there were five mortgage accounts where payments were 12 or more months in arrears. The total amount of principal loan outstanding in these cases was £1,502,642 (2007 - £1,658,807). The total amount of arrears in these cases were £179,891 (2007 - £217,916) or 0.026% (2007 - 0.037%) of mortgage balances. There were two properties in possession.

### Savings and investments

The Society has maintained its fundamental strategy for attracting savings through our established branch network, supported by a range of simple and competitive savings products. This strategy proved its value in 2008 when the Society was at a considerable advantage in not having to rely on funds from a restricted wholesale money market. Funds raised totalled £59.8 million, an increase of £13.2 million over 2007. There are no plans to change this approach in 2009 when, in keeping with our growth objectives, reduced funding is required.

We extended our product range in 2008, introducing 90 Day Notice and Regular Savings Accounts. Both have proven popular with our members.

### Profits and capital

It is the Society's policy, as a mutual organisation, not to maximise profits but to maintain them at a level sufficient for our business needs and to invest in the future. This helps us to provide competitive interest rates to our members.

2008 saw many challenges for the financial services industry and the Society was not immune from the impact of the adverse economic conditions that continue to prevail. The Society has had to balance the requirement to offer best possible rates to both savers and borrowers.

A significant unforeseen factor is that the Society, along with all other deposit takers, has been required to make substantial contributions to the Financial Services Compensation Scheme which has compensated savers of failed banks. Lower treasury rates have also made an impact on profits, as have increased provisions for mortgage losses in 2009.

These factors resulted in the Society posting a profit considerably lower than last year. However, the profit is considered sufficient not to compromise the Society's financial integrity or its capital position, which remains strong.

The Society is committed to preserving its financial strength. However, it is anticipated that profits next year will be lower than in previous years.

# DIRECTORS' REPORT

## for the year ended 31st December 2008

### BUSINESS REVIEW (continued)

#### KEY PERFORMANCE INDICATORS FOR THE GROUP

five year table

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
<b>Total assets</b>					
Balances	919.5	844.1	793.9	751.5	701.0
% increase	8.9%	6.3%	5.6%	7.2%	6.8%
<b>Liquid assets</b>					
Balances	232.8	240.4	221.4	199.9	175.4
% of share & deposit liabilities	27.1%	30.6%	30.0%	28.6%	26.9%
<b>Mortgages</b>					
Amount advanced	187.4	165.4	150.1	138.9	108.9
Balances	678.4	594.6	563.2	542.3	516.5
% increase	14.1%	5.6%	3.9%	5.0%	1.6%
<b>Savings and investments</b>					
Net receipts	59.8	46.6	39.9	48.1	40.9
Balances	845.6	785.8	739.2	699.3	651.2
<b>Profits and capital</b>					
Net interest receivable	16.1	14.7	13.4	12.8	12.7
Other income	1.2	1.2	0.8	0.8	0.6
Profit before tax	2.5	4.8	3.5	3.9	4.4
Profit after tax	1.5	3.2	2.4	2.7	3.0
Increase in general reserve	1.5	4.7	2.8	1.9	2.6
General reserve	53.8	52.3	47.6	44.8	42.9
<b>Performance ratios</b>					
Management expenses to mean assets	1.23	1.26	1.27	1.24	1.23
Return on mean total assets	0.17	0.40	0.31	0.37	0.45
Return on mean total reserves	2.90	6.46	5.18	6.11	7.05
Gross capital	6.27	6.66	6.44	6.40	6.59
Free capital	5.47	5.69	5.35	5.28	5.40

# DIRECTORS' REPORT

## for the year ended 31st December 2008

### BUSINESS REVIEW (continued)

#### Performance ratios

The Society seeks to manage expenses to meet performance targets. In 2008 careful management of variable costs have led to the management expenses to mean assets ratio falling to 1.23%.

The return on mean total assets and reserves reflects the lower profit. The lower profit, influenced by special factors described on page 4, has led to a modest reduction in capital ratios. However these levels remain strong and it is intended to maintain this capital strength.

#### Community

The Society has an established community programme to support fundraisers and good causes in the locality in which it operates. It is a long-standing sponsor of a number of key events.

Staff across the organisation continue to give up their free time to support local initiatives and in 2008 they donated 2,580 hours of their own time to support 190 local charities and fundraising events.

The Society's own annual staff charity day is now in its seventh year. This year the staff organised a number of fundraising events including a family day of sponsored cycling and walking around Grafham Water. Staff and their families raised over £8,000 for three local charities.

The directors appreciate the efforts of the staff and match the time donated with funding for donations and other community support.

In 2008, the Society continued its membership of The Outward Bound Trust Company's Bursary Scheme, a three year commitment commenced in 2005. With the Society's financial support, the Trust has been able to deliver life changing learning to groups of young people based in the Cambridge area.

#### Charitable donations

During the year, the Society made charitable donations amounting to £18,446 (2007 - £22,861). No contributions were made for political purposes.

#### Creditor payment policy

The Society's continuing policy concerning the payment of its trade creditors is to pay invoices within the agreed terms of credit once the supplier has discharged its contractual obligations. At 31st December 2008, the Society had an average of 19 days' purchases outstanding in trade creditors (2007 - 19 days).

#### Post balance sheet events

As described in the Chief Executive's Statement the Society will close four branches in 2009. Statutory disclosure is made in note 27.

#### Regulation

The Society is authorised and regulated by the Financial Services Authority.

#### Financial risk management objectives and policies

The Society is exposed to movements in interest rates on both retail and wholesale assets and liabilities. The Society has a mix of both fixed and variable rate products. To minimise risk we use derivative financial instruments: these principally consist of interest rate swaps. The Society manages this risk on a continuous basis within limits set by the Assets and Liabilities Committee (ALCO) and the board. Further details can be found in note 26.

### PRINCIPAL RISKS AND UNCERTAINTIES

Building societies operate in a highly competitive market with significant uncertainties arising from the general economic environment. Therefore, the management of risk and strategic direction are key activities, vital for the success of the business.

The current market conditions have presented unprecedented challenges to the Society and the financial markets. However, the Society's strong financial position, being predominantly retail funded, provides a solid foundation. The Society is confident in its business strategy and in meeting its objectives despite difficulties that the wider market may present.

The Society has a formal risk management structure in place with established risk policy statements, including risk limits, reporting lines, mandates, a risk review process and other control procedures. This structure is reviewed on a regular basis by the board.

The Society maintains a policy of low exposure to risk so as to maintain public confidence and to allow the achievement of corporate objectives.

The principal risks, detailed below, are continually assessed and managed by the management team.

#### Margin risk

A principal risk is the ability to maintain competitive interest rates whilst ensuring the continued financial strength of the Society. This risk is heightened in the current period of historically low interest rates. The board, through the Corporate Planning process, manages this risk by setting financial objectives, which are regularly reviewed. One key objective is the control of expenses to support competitive interest rates and maintain a level of retail funds that will substantially support mortgage advances.

#### Market risk

The primary market risk faced by the Society is exposure 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 or, if earlier, the instruments' maturity. For example fixed rate mortgages and fixed rate investment bonds.

The interest rate sensitivity of the Society at 31st December 2008 is set out in note 26.

#### Credit risk

Credit risk is the risk that unexpected losses may arise as a result of the Society's borrowers or market counterparties failing to meet their obligation to repay.

The Society has adopted the standardised approach for analysing credit risk and assessment of capital requirements. This approach applies risk weightings as defined under Basel II principles.

The mortgage credit committee and the ALCO are responsible for approving and monitoring the Society's credit exposures which they do through a formal review and approval of the Society's lending and treasury policies. The minutes of these committees are reviewed by the board. All loan applications are assessed with reference to the Society's lending policy. Exposure as at the year-end can be measured by loss provisions as set out in note 6 in the accounts, the level of which has been increased in 2008 reflecting the increased risk of default arising from more difficult conditions in 2009.

# DIRECTORS' REPORT

## for the year ended 31st December 2008

### PRINCIPAL RISKS AND UNCERTAINTIES (continued)

#### Liquidity risk

Liquidity risk is the risk that the Society will be unable to meet its financial obligations as they fall due.

The Society has policies in place to ensure that it maintains sufficient funds in a liquid form at all times so that the Society can meet its liabilities as they fall due and thus maintain full public confidence in the solvency of the Society. This is achieved through maintaining a prudent level of liquid assets, through modest wholesale funding facilities and through control of the growth of the business. The ALCO is responsible for the development and implementation of the liquidity policy and the setting of appropriate maturity and exposure limits. During 2008, in response to the credit crisis, the Society substantially increased its 8 day liquidity policy limit and hence the proportion of funds held in the form of 8 day liquidity. These funds are maintained consistently above both the policy and statutory limits. A series of liquidity stress tests are performed each month to confirm that limits remain appropriate.

#### Operational risk

This relates to the risk of loss arising from inadequate or failed internal processes or systems, human error or external events.

All such risks are identified, assessed, carefully monitored and regularly reviewed as part of the formal risk management structure, which includes an executive risk committee reporting to the board.

#### Summary

All the above risks are assessed by the board in detail under Basel II which determines the minimum level of capital required. The Society's actual level of capital is well in excess of this minimum requirement.

Under Basel II Pillar 3 (disclosure) the Society is required to publish further information about our exposure. The Pillar 3 report is available on our website [www.cambridgebs.co.uk](http://www.cambridgebs.co.uk).

### DIRECTORS

The following persons were directors of the Society during the year:

Ian O'Reilly MBCS (Chairman)  
Rodney Wolverson FCA (Vice-Chairman)  
Gerald Coteman  
Matthew Donaldson MBA  
Nick Hood BSc (Hons), ARICS  
Stephen Mitcham BA (Hons), ACIB  
Jane Pilcher ACIB, MCT  
Ted Powell MA, D.Phil.  
Jonathan Spence MA (OXON)  
Cliff Verrill AFA, FCIB

In accordance with the rules Jane Pilcher, Ted Powell and Jonathan Spence will retire at the Annual General Meeting and will be eligible for re-election.

In addition we welcome Matthew Donaldson to our board. Mr Donaldson must also retire at the Annual General Meeting and will be eligible for election in accordance with Rule 25(4).

Nick Hood has completed his prescribed tenure as a non-executive director. However, in this difficult economic climate, his knowledge of the local housing market is considered invaluable. He has agreed to remain on the board for the time being and, in keeping with good Corporate Governance, Mr Hood retires at the Annual General Meeting and will be eligible for re-election.

None of the directors has any beneficial interest in shares in, or debentures of, any connected undertaking of the Society.

#### STAFF

The staff continued to provide dedicated customer support in what has been an extraordinary year in terms of difficult trading conditions. They have risen to meet the challenges and have demonstrated a professional attitude in spite of the additional pressures.

The directors wish to record their sincere appreciation of the dedication of staff in a challenging year.

#### GOING CONCERN

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



On behalf of the Board of Directors

Ian O'Reilly, Chairman

17th February 2009

# CORPORATE GOVERNANCE REPORT

## for the year ended 31st December 2008

### CORPORATE GOVERNANCE

The directors are committed to best practice in Corporate Governance and, until it was withdrawn on 1st January 2007, complied with the Code of Governance as set out in the Financial Services Authority Interim Prudential Sourcebook for Building Societies. With the amendments made by the FSA Handbook, the Society recognises the Financial Reporting Council's Combined Code on Corporate Governance as of 1st April 2007.

The Building Societies Association has provided guidance on the Code and the board has reviewed the requirements and complies with the Code provisions unless explained below.

#### Directors/Board

The board's principal functions concern the Group'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 Group operates within relevant legislation and regulation and that proper accounting records and effective systems of business control are established, maintained, documented and audited. Matters reserved for the board's attention are documented in a high-level policy manual, Direction and Management, 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 members at meetings of the board and the committees listed below is shown on page 9. In addition, the non-executive directors meet at least once a year without the executive directors. The non-executive directors also meet without the chairman present to appraise the chairman's performance.

During 2008 the board had five main committees: Assets and Liabilities (ALCO), Audit and Compliance, Mortgage Credit, Nominations and Remuneration. The individual committees assess their performance on an annual basis.

The composition of the committees is shown on page 9 of this report.

All members of the board have appropriate liability insurance, at the Society's expense, and have access to independent legal advice if required.

#### 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

As at the year-end, the board comprised eight non-executive (including the chairman) and two executive directors.

The board believes that individual directors have a range of skills and experience which is appropriate for the management of the Society. Further, it believes that all non-executive directors are independent in their judgement and, therefore, it is not considered necessary to appoint a senior independent director.

One of the non-executive directors is a partner in a professional firm that has a business relationship with the Society. Two non-executive directors have served a term of office in excess of nine years. However, it is considered that these relationships do not compromise their independence.

#### Performance and evaluation

Each non-executive director has an annual individual performance appraisal carried out by the chairman. The chairman's performance is appraised by the other directors. The chairman gives feedback to the board on general issues of performance improvement following the appraisal process to allow it to review its own performance. In addition, there is an annual appraisal of the board as a whole.

#### Appointments to the board

The Nominations committee meets as necessary to oversee the board succession plan and to address matters concerning the appointment of new directors. Vacant positions are advertised in the members' newsletter 'Close Up' and other relevant media. All directors must meet the fit and proper tests as laid down by the 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.

#### Re-election

The Society's rules require that all directors submit themselves for re-election at the Annual General Meeting (AGM) following their appointment. In addition, not less than one-third of the other directors must seek re-election annually.

The chairman and vice-chairman are elected annually by the board.

To comply with the Code provisions, the board's policy, as from 1st January 2005, is that new non-executive directors should not serve for more than nine years.

#### Internal control and risk

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 11. In addition they have a responsibility, both under the Building Societies Act and the Financial Services and Markets Act, to establish and maintain systems of control appropriate to the business.

The board has an Audit and Compliance committee which comprises four non-executive directors and is currently chaired by the vice-chairman.

The role of the Audit and Compliance committee is to review the integrity of 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.

# CORPORATE GOVERNANCE REPORT

## for the year ended 31st December 2008

### CORPORATE GOVERNANCE (continued)

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, other senior officers and representatives of internal audit, by invitation. The committee also meets with the external auditors at least once per year.

The minutes of the committee meetings are circulated to all board members.

The Society also engages the external auditors for provision of non-audit services which includes advice on corporation tax issues. The committee is responsible for approving and applying non-audit fees policy for the external auditors.

#### Relationship 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 it carries out its business.

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/reappointment of auditors and vote on the adoption of the directors' remuneration report and the receipt of the Society's accounts.

#### Committee terms of reference

Committee terms of reference are available on request from the Society's secretary. They can also be accessed from the Society's web site [www.cambridgebs.co.uk](http://www.cambridgebs.co.uk).

#### Remuneration

The report of the directors on remuneration, page 10, explains how the Society applies the Code principles relating to remuneration.

#### 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	Audit and Compliance	Assets and Liabilities	Mortgage Credit	Nominations	Remuneration
<b>Non-executive directors</b>						
G M Coteman	12 (12)	4 (4)				Ch 1 (1)
M O Donaldson	3 (4)	0 (1)		1 (1)		0 (1)
J N C Hood	11 (12)			2 (4)		1 (1)
I P O'Reilly	Ch 11 (12)		3 (4)		Ch 3 (3)	1 (1)
J E Pilcher	12 (12)		Ch 6 (6)			1 (1)
E Powell	9 (12)	2 (4)				
J Spence	9 (12)	3 (3)	5 (6)	Ch 4 (4)		
R J Wolverson	Vc 10 (12)	Ch 3 (4)			3 (3)	
<b>Executive directors</b>						
S J Mitcham	12 (12)		6 (6)		3 (3)	1 (1)
C R Verrill	11 (12)			3 (4)	2 (2)	

Ch denotes chairman, Vc denotes vice-chairman

Ian O'Reilly, Chairman

17th February 2009

# DIRECTORS' REMUNERATION REPORT

## for the year ended 31st December 2008

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### DIRECTORS' REMUNERATION

This report sets out the Society's policy on the remuneration of executive and non-executive directors. In recent years there has been an increasing emphasis on the provision of more information on directors' remuneration. As such, the Society's members are invited, at the AGM, to vote on the adoption of the directors' remuneration report. Where appropriate the Society has endeavoured to embrace the Code provisions, which sets out best practice on Corporate Governance relating to remuneration. No director or executive is involved in any decision as to their own remuneration.

### REMUNERATION COMMITTEE

The Society's remuneration committee is responsible for determining the level of executive directors' pay and benefits.

### NON-EXECUTIVE DIRECTORS' REMUNERATION

The non-executive directors' fees are determined by the executive directors and the chairman. The chairman's remuneration is determined by the executive directors and the vice-chairman of the remuneration committee. Fees are based on comparable data from similar financial services organisations. 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

##### Basic salary

This takes account of job content and responsibilities as well as salary levels in comparative organisations. The remuneration committee use external advisers to provide advice in this area.

##### Annual bonus

Any bonus payable is linked to the Society's performance based on a number of key targets set by the board.

##### Pensions

The executive directors are members of the Cambridge Building Society Pensions Scheme, details of which are set out in note 25 of the accounts.

### DIRECTORS' REMUNERATION FOR 2008

Full details of all directors' remuneration are contained within note 8 of the accounts.

Gerald Coteman

Chairman, Remuneration Committee

17th February 2009

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

## for the year ended 31st December 2008

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

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

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

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

In preparing each of the Group and Society annual accounts, the directors are required to:

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

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

### DIRECTORS' RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROL

The directors are responsible for ensuring that the Group:

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

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's web site. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

# INDEPENDENT AUDITORS' REPORT

## to the members of Cambridge Building Society

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We have audited the Group and Society annual accounts of Cambridge Building Society for the year ended 31st December 2008 which comprise the Group and Society Income and Expenditure Accounts, the Group and Society Statements of Total Recognised Gains and Losses, the Group and Society Balance Sheets, the Group Cash Flow Statement and the related notes. These annual accounts have been prepared under the accounting policies set out therein.

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

This report is made solely to the Society's members, as a body, in accordance with Section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and Accounts including the Directors' Report, the Annual Business Statement and the annual accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 11.

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

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

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

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

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the Group's and Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the annual accounts.

### Opinion

In our opinion:

- a) the annual accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the affairs of the Group and of the Society as at 31st December 2008 and of the income and expenditure of the Group and of the Society for the year then ended;
- b) the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- c) the information given in the Directors' Report is consistent with the accounting records and the annual accounts; and
- d) the annual accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
Cambridge

17th February 2009

## INCOME AND EXPENDITURE ACCOUNT for the year ended 31st December 2008

	Notes	Group		Society	
		2008 £000	2007 £000	2008 £000	2007 £000
Interest receivable and similar income	2	51,787	49,446	51,787	49,446
Interest payable and similar charges	3	(35,734)	(34,769)	(35,734)	(34,769)
Net interest receivable		16,053	14,677	16,053	14,677
Fees and commissions receivable		1,003	908	1,003	908
Fees and commissions payable		(358)	(175)	(358)	(175)
Other operating income		149	282	149	282
<b>Total income</b>		<b>16,847</b>	<b>15,692</b>	<b>16,847</b>	<b>15,692</b>
Administrative expenses	4	(10,109)	(9,568)	(10,224)	(9,750)
Depreciation and amortisation		(716)	(744)	(669)	(697)
Other operating charges	5	(488)	(490)	(488)	(490)
Provisions for bad and doubtful debts	6	(1,225)	(107)	(1,225)	(107)
Provisions for contingent liabilities - FSCS levy	21	(1,765)	-	(1,765)	-
<b>Profit on ordinary activities before tax</b>		<b>2,544</b>	<b>4,783</b>	<b>2,476</b>	<b>4,648</b>
Tax on profit on ordinary activities	10	(1,003)	(1,556)	(980)	(1,507)
<b>Profit for the financial year</b>		<b>1,541</b>	<b>3,227</b>	<b>1,496</b>	<b>3,141</b>

The notes on pages 16 to 31 form part of these accounts.

The above results are all derived from continuing operations.

The statement of profit on ordinary activities before tax equates to operating profit as required by FRS 3.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31st December 2008

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
Profit for the financial year	1,541	3,227	1,496	3,141
Actuarial (loss)/gain recognised in the pension scheme	(36)	2,199	(36)	2,199
Deferred tax arising on losses/(gains) in the pension scheme 2008: 28% (2007: 28%)	10	(710)	10	(710)
<b>Total recognised gains relating to the financial year</b>	<b>1,515</b>	<b>4,716</b>	<b>1,470</b>	<b>4,630</b>

# BALANCE SHEET

## as at 31st December 2008

	Notes	Group		Society	
		2008 £000	2007 £000	2008 £000	2007 £000
<b>ASSETS</b>					
<b>Liquid assets</b>					
Cash in hand and balances with the Bank of England		1,691	1,429	1,691	1,429
Loans and advances to credit institutions	11	149,354	144,830	149,330	144,806
Debt securities	12	81,792	93,154	81,792	93,154
Other liquid assets		-	1,028	-	1,028
		<u>232,837</u>	<u>240,441</u>	<u>232,813</u>	<u>240,417</u>
<b>Loans and advances to customers</b>					
Loans fully secured on residential property	13	642,840	549,300	642,840	549,300
Other loans	13	35,511	45,332	35,511	45,332
		<u>678,351</u>	<u>594,632</u>	<u>678,351</u>	<u>594,632</u>
<b>Investments</b>					
Investments in subsidiary undertakings	14	-	-	5,584	5,584
Tangible fixed assets	15	7,485	7,932	5,009	5,409
Other assets	16	654	732	1,616	1,672
Prepayments and accrued income		192	398	192	398
		<u>8,331</u>	<u>9,062</u>	<u>12,401</u>	<u>13,063</u>
<b>Total assets</b>		<u><b>919,519</b></u>	<u><b>844,135</b></u>	<u><b>923,565</b></u>	<u><b>848,112</b></u>
<b>LIABILITIES</b>					
Shares	17	827,500	771,587	827,500	771,587
Amounts owed to credit institutions	18	13,091	-	13,091	-
Amounts owed to other customers	19	18,113	14,188	18,113	14,188
Other liabilities	20	2,093	2,971	2,051	2,949
Accruals and deferred income		1,610	1,238	6,033	5,527
Provision for liabilities – FSCS levy	21	1,765	-	1,765	-
Net pension liability	25	1,494	1,813	1,494	1,813
		<u>865,666</u>	<u>791,797</u>	<u>870,047</u>	<u>796,064</u>
<b>Reserves</b>					
General reserves	23	53,853	52,338	53,518	52,048
<b>Total liabilities</b>		<u><b>919,519</b></u>	<u><b>844,135</b></u>	<u><b>923,565</b></u>	<u><b>848,112</b></u>

The notes on pages 16 to 31 form part of these accounts.

Approved by the Board of Directors

I O'Reilly, Director

R J Wolverson, Director

S J Mitcham, Chief Executive

17th February 2009

## GROUP CASH FLOW STATEMENT for the year ended 31st December 2008

	2008 £000	2007 £000	
<b>RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>			
Operating profit	2,544	4,783	
Decrease/(increase) in prepayments and accrued income	3,198	(1,503)	
Increase in accruals and deferred income	220	426	
Increase in provisions for bad and doubtful debts	1,221	100	
Increase in provision for liabilities	1,765	-	
Depreciation and amortisation	716	744	
Loss on sale of tangible fixed assets	-	22	
Net pension service income	(481)	(223)	
Pension other finance cost	2	54	
<b>Net cash inflow from trading activities</b>	<b>9,185</b>	<b>4,403</b>	
Increase in loans and advances to customers	(84,940)	(31,494)	
Increase in shares	55,904	47,511	
Decrease/(increase) in loans and advances to credit institutions	24,686	(15,023)	
Decrease in other liquid assets	1,000	300	
Increase in amounts owed to credit institutions	13,091	-	
Increase/(decrease) in amounts owed to other customers	3,915	(977)	
<b>Net cash inflow from operating activities</b>	<b>22,841</b>	<b>4,720</b>	
	<b>2008</b>	<b>2007</b>	
	<b>£000</b>	<b>£000</b>	
<b>GROUP CASH FLOW STATEMENT</b>			
<b>Net cash inflow from operating activities</b>	<b>22,841</b>	<b>4,720</b>	
Taxation	(1,498)	(1,306)	
Capital expenditure and financial investments			
Purchase of tangible fixed assets	(269)	(449)	
Purchase of debt securities	(150,803)	(153,542)	
Sale of debt securities	161,554	149,533	
<b>Increase/(decrease) in cash</b>	<b>31,825</b>	<b>(1,044)</b>	
	<b>2008</b>	<b>Movement</b>	<b>2007</b>
	<b>£000</b>	<b>in cash</b>	<b>£000</b>
<b>Analysis of the balances of cash as shown in the balance sheet</b>			
Cash in hand	1,691	262	1,429
Loans and advances to credit institutions repayable on demand	38,844	31,563	7,281
	<b>40,535</b>	<b>31,825</b>	<b>8,710</b>

# NOTES TO THE ACCOUNTS

## for the year ended 31st December 2008

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### NOTE 1. ACCOUNTING POLICIES

#### (a) Basis of preparation

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

The principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group and Society accounts except as noted below.

The amendment to FRS 17 'Retirement benefits' has been adopted in these financial statements for the first time and the disclosures it requires have been presented for both the current and comparative period. The amendment to the FRS 17 also requires that quotes securities are valued at their current bid-price rather than their mid-market value. The equities held in the defined benefit scheme of the Society are in with-profits funds and as such, the change in calculation method does not materially impact the financial statements.

#### (b) Basis of consolidation

The Group accounts consolidate the accounts of the Society and all its subsidiary undertakings. The acquisition method of accounting has been adopted.

#### (c) Taxation

Corporation tax is provided at the current rate on the profit on ordinary activities for the year, as adjusted for taxation purposes.

Provision for deferred tax is made in respect of all timing differences that have originated but not reversed by the balance sheet date.

Timing differences represent differences between gains and losses recognised for tax purposes in periods different from those in which they are recognised in the financial statements. No deferred tax is recognised on permanent differences between the Society's taxable gains and losses and its results as stated in the financial statements. Deferred tax assets and liabilities are stated without discounting.

#### (d) Tangible fixed assets

Tangible fixed assets are shown in the balance sheet at cost less accumulated depreciation. Freehold land is not depreciated. Depreciation is calculated so as to write off the cost of tangible fixed assets over their estimated useful lives as follows:

Freehold buildings	50 years
Short leasehold premises	over the remainder of the lease
Equipment, fixtures and vehicles	4 to 5 years

#### (e) Liquid assets

Liquid assets are intended for use on a continuing basis and are as such classified as financial fixed assets.

Marketable debt securities are included in the Society's accounts at cost adjusted for accrued interest contained in the purchase price, and the surplus on realisation of marketable debt securities excludes interest contained in the selling price. Other securities are included in the accounts at cost. Interest on liquid assets is credited to the income and expenditure account as earned.

#### (f) Pension costs

The Society operates both a defined benefit scheme and a defined contribution scheme for its employees, which are funded by contributions from the Society and its employees. The Society's contributions to the defined benefit scheme are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the Society. The Society's contributions to the defined contribution scheme are charged to the income and expenditure account as they become payable.

FRS 17 requires the assets of a defined benefit pension scheme to be measured at the market value at each balance sheet date and the liabilities to be measured using a specified valuation method and to be discounted using a corporate bond rate. FRS 17 also requires the surplus or deficit arising to be recognised immediately on the balance sheet and any actual gains or losses arising to be recognised immediately in the statement of recognised gains or losses, rather than being recognised progressively over time in the income and expenditure account.

#### (g) Assets held under hire purchase agreements

Assets, which are purchased by hire purchase agreements, are included in the balance sheet at cost less depreciation. The present value of future hire purchase obligations is shown as a liability. The interest element of hire purchase agreements is charged to the income and expenditure account over the period of the agreement. Rental payments under operating leases are charged to the income and expenditure account as incurred.

#### (h) Provision for bad and doubtful debts

Specific and general provisions for losses are based on a year end appraisal of commercial assets.

Specific provisions are assessed on individual properties in possession and loans which are in arrears. Specific provisions for impaired loans take into account any discount which may be needed against the value of the property at the balance sheet date, to agree a sale within three months of that date, the amount recoverable from any insurance policies and anticipated realisation costs. The basis of provisioning also recognises that not all accounts in arrears will result in possession and thereby a factor based on current experience is applied to reflect this probability when calculating the provision for arrears.

The general provision is based on a year end appraisal of losses that may exist on assets not covered by specific provisions.

The amount charged in the income and expenditure account represents losses written off in the year together with the net change in provisions. Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable. Irrecoverable interest on repossessed properties is written off against interest receivable.

## NOTE 1. ACCOUNTING POLICIES (continued)

### (i) Mortgage incentives

The cost of interest rate discounts and other incentives associated with mortgage products are charged to the income and expenditure account as incurred.

### (j) Hedging instruments

Interest rate contracts are used solely for hedging purposes. Cash flows arising in relation to such instruments are accounted for on an accruals basis and included within either interest receivable or interest payable as appropriate. If a hedge is terminated early, the realised gain or loss is amortised over the residual life of the underlying instrument. Amounts accrued on hedging instruments are included within prepayments and accrued income or accruals and deferred income.

## NOTE 2. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
On loans fully secured on residential property	36,345	31,953	36,345	31,953
On other loans	2,870	3,941	2,870	3,941
On fixed interest debt securities				
Interest and other income	4,447	4,110	4,447	4,110
On other liquid assets				
Interest and other income	7,754	9,026	7,754	9,026
Net income on financial instruments	371	416	371	416
	<u>51,787</u>	<u>49,446</u>	<u>51,787</u>	<u>49,446</u>

## NOTE 3. INTEREST PAYABLE AND SIMILAR CHARGES

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
On shares held by individuals	34,255	34,020	34,255	34,020
On other shares	164	181	164	181
On deposits and other borrowings	1,315	568	1,315	568
	<u>35,734</u>	<u>34,769</u>	<u>35,734</u>	<u>34,769</u>

## NOTE 4. ADMINISTRATIVE EXPENSES

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
Employee costs				
Wages and salaries	4,451	4,018	4,451	4,018
Social security costs	412	381	412	381
Other pension costs	433	541	447	541
	<u>5,296</u>	<u>4,940</u>	<u>5,310</u>	<u>4,940</u>
Other administrative expenses	4,813*	4,628	4,914*	4,810
	<u>10,109</u>	<u>9,568</u>	<u>10,224</u>	<u>9,750</u>

\*Administrative expenses includes £276,000 of redundancy and compromise expenditure arising from the current restructuring programme.

Amounts receivable by the Society's auditors and their associates are included within other administrative expenses and comprises fees in respect of:

Audit of these financial statements	54	53	54	53
Other services pursuant to such legislation	4	4	4	4
Other services relating to taxation	12	12	12	12

## NOTE 5. OTHER OPERATING CHARGES

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
Incentives to borrowers	448	423	448	423
Pension finance charge	2	54	2	54
Other	38	13	38	13
	<u>488</u>	<u>490</u>	<u>488</u>	<u>490</u>

## NOTE 6. PROVISION FOR BAD AND DOUBTFUL DEBTS

Provisions for losses on loans and advances fully secured on residential property (FSRP) and fully secured on land (FSOL) have been made as follows and deducted from the appropriate asset values shown in the balance sheet:

	Group and Society				
	General	General	Specific	Specific	Total
	FSRP £000	FSOL £000	FSRP £000	FSOL £000	£000
As at 1st January 2008	300	-	-	-	300
Amounts written off	(4)	-	-	-	(4)
Charge for the year	188	100	299	638	1,225
As at 31st December 2008	<u>484</u>	<u>100</u>	<u>299</u>	<u>638</u>	<u>1,521</u>

## NOTE 7. EMPLOYEES

	Group and Society			
	2008		2007	
	Full Time	Part Time	Full Time	Part Time
The average number of persons employed by the Group and Society (including directors) during the year was as follows:				
Executive directors	2	-	2	-
Non-executive directors	7	-	7	-
Principal office and administration centre	66	19	69	11
Branch offices	75	63	76	54
	<u>150</u>	<u>82</u>	<u>154</u>	<u>65</u>

## NOTE 8. REMUNERATION OF EXECUTIVE AND NON-EXECUTIVE DIRECTORS

	Group and Society 2008				Group and Society 2007			
	Salary/fee	Benefits	Increase in accrued pension	Total	Salary/fee	Benefits	Increase in accrued pension	Total
	£	£	£	£	£	£	£	£
<b>Non-executive directors</b>								
I P O'Reilly (Chairman)	34,650	-	-	34,650	33,315	-	-	33,315
R J Wolverson (Vice-Chairman)	22,900	-	-	22,900	22,015	-	-	22,015
G Coteman	18,000	-	-	18,000	16,600	-	-	16,600
M Donaldson (appointed 23/09/08)	6,000	-	-	6,000	-	-	-	-
J N C Hood	18,000	-	-	18,000	16,600	-	-	16,600
J Pilcher	18,000	-	-	18,000	16,600	-	-	16,600
E Powell	18,000	-	-	18,000	16,600	-	-	16,600
J Spence	18,000	-	-	18,000	16,600	-	-	16,600
	<u>153,550</u>	<u>-</u>	<u>-</u>	<u>153,550</u>	<u>138,330</u>	<u>-</u>	<u>-</u>	<u>138,330</u>
<b>Executive directors</b>								
S J Mitcham (Chief Executive – appointed 23/04/07) **	138,500	9,850	11,829	160,179	111,190	11,953	9,948	133,091
C R Verrill (Secretary)*	95,000	12,642	5,090	112,732	78,385	11,949	1,130	91,464
R H Jackson (Chief Executive – retired 23/04/07)	-	-	-	-	44,204	3,525	397	48,126
	<u>233,500</u>	<u>22,492</u>	<u>16,919</u>	<u>272,911</u>	<u>233,779</u>	<u>27,427</u>	<u>11,475</u>	<u>272,681</u>
Total directors' remuneration	<u>387,050</u>	<u>22,492</u>	<u>16,919</u>	<u>426,461</u>	<u>372,109</u>	<u>27,427</u>	<u>11,475</u>	<u>411,011</u>

The pension figures in the above table represent the increase in the value of accrued pension, under a defined benefit scheme for that year.

None of the directors had an interest in the shares of any subsidiary undertaking of the Society at any time during the financial year.

\*\*S J Mitcham held the position of Chief Executive Designate from 26th September 2006 to 22nd April 2007, the 2007 remuneration disclosed reflects the payment made for this and the Chief Executive position. In 2008 a bonus of £7,500 was paid and is included with the Salary/fee (2007: Nil).

\*In 2008 a bonus of £5,000 was paid to C R Verrill and is included with the Salary/fee (2007: £2,000).

## NOTE 9. LOANS TO DIRECTORS AND CONNECTED PERSONS

At 31st December 2008 mortgage loans outstanding with directors and connected persons amounted to £636,914 made up of 4 directors (2007 - £675,299 made up of 4 directors).

Details of loans are maintained in a register in accordance with Section 68 of the Building Societies Act 1986. The register is available for inspection at the principal office of the Society for a period of 15 days expiring with the date of the Annual General Meeting and at that meeting.

## NOTE 10. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
(a) Tax charge for the year comprises:				
Corporation tax at 28.5% (2007 - 30%) (see below)	772	1,492	752	1,481
Under/(Over) provision from previous year	18	26	15	(10)
	<u>790</u>	<u>1,518</u>	<u>767</u>	<u>1,471</u>
Current tax charge	790	1,518	767	1,471
Deferred tax-origination and reversal of timing differences	213	34	213	32
Effect of reduction in rate of corporation tax	-	4	-	4
	<u>1,003</u>	<u>1,556</u>	<u>980</u>	<u>1,507</u>
(b) Factors affecting the tax charge for the year are:				
Profit on ordinary activities before tax	2,544	4,783	2,476	4,648
Tax on profit on ordinary activities at UK standard rate of 28.5% (2007 - 30%)	725	1,435	706	1,394
Effects of:				
Difference between capital allowances and depreciation	33	34	35	36
Movement on non taxable provisions	81	30	81	30
Pension finance costs	(137)	(51)	(137)	(51)
Depreciation on non-qualifying assets	48	49	40	42
Small company relief	(5)	(15)	-	-
Disallowable expenses	27	10	27	30
Adjustments to tax charge in respect of previous periods	18	26	15	(10)
	<u>790</u>	<u>1,518</u>	<u>767</u>	<u>1,471</u>
Current tax charge for the year	790	1,518	767	1,471

## NOTE 11. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
Accrued interest	1,161	3,514	1,161	3,514
Repayable on demand	38,844	7,281	38,820	7,257
In not more than three months	40,709	73,000	40,709	73,000
In more than three months but not more than one year	47,140	53,035	47,140	53,035
In more than one year but not more than five years	21,500	8,000	21,500	8,000
	<u>149,354</u>	<u>144,830</u>	<u>149,330</u>	<u>144,806</u>

## NOTE 12. DEBT SECURITIES

	Group		Society	
	2008	2007	2008	2007
	£000	£000	£000	£000
<b>Debt securities</b>				
Issued by other borrowers	81,792	93,154	81,792	93,154
	<u>81,792</u>	<u>93,154</u>	<u>81,792</u>	<u>93,154</u>
<b>Debt securities have remaining maturities as follows:</b>				
Accrued interest	1,001	1,612	1,001	1,612
In not more than one year	67,327	72,554	67,327	72,554
In more than one year	13,464	18,988	13,464	18,988
	<u>81,792</u>	<u>93,154</u>	<u>81,792</u>	<u>93,154</u>
<b>Transferable debt securities comprise:</b>				
Unlisted	80,791	91,542	80,791	91,542
	<u>80,791</u>	<u>91,542</u>	<u>80,791</u>	<u>91,542</u>

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

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

	Group	Society
	£000	£000
<b>Cost</b>		
At 1st January 2008	91,542	91,542
Additions and renewals	150,803	150,803
Disposals and maturities	(161,554)	(161,554)
	<u>80,791</u>	<u>80,791</u>
At 31st December 2008		

## NOTE 13. LOANS AND ADVANCES TO CUSTOMERS

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
Advances secured on residential property, other advances secured on land and unsecured loans, are repayable from the balance sheet date as follows:				
In not more than three months	8,580	5,616	8,580	5,616
In more than three months but not more than one year	28,226	25,221	28,226	25,221
In more than one year but not more than five years	112,385	79,130	112,385	79,130
In more than five years	530,681	484,965	530,681	484,965
	<u>679,872</u>	<u>594,932</u>	<u>679,872</u>	<u>594,932</u>
Less provision for bad and doubtful debts (note 6)	(1,521)	(300)	(1,521)	(300)
	<u>678,351</u>	<u>594,632</u>	<u>678,351</u>	<u>594,632</u>
Loans fully secured on residential property	642,840	549,300	642,840	549,300
Other loans fully secured on land	35,511	45,332	35,511	45,332
	<u>678,351</u>	<u>594,632</u>	<u>678,351</u>	<u>594,632</u>

The actual experience of repayments may differ from the above since many loans and advances are repaid early.

## NOTE 14. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Society	
	2008 £000	2007 £000
Loans	5,584	5,584
	<u>5,584</u>	<u>5,584</u>

The subsidiary companies, which are listed below, are constituted under the Companies Act 1985, registered in England and operate in the United Kingdom.

	Relationship to the Society	Class of shares	Group proportion	Nature of business
Cambridge IT Services Ltd	direct	ordinary	100%	holding company
Cambridge Property Services Ltd	indirect	ordinary	100%	ownership of Group properties and provision of IT services
Cambridge Services Ltd	indirect	ordinary	100%	ownership of Group properties and provision of IT services

## NOTE 15. TANGIBLE FIXED ASSETS

	Land and buildings		Motor vehicles, office and computer equipment	Total
	Freehold	Leasehold (short)		
	£000	£000	£000	£000
<b>Group</b>				
Cost at 1st January 2008	6,978	1,265	3,981	12,224
Additions at cost	-	-	269	269
Disposals at cost	-	-	(7)	(7)
Cost at 31st December 2008	<u>6,978</u>	<u>1,265</u>	<u>4,243</u>	<u>12,486</u>
Depreciation at 1st January 2008	770	630	2,892	4,292
Charged in year	107	72	537	716
On disposals	-	-	(7)	(7)
Depreciation at 31st December 2008	<u>877</u>	<u>702</u>	<u>3,422</u>	<u>5,001</u>
Net book value at 31st December 2008	<u>6,101</u>	<u>563</u>	<u>821</u>	<u>7,485</u>
Net book value at 31st December 2007	<u>6,208</u>	<u>635</u>	<u>1,089</u>	<u>7,932</u>
The net book value of land and buildings occupied by the Group for its own activities				
At 31st December 2008	4,395	563		
At 31st December 2007	4,649	635		
	Land and buildings		Motor vehicles, office and computer equipment	Total
	Freehold	Leasehold (short)		
	£000	£000	£000	£000
<b>Society</b>				
Cost at 1st January 2008	4,176	1,265	3,430	8,871
Additions at cost	-	-	269	269
Disposals at cost	-	-	(2)	(2)
Cost at 31st December 2008	<u>4,176</u>	<u>1,265</u>	<u>3,697</u>	<u>9,138</u>
Depreciation at 1st January 2008	474	630	2,358	3,462
Charged in year	69	72	528	669
On disposals	-	-	(2)	(2)
Depreciation at 31st December 2008	<u>543</u>	<u>702</u>	<u>2,884</u>	<u>4,129</u>
Net book value at 31st December 2008	<u>3,633</u>	<u>563</u>	<u>813</u>	<u>5,009</u>
Net book value at 31st December 2007	<u>3,702</u>	<u>635</u>	<u>1,072</u>	<u>5,409</u>
The net book value of land and buildings occupied by the Society for its own activities				
At 31st December 2008	1,926	563		
At 31st December 2007	2,143	635		

## NOTE 16. OTHER ASSETS

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
Other assets due within one year	654	654	1,616	1,603
Deferred tax asset (see note 22)	-	78	-	69
	<u>654</u>	<u>732</u>	<u>1,616</u>	<u>1,672</u>

## NOTE 17. SHARES

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
Held by individuals	821,759	766,462	821,759	766,462
Other shares	5,741	5,125	5,741	5,125
	<u>827,500</u>	<u>771,587</u>	<u>827,500</u>	<u>771,587</u>

Shares are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	19	10	19	10
On demand	827,481	771,577	827,481	771,577
	<u>827,500</u>	<u>771,587</u>	<u>827,500</u>	<u>771,587</u>

## NOTE 18. AMOUNTS OWED TO CREDIT INSTITUTIONS

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	91	-	91	-
On demand	-	-	-	-
In not more than three months	13,000	-	13,000	-
In more than three months but not more than one year	-	-	-	-
	<u>13,091</u>	<u>-</u>	<u>13,091</u>	<u>-</u>

## NOTE 19. AMOUNTS OWED TO OTHER CUSTOMERS

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	19	9	19	9
On demand	15,759	13,104	15,759	13,104
In not more than three months	1,844	1,075	1,844	1,075
In more than three months but not more than one year	491	-	491	-
	<u>18,113</u>	<u>14,188</u>	<u>18,113</u>	<u>14,188</u>

## NOTE 20. OTHER LIABILITIES

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
Due within one year				
Corporation tax	52	760	32	750
Income tax	1,773	1,892	1,773	1,892
Creditors	267	319	236	307
Deferred tax liability (see note 22)	1	-	10	-
	<u>2,093</u>	<u>2,971</u>	<u>2,051</u>	<u>2,949</u>

Creditors includes £50,000 (2007: £100,000) being the estimated cost of customer redress in relation to endowment complaints.

## NOTE 21. PROVISION FOR CONTINGENT LIABILITIES - FSCS LEVY

	Financial Services Compensation Scheme Levy £000
As 1st January 2008	-
Charge for the year	1,765
As at 31st December 2008	<u>1,765</u>

In common with all regulated UK deposit takers, the Society 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 September 2008 a claim was triggered against the FSCS by the transfer of Bradford and Bingley plc's retail deposit business to Abbey National plc. In October 2008 a further claim was triggered against the FSCS by the transfer of Kaupthing Singer and Friedlander's (KSF) internet deposit business ('Kaupthing Edge') and Heritable Bank's (a subsidiary of Landsbanki hf) deposit business to ING Direct. The FSCS will also be liable to claims from depositors of Landsbanki hf and KSF whose balances have not been transferred to ING Direct, but are covered by the FSCS.

We understand that the FSCS has met, or will meet, the claims by way of loans received from the Bank of England which will eventually be replaced by a loan from HM Treasury. The FSCS has, in turn, acquired the rights to the realisation of the assets of these banks. The loan facilities are on an interest only basis for the first three years. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to fully repay the respective Bank of England loans.

The Society has recognised in this year's results a provision for a levy of £1,764,740 which is calculated with reference to the protected deposits held. The provision represents the Society's current best estimate of the levy to be raised to cover the three years interest noted above. At the date of signing these accounts there remains uncertainty over the amounts provided, as the cost will be revised in the scheme years running to 31st March 2012 and there remains a possibility that additional levies for these scheme years may be raised up to that date. The amounts above do not take account of any compensation levies which may arise from any ultimate payout on claims.

## NOTE 22. DEFERRED TAX

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
Deferred taxation				
Net asset at 1st January	78	65	69	54
Origination and reversal of timing differences	(213)	(34)	(213)	(32)
Transferred to net pension liability	134	51	134	51
Effect of reduction in rate of corporation tax	-	(4)	-	(4)
Net (liability)/asset at 31st December	<u>(1)</u>	<u>78</u>	<u>(10)</u>	<u>69</u>
Deferred tax (liability)/asset consists of:				
Accelerated capital allowances	(165)	(6)	(174)	(15)
General mortgage loss provision	164	84	164	84
Net deferred tax (liability)/asset	<u>(1)</u>	<u>78</u>	<u>(10)</u>	<u>69</u>

## NOTE 23. GENERAL RESERVES

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
As at 1st January	52,338	47,622	52,048	47,418
Total recognised gains relating to the financial year	1,515	4,716	1,470	4,630
As at 31st December	<u>53,853</u>	<u>52,338</u>	<u>53,518</u>	<u>52,048</u>
Reserves excluding net pension liability	55,347	54,151	55,012	53,861
Net pension liability	(1,494)	(1,813)	(1,494)	(1,813)
General reserves as adjusted	<u>53,853</u>	<u>52,338</u>	<u>53,518</u>	<u>52,048</u>

## NOTE 24. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

At the balance sheet date, the Group had annual commitments under leases and hire purchase agreements which expire as follows:

	2008 £000		2007 £000	
	Buildings	Other	Buildings	Other
<b>Group</b>				
Within one year	4	27	4	1
In more than one year but less than five years	51	195	51	258
In more than five years	331	-	330	-
	<u>386</u>	<u>222</u>	<u>385</u>	<u>259</u>
<b>Society</b>				
Within one year	4	27	4	1
In more than one year but less than five years	51	195	51	258
In more than five years	466	-	465	-
	<u>521</u>	<u>222</u>	<u>520</u>	<u>259</u>

## NOTE 25. PENSIONS

The Society operates a defined benefit pension scheme for its staff, which was closed on 31st July 2001 to new employees. The assets of the scheme are held separately from the assets of the Society in independently administered funds. The Society also operates a defined contribution scheme for new employees from 1st August 2001. This scheme is administered by Prudential Assurance Company Limited. The assets of the scheme are held separately from the assets of the Society in independently administered funds. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Under Financial Reporting Standard 17 ('Retirement Benefits'), and based on an actuarial interim review consistent with methods described in the standard, the following disclosures are due:

	2008 £000	2007 £000
Present value of funded defined benefit obligations	(11,612)	(13,339)
Fair value of plan assets	9,537	10,821
Present value of unfunded defined benefit obligations	-	-
Deficit	(2,075)	(2,518)
Related deferred tax asset	581	705
Net Liability	<b>(1,494)</b>	<b>(1,813)</b>
<b>Movements in present value of defined benefit obligation</b>	<b>2008</b> £000	<b>2007</b> £000
At 1st January	(13,339)	(14,827)
Current service cost	(318)	(463)
Interest cost	(777)	(757)
Benefits paid	297	435
Employees contributions	(135)	(121)
Actuarial gains	2,660	2,394
At 31st December	<b>(11,612)</b>	<b>(13,339)</b>
<b>Movements in fair value of plan assets</b>	<b>2008</b> £000	<b>2007</b> £000
At 1st January	10,821	9,941
Expected return on scheme assets	775	703
Employer contributions	799	686
Employee contributions	135	121
Benefits and expenses paid	(297)	(435)
Actuarial loss on scheme assets	(2,696)	(195)
At 31st December	<b>9,537</b>	<b>10,821</b>
<b>Expense recognised in the profit and loss</b>	<b>2008</b> £000	<b>2007</b> £000
Current service cost	318	463
Expected return on defined benefit pension plan assets	(775)	(703)
Interest on defined benefit pension plan obligation	777	757
Total	<b>320</b>	<b>517</b>

The expense is recognised in the profit and loss account within administrative expenses (note 4).

## NOTE 25. PENSIONS (continued)

The total amount recognised in the consolidated statement of total recognised gains and losses in respect of actuarial gains and (losses) is (£36,000), 2007: £2,199,000. Cumulative actuarial gains/(losses) reported in the consolidated statement of total recognised gains and losses for accounting periods ending or after 22nd June 2002 and subsequently included by prior year adjustments under paragraph 96 of FRS 17 are (£872,000), 2007: (£836,000).

The fair value of the plan assets and the return on those assets were as follows:

	2008 Fair Value £000	2007 Fair Value £000
Equities	4,976	5,971
Property	1,408	1,599
Other	3,153	3,251
	<u>9,537</u>	<u>10,821</u>
Actual return on plan assets	<u>6.70%</u>	<u>7.00%</u>

The overall expected rate of return is calculated by weighting the individual rates in accordance with anticipated balance in the plan's investment portfolio.

Principal actuarial assumptions (expressed as weighed averages) at the year end were as follows:

	2008 %	2007 %
Discount rate	6.70	5.80
Expected rate of return on plan assets	6.70	7.00
Future salary increases:		
2009	3.00	4.90
2010	4.30	4.90
Inflation	2.80	3.40
Expenses (as % of value of liability)	1.00	1.00
Increases to deferred pensions before retirement (statutory revaluation)	2.80	3.40
Increases to pension in payment in line with LPI (5% or RPI if less)	2.50	3.00

In valuing the liabilities of the pension fund as 31st December 2008, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the funds lived for one year longer, the value of the reported liabilities at 31st December 2008 would have increased by £216,000 before deferred tax.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial tables and include allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

	As at December 2008 Years	As at December 2007 Years
Retiring today aged 65		
Male	87.8	87.0
Female	90.4	89.9
Retiring in 20 years time upon reaching 65		
Male	90.9	88.1
Female	93.4	90.9

## NOTE 25. PENSIONS (continued)

The history of the plan for the current and prior period is as follows:

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Present value of scheme liabilities	(11,612)	(13,339)	(14,827)	(14,095)	(11,176)
Fair value of scheme assets	9,537	10,821	9,941	8,469	6,652
Deficit	<u>(2,075)</u>	<u>(2,518)</u>	<u>(4,886)</u>	<u>(5,626)</u>	<u>(4,524)</u>

	2008		2007		2006*		2005*		2004*	
	£000	%	£000	%	£000	%	£000	%	£000	%
Experience adjustments on scheme liabilities	(2,660)	(27.90)	(2,394)	(22.10)	275	1.90	30	0.20	(383)	(3.40)
Experience adjustments on scheme assets	(2,696)	(28.30)	(195)	(1.80)	289	2.90	643	7.60	188	2.80

\*Figures given here for accounting years before 2007 are using previous disclosure requirements.

The Group expects to contribute approximately £762,000 to its defined benefit plan and £196,000 to its defined contribution scheme in the next financial year.

## NOTE 26. FINANCIAL INSTRUMENTS

The Society is a retailer of financial instruments in the form of mortgage and savings products, and it uses wholesale financial instruments to invest liquid asset balances and to manage the risks arising from its operations.

There is a formal structure in place for managing risk, including established risk limits, reporting lines, mandates and other control procedures. The structure is reviewed by the Society's Assets and Liabilities Committee on a regular basis. It has produced policy statements, which cover:

### Credit risk

All loan applications are assessed with reference to the Group's lending policy. Appropriate credit limits have been established by the board for individual counterparties and sectors.

### Liquidity risk

The Group has policies to ensure that it maintains sufficient funds in a liquid form at all times to ensure that the Group can meet its liabilities as they fall due and thus ensure full public confidence in the solvency of the Group.

### Interest rate risk

The Group is 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 or, if earlier, the instrument's maturity. The interest rate sensitivity of the Group at 31st December is detailed in the table on page 30 where items are allocated to specific time buckets by reference to the earlier of the next interest repricing date or instrument maturity date.

NOTE 26. FINANCIAL INSTRUMENTS (continued)

	3 months or less	More than 3 months but less than 6 months	More than 6 months but less than 1 year	2008 More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Group assets</b>							
Liquid assets	186,845	6,139	23,000	13,000	-	3,853	232,837
Loans and advances to customers	512,573	37,820	47,074	77,716	3,168	-	678,351
Tangible fixed assets	-	-	-	-	-	7,485	7,485
Other assets	-	-	-	-	-	654	654
Prepayments and accrued income	-	-	-	-	-	192	192
<b>Total assets</b>	<b>699,418</b>	<b>43,959</b>	<b>70,074</b>	<b>90,716</b>	<b>3,168</b>	<b>12,184</b>	<b>919,519</b>
<b>Group liabilities</b>							
Shares	779,960	2,750	19,230	25,466	-	94	827,500
Amounts owed to credit institutions	13,091	-	-	-	-	-	13,091
Amounts owed to other customers	18,094	-	-	-	-	19	18,113
Other liabilities	-	-	-	-	-	2,093	2,093
Net pension liability	-	-	-	-	-	1,494	1,494
Accruals and deferred income	-	-	-	-	-	1,610	1,610
Provisions for liabilities - FSCS Levy	-	-	-	-	-	1,765	1,765
Reserves	-	-	-	-	-	53,853	53,853
<b>Total liabilities</b>	<b>811,145</b>	<b>2,750</b>	<b>19,230</b>	<b>25,466</b>	<b>-</b>	<b>60,928</b>	<b>919,519</b>
Off balance sheet items	136,168	(25,000)	(40,000)	(68,000)	(3,168)	-	-
Interest rate sensitivity gap	24,441	16,209	10,844	(2,750)	-	(48,744)	-
Cumulative gap	24,441	40,650	51,494	48,744	48,744	-	-
<b>2007</b>							
	3 months or less	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Group assets</b>							
Liquid assets	148,787	46,070	31,000	8,000	-	6,584	240,441
Loans and advances to customers	485,805	-	16,329	90,497	2,001	-	594,632
Tangible fixed assets	-	-	-	-	-	7,932	7,932
Other assets	-	-	-	-	-	732	732
Prepayments and accrued income	-	-	-	-	-	398	398
<b>Total assets</b>	<b>634,592</b>	<b>46,070</b>	<b>47,329</b>	<b>98,497</b>	<b>2,001</b>	<b>15,646</b>	<b>844,135</b>
<b>Group liabilities</b>							
Shares	750,223	-	-	21,284	-	80	771,587
Amounts owed to other customers	14,179	-	-	-	-	9	14,188
Other liabilities	-	-	-	-	-	2,971	2,971
Net pension liability	-	-	-	-	-	1,813	1,813
Accruals and deferred income	-	-	-	-	-	1,238	1,238
Reserves	-	-	-	-	-	52,338	52,338
<b>Total liabilities</b>	<b>764,402</b>	<b>-</b>	<b>-</b>	<b>21,284</b>	<b>-</b>	<b>58,449</b>	<b>844,135</b>
Off balance sheet items	95,000	-	(15,000)	(78,000)	(2,000)	-	-
Interest rate sensitivity gap	(34,810)	46,070	32,329	(787)	1	(42,803)	-
Cumulative gap	(34,810)	11,260	43,589	42,802	42,803	-	-

## NOTE 26. FINANCIAL INSTRUMENTS (continued)

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

### Derivatives

The principal derivatives used by the Group in balance sheet risk management are interest rate swaps, which are used to hedge exposures arising from fixed rate mortgage lending. The Group's policy on accounting for hedging is detailed in note 1(j) to the accounts.

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 amounts indicate 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 in accordance with the rules specified by the Financial Services Authority, is based on replacement cost and also takes into account the extent of potential future exposure and the nature of the counterparty. Replacement costs represent the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date reflecting the Society's maximum exposure should all counterparties default.

	Nominal principal amount £000	2008 Credit risk weighted amount £000	Replacement cost £000	Nominal principal amount £000	2007 Credit risk weighted amount £000	Replacement cost £000
Unmatured interest rate contracts						
Interest Rate Swaps	151,168	78	-	110,000	116	158
These contracts mature from the balance sheet date as follows:						
In not more than one year	80,000	-	-	30,000	12	61
Due in more than one year but not more than five years	68,000	68	-	78,000	82	19
Due in more than five years	3,168	10	-	2,000	22	78

As at the year end the Society had committed to purchase one further £5,000,000 Forward Rate Agreement with an effective date 30th September 2009.

### Fair values of financial instruments

Set out below is a comparison of book values and fair values of some of the Group's financial instruments at the year end. This information excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. It therefore excludes items such as mortgages, share accounts and bank deposits.

	Group and Society 2008 £000	Group and Society 2007 £000
Debt Securities		
Book and Fair value	80,791	91,542
Interest rate contracts		
Book value	-	-
Fair value	(7,806)	(545)

The fair value of interest rate contracts represents unrealised gains or losses at the balance sheet date. As described in note 1(j) gains and losses on interest rate contracts used for hedging purposes are not recognised until the exposure that is being hedged is itself recognised. The Group anticipates no gains and losses will be realised on sale or termination in the forthcoming year.

## NOTE 27. POST BALANCE SHEET EVENTS

In February 2009 the Society announced the closure of four branch offices. The Society currently estimates the cost of closure at £227,000, which primarily consists of dilapidation expenses, early lease termination and staff redundancy and compromise agreements. No provision for this expenditure has been made in these accounts.

# ANNUAL BUSINESS STATEMENT

## for the year ended 31st December 2008

1. STATUTORY PERCENTAGES	2008	Statutory limit
	%	%
Lending limit	5.45	25
Funding limit	4.30	50

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

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

Business assets are defined as total Group assets plus bad debt provision less liquid assets and tangible fixed assets.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

2. OTHER PERCENTAGES	2008	2007
	%	%
As a percentage of shares and borrowings		
Gross capital	6.27	6.66
Free capital	5.47	5.69
Liquid assets	27.11	30.60
Profit after tax as a percentage of mean total assets	0.17	0.40
Management expenses as a percentage of mean total assets	1.23	1.26

The above percentages have been prepared from the Group accounts:

- 'Shares and borrowings' represent the total of shares, amounts owed to other customers and amounts owed to other credit institutions.
- 'Gross capital' is the general reserves.
- 'Free capital' represents gross capital and general provision for bad and doubtful debts, less fixed assets.
- 'Mean total assets' represent the average of the 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, debt securities and other liquid assets.
- 'Management expenses' represent the aggregate of administrative expenses and depreciation and amortisation.

### 3. INFORMATION RELATING TO THE DIRECTORS AND OTHER OFFICERS AT 31ST DECEMBER 2008

Name	Occupation	Other directorships	Date of birth	Date of appointment
<b>DIRECTORS</b>				
Ian O'Reilly (Chairman)	Company Director	Retalix Ltd Atlas Cedar Ltd Cambridge IT Services Ltd	November 1948	October 2001
Rodney Wolverson (Vice-Chairman)	Chartered Accountant (retired)	None	April 1942	January 1999
Gerald Coteman	Management Consultant	Cambridge University Hospitals NHS Foundation Trust Living Sport, Cambridgeshire and Peterborough Sports Partnership Ltd	October 1951	September 2005
Matthew Donaldson	Company Director	BGL Group Ltd	July 1973	September 2008
Nick Hood	Chartered Surveyor	Carter Jonas LLP St John's Innovation Centre Ltd Cambridge Property Services Ltd Cambridge Services Ltd Trustee of the City of Cambridge Education Foundation The City of Cambridge Education Ltd Butterfield Park Management Ltd	February 1954	November 1997
Stephen Mitcham (Chief Executive)	Executive Director	Cambridge IT Services Ltd Cambridge Property Services Ltd Cambridge Services Ltd Trustee West Anglia Crossroads	October 1963	September 2006
Jane Pilcher	Corporate Treasurer	Trustee of AWG Pension Scheme	October 1962	July 2006
Ted Powell	Solicitor	Trustee of Cambridge Building Society Pension Scheme	November 1954	October 2003
Jonathan Spence	College Bursar	QC Enterprises Ltd	October 1960	July 2006
Cliff Verrill (Secretary)	Executive Director	None	March 1956	January 2003

#### OFFICERS

Roy Badcock	Head of Service & Operations	None
Louise Bateman	Head of HR	Trustee of Scannappeal
Andrew Ferguson	Head of Business Development	None
Jonathan Foster	Change Programme	None
Tony Millington	Head of Finance	Trustee of CAMMS Ltd Eights Management Company Ltd

No director has a service contract with the Society. Correspondence to directors jointly or individually should be addressed 'Private and Confidential' and c/o KPMG Audit Plc, Chartered Accountants, 37 Hills Road, Cambridge, CB2 1XL

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