Annual Report & Accounts 2016

the tipton
& coseley building society

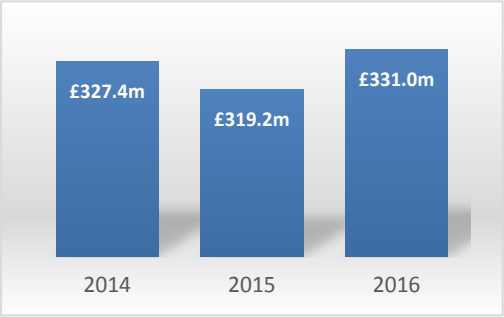
Contents

Key Performance Indicators

Note: 2014 statistics were restated under FRS102 as appropriate.

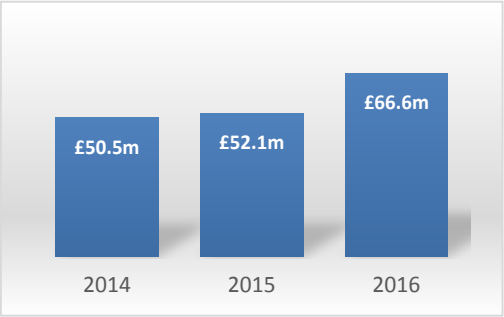
Savings balances (shares)

This year our members invested a further £11.8m with us including interest paid.



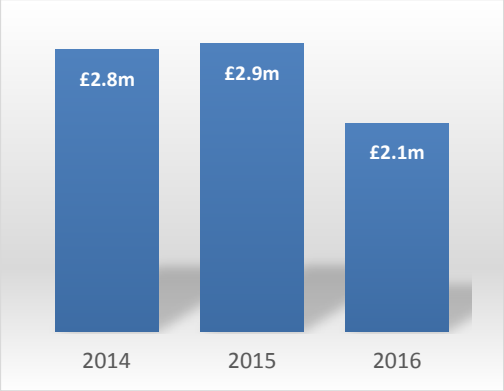
Mortgage lending

We lent £66.6m during 2016 to our borrowing members, this contributed to net lending of £5.8m.



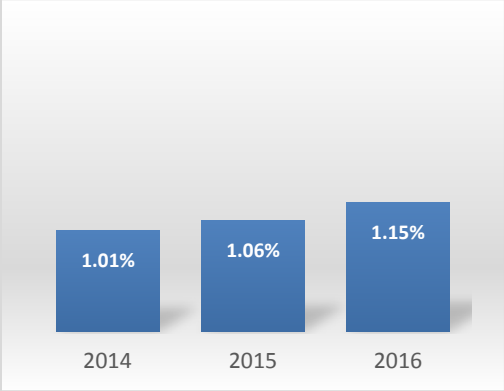
Profit before taxation

Profitability remained robust when set against competition for mortgages, and the cost of regulation.



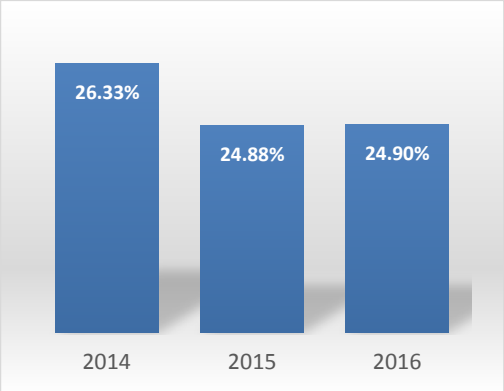
Management expenses

Costs are rising as a result of investment in our digital strategy and for long term growth, in addition to the cost of regulation.



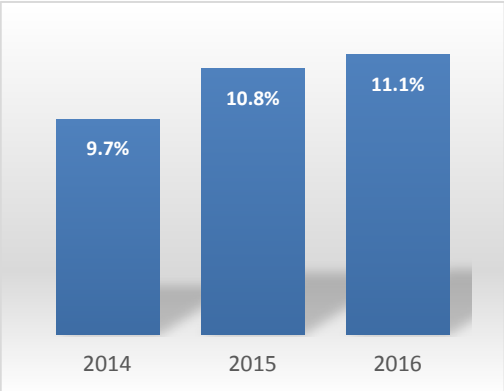
Liquidity

During the year our savings balances increased slightly more than our net lending. This increased our liquid assets by £1.9m.



Gross capital

Reserves form the majority of our capital and this arises from retained profit. Our capital strengthened further during the year.



Directors' Report
for the year ended 31 December 2016

The Directors present their annual report and accounts, and annual business statement for the year ended 31 December 2016.

Business Objectives and Activities

The principal objective of the Society is to provide members with a safe and secure home for their savings, and to help people buy their own home through the provision of residential mortgages. In pursuing this objective the Society adopts the following guiding principles.

- Ensuring good conduct and achieving fair customer outcomes
- Providing exceptional customer service
- Listening and responding to members' needs
- Supporting our local community
- Balancing profitability and mutual interests
- Providing worthwhile and rewarding careers for our staff

Business Review

Introduction

The Society has had another successful year against a backdrop of continuing uncertainty for the UK, both from an economic and a political perspective. Key performance indicators are set out on the previous page.

The UK economy continues to face challenges and risks and the level of uncertainty has increased following the EU referendum vote in June when the country voted in favour of leaving the EU (Brexit). The UK Government has indicated that it will trigger Article 50 by the end of March 2017 signalling the start of negotiations with the EU. The vote to leave resulted in sterling losing value on the currency markets and increased uncertainty around inflation and interest rate expectations. With Brexit negotiations extending over two years or more, continuing volatility is likely.

In the aftermath of the EU referendum vote the Bank of England reduced the level of base rate by 0.25% in August to a new historical low of 0.25%, introduced additional quantitative easing and launched the Term Funding Scheme. The base rate reduction directly impacts the Society in the form of a reduction in earnings on its liquidity investments, lower mortgage rates and reductions in savings rates.

The timing and direction of changes in base rate remain uncertain with the Bank of England recently noting that the next move could be up or down!

Against this background, competition in the residential mortgage market has continued to be intense. The level of transactions relating to owner occupier house purchase and remortgage remains flat and the increases in Buy to Let lending, which has sustained the market in recent years, appears to have peaked with transactions falling since the introduction of personal taxation changes in April 2016. Consequently, larger mortgage providers who require volume lending have continued to drive down rates. This has come at the expense of savers who have seen further rate reductions across the market place.

Assets

We returned to asset growth in 2016, with an increase of 2.38% resulting in assets of £372m at the end of the year. This was achieved through careful control of our liquidity and net mortgage lending of £5.8m. Our liquidity ratio was 24.9% at the year end. This continues to be higher than pre-financial crisis averages and during 2017 we are targeting a controlled reduction in this ratio.

Profitability and Capital

Overall profitability remained robust when set against the continuing regulatory cost burden and the effect of competition in the mortgage market on mortgage rates. Profit after taxation was £1.69m (2015: £2.31m). The year on year decrease is mainly the result of lower net interest margin, as anticipated last year. It is expected that mortgage market rates and our continuing strategic investment in customer service will again exert pressures in 2017. We have also concluded the resolution of certain historical mortgage exposures and have again seen a reduction in our mortgage loss provisions; overall our provision levels remain cautious.

In promoting growth, it is important that we are able to offer mortgage products that retain existing borrowers, and products to attract new borrowers. There is a cost to these activities and we endeavour to approach this by offering long term value to existing borrowers combined with excellent and personal customer service. We also remain conscious of the need to balance the conflicting needs of savers and borrowers where possible.

Our reserves form the majority of our capital and arise from our retained profit. For most smaller building societies this is the only realistic source of additional capital. Gross capital (total reserves) increased to £37.00m, 11.07% of shares and borrowings, and free capital (aggregate of gross capital and collective loss provisions less total fixed assets) to £37.06m, 11.09% of shares and borrowings.

Financial Services Compensation Scheme (FSCS)

FSCS levies are a cost of doing business for building societies and since the inception of the scheme we have paid in excess of £1.25m to the FSCS. More details on FSCS costs can be found in Note 24 to the accounts. During 2016 the Prudential Regulation Authority implemented changes to the FSCS as a result of European legislation and this saw the level of consumer protection increase back to £85,000 from 30 January 2017.

Savings

We strive to offer long term value for our savings members but cannot ignore market changes. During the year we had to reduce some of our savings rates and this was further compounded by the Bank of England's decision to reduce base rate in August. Faced with continued pressures on mortgage and savings rates in the market place it may be necessary for us to take further action on savings rates during 2017. In 2016 we attracted net new savings receipts of £11.8m, and the total of shares and deposit balances at the end of the year was £334m. During the year we continued to restrict the availability of our savings accounts for new customers so that we could carefully control inflows of new funds.

Mortgages

We increased the level of mortgage applications we received by 29.53% to £92.95m, and our gross mortgage lending increased by 27.85% to £66.58m in the year. This is primarily as a result of the continuing work we are carrying out on developing our mortgage intermediary offering; around 80% of business comes through this channel. We remain true to our local roots though and are committed to providing tailored and personal advice to both our new and existing borrowers on our range of mortgage products. Our Family Assisted mortgage product, which allows customers to borrow 100% of the purchase price of a property, and our Buy to Let mortgage products, made valuable contributions to our 2016 results. During the year the specific provision was reduced following the management of an historic commercial mortgage exposure which has now redeemed. Although the economic outlook has become more uncertain following Brexit, it is pleasing to report that at the end of the year there were no mortgages 12 months or more in arrears (2015: 1).

Management Expenses Ratio

We accept the costs of maintaining high levels of personal customer service as this is one of the key things that makes us different from larger institutions. Whilst cost control remains a consistent focus there will be an on-going cost from the investment in our Digital strategy and for long term growth.

The Society, in-line with the UK financial services market, continues to deal with increasing and intrusive regulation and there is no respite in sight for 2017. This continues to bring with it resource challenges and an inevitable increase in costs. Our cost ratio for the year was 1.15% and we expect the ratio to increase during 2017.

Tipton & Coseley Financial Services Ltd

Our subsidiary has had a link with Legal & General for the provision of regulated investment advice for a number of years. During 2016 Legal & General served notice on the subsidiary of its withdrawal from part of this linked operation. Following a review of our requirements the Society agreed a link up with Wren Sterling which will provide members with access to independent financial advice. This in-branch, whole of market service gives choice and convenience allowing members to access wider financial advice than previously available. As a result of these changes the Society has commenced the process of ceasing subsidiary operations.

Directors' Report
for the year ended 31 December 2016

Review of Events

We launched our Help to Buy ISA in April, this is for first time buyers who can save up to £200 a month towards a deposit for their first home and when they are ready to step onto the property ladder the Government will boost their Help to Buy ISA savings by 25%.

Presenting Promise Dreams with our fund raising cheque

In June we agreed contracts for a software development which will provide the Society with its first online transaction based system. In due course this will provide the Society with the ability to offer online savings accounts. The first phase of this development will provide mortgage intermediaries with the ability to send mortgage applications and associated documentation to the Society online. In August we agreed contracts for the development of a new website.

Supporting and engaging with our local community is one of our guiding principles. During the year we donated a total of £10,701, all of which went to our charitable foundation, which made or promised donations to nine charitable causes.

In addition, we supported 35 local sports and community groups and for the eighth consecutive year we ran a numeracy project involving a series of mathematical games at a local primary school.

Staff members supported fundraising events for Compton Hospice and Beacon during the year, and the staff charity committee had another successful year raising £3,396 for Promise Dreams, a locally based charity that helps to make dreams come true for seriously and terminally ill children. Staff raised money through a series of initiatives including the Great Tipton Bake Off and the Promise Dreams Walk.

Charitable Foundation - donations to some of the causes supported during the year

Staff also supported Children in Need and were overwhelmed by the response from branch customers who snapped up the charity goodies on sale. For 2017, the Alzheimer's Society has been selected as the staff charity for the year.

Alzheimer's Society - Staff Charity for 2017

Our staff are the key element in the quality of what we do and the service that members receive. The Board would like to formally thank them for the vital part they play in the Society's continuing success.

In December, John Miller, a member of the Board and General Manager and Secretary retired. The Board would like to express their thanks for his commitment to the Society during the 30 years he was with us and to wish him well in his retirement. In planning for John's succession the Society recruited two experienced executive managers and realigned certain executive responsibilities.

From a regulatory perspective, we have been implementing the new Senior Management Regime (SMR). The SMR has been designed to improve banking culture and increase individual accountability across the industry; it effectively formalises good practice. We implemented the Mortgage Credit Directive in March, changes arising from the Prudential Regulation Authority review of Buy to Let lending in the Autumn, and changes arising from the Financial Conduct Authority review of the Cash Savings Market in December.

Likely Developments

The year ahead promises to be an exciting one. Our new website, which will be mobile and tablet friendly, is in the final stages of development and will be launched during the year. In addition, the mortgage intermediary online system is expected to be available for testing shortly. The year will also be challenging, given the competition in the mortgage market and further regulation to implement.

We are well prepared for the economic and political uncertainties that lie ahead and have a solid financial base. We remain committed to continuing to treat all of our members as individuals deserving of high levels of personal customer service, helping people to buy their own homes and looking after their savings.

Creditor Payment Policy

It is our normal policy to agree the terms of payment at the commencement of trading with each supplier, to ensure that they are aware of those terms and to abide by them. Where terms of payment have not been agreed we settle the supplier's invoice on being satisfied that the supplier has fully conformed with the terms and conditions of purchase. The creditor days were 10 at 31 December 2016 (2015: 7).

Going Concern

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

Principal Risks and Uncertainties

Managing risk is an inevitable part of running any successful business, and many of the risks the Group faces are those normally associated with any business striving to prosper in a competitive market: margin pressures, regulatory and statutory developments, reputation, staff recruitment and retention as well as the challenges presented by cyclical changes in the economy. The Society has a risk averse culture which ensures that it maintains a low exposure to the principal risks and uncertainties arising from its activities, and therefore helps to protect members' interests.

Risk Management Approach

The Society's Board has overall responsibility for the Group's risk management process and for ensuring that the approach is aligned to the Group's business strategy and objectives. The Board has put in place a formal risk management framework, which includes a Risk Committee comprising three Non-Executive Directors, risk policy statements, risk appetite and exposure limits, mandates and reporting lines, and an active risk review process. Risks are monitored, assessed and are the subject of strategic policies approved by the Board.

As part of the Capital Requirements Directive (CRD), the Board has conducted an assessment of the adequacy of the Group's capital resources, and information about the Society's Pillar 3 disclosures, which are a requirement of the CRD, together with the disclosures to comply with the requirements of Article 89 of the Capital Requirements Directive IV (CRD IV), are provided on the Society's website. The principal risks and uncertainties to which the Group is exposed are set out below.

Business Risk

Business risk is the risk to the Society arising from changes in the business or economic conditions, including the risk that the Society may not be able to carry out its corporate plan or implement the required strategy. The Group manages this with a long term focus on ensuring a sustainable business model, this encompasses carefully developed and detailed business plans and policies. The Board provides oversight which is bound by a strong corporate governance framework.

Credit Risk

Credit risk is the risk that customers or counterparties will not meet their financial obligations to the Society as they fall due. This risk is most likely to arise in the potential inability of customers to make repayments on their mortgage, and of treasury counterparties to repay loan commitments. The Board is responsible for approving treasury counterparties and regularly monitors these along with counterparty exposure limits.

Mortgage Credit risk is managed through the Society's underwriting process which seeks to ensure that customers only assume a debt that they can afford to repay. All mortgage applications are rigorously assessed with reference to the Society's lending policy; changes to policy are approved by the Board and the approval of mortgage applications is mandated. No matter how prudent our lending policy is, a change in circumstances may lead to some customers getting into financial difficulties. The Society is highly proactive in providing support which can include working with them to clear arrears, making arrangements, or forbearance.

Interest Rate Risk

Interest rate risk is the risk that the income and expenditure, arising from the Society's assets and liabilities, may change adversely as a result of changes in interest rates. One particular type of interest risk is basis risk, this is the risk that assets and liabilities that are linked to different variable indices (such as Base Rate or LIBOR) may not move in accordance with each other. The Society is exposed to movements in interest rates and manages this exposure on a continuous basis, within limits set by the Board. The interest rate sensitivity of the Group is set out in Note 28.

Liquidity and Cash Flow Risk

Liquidity and Cash Flow risk is the risk that the Group is unable to meet its financial obligations as they fall due, or can only do so at excessive cost. The Society's Board approved liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in the solvency of the Group and to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through management control of the growth of the business. The policy emphasises the quality of our liquid assets and one element has been the investment in a Bank of England Reserve account and UK Treasury Bills as part of regulatory requirements.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Group mitigates this risk through having a strong and effective internal control environment in which risks are monitored and controlled on a regular and timely basis. In addition, the Group uses insurance to transfer some risks. Controls have been established and are maintained which appropriately address the risks identified and ensure prudent conduct of the business in accordance with the Group's policies and risk appetite, and compliance with relevant laws, regulations and rules.

Conduct Risk

Conduct risk is the risk that the Society's behaviour leads to poor customer outcomes. Our Conduct Risk Policy, which incorporates the Treating Customers Fairly (TCF) Policy, sets out in detail the manner in which the Society should conduct business with its customers to ensure this does not lead to poor outcomes for them. The Board regularly assesses customer outcomes as this is seen as an essential part of mitigating and overseeing conduct risk.

Financial Services Compensation Scheme (FSCS)

In common with all regulated UK deposit takers the Society pays levies to enable claims on the FSCS to be met. The uncertainty therefore exists that the Society may be required to pay an increased amount of levies if claims on the FSCS increase. The Board monitors this requirement closely to ensure that the Society is well placed to meet any increases in levy requirement. Full details of the Society's financial commitment to the FSCS are set out in Note 24.

Financial Risk Management Objectives and Policies

The Society has a formal structure for managing financial risk which is closely monitored and controlled by the Board, supported by the Audit & Compliance and Risk Committees, and by the Assets & Liabilities Committee (ALCO) which actively measures and manages them. The Society uses financial instruments for risk management purposes, the nature of these instruments and details of the financial risks are set out in Note 28.

Directors' Responsibilities in respect of the Annual Report and Accounts, the Annual Business Statement, and the Directors' Report

The directors are responsible for preparing the Annual Report and Accounts, Annual Business Statement and the Directors' Report 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), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

Directors' Report

for the year ended 31 December 2016

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

Directors' Responsibilities for Accounting Records and Internal Controls

The directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society, in accordance with the Act; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation 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 Society and to prevent and detect fraud and other irregularities.

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

Directors

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

D G Bassett ACII, Cert PFS
S J Costley FCCA, AMCT (Finance Director)
M H P Daly FCA (Chairman)
A J Higgins MA, FCA
G E Loynes MRICS, FAAV
J J Miller FCIS, FCIB (resigned 31 December 2016)
R J Newton FCCA, ACIB (Chief Executive)
K A Rolfe BSc (Hons)
S J Shepherd BA (Hons)

No director has any beneficial interest in the shares of any connected undertaking of the Society.

Auditor

In accordance with EU Audit Reform 2016 and subsequent changes to the Building Societies Act, we shall be conducting a formal tender process to appoint an auditor during February 2017, and a resolution to appoint an auditor will be proposed at the Annual General Meeting.

M H P Daly FCA, Chairman
9 February 2017

Corporate Governance Report

The Society's regulators, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) require the Board to have regard for the UK Corporate Governance Code, in developing its governance policies and practices.

The Board supports the principles of the Code (September 2014) and whilst the Society does not have to comply with them, as the Code does not apply to mutual organisations, the Board has had regard for the requirements of the Code in preparing this report.

Leadership

The Role of the Board

Code Principle A1: Every company should be headed by an effective Board, which is collectively responsible for the long term success of the company.
Board Comment: The Board directs the business of the Society; develops and monitors strategic matters such as the corporate plan; reviews the performance of the Executive Management team; and oversees compliance with a multitude of regulations and statutory requirements. It ensures that financial controls and systems of risk management are effective, that the necessary financial and human resources are in place, and that the interests of members are safeguarded. The Executive Management team and other managers carry out the day to day duties resulting from the corporate plan, other Board policies and regulatory and statutory matters.

The Board's focus continues to be on strategy and risk management in what are considered to be uncertain times and the Board believes that the Society's performance is a measure of this effectiveness. A culture of constructive challenge has been encouraged to deliver further improvements for the benefit of the Society's members.

The Board holds regular monthly meetings and is advised by, and delegates certain matters to Committees namely Audit & Compliance, Remuneration, Risk, Assets & Liabilities, and Nominations. A description of the work of these Committees is given below and detailed terms of reference are available from the Secretary. The Board meets once a year without the Executive Directors being present. An annual strategy day is also held at which the Board and Executive Management team focus on the Society's future strategy.

All Directors act in what they consider to be the best interest of the Society consistent with their statutory duties. The Society maintains liability insurance cover for Directors and Officers.

Audit & Compliance Committee

The Audit & Compliance Committee meets at least four times a year and comprises three Non-Executive Directors, Andrew Higgins (Committee Chairman), Gavin Loynes, and Sara Shepherd. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience. The Committee oversees the adequacy of internal controls, and ensures an effective system of inspection and report. It reviews the annual accounts prior to approval by the Board; monitors and assesses the external auditors, including their effectiveness and independence; approves and monitors the policy for non-audit services; and approves and monitors the internal audit plan and findings. The Committee considers that both the external and internal auditors have sufficient expertise and resources. The Committee also oversees the compliance function and ensures that the Society complies with the law, requirements and standards of the regulatory system including anti-money laundering regulations and voluntary codes of practice. It also approves and monitors the annual compliance monitoring plan.

Remuneration Committee

The Report of the Remuneration Committee on page 13 contains details of the Committee, its composition and duties.

Assets & Liabilities Committee (ALCO)

The Assets & Liabilities Committee meets at least four times a year and comprises two Non-Executive Directors, Andrew Higgins and Keith Rolfe; and two Executive Directors, Richard Newton (Chief Executive) (Committee Chairman) and Spencer Costley (Finance Director & Secretary). The Committee develops treasury management policies relating to liquidity, wholesale funding and financial risk management; monitors assets and liabilities structure and risk, and reviews mortgage and savings products.

Nominations Committee

The Nominations Committee meets at least twice a year and consists of Marcus Daly (Chairman), Richard Newton (Chief Executive) and David Bassett (Vice-Chairman of the Board and the Senior Independent Director, who is a contact point for the members). The Committee regularly reviews the Society's succession plans and considers carefully the skills and attributes necessary for Board appointments. It leads the process for Board appointments and appraises and assesses Directors' performance each year including their independence. The Chairman is appraised by the Non-Executive Directors facilitated by the Senior Independent Director.

Risk Committee

The Risk Committee meets four times a year. The Committee comprises three Non-Executive Directors, Keith Rolfe (Committee Chairman), Andrew Higgins and Sara Shepherd, and is responsible for developing and reviewing the Society's risk management framework; ensuring there is a comprehensive understanding of the risks facing the Society, the potential likelihood and impact of occurrence and how such risks are being mitigated. The Committee monitors the Society's Risk Registers ensuring that all principal risks are identified and adequately mitigated against. It also conducts an annual review of the effectiveness of the Society's risk governance arrangements.

Corporate Governance Report

Division of Responsibilities

Code Principle A2: There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.
Board Comment: The offices of Chairman and Chief Executive are distinct, separate and held by different people. The Chairman is responsible for leading the Board and ensuring that Directors receive clear, timely and accurate information.

The Chief Executive's role is to manage the Society in an efficient and effective manner and to achieve the objectives set by the Board in accordance with its policies.

The Chairman

Code Principle A3: The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.
Board Comment: The Chairman sets the culture and direction of the Board, facilitating and encouraging effective contribution and challenge from Directors. The Chairman is responsible for maintaining constructive relations between the Non-Executive and Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information. The Chairman was appointed in April 2013 as a result of his experience, commitment and capability demonstrated during his service to the Society. The Board considers that the Chairman met the criteria of independence on his appointment.

Non-Executive Directors

Code Principle A4: As part of their role as members of a unitary Board, Non-Executive Directors should constructively challenge and help develop proposals on strategy.
Board Comment: The Society's Non-Executive Directors are recruited from a wide range of backgrounds to ensure they have the necessary breadth of skills, knowledge and experience to monitor and challenge performance of the Society in a constructive manner whilst providing an appropriate level of support to the Executive Management team. Non-Executive Directors regularly debate strategy and long term sustainability at Board and Committee meetings.

Effectiveness

The Composition of the Board

Code Principle B1: The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.
Board Comment: The Society's Nominations Committee ensures that the Board has the necessary skills and knowledge to enable the Society to compete effectively in the current challenging economic climate.

The Board currently has six Non-Executive Directors and two Executive Directors who provide a balance of skills and experience across a wide range of disciplines.

All Non-Executive Directors are considered by the Board to be independent in character and judgement. The Vice Chairman is the Senior Independent Director. He provides support to the Chairman and is an alternative route for communication from members and staff. His main responsibilities are to chair the Board if the Chairman is absent and to facilitate the annual appraisal of the Chairman.

Appointments to the Board

Code Principle B2: There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.
Board Comment: As noted earlier, the Nominations Committee leads the process for Board appointments.

The Society values diversity but always makes Non-Executive appointments on merit, based on the specific skills and experience required to complement existing skills under the succession plan. All vacancies are openly advertised. The Board as a whole makes the final decision. Care is taken to ensure that new directors can devote sufficient time to the position. Directors must meet stringent fitness and propriety standards, and where required must be authorised by the Regulator, in order to fulfil their responsibilities.

Commitment

Code Principle B3: All Directors should be able to allocate sufficient time to the Company to discharge their responsibilities effectively.
Board Comment: As part of the recruitment process the Nominations Committee evaluates the ability of Non-Executive Directors to commit the time required for their role. The formal appraisal process carried out annually by the Chairman also assesses whether Directors have demonstrated this ability throughout the year. Evidence of Board and Committee attendance throughout the year is shown on page 12.

Development

Code Principle B4: All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.
Board Comment: The Society provides a formal induction programme for all newly appointed Directors which is tailored to their needs. This includes Directors' responsibilities and duties; the management information they will receive and how to interpret it; detailed information about the Society including its Risk Management Framework; an overview of regulatory requirements; and details of current significant challenges facing the industry.

The Chairman ensures that Non-Executive Directors continually update their skills and knowledge in order that they may continue to fulfil their role on the Board and any Committees. Training and development needs are identified as part of the annual appraisal process. These needs are usually met by internal briefings, external specialist advisors, and via attendance at industry seminars and conferences. The Society maintains a formal training record for each Director.

Corporate Governance Report

Information and Support

Code Principle B5: The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.
Board Comment: The Chairman ensures that the Board receives accurate, timely and clear information sufficient to enable them to discharge their responsibilities. The Board and each Committee is responsible for evaluating the effectiveness of the information received and to ensure improvements are made where necessary. The Executive Management team ensures that information is delivered in accordance with Board requirements.

Evaluation

Code Principle B6: The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors.
Board Comment: The Board appraises the Chief Executive's performance and reviews the other Executive Directors' appraisals on at least an annual basis. Each Non-Executive Director has an annual appraisal which is carried out by the Nominations Committee. The Chairman is appraised by the Non-Executive Directors facilitated by the Senior Independent Director. In addition, there is an annual appraisal of the Board as a whole and also of the performance of Board Committees. As part of this evaluation the Board considers the balance of skills, experience, independence and knowledge of Board members.

Re-election

Code Principle B7: All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.
Board Comment: Directors have to be elected by members at the first opportunity following appointment to the Board. Each Non-Executive Director is appointed to the Board for a term of up to three years, subject to satisfactory performance. Non-Executive Directors will normally serve for no more than nine years unless, exceptionally, the Board invites them to serve for longer in which case they are subject to annual re-election.

The Nominations Committee considers whether Directors are independent in character and judgement, are able to commit sufficient time and demonstrate capability and knowledge. The Committee will recommend to the Board whether or not a Non-Executive Director should be submitted for re-election.

Accountability

Financial and Business Reporting

Code Principle C1: The Board should present a fair, balanced and understandable assessment of the company's position and prospects.
Board Comment: The Board considers that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information for members to assess performance, strategy and the business model of the Society, and that there are no significant matters to report. The responsibilities of the Directors in relation to the preparation of the Society's accounts and the statement that the Society's business is a going concern are contained on page 6.

Risk Management and Internal Control

Code Principle C2: The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.
Board Comment: The Board is collectively responsible for determining the strategies for risk management and control as described in the Society's Risk Management Policy. The Executive Management team is responsible for designing, operating and monitoring risk management systems and controls. Further details on the assessment and mitigation of risk can be found in the Directors' Report on page 6.

Each Board Committee is responsible for the risks and controls which fall under its remit. The Risk Committee assesses the adequacy of this process and reports to the Board. The Society's internal auditors provide independent and objective assurance that the systems are appropriate and controls effectively applied.

The Society has a risk averse culture and a strong and prudent approach to risk management and compliance. The Board is satisfied that the systems and controls are effective and appropriate to the scale and complexity of the business and to protect the interests of the members.

Audit Committee and Auditors

Code Principle C3: The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.
Board Comment: Please refer to page 9 for details of the Audit & Compliance Committee.

The Committee meets at least four times a year where the Society's internal and external auditors and the Executive Directors attend by invitation. All meetings conclude with the Committee meeting with the internal and external auditors without the Executive Directors present. The minutes of the Committee are circulated to all Board members and the Chairman of the Audit & Compliance Committee reports to the Board at the next Board meeting.

Audit firms often have specialist skills and expertise and can provide non-audit services competitively. The Society has a policy on the provision of non-audit services. Material non-audit services provided by the auditors require Audit & Compliance Committee approval to ensure that auditor objectivity and independence is safeguarded. The Committee carries out an annual appraisal to ensure that the effectiveness of the external auditor is maintained.

Corporate Governance Report

Remuneration

The Report of the Remuneration Committee on page 13 explains how the Society complies with the Code Principles relating to remuneration.

Relations with Shareholders

Dialogue with Shareholders

Code Principle E1: There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Board Comment: As a mutual organisation the Society's membership consists of individuals who are also its customers. There are a number of different ways of communicating with and receiving information from members. These include regular newsletters, questionnaires, surveys, suggestion boxes and an informal meeting at which members can meet and discuss issues face to face with all directors. The purpose of the communication is to understand the needs of our members and improve the service provided to them.

Constructive use of the Annual General Meeting (AGM)

Code Principle E2: The Board should use the AGM to communicate with investors and to encourage their participation.

Board Comment: Each year the Society sends details of the AGM to members including the Summary Financial Statement and a newsletter which outlines the Society's work in the community as well as addressing topical product and service issues. The voting pack encourages members to use their vote and attend the AGM. Additional donations to charity are made based on the number of votes cast. The Society uses postal and electronic voting options to provide ease of access for members. The counting of votes is conducted by an independent scrutineer. The Society continues to use an electronic system for its AGM notification requirements to complement its online voting system.

At the AGM a poll is called in relation to the resolutions and the proxy votes cast are added to the votes at the meeting so that the opinions of all members can be taken into account. The results are subsequently disclosed on the Society's website.

All directors attend the AGM (unless their absence is unavoidable) and the Chairs of the Board, the Audit & Compliance and Remuneration Committees are available to answer questions. There is an informal session at the end of each AGM giving further opportunity for members to speak to the Society's Directors and Executive Management team.

Board and Committee attendance record

Director	Board	Audit & Compliance	ALCO	Remuneration	Nominations	Risk
D G Bassett	12 (12)	N/A	N/A	3 (3)	2 (2)	1 (1)
S J Costley	12 (12)	N/A	4 (4)	N/A	N/A	N/A
M H P Daly	12 (12)	N/A	N/A	N/A	2 (2)	N/A
A J Higgins	11 (12)	4 (4)	4 (4)	N/A	N/A	4 (4)
G E Loynes	12 (12)	4 (4)	N/A	3 (3)	N/A	N/A
J J Miller (resigned 31 December 2016)	12 (12)	N/A	N/A	N/A	N/A	N/A
R J Newton	12 (12)	N/A	4 (4)	N/A	2 (2)	N/A
K A Rolfe	12 (12)	N/A	4 (4)	N/A	N/A	4 (4)
S J Shepherd	12 (12)	4 (4)	N/A	3 (3)	N/A	4 (4)

The figures in brackets represent the maximum number of meetings each Director could have attended.

Report of the Remuneration Committee

This report explains how the Society complies with the principles in the UK Corporate Governance Code relating to remuneration, as they are applicable to a mutual organisation of its size. The Society has adopted a Remuneration Policy which complies with the relevant elements of the Regulators' remuneration codes. The remuneration of individual Directors is detailed on page 15.

The Level and Components of Remuneration

Code Principle D1: Executive Directors' remuneration should be designed to promote the long term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.

Committee Comment: The Society's policy is to reward Executive Directors according to their expertise, experience and overall contribution to the successful performance of the business. The Executive Directors' benefit package is designed to motivate decision making in the interests of members as a whole. A performance related pay scheme operated during the year for Executive Directors. It was carefully designed to encourage achievement of targets that maintain the long term security and financial strength of the Society, to recognise corporate and individual performance, is aligned to the Society risk appetite in accordance with good risk management and to treat customers fairly and uphold excellent customer service, conduct and quality of work standards.

Executive Directors

The remuneration for Executive Directors reflects their responsibilities and roles within the Society. This year it comprised basic salary, an executive performance related pay scheme, and various benefits. Performance related payments are non-contractual and non-pensionable. The Society does not have a share option scheme and none of the Directors has any beneficial interest in, or any rights to subscribe for shares in or debentures of, any commercial undertaking of the Society.

Basic Salaries

Each year the Executive Directors are appraised by the Non-Executive Directors in respect of their performance as members of the Board and by the Chief Executive in respect of their executive duties. The Remuneration Committee considers appropriate terms and conditions in the light of these appraisals, information from external sources including comparable building society data, and the performance of the Society as a whole. It then makes recommendations to the Board regarding levels of salary, benefits, and performance related pay. The Executive Directors who hold outside Directorships do not receive any remuneration from those organisations. The Remuneration Committee also make recommendations to the Board regarding levels of salary, benefits, and performance related pay in respect of the appointment of Executive Directors, which is considered in light of information from external sources including comparable building society data.

Annual Performance Related Pay Scheme

The scheme has regard for best practice by emphasising the need for sustainable performance over a longer term and as such it defers an element of awards made under the scheme over a 3 year period. This is despite the Society being under the minimum regulatory threshold for deferring payments. The scheme recognises that ensuring effective risk management and a sustainable business model are vital requirements for the well-being of the Society. Deferred payments will be made in equal instalments over the following 3 years; they are subject to annual review by the Remuneration Committee and require approval by the Non-Executive members of the Board. The deferred element can be reduced or cancelled by the Non-Executive members of the Board at any time.

The scheme has been designed to provide testing objectives, giving an incentive to perform at the highest level in a manner consistent with the long term interests of members. In particular, it requires substantial over-performance resulting in outstanding group performance, across a range of measures and benchmarked against peers, before the maximum award of 20% of base annual salary can be achieved. The Remuneration Committee recommends to the Non-Executive members of the Board the measures that should be achieved. These include a high level of conduct and quality of performance in accordance with good risk management, together with profitability, control of costs, and controlled commercial asset growth. In assessing performance against these measures, the Remuneration Committee will ensure performance is aligned with the Society's business objectives and activities and will have regard for the overall regulatory conduct of the Society, member satisfaction and the effect of general market conditions. The Non-Executive Directors of the Board have sole discretion on awards made under this scheme.

Pensions

The Executive Directors are members of the Society's defined contribution pension scheme, details of which can be found on page 45.

Benefits

Executive Directors receive other benefits including a company car or a car allowance, and private health care scheme (covering only the Directors themselves). The Society does not provide subsidised mortgages to the Directors.

Contractual Terms

Both of the Executive Directors have service contracts, Mr Newton's is dated 19 December 2013 and requires 12 months notice by the Society and 6 months by the individual; Mr Costley's is dated 27 March 2014 and requires 6 months notice by the Society and 6 months by the individual. There are no special terms in the event of amalgamation, transfer of engagements or transfer of business where the Executive Director's employment is to be terminated.

Report of the Remuneration Committee

Non-Executive Directors

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations.

Remuneration comprises a basic fee with a supplementary payment for the Chairman of the Board and the Chairman of Audit & Compliance Committee to reflect the additional responsibilities and workloads of these posts.

Fees for Non-Executive Directors are non-pensionable and Non-Executive Directors do not participate in any incentive schemes or receive any other benefits. Non-Executive Directors have letters of appointment rather than service contracts.

The Procedure for Determining Remuneration

Code Principle D2: There should be a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be responsible for setting his or her own remuneration.

Committee Comment: The Remuneration Committee consists of three Non-Executive Directors, Gavin Loynes (Chairman), David Bassett and Sara Shepherd. The Chief Executive attends by invitation but takes no part in the discussion of his own salary. In line with its terms of reference the Committee is responsible for the remuneration policy for all Executive Directors and it makes recommendations to the Board regarding remuneration and contractual arrangements. The Committee has responsibility for ensuring that the Society complies with the relevant aspects of the Regulators' remuneration codes and also has the responsibility to consider the Society's Remuneration Policy Statement and recommend its approval to the Board.

The Committee meets at least twice a year and reviews supporting evidence, including external professional advice if appropriate, on comparable remuneration packages.

The minutes of the Committee are circulated to all Board members and the Chairman of the Committee reports to the Board at the next Board meeting.

Fees relating to Non-Executive Directors are considered by the Chairman and the Executive Directors having consideration for the amount permissible under the Society's Rules. No Director is involved in setting their own fees.

Directors' Remuneration

Non-Executive Directors (audited)	**2016**	2015
	Total Fees	Total Fees
	£'000	£'000
D G Bassett	**29**	28
M H P Daly (Chairman)	**43**	42
A J Higgins	**39**	38
G E Loynes	**29**	28
K A Rolfe (appointed 01/06/15)	**29**	16
S J Shepherd	**29**	28
	198	180

Report of the Remuneration Committee

Executive Directors (audited)	Fees & Salary	Performance related pay		Benefits	Sub-total	Pension contributions	Total
		Non Deferred	Deferred				
2016	£'000	£'000	£'000	£'000	£'000	£'000	£'000
S J Costley	92	7	5	8	112	14	126
J J Miller (resigned 31/12/16)	100	8	5	8	121	-	121
R J Newton	136	12	6	9	163	20	183
	328	27	16	25	396	34	430

Mr Newton and Mr Costley are members of the Society's defined contribution pension scheme.

	Fees & Salary	Performance related pay		Benefits	Sub-total	Pension contributions	Total
		Non Deferred	Deferred				
2015	£'000	£'000	£'000	£'000	£'000	£'000	£'000
S J Costley	90	7	3	8	108	14	122
J J Miller	97	8	3	8	116	-	116
R J Newton	132	10	5	9	156	20	176
	319	25	11	25	380	34	414

J J Miller resigned as Director and Secretary of the Society on 31 December 2016. Mr Miller has been retained by the Society until 31 May 2017 at a market rate, subsequently he will receive one of the Society's motor vehicles, valued at £11,500, as part of contractual arrangements on his retirement from the Society.

Deferred Performance Related Pay (audited)

	Remaining Deferred from previous years	Deferred from 2016	Deferred paid in year	Total deferred
	£'000	**£'000**	**£'000**	**£'000**
S J Costley	6	**5**	**(1)**	**10**
J J Miller (resigned 31/12/16)	6	**5**	**(1)**	**10**
R J Newton	10	**6**	**(2)**	**14**
	22	**16**	**(4)**	**34**

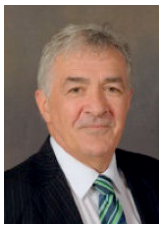
Board of Directors

31 December 2016

Marcus Daly

Chairman

Marcus Daly was appointed to the Board in December 2005 and was appointed Chairman in April 2013. He was educated at Stonyhurst College and then at St Philip's Grammar School in Birmingham. He is a Chartered Accountant, formerly a partner in a local Midlands firm and now Finance Director of Real Estate Investors PLC, an AIM listed property investment company. He is also Chairman of the Nominations Committee.



David Bassett

Vice Chairman and Senior Independent Director

David Bassett joined the Board in 2008. Born in Scarborough, his family moved to the Midlands in 1962. He was educated at High Arcal Grammar School, Sedgley, where he later became a Governor. David is an Associate of the Chartered Insurance Institute, and a member of the Personal Finance Society. He is an independent consultant in the commercial finance and mortgage industry, a partner in a business consultancy practice and is involved with sport in the Black Country at board level.

Spencer Costley

Finance Director & Secretary

Spencer Costley joined the Society and was appointed to the Board as Finance Director in November 2013 and appointed Secretary in December 2016. He qualified as a Chartered Certified Accountant in 2000 whilst working at PricewaterhouseCoopers in Birmingham; he joined a large Midlands based building society in 2003 as a Management Accountant during which time he qualified as an Associate Member of the Association of Corporate Treasurers. Prior to joining the Society he was the Financial Controller at a Leicestershire based building society. He is a member of the Assets & Liabilities Committee.

Andrew Higgins

Non-Executive Director

Andrew Higgins was appointed to the Board in May 2012. He is a Chartered Accountant with a background in audit and advisory services. In 2010 he retired from KPMG after a career spanning 33 years (22 years as a partner) in the UK and overseas. He has experience of working with a variety of commercial and not-for-profit organisations, with a particular emphasis on the financial services and housing sectors. He is Chairman of the Audit & Compliance Committee and is a member of the Assets & Liabilities and Risk Committees.

Gavin Loynes

Non-Executive Director

Gavin Loynes was appointed to the Board in 2011. He is a consultant Chartered Surveyor with Bruton Knowles, a national firm of property consultants of which he was an equity partner for over 10 years. Gavin is also a director of Charles Edwards Property Consultants Ltd, a RICS registered valuer and a member of the Royal Institution of Chartered Surveyors. Having worked in the West Midlands since qualifying, he has gained a detailed understanding of property matters within the area. He is a Director of Tipton & Coseley Financial Services Ltd, Chairman of the Remuneration Committee and is a member of the Audit & Compliance Committee.

Board of Directors

31 December 2016

Richard Newton

Chief Executive

Richard Newton joined the Society in 1991 as an administrative assistant. He qualified as a Chartered Certified Accountant in 2001 following his appointment as Finance Manager, he was appointed to the Board in July 2011, and is the former Finance Director of the Society. He was appointed Chief Executive in December 2013 and is a Director of Tipton & Coseley Financial Services Ltd, Chairman of the Assets & Liabilities Committee and a member of the Nominations Committee.

Keith Rolfe

Non-Executive Director

Keith Rolfe was appointed to the Board in June 2015. He has extensive risk management experience gained from front line risk roles in leading global financial institutions, latterly in an executive role within Barclays Corporate as Chief Credit Officer. He has also worked for UBS AG in roles including Director, Risk Management, and at Credit Suisse in roles including Credit Risk Manager. He is a Board Member and Vice Chairman of Rooftop Housing Group. He is Chairman of the Risk Committee and is a member of the Assets & Liabilities Committee.

Sara Shepherd

Non-Executive Director

Sara Shepherd joined the Board in May 2012. Sara grew up in the Midlands, and attended Lady Manners School in Bakewell, Derbyshire. She trained as a solicitor in Nottingham before relocating to the West Midlands to join the legal department of Birmingham Midshires Building Society in 1995. Sara then spent nine years as a property lawyer in Birmingham City Centre law firms, and has been a partner at Higgs & Sons Solicitors in Brierley Hill since 2007, specialising in commercial property law. She is a member of the Audit & Compliance, Remuneration and Risk Committees.

Independent Auditor's Report

to the members of Tipton & Coseley Building Society

We have audited the Group and Society financial statements of Tipton and Coseley Building Society for the year ended 31 December 2016 set out on pages 19 to 65. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 7 and 8, the directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the group and of the society as at 31 December 2016 and of the income and expenditure of the group and of the society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Matters on which we are required to report by exception

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

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

Andrew Walker (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
9 February 2017

Income Statements

for the year ended 31 December 2016

	Notes	Group 2016 £'000	Group 2015 £'000	Society 2016 £'000	Society 2015 £'000
Interest receivable and similar income	2	**9,650**	10,464	**9,650**	10,464
Interest payable and similar charges	3	**(3,852)**	(4,205)	**(3,852)**	(4,205)
Net interest income		**5,798**	6,259	**5,798**	6,259
Pension finance charge	25	**-**	(19)	**-**	(19)
Fee and commissions receivable		**670**	790	**645**	702
Fees and commissions payable		**(363)**	(305)	**(363)**	(305)
Net (losses)/gains from derivative financial instruments	4	**(5)**	9	**(5)**	9
Total net income		**6,100**	6,734	**6,075**	6,646
Administrative expenses	5	**(4,090)**	(3,729)	**(4,020)**	(3,662)
Depreciation and amortisation	17,18	**(157)**	(163)	**(157)**	(163)
Impairment gains on loans and advances	14	**322**	272	**322**	272
Provisions for liabilities - FSCS levy	24	**(53)**	(212)	**(53)**	(212)
Profit before tax		**2,122**	2,902	**2,167**	2,881
Tax expense	8	**(434)**	(588)	**(434)**	(584)
Profit for the financial year	**26**	**1,688**	**2,314**	**1,733**	**2,297**

Profit for the financial year arises from continuing operations. Both the profit for the financial year and total comprehensive income for the period are attributable to the members of the Society.

Statements of Comprehensive Income

for the year ended 31 December 2016

	Notes	Group 2016 £'000	Group 2015 £'000	Society 2016 £'000	Society 2015 £'000
Profit for the financial year		**1,688**	2,314	**1,733**	2,297
Items that will not be reclassified to the income statement					
Movement in actuarial gain recognised in the pension scheme	25	**-**	475	**-**	475
Movement in taxation relating to the pension scheme		**-**	(130)	**-**	(130)
Total comprehensive income for the period		**1,688**	2,659	**1,733**	2,642

The notes on pages 23 to 65 form part of these accounts.

Statements of Financial Position

for the year ended 31 December 2016

	Notes	Group 2016 £'000	Group 2015 £'000	Society 2016 £'000	Society 2015 £'000
Assets					
Liquid assets					
Cash in hand and balances with Bank of England	9	**59,521**	48,464	**59,521**	48,464
Loans and advances to credit institutions	10	**13,153**	13,125	**13,153**	13,125
Debt securities	11	**10,549**	19,752	**10,549**	19,752
Derivative financial instruments	12	**17**	6	**17**	6
Loans and advances to customers:					
Loans fully secured on residential property	13, 14	**283,717**	275,555	**283,717**	275,555
Other loans		**3,352**	4,747	**3,352**	4,747
Investments	15	**-**	-	**1**	1
Prepayments and accrued income	16	**477**	404	**477**	395
Tangible fixed assets	17	**1,488**	1,574	**1,488**	1,574
Intangible fixed assets	18	**77**	47	**77**	47
Deferred tax assets	19	**121**	143	**121**	143
Total assets		**372,472**	363,817	**372,473**	363,809
Liabilities					
Shares	20	**330,989**	319,188	**330,989**	319,188
Amounts owed to other customers	21	**3,267**	7,753	**3,534**	8,066
Derivative financial instruments	12	**181**	147	**181**	147
Other liabilities	22	**196**	728	**196**	724
Accruals and deferred income	23	**775**	578	**741**	538
Provisions for liabilities – FSCS Levy	24	**67**	114	**67**	114
Total liabilities		**335,475**	328,508	**335,708**	328,777
Reserves					
General reserves	26	**36,997**	35,309	**36,765**	35,032
Total liabilities and Equity (Members' Capital)		**372,472**	363,817	**372,473**	363,809

The notes on pages 23 to 65 form part of these accounts.

These accounts were approved by the Board of Directors on 9 February 2017 and signed on its behalf:

M H P Daly **FCA,** Chairman
D G Bassett **ACII,** Cert PFS, Director
R J Newton **FCCA, ACIB,** Director & Chief Executive

Statements of Changes in Members' Interests

for the year ended 31 December 2016

	Notes	General reserves £'000	Total £'000
Group 2016			
Balance as at 1 January 2016		**35,309**	**35,309**
Profit for the year		**1,688**	**1,688**
Other comprehensive income for the period (net of tax)			
Remeasurement of defined benefit obligation		-	-
Total other comprehensive income		-	-
Total comprehensive income for the period		-	-
Balance as at 31 December 2016	25,26	**36,997**	**36,997**
Group 2015			
Balance as at 1 January 2015		32,650	32,650
Profit for the year		2,314	2,314
Other comprehensive expense for the period (net of tax)			
Remeasurement of defined benefit obligation		345	345
Total other comprehensive expense		345	345
Total comprehensive income for the period		2,659	2,659
Balance as at 31 December 2015	25,26	35,309	35,309
Society 2016			
Balance as at 1 January 2016		**35,032**	**35,032**
Profit for the year		**1,733**	**1,733**
Other comprehensive income for the period (net of tax)			
Remeasurement of defined benefit obligation		-	-
Total other comprehensive income		-	-
Total comprehensive income for the period		-	-
Balance as at 31 December 2016	25,26	**36,765**	**36,765**
Society 2015			
Balance as at 1 January 2015		32,390	32,390
Profit for the year		2,297	2,297
Other comprehensive expense for the period (net of tax)			
Remeasurement of defined benefit obligation		345	345
Total other comprehensive expense		345	345
Total comprehensive income for the period		2,642	2,642
Balance as at 31 December 2015	25,26	35,032	35,032

The notes on pages 23 to 65 form part of these accounts.

Statements of Cash Flows

for the year ended 31 December 2016

	Notes	Group 2016 £'000	Group 2015 £'000
Cash flows from operating activities			
Profit before tax		**2,122**	2,902
Depreciation and amortisation		**159**	169
Provisions for bad and doubtful debts		**(322)**	(272)
Loans and advances written off net of recoveries		**(140)**	(31)
(Increase)/decrease in prepayments and accrued income		**(49)**	10
Increase/(decrease) in accruals and deferred income		**170**	(32)
Decrease in other liabilities		**(409)**	(81)
Net (increase)/decrease in loans and advances to customers		**(6,305)**	2,386
Net decrease/(increase) in loans and advances to credit institutions		**1,000**	(1,000)
Net decrease in amounts owed to other credit institutions and other customers		**(4,472)**	(3,626)
Net increase/(decrease) in shares		**11,801**	(8,177)
Movement in derivative financial instruments		**34**	(126)
Movement in fair value adjustments		**(14)**	9
Taxation paid		**(566)**	(638)
Pension charge		**-**	19
Pension contributions paid		**-**	(300)
Pension loss on settlement		**-**	106
Net cash inflow/(outflow) from operating activities		**3,009**	(8,682)
Cash flows from investing activities			
Purchase of debt securities		**(28,596)**	(40,089)
Sales of debt securities		**37,781**	34,348
Purchase of tangible and intangible assets		**(111)**	(160)
Disposal of tangible and intangible assets		**10**	52
(Gain) on disposal of tangible and intangible assets		**(2)**	(6)
Net cash inflow/(outflow) from investing activities		**9,082**	(5,855)
Net increase/(decrease) in cash		**12,091**	(14,537)
Cash and cash equivalents at start of year		**55,548**	70,085
Cash and cash equivalents at end of year		**67,639**	55,548
Cash and cash equivalents comprises of:			
Cash in hand and balances with the Bank of England		**59,521**	48,464
Loans and advances to credit institutions repayable on demand		**8,118**	7,084
	27	**67,639**	55,548

The notes on pages 23 to 65 form part of these accounts.

Notes to the accounts

1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Basis of preparation

Tipton and Coseley Building Society (the "Society") has prepared these Group and Society annual accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in September 2015. As permitted in Section 11 of FRS 102, the Society has also chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU). The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.
The Society is included in the consolidated annual accounts, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the Society annual accounts have been applied.

- No separate Society Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the annual accounts and estimates with a significant risk of material adjustment in the next year are discussed in note 1.14.
Included within the notes and financial statements are references to the Income Statements and the profit and loss account these terms are the same and refer to items included within the Group and Societies Income Statements reported on page 19.

The Society has adopted the provisions of International Financial Reporting Interpretations Committee 'IFRIC' 21 in accordance with the transitional provisions contained therein, in respect of the Financial Services Compensation Scheme (FSCS) Levy. Although IFRIC 21 is not applicable to FRS 102 the Society adopted this approach to align treatment of the FSCS levy with larger societies who apply International Accounting Standards.

1.1 Measurement convention

The annual accounts are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified at fair value through the profit or loss or available-for-sale, and investment property measured in accordance with the revaluation model.

1.2 Basis of consolidation

The consolidated annual accounts include the annual accounts of the Society and its subsidiary undertaking, Tipton & Coseley Financial Services Ltd, made up to 31 December 2016; a subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated income statement and other comprehensive income ("OCI") from the date that control commences until the date that control ceases. Control is established when the Society has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. In the parent annual accounts, investments in the subsidiary are carried at cost less impairment.

1.3 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate'(EIR) is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset or financial liability.

Interest income and expense presented in the income statement and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on available-for-sale investment securities calculated on an effective interest basis; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Fair value changes on financial assets and financial liabilities carried at fair value through profit or loss are presented in net income from other financial instruments at fair value, through profit or loss in the Income Statement and Other Comprehensive Income.

1.4 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see 1.3).

Other fees and commission income and expenses - including account servicing fees, sales commission and other fees are recognised as the related services are performed.

1.5 Expenses

Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

1.6 Taxation

Tax on the profit for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the annual accounts. The following timing difference is not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met, to the extent that it is not probable that they will reverse in the foreseeable future and the Group is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the year end date. Deferred tax balances are not discounted.

1.7 Financial instruments

Recognition

The Group initially recognises loans and advances, deposits and debt securities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the settlement date, which is the date on which the Group transfers any consideration for an instrument. If any transactions were committed to at the year end date these are included in contractual commitments. No adjustment to fair values are made for contractual commitments of financial instruments due to the short period between settlement and trade dates.
A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition.

Classification

Financial assets

The Group classifies its financial assets into one of the following categories:

• *Loans and receivables*

'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.
Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method (see 1.3). When the Group chooses to designate the loans and advances as measured at fair value through profit or loss, they are measured at fair value with face value changes recognised immediately in profit or loss.

Should the Group purchase a financial asset and simultaneously enter into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement would be accounted for as a loan or advance, and the underlying asset would not be recognised in the Group's annual accounts.

• *Available-for-sale*

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise of debt securities. All available-for-sale investments are measured at fair value after initial recognition. In 2016 and 2015 the available-for-sale reserve account balance was nil. This is due to the difference in book and fair value on the Society financial instruments being immaterial and therefore nothing is disclosed on the face of the financial statements.

Interest income is recognised in profit or loss using the effective interest method (see 1.3). Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the available for sale reserve within capital reserves. When the investment is sold, the gain or loss accumulated in capital reserves is reclassified to profit or loss.

• *At fair value through profit and loss*

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. The Group's hedging relationships are discussed below.

Fair value hedges
Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves). If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Financial liabilities
The Group classifies its financial liabilities, other than loan commitments, as measured at amortised cost or fair value through profit or loss.

Derecognition
The Group derecognises a financial asset or liability when the contractual rights to the cash flows from the financial asset or liability are discharged, cancelled or expire.

On derecognition of a financial asset or liability the difference between the carrying amount of the asset or liability (or the carrying amount allocated to the portion of the asset or liability derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

During the year ended 31 December 2016 the Group and Society have not transferred the risks and rewards of ownership of any financial assets to another party.

Measurement
Amortised cost measurement
The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method, of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement
'Fair value' is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Identification and measurement of impairment
At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.
Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or

- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for loans and advances at both a specific asset and a collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Group uses statistical modelling of historical trends, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than is suggested by historical trends.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Society include:

- Temporary transfer to an interest only mortgage;
- Reduced monthly payment;
- Product review;
- Capitalisation of arrears; and
- Extension of mortgage term.

Customers requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank/credit card statements and payslips, in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with the Society's policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale debt securities are recognised by reclassifying the losses accumulated in the available for sale reserve. The cumulative loss that is reclassified from reserves to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through OCI.

1.8 Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash comprises cash in hand and unrestricted loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

1.9 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property. Certain items of tangible fixed assets that had been revalued to fair value on or prior to the date of transition to FRS 102, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

All current leases are classified as operating leases.
The Society assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Freehold premises - 50 years straight line
- Short leasehold premises - Straight line over the remaining years of the lease
- Motor vehicles - 25% reducing balance
- Equipment and fixtures - 10% and 20% straight line
- Computer hardware – 20% straight line.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits.

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognised initially at cost.
Subsequent to initial recognition:

- investment properties whose fair value can be measured reliably without undue cost or effort are held at fair value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period that they arise; and
- no depreciation is provided in respect of investment properties applying the fair value model.

If a reliable measure is not available without undue cost or effort for an item of investment property, this item is thereafter accounted for as tangible fixed assets in accordance with section 17 of FRS 102 until a reliable measure of fair value becomes available.

1.10 Intangible fixed assets

Computer Software

Purchased software and costs directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Group which will generate future economic benefits and where costs can be reliably measured. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred.

Intangible assets are stated at cost less cumulative amortisation and impairment losses.

Amortisation begins when the asset becomes available for operational use and is charged to the income statement on a straight-line basis over the estimated useful life of the software, which is generally 3 to 7 years. The basis for choosing these useful lives is dependant on the software asset expected life. The Society reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Intangible assets are tested for impairment in accordance with Section 27 of FRS 102 Impairment of assets when there is an indication that an intangible asset may be impaired.

Assets are reviewed for impairment at each Statement of Financial Position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

1.11 Impairment excluding financial assets and deferred tax assets

The carrying amounts of the Group and Society's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss is reversed if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.12 Employee benefits

a) Pensions

The Society operates a defined contribution scheme, contributions to which are charged to the Income Statements as they fall due.

Up to 2015 the Society also operated a defined benefit pension arrangement where the assets were measured at market value at each balance sheet date and the liabilities were measured using the projected unit valuation method, discounted using a corporate bond rate. The resultant pension arrangement surplus or deficit was recognised as an asset or liability on the balance sheet, net of associated deferred taxation.

The increase in the present value of liabilities of the arrangement expected to arise from employee service was charged to the Income Statement as an administrative expense. The expected return on the arrangement's assets and the increase in the arrangement's liabilities, arising from the passage of time, were disclosed as a pension finance charge. Any resulting actuarial gains or losses, that is gains or losses arising from differences in the expected return on arrangement assets compared to the actual return and changes in assumptions, or factors which affect those assumptions, used in measuring the arrangement liabilities, were recognised immediately in the Statements of Comprehensive Income.

During 2015 the defined benefit scheme concluded with all liabilities being settled. At the end of 2015 the scheme had no outstanding liabilities.

b) Long term incentive schemes
Performance related payments are recognised in the year in which the employees render the related service rather than the year in which they are paid. The performance related payments include an element of deferral detail of which can be found on page 15 in the Report of the Remuneration Committee.

1.13 Provisions and contingent liabilities
A provision is recognised in the Statement of Financial Position when the Group or Society has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

The Society has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and when the Society has an obligation in accordance with IFRIC 6 and specifically relating to Levies under IFRIC 21. The amount provided is based on information received from the FSCS, forecast future interest rates and the Society's historic share of industry protected deposits.

Contingent liabilities are potential obligations from past events which shall be confirmed by future events. Contingent liabilities are not recognised in the Statements of Financial Position.

1.14 Accounting estimates and judgements
The Group makes estimates and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below:

a) Impairment losses on loans and advances to customers
The Group reviews its mortgage advances portfolio on at least a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded, the Group is required to exercise a degree of judgement. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cashflows. Estimates are applied to determine prevailing market conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time expected to complete the sale of properties in possession. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions. To the extent that the house prices are higher or lower from that estimated by 1%, the impairment provisions on loans and advances would reduce by an estimated £122k, or increase by an estimated £157k, respectively.

b) Effective interest rate
The effective interest rate will affect the carrying values of loans and receiveables. One of the key components of the EIR is the expected mortgage life. In determining the expected life of mortgage assets, the Group uses historical and forecast redemption data as well as management judgement. At regular intervals throughout the year, the expected life of mortgage assets is reassessed for reasonableness. Any variation in the expected life of mortgage assets will change the carrying value in the Statement of Financial Position and the timing of the recognition of interest income. A 10% change in the life profile of mortgage assets would result in a change in the value of loans on the Statement of Financial Position by approximately £27k.

c) Financial Services Compensation Scheme (FSCS)
The Society has provision for a levy of £67k covering the period 1 April 2016 to 31 March 2017. The amount has been determined by reference to the expected path of future interest rates applicable at the balance sheet date and estimates of the interest charge published by FSCS. Changes in interest rates over the period of the levy will impact the final amount of the payment.
A 10% increase to the applicable interest rate would increase the provision by approximately £7k.

d) Fair value of derivatives and financial assets
The Group employs the following techniques in determining the fair value of its derivatives and financial assets:

- Available for sale – measured at fair value using market prices or, where markets have become inactive or there is no readily available traded price, the present value of future cash flows is used.
- Derivative financial instruments - calculated by discounted cash flow models using yield curves that are based on observable market data.

A change in the yield curve of 1% would change the total net fair value of derivative financial instruments by £573k. This would be offset by the movement in underlying assets or liabilities, as part of hedge accounting.

1.15 Segmental reporting
The Society and its subsidiary are UK registered entities, the activities of which are detailed below and in Note 15.
The Group only operates in the UK therefore no geographical analysis has been presented.

The chief operating decision maker has been identified as the Society Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Operating segments are reported in a manner consistent with the internal reporting provided to the Board. The Society Board considers the Society's performance in detail with a separate Board appraising the performance of the subsidiary and subsequently providing a summary to the Society Board. Due to the immaterial size of the subsidiary, segmental reporting is not considered appropriate.

There are no further reportable segments or activities which are not presented above or in the primary statements on pages 19 to 22.

Notes to the accounts

	Group and Society	
	2016	2015
	£'000	£'000
2. Interest receivable and similar income		
On loans fully secured on residential property	**9,262**	9,933
On other loans	**316**	365
On liquid assets	**369**	454
Net interest expense on derivatives	**(297)**	(288)
	9,650	10,464

	Group and Society	
	2016	2015
	£'000	£'000
3. Interest payable and similar charges		
On shares held by individuals	**3,813**	9,933
On other shares	**-**	365
On deposits and other borrowings	**44**	454
Net interest income on derivatives	**(5)**	(288)
	3,852	10,464

	Group and Society	
	2016	2015
	£'000	£'000
4. Net (losses)/gains from derivative financial instruments		
Derivatives in designated fair value hedge relationships	**(28)**	127
Adjustments to hedged items in fair value hedge accounting relationships	**18**	(120)
Derivatives not in designated fair value hedge relationships	**5**	2
	(5)	9

The net loss from derivative financial instruments of £5k (2015: £9k gain) represents the net fair value movement on derivative instruments that are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting is not achievable on certain items. The movement is primarily due to timing differences in income recognition between derivative instruments and the hedged assets or liabilities. This gain or loss will trend to zero over time and this is taken into account by the Board when considering the Group's underlying performance.

Notes to the accounts

	Group 2016	Group 2015	Society 2016	Society 2015
	£'000	£'000	**£'000**	£'000
5. Administrative expenses				
Staff costs				
Wages and salaries	**2,143**	1,983	**2,085**	1,925
Social security costs	**211**	186	**207**	181
Other pension costs	**221**	276	**217**	274
	2,575	2,445	**2,509**	2,380
Operating lease rentals	**25**	25	**25**	25
Other administrative costs	**1,490**	1,259	**1,486**	1,257
	4,090	3,729	**4,020**	3,662

Other administrative costs include:

Remuneration of Auditor and its associates (excluding VAT):				
Audit of these financial statements	**61**	72	**61**	72
Audit of financial statements of subsidiary undertaking	**4**	3	**-**	-
Taxation compliance services	**7**	5	**7**	5
For other services	**-**	8	**-**	8

	Group 2016	Group 2015	Society 2016	Society 2015
	Number	Number	**Number**	Number
6. Employees				
The average number of persons employed during the year was:				
Full time	**51**	49	**50**	48
Part time	**36**	36	**36**	36
	87	85	**86**	84
The average number of persons employed during the year was:				
Head office	**55**	53	**54**	52
Branch offices	**32**	32	**32**	32
	87	85	**86**	84

Notes to the accounts

7 Directors' loans and transactions

a) Directors' remuneration

Directors' remuneration totalling £628,000 for 2016 (2015: £594,000) is shown as part of the Report of the Remuneration Committee on page 13.

b) Directors' loans

There were no loans granted or outstanding to directors or connected persons in the year (2015: nil).

A register is maintained at the head office of the Society which shows details of all loans, transactions and arrangements with directors and their connected persons. A statement of the appropriate details contained in the register will be available for inspection at the head office for a period of 15 days up to and including the date of the Annual General Meeting.

c) Other Directors' transactions

Directors and connected persons hold savings balances with the Society; all accounts have the same terms and conditions as available to customers of the Society. The savings balances are not detailed in the register unlike loans and transactions above, due to their sensitive nature. The aggregate amount of all savings balances at 31 December 2016 was £160,882 (2015: £211,413).

	Group 2016	Group 2015	Society 2016	Society 2015
	£'000	£'000	**£'000**	£'000
8. Taxation				
UK corporation tax at 20.00% (2015: 20.25%)	**397**	620	**397**	616
Under provision in previous year	**15**	14	**15**	14
Total current tax	**412**	634	**412**	630
Deferred tax (note 19)	**22**	(44)	**22**	(44)
Deferred tax adjustments in respect of prior year (note 19)	**-**	(2)	**-**	(2)
Total tax expense	**434**	588	**434**	584

The total tax charge for the period differs from that calculated using the UK standard rate of corporation tax.
The differences are explained below.

Profit before taxation	**2,122**	2,902	**2,167**	2,881
Expected tax at 20.00% (2015: 20.25%)	**424**	587	**433**	583
Effects of:				
Expenses not deductible for corporation tax purposes	**1**	8	**1**	8
Movement in retirement benefit obligation	**-**	(35)	**-**	(35)
Changes in tax rate	**4**	16	**4**	16
Short term timing difference	**(15)**	-	**(15)**	-
Group relief	**-**	-	**(9)**	-
Fixed asset differences	**6**	-	**6**	-
Adjustment for prior years	**14**	12	**14**	12
Tax expense for the year	**434**	588	**434**	584

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on the prevailing tax rate when the timing differences are expected to reverse.

Notes to the accounts

	Group and Society	
	2016	2015
	£'000	£'000
9. Cash in hand and balances with Bank of England		
Cash in hand	**521**	464
Bank of England Reserve Account	**59,000**	48,000
Included in cash and cash equivalents (note 27)	**59,521**	48,464

	Group and Society	
	2016	2015
	£'000	£'000
10. Loans and advances to credit institutions		
Accrued interest	**35**	41
Repayable on demand (note 27)	**8,118**	7,084
In not more than three months	**1,000**	4,000
In more than three months but not more than one year	**4,000**	2,000
	13,153	13,125

	Group and Society	
	2016	2015
	£'000	£'000
11. Debt securities (unlisted)		
Securities available for sale		
Treasury bills	**10,549**	17,747
Certificates of deposit	**-**	2,005
	10,549	19,752

Debt securities include items which are available to pledge as collateral under Bank of England facilities, no assets are pledged to the Bank of England as at 31 December 2016 (2015: nil). The Society holds no listed debt securities at 31 December 2016 (2015: nil).

	Group and Society	
	2016	2015
	£'000	£'000
Movements on debt securities during the year are analysed as follows:		
At 1 January	**19,752**	14,027
Additions	**28,596**	40,088
Disposals and maturities	**(37,819)**	(34,312)
Movement in interest and amortisation	**20**	(51)
At 31 December	**10,549**	19,752

Group and Society

12. Derivative financial instruments

At 31 December 2016	Contract/notional	Fair values	
	Amount	Assets	Liabilities
	£'000	£'000	£'000
a) Unmatched derivatives			
Interest rate swaps	**5,750**	**1**	**(3)**
b) Derivatives designated as fair value hedges			
Interest rate swaps	**78,500**	**16**	**(178)**
Total recognised derivative assets/(liabilities)	**84,250**	**17**	**(181)**

At 31 December 2015			
a) Unmatched derivatives			
Interest rate swaps	18,187	4	(11)
b) Derivatives designated as fair value hedges			
Interest rate swaps	62,563	2	(136)
Total recognised derivative assets/(liabilities)	80,750	6	(147)

Typically unmatched derivatives arise during the final 3 months of an interest rate swaps life where the derivatives change in fair value are immaterial, or where a new interest rate swap contract has been agreed but the corresponding asset or liability is still to be realised on the Society's or Group's Statement of Financial Position.

At 31 December 2016 no cash collateral has been received or paid by the Group and Society against derivative contracts (2015: nil). The Group and Society provided no collateral to any other parties during the year including collateral secured against loans and advances to credit institutions or customers (2015: nil).

	Group and Society	
	2016	2015
	£'000	£'000
13. Loans and advances to customers		
Loans fully secured on residential property	**285,156**	277,480
Other loans – loans fully secured on land	**3,590**	4,984
	288,746	282,464
Provision for impairment losses on loans and advances (note 14)	**(1,832)**	(2,294)
Fair value adjustment for hedged risk	**155**	132
	287,069	280,302

Maturity analysis

The remaining maturity of loans and advances to customers including fair value adjustment for hedged risk at the reporting date is as follows:

In not more than three months	**3,674**	2,756
In more than three months but not more than one year	**9,210**	9,047
In more than one year but not more than five years	**49,569**	48,125
In more than five years	**226,448**	222,668
	288,901	282,596
Provision for impairment losses on loans and advances (note 14)	**(1,832)**	(2,294)
	287,069	280,302

The maturity analysis above is based on contractual maturity not expected redemption levels.

Group and Society

14. Provision for bad and doubtful debts

	Loans fully secured on residential property	Other loans fully secured on land	Total
	£'000	£'000	£'000
Individual provision			
At 1 January 2016	**632**	**54**	**686**
Amounts written off	**(149)**	**-**	**(149)**
Charge for the year	**(327)**	**(8)**	**(335)**
At 31 December 2016	**156**	**46**	**202**
Collective provision			
At 1 January 2016	**1,315**	**293**	**1,608**
Amounts written off	**(7)**	**-**	**(7)**
Charge for the year	**130**	**(101)**	**29**
At 31 December 2016	**1,438**	**192**	**1,630**
Individual provision			
At 1 January 2015	752	621	1,373
Amounts written off	-	(58)	(58)
Charge for the year	(120)	(509)	(629)
At 31 December 2015	632	54	686
Collective provision			
At 1 January 2015	1,089	135	1,224
Amounts written off	-	-	-
Charge for the year	226	158	384
At 31 December 2015	1,315	293	1,608

The credit to the income statement comprises:	
Net credit for the year (above)	**(462)**
Amounts written off less recoveries	**140**
Credit to the income statement in 2016	**(322)**
Credit to the income statement in 2015	**(272)**

Notes to the accounts

15. Investments

Subsidiary undertaking

The Society directly holds all of the issued ordinary shares in the following subsidiary undertaking, which is registered in England and Wales, facilitates the provision of financial services, and is consolidated in the Group accounts.

	Society 2016	Society 2015
	£'000	£'000
Tipton & Coseley Financial Services Limited	**1**	1

	Group 2016	Group 2015	Society 2016	Society 2015
	£'000	£'000	**£'000**	£'000
16. Prepayments and accrued income				
Due within one year	**477**	404	**477**	395

Group and Society

17. Tangible fixed assets

	Freehold Land and buildings	Short leasehold	Equipment, fixtures, fittings and vehicles	Total
	£'000	£'000	£'000	£'000
2016				
Cost				
At 1 January 2016	**1,272**	**101**	**1,492**	**2,865**
Additions	**-**	**-**	**49**	**49**
Disposals	**-**	**-**	**(122)**	**(122)**
At 31 December 2016	**1,272**	**101**	**1,419**	**2,792**
Depreciation				
At 1 January 2016	**118**	**36**	**1,137**	**1,291**
Charge for the year	**22**	**7**	**98**	**127**
On disposals	**-**	**-**	**(114)**	**(114)**
At 31 December 2016	**140**	**43**	**1,121**	**1,304**
Net Book Value				
At 31 December 2016	**1,132**	**58**	**298**	**1,488**
2015				
Cost				
At 1 January 2015	1,272	101	1,438	2,811
Additions	-	-	155	155
Disposals	-	-	(101)	(101)
At 31 December 2015	1,272	101	1,492	2,865
Depreciation				
At 1 January 2015	94	30	1,084	1,208
Charge for the year	24	6	108	138
On disposals	-	-	(55)	(55)
At 31 December 2015	118	36	1,137	1,291
Net Book Value				
At 31 December 2015	1,154	65	355	1,574

Land and buildings

The net book value of freehold land and buildings occupied for own use at 31 December 2016 was £935,000 (2015: £1,029,000). Land and buildings includes investment properties held at fair value at 31 December 2016 of £197,000 (2015: £197,000); no gains or losses have been recognised in 2016 (2015: nil).

Depreciation and amortisation

The Income Statements 'Depreciation and amortisation' includes profit on sale of tangible fixed assets in 2016 of £1,416 (2015: £5,613).

Group and Society

18. Intangible fixed assets

	Purchased Software	Total
	£'000	£'000
2016		
Cost		
At 1 January 2016	**716**	**716**
Additions	**62**	**62**
At 31 December 2016	**778**	**778**
Amortisation		
At 1 January 2016	**669**	**669**
Charge for the year	**32**	**32**
At 31 December 2016	**701**	**701**
Net Book Value		
At 31 December 2016	**77**	**77**
2015		
Cost		
At 1 January 2015	711	711
Additions	5	5
At 31 December 2015	716	716
Amortisation		
At 1 January 2015	638	638
Charge for the year	31	31
At 31 December 2015	669	669
Net Book Value		
At 31 December 2015	47	47

	Group and Society	
	2016	2015
	£'000	£'000
19. Deferred tax		
At 1 January	**143**	97
(Decrease)/Increase in asset for the year (note 8)	**(22)**	46
At 31 December	**121**	143
Tax effect of timing differences due to:		
FRS102 transitional adjustments	**(21)**	(25)
Accelerated capital allowances	**(30)**	(30)
Deferred payments	**6**	-
Collective loss provision	**166**	198
	121	143

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on the prevailing tax rate when the timing differences are expected to reverse.

	Group and Society	
	2016	2015
	£'000	£'000
20. Shares		
Held by individuals	**330,974**	319,151
Other shares	**12**	38
Fair value adjustment for hedged risk	**3**	(1)
	330,989	319,188
Shares are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows:		
Accrued interest	**758**	771
Repayable on demand	**210,182**	192,880
In not more than three months	**91,677**	97,604
In more than three months but not more than one year	**22,317**	19,245
In more than one year but not more than five years	**6,052**	8,689
Fair value adjustment for hedged risk	**3**	(1)
	330,989	319,188

	Group 2016	Group 2015	Society 2016	Society 2015
	£'000	£'000	**£'000**	£'000
21. Amounts owed to other customers				
Amounts owed to other customers are repayable at the reporting date in the ordinary course of business as follows:				
Accrued interest	**9**	23	**9**	23
Repayable on demand	**1,358**	1,180	**1,358**	1,179
Repayable on demand to subsidiary undertaking	**-**	-	**267**	314
In not more than three months	**1,000**	2,750	**1,000**	2,750
In more than three months but not more than one year	**900**	3,800	**900**	3,800
	3,267	7,753	**3,534**	8,066

	Group 2016	Group 2015	Society 2016	Society 2015
	£'000	£'000	**£'000**	£'000
22. Other liabilities				
Falling due within one year				
Income tax	**-**	362	**-**	362
Corporation tax	**196**	366	**196**	362
	196	728	**196**	724

	Group 2016	Group 2015	Society 2016	Society 2015
	£'000	£'000	**£'000**	£'000
23. Accruals and deferred income				
Accruals	**775**	578	**741**	538

	Group and Society	
	2016	2015
	£'000	£'000
24. Provision for liabilities		
Financial Services Compensation Scheme Levy		
At 1 January	**114**	125
Paid during the year	**(100)**	(223)
Adjustment to provision	**53**	212
At 31 December	**67**	114

Financial Services Compensation Scheme

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. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford & Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society.

The FSCS met these claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years, and the FSCS recovers the interest cost, together with ongoing management expenses, by way of annual management levies on members.

The Society's FSCS provision reflects market participation up to the reporting date. Following the application of IFRIC 21, which impacts the trigger date for recognition of FSCS levies, the provision at 31 December 2016 represents the estimated management expenses levy for the scheme year 2016/17. This provision was calculated based on the Society's current share of protected deposits and the FSCS estimate of total management expenses for the scheme year.

25. Retirement benefit obligations

The group operated a defined benefit pension arrangement for certain executives providing benefits based on final pensionable salary, this scheme was settled to all members in 2015. The assets of the scheme were held separately from those of the Group. A full actuarial valuation was carried out at 1 January 2010 and updated to 31 December 2014 by a qualified actuary, independent of the Group. As at the end of 2015 there was no defined benefit obligation outstanding for the Group and no actuarial valuation was required.

	Group and Society	
	2016	2015
	£'000	£'000
Analysis of amount charged to operating profit		
Loss on settlement	-	106
Total operating charge (included within administrative expenses)	-	106
Analysis of net return on Scheme assets and liabilities		
Net interest on pension liabilities	-	(19)
Net return (being the pension finance charge)	-	(19)
Analysis of amount recognised in Statement of Comprehensive Income		
Actual return less expected return on scheme assets	-	(23)
Actuarial gains	-	498
Actuarial gain recognised in Statement of Comprehensive Income	-	475

Cumulative actuarial losses reported in the consolidated Statement of Comprehensive Income for accounting period ended 31 December 2016 were nil (2015: £245,000).

	Group and Society	
	2016	2015
	£'000	£'000
Change in present value of plan liabilities		
Present value of plan liabilities at start of year	-	2,512
Interest on pension liabilities	-	43
Actuarial (gains)	-	(498)
Benefits paid	-	(751)
Liabilities extinguished on settlement	-	(1,306)
Present value of plan liabilities at end of year	-	-

	Group and Society	
	2016	2015
	£'000	£'000
Change in plan assets		
Fair value of plan assets at start of year	-	1,862
Expected return on plan assets	-	24
Actual less expected return on plan assets	-	(23)
Employers' contribution	-	300
Benefits paid	-	(751)
Assets distributed on settlement	-	(1,412)
Value of plan assets at end of year	-	-

	Group and Society				
History of experience gains and losses for the year to 31 December					
	2016	2015	2014	2013	2012
Difference between expected and actual return on scheme assets:					
amount (£'000)	-	(23)	66	(69)	9
percentage of scheme assets	-	-	3%	(4%)	1%
Experience gains and (losses) on scheme liabilities:					
amount (£'000)	-	498	28	67	2
percentage of present value of scheme liabilities	-	-	1%	3%	0%
Total amount recognised in Statements of Comprehensive Income:					
amount (£'000)	-	475	(163)	(136)	(68)
percentage of present value of scheme liabilities	-	-	(7%)	(6%)	(4%)

Group and Society

Plan History

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Present value of plan liabilities	-	-	2,512	2,137	1,928
Fair value of plan assets	-	-	1,862	1,694	1,637
Deficit in the scheme (before related deferred tax assets)	-	-	(650)	(443)	(291)

Defined contribution scheme

The Group operates a defined contribution scheme, the assets of which are held separately from those of the Group. The total cost for the Group was £219,000 (Group 2015: £223,000).

	Group 2016 £'000	Group 2015 £'000	Society 2016 £'000	Society 2015 £'000
26. General reserves				
At 1 January	**35,309**	32,650	**35,032**	32,390
Profit for the financial year	**1,688**	2,314	**1,733**	2,297
Net gain recognised directly in other comprehensive income	-	345	-	345
At 31 December	**36,997**	35,309	**36,765**	35,032

	Notes	Group 2016 £'000	Group 2015 £'000	Society 2016 £'000	Society 2015 £'000
27. Cash and cash equivalents					
Cash in hand and balances with the Bank of England	9	**59,521**	48,464	**59,521**	48,464
Loans and advances to credit institutions repayable on demand	10	**8,118**	7,084	**8,118**	7,084
		67,639	55,548	**67,639**	55,548

28. Financial instruments

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

The Society has a formal structure for managing financial risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Society's Assets & Liabilities Committee (ALCO), which is charged with the responsibility for managing and controlling balance sheet exposures. Instruments used for risk management purposes include derivative financial instruments (derivatives), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates.

Derivatives are only used by the Society in accordance with the Building Societies Act 1986, to limit the extent to which the Society will be affected by changes in interest rates. Derivatives are not used in trading activity or for speculative purposes and all derivatives are, therefore, designated as hedging instruments. The principal derivatives used in the balance sheet risk management are interest rate swaps which are used to hedge balance sheet exposures arising from fixed rate mortgage lending and from fixed rate savings accounts.

All of the financial instruments are transacted with the Society and therefore no Group disclosures for these balances are required, however non-financial instruments reported in tables within this disclosure represent Group figures.

The Group applies fair value hedging techniques to reduce its exposure to interest rate risk as follows:

Activity	Risk	Fair value interest rate hedge
Fixed rate mortgages	Increase in interest rates	Group pays fixed, receives variable
Fixed rate savings accounts	Decrease in interest rates	Group receives fixed, pays variable

The fair values of these hedges at 31 December 2016 and 31 December 2015 are shown in note 12.

28. Financial instruments (continued)

Summary terms and conditions and accounting policies of financial instruments

Financial instrument	Terms and conditions	Accounting policy
Loans and advances to credit institutions	Fixed interest rate Fixed term Short to medium term maturity	Loans and receivables at amortised cost Accounted for at settlement date
Debt securities	Fixed interest rate Fixed term Short to medium term maturity	Available-for-sale at fair value Accounted for at settlement date
Loans and advances to customers	Secured on property or land Standard contractual term of 25 years Fixed or variable rate interest	Loans and receivables at amortised cost Accounted for at settlement date
Shares	Fixed or variable term Fixed or variable interest rates	Amortised cost Accounted for at settlement date
Amounts owed to credit institutions	Fixed interest rate Fixed term Short to medium term maturity	Amortised cost Accounted for at settlement date
Amounts owed to other customers	Fixed or variable term Fixed or variable interest rates Short to medium term maturity	Amortised cost Accounted for at settlement date
Derivative financial instruments	Fixed interest received/paid converted to variable interest paid/received Based on notional value of the derivative	Fair value through profit and loss

28. Financial instruments (continued)

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost. Note 1: 'Accounting policies' describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Group's assets and liabilities by financial classification:

Group

Carrying values by category 31 December 2016	Held at amortised cost		Held at fair value			
	Loans and receivables	Financial assets and liabilities at amortised cost	Available -for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets						
Cash in hand and balances with Bank of England	-	59,521	-	-	-	59,521
Loans and advances to credit institutions	-	13,153	-	-	-	13,153
Debt securities	-	-	10,549	-	-	10,549
Derivative financial instruments	-	-	-	16	1	17
Loans and advances to customers	287,069	-	-	-	-	287,069
Other assets	-	2,163	-	-	-	2,163
	287,069	74,837	10,549	16	1	372,472
Financial liabilitites						
Shares	-	330,989	-	-	-	330,989
Amounts owed to credit institutions	-	-	-	-	-	-
Amounts owed to other customers	-	3,267	-	-	-	3,267
Derivative financial instruments	-	-	-	178	3	181
Other liabilities	-	1,038	-	-	-	1,038
	-	335,294	-	178	3	335,475

28. Financial instruments (continued)

Group

Carrying values by category 31 December 2015	Held at amortised cost		Held at fair value			
	Loans and receivables	Financial assets and liabilities at amortised cost	Available -for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets						
Cash in hand and balances with Bank of England	-	48,464	-	-	-	48,464
Loans and advances to credit institutions	-	13,125	-	-	-	13,125
Debt securities	-	-	19,752	-	-	19,752
Derivative financial instruments	-	-	-	2	4	6
Loans and advances to customers	280,302	-	-	-	-	280,302
Other assets	-	2,168	-	-	-	2,168
	280,302	63,757	19,752	2	4	363,817
Financial liabilitites						
Shares	-	319,188	-	-	-	319,188
Amounts owed to credit institutions	-	-	-	-	-	-
Amounts owed to other customers	-	7,753	-	-	-	7,753
Derivative financial instruments	-	-	-	136	11	147
Other liabilities	-	1,420	-	-	-	1,420
	-	328,361	-	136	11	328,508

There have been no reclassifications during either year.

28. Financial instruments (continued)

Fair values of financial assets and liabilities carried at amortised cost

The table below analyses the book and fair values of the Group's financial instruments held at amortised cost at 31 December:

					Group
		2016 Book value	2016 Fair value	2015 Book value	2015 Fair value
		£'000	£'000	£'000	£'000
Financial assets					
Cash in hand and balances with Bank of England	a	**59,521**	**59,521**	48,464	48,464
Loans and advances to credit institutions	b	**13,153**	**13,157**	13,125	13,127
Loans and advances to customers	c	**287,069**	**289,763**	280,302	282,439
Other assets		**2,163**	**2,163**	2,168	2,168
		361,906	**364,604**	344,059	346,198
Financial liabilities					
Shares	d	**330,989**	**331,225**	319,188	319,417
Amounts owed to other customers	e	**3,267**	**3,268**	7,753	7,758
Other liabilities		**1,038**	**1,038**	1,420	1,420
		335,294	**335,531**	328,361	328,595

Fair value is the value for which an asset or liability could be exchanged or settled between knowledgeable willing parties in an arms length transaction. The estimated fair value of the financial assets and liabilities above has been calculated using the following valuation methodology:

The fair value hierarchy when deriving fair values is split into three levels, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly
- Level 3 - inputs for the asset or liability that are not based on observable market data

a) Cash in hand and balances with Bank of England - Level 1
The fair value of cash in hand and deposits with central banks is the amount repayable on demand.

b) Loans and advances to credit institutions - Level 2
The fair value of overnight deposits is the amount repayable on demand. The estimated fair value of loans and advances to credit institutions is calculated based on discounted expected future cash flows.

c) Loans and advances to customers - Level 3
Loans and advances are recorded net of provisions for impairment together with the fair value adjustment for hedged items as required by IAS39. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received taking account of expected prepayment rates.

Estimated cash flows are discounted at prevailing market rates for items of similar remaining maturity. The fair values have been adjusted where necessary to reflect any observable market conditions at the time of valuation.

d) Shares - Level 3
The fair value of shares with no stated maturity is the amount repayable on demand. The estimated fair value of fixed share accounts are based on expected future cash flows determined by the contractual terms and conditions discounted at prevailing market rates for items of similar remaining maturity.

e) Amounts owed to other customers - Level 2
The fair value of fixed interest bearing deposits and other borrowings without a quoted market price is based on expected future cash flows determined by the contractual terms and conditions discounted at prevailing market rates for items of similar remaining maturity.

28. Financial instruments (continued)

Fair values of financial assets and liabilities carried at amortised cost

The table below summarises the fair values of the Group's financial assets and liabilities that are accounted for at fair value, analysed by the valuation methodology used by the Group to derive the financial instruments fair value:

					Group
		Level 1	Level 2	Level 3	Total
	Notes	**£'000**	£'000	**£'000**	£'000
31 December 2016					
Financial assets					
Available-for-sale					
Debt securities	11	**-**	**10,549**	**-**	**10,549**
Derivative financial instruments					
Interest rate swaps	12	**-**	**17**	**-**	**17**
		-	**10,566**	**-**	**10,566**
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	12	**-**	**181**	**-**	**181**
		-	**181**	**-**	**181**
31 December 2015					
Financial assets					
Available-for-sale					
Debt securities	11	-	19,752	-	19,752
Derivative financial instruments					
Interest rate swaps	12	-	6	-	6
		-	**19,758**	**-**	**19,758**
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	12	-	147	-	147
		-	**147**	**-**	**147**

Valuation techniques

The main valuation techniques employed by the Group to establish fair value of the financial instruments disclosed above are set out below:

- **Debt securities**

a) Level 1 - Market prices have been used to determine the fair value of listed debt securities
b) Level 2 - Debt securities for which there is no readily available traded price are valued based on the 'present value' method. This requires expected future principal and interest cash flows to be discounted using prevailing yield curves. The yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the cash flows and maturities of the instruments.

- **Interest rate swaps** - the valuation of interest rate swaps is based on the 'present value' method. Expected interest cash flows are discounted using the prevailing yield curves. The yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments. The Society's swaps are not collateralised.

28. Financial instruments (continued)

Credit risk

Credit risk is the risk that the Group incurs a financial loss arising from the failure of a customer or counterparty to meet their contractual obligations. The Group structures the level of credit risk it undertakes, by maintaining a governance framework involving delegated approval authority levels and credit procedures, the objective of which is to build and maintain asset portfolios of high quality.

The Group's maximum credit risk exposure is detailed in the table below:

	Group and Society	
	2016	2015
	£'000	£'000
Credit risk exposure		
Cash in hand and balances with Bank of England	**59,521**	48,464
Loans and advances to credit institutions	**13,153**	13,125
Debt securities	**10,549**	19,752
Derivative financial instruments	**17**	6
Loans and advances to customers	**287,069**	280,302
Total statement of financial position exposure	**370,309**	361,649
Off balance sheet exposure – mortgage commitments	**13,901**	9,606
Total	**384,210**	371,255

28. Financial instruments (continued)

a) Loans and advances to credit institutions, debt securities and derivative financial instruments

The ALCO is responsible for approving treasury counterparties for both derivatives and investment purposes. Limits are placed on the amount of risk accepted in relation to a single counterparty, or group of counterparties, and to industry sectors. This is monitored daily by the Society's Finance Director and reviewed quarterly by the ALCO.

The Group's policy only permits lending to central government (which includes the Bank of England), banks with a high credit rating and building societies. The Finance Director performs regular analysis of counterparty credit risk and monitoring of publicly available information to highlight possible indirect exposures.

An analysis of the Group's treasury asset concentration is shown in the tables below:

				Group
	2016	2016	2015	2015
	£'000	%	£'000	%
Industry sector				
Banks	**8,131**	**9.77**	9,094	11.18
Building Societies	**5,015**	**6.03**	6,021	7.40
Central Bank	**59,528**	**71.53**	48,479	59.60
Central Government	**10,549**	**12.67**	17,747	21.82
Total	**83,223**	**100.00**	81,341	100.00

						Group
	2016	AAA	AA	A	Other	2015
	£'000	%	%	%	%	£'000
Geographic region						
United Kingdom	**83,223**	**-**	**84.20**	**13.39**	**2.40**	81,341

'Other' relates to investments in unrated Building Societies.

The Group has no exposure to foreign exchange risk. All instruments are denominated in Sterling.

The Group's derivative financial instruments are analysed in the table below:

						Group
	2016	AAA	AA	A	BBB	2015
	£'000	%	%	%	%	£'000
Geographic region						
United Kingdom	**84,250**	**-**	**18.40**	**81.60**	**-**	80,750

There are no impairment charges against any of the Group's treasury assets at 31 December.

28. Financial instruments (continued)

b) Loans and advances to customers

All mortgage loan applications are assessed with reference to the Group's credit risk appetite statement and lending policy, which includes assessing applicants for potential fraud risk, and which is approved by the Board. When deciding on the overall risk appetite that the Group wishes to adopt, both numerical and non-numerical considerations are taken into account, along with data on the current UK economic climate and competitor activity. The lending policy must comply with all the prevailing regulatory policy and framework.

The lending portfolio as originated is monitored by the Board to ensure that it remains in line with the stated risk appetite of the Group, including adherence to the lending principles, policies and lending limits.

For new customers the first element of the retail credit control framework is achieved via individual case underwriting, which assesses the credit quality of potential customers prior to making loan offers. The customers' credit assessment combines demographic and financial information. A second element is lending policy rules which are applied to new applications to ensure that they meet the risk appetite of the Group. All mortgage applications are overseen by the Mortgage department who ensure that any additional lending criteria are applied and that all information submitted within the application is validated.

Credit risk management information is comprehensive and is circulated to the Board on a monthly and quarterly basis to ensure that the portfolio remains within the Group's risk appetite.

It is the Group's policy to ensure good customer outcomes and lend responsibly by ensuring at the outset that the customer can meet the mortgage repayments. This is achieved by obtaining specific information from the customer concerning income and expenditure but also external credit reference agency data. The maximum credit risk exposure is disclosed in the table on page 52.

Loans and advances to customers are predominately made up of retail loans fully secured against UK residential property (£284m), split between primarily residential loans and a small portfolio of buy-to-let loans with the remaining £3m being secured on commercial property.

The Group operates throughout England & Wales and an analysis of the Group's geographical concentration is shown in the table below:

	Group and Society	
	2016	2015
	%	%
Geographical analysis		
West Midlands	**74.69**	82.74
East Midlands	**9.04**	8.38
Other	**16.27**	8.88

28. Financial instruments (continued)

The average loan to value (LTV) is the mean LTV for the portfolio. Each individual LTV is calculated by comparing the value of the mortgage loan to the value of collateral held and adjusted by a house price index for loans which are on residential property.

The average LTV of mortgage loans is 48.39% (2015: 48.43%). All residential loans above 75% LTV at origination are insured for a seven year period from inception with a Lloyds of London insurance firm.

Further LTV information on the Group's mortgage portfolio is shown below:

	Group and Society	
	2016	2015
	%	%
LTV analysis		
>0% - 50%	**21.62**	20.77
>50% - 60%	**12.48**	9.09
>60% - 70%	**23.46**	23.69
>70% - 80%	**18.17**	23.32
>80% - 90%	**19.06**	16.90
>90% +	**5.21**	6.23
Average loan to value of mortgage loans	**48.39**	48.43

28. Financial instruments (continued)

The table below provides information on loans by payment due status net of provision:

			Group and Society	
	2016	2016	2015	2015
	£'000	%	£'000	%
Arrears analysis				
Not impaired:				
Neither past due or impaired	**283,899**	**98.90**	274,584	97.96
Past due up to 3 months but not impaired	**1,741**	**0.61**	4,135	1.48
Past due over 3 months but not impaired	**352**	**0.12**	351	0.13
Possessions	**-**	**-**	113	0.04
Impaired:				
Not past due	**95**	**0.03**	123	0.04
Past due up to 3 months	**154**	**0.05**	150	0.05
Past due 3 to 6 months	**653**	**0.23**	517	0.18
Past due 6 to 12 months	**175**	**0.06**	**-**	**-**
Past due over 12 months	**-**	**-**	-	-
Possessions	**-**	**-**	329	0.12

	Indexed	Unindexed	Indexed	Unindexed
	£'000	£'000	£'000	£'000
Value of Collateral held:				
Neither past due or impaired	**583,357**	**491,025**	569,292	481,405
Past due but not impaired	**8,120**	**6,501**	8,328	6,666
Impaired	**1,728**	**1,515**	2,924	2,527
	593,205	**499,041**	580,544	490,598

The Group uses HPI indexing to update the property values of its residential and buy-to-let portfolios on a quarterly basis. Collateral values are adjusted by the Nationwide price index to derive the indexed valuation at 31 December. This is a UK house price index and takes into account regional data from the 12 standard planning regions of the UK. The collateral consists of UK property and land.

With collateral capped to the amount of outstanding debt, the value of collateral held against loans 'past due but not impaired' at 31 December 2016 is £4,330,004 (2015: £4,599,063) against an outstanding debt of £4,330,004 (2015: £4,599,063). In addition, the value of collateral held against 'Impaired' assets at 31 December 2016 is £1,279,186 (2015: £1,585,521) against outstanding debt of £1,138,676 (2015: £1,849,843).

Mortgage indemnity insurance acts as additional security. It is taken out for all residential loans where the borrowing exceeds 75% of the value of the total security at the point of origination.

The status 'past due up to three months but not impaired' and 'past due over three months but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount.

Possession balances represent those loans where the Group has taken action to realise the underlying security. The Group has various forbearance options to support customers who may find themselves in financial difficulty.

28. Financial instruments (continued)

Forbearance

Temporary transfer to an interest only concession is offered for a set period for customers in financial difficulty. The concession allows customers to reduce monthly payments to cover interest only, and if made, the arrears status will not increase.

Reduced monthly payment concessions allow a customer to make an agreed underpayment for a specific period of time. The monthly underpaid amount accrues as arrears and agreement is reached at the end of the concession period on how the arrears will be repaid. Payment plans are agreed to enable customers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment.

Product reviews for mortgages are undertaken if a change of product is appropriate, this could be due to a customer not switching product on the maturity of their fixed or discount term. All customers are contacted by the Society on maturity of their discount or fixed product rate.

Capitalisations occur where arrears are incorporated into the capital balance outstanding for the purposes of re-structuring the loan.

The term of the mortgage is extended in order to reduce payments to a level which is affordable to the customer based on their current financial circumstances.

All forbearance arrangements are formally discussed with the customer and reviewed by management prior to acceptance of the forbearance arrangement. By offering customers in financial difficulty the option of forbearance the Society potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period.

Regular monitoring of the level and different types of forbearance activity is reported to the Board on a monthly basis. In addition all forbearance arrangements are reviewed and discussed with the customer on a regular basis to assess the ongoing potential risk to the Society and suitability of the arrangement for the customer.

The table below details the number of forbearance cases within the 'not impaired' category:

	Group and Society	
	2016	2015
	Number	Number
Type of Forbearance		
Interest only concessions at year end	**21**	22
Reduced payment concessions at year end	**-**	3
Payment plans at year end	**6**	14
Capitalisations within last 6 months	**-**	-
Mortgage term extensions within last 6 months	**-**	-
Less: cases with more than one form of forbearance	**-**	(1)
Total	**27**	38

These are included as part of the collective impairment provision of £1.630m (2015: £1.608m).

28. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient financial resources available to meet its obligations as they fall due, under either normal business conditions or a stressed environment. It is the Society's policy that a significant amount of its total assets are carried in the form of cash and other readily realisable assets in order to:

i) meet day-to-day business needs;
ii) meet any unexpected cash needs;
iii) maintain public confidence; and
iv) ensure maturity mismatches are provided for.

Monitoring of liquidity, in line with the Society's Internal Liquidity Adequacy Assessment Process (ILAAP) document is performed daily. Compliance with the policy is reported to ALCO quarterly and to the Board monthly.

The Society's ILAAP is designed to ensure the Society has sufficient liquid resources to withstand a range of stressed scenarios. A series of liquidity stress tests have been developed as part of liquidity risk assessment process. They include scenarios that fulfil the specific requirements of the PRA (the idiosyncratic, market-wide and combination stress tests). The stress tests are performed monthly and reported to the Board, on a quarterly basis ALCO confirm that the liquidity policy remains appropriate.

The Society's liquid resources comprise high quality liquid assets, including a Bank of England reserves account and time deposits, supplemented by an amount of UK Government Treasury bills purchased by the Society. At the end of the year the ratio of liquid assets to shares and deposits was 24.90% compared to 24.88% for 2015.

The table below analyses the Group's assets and liabilities into relevant maturity groupings, based on the remaining period to contractual maturity at the Statement of Financial Position date. This is not representative of the Group's management of liquidity. Loans and advances to customers rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the analysis. For example, most mortgages have a contractual maturity of around 25 years but are generally repaid much sooner. Conversely, retail deposits repayable on demand generally remain on balance sheet much longer.

28. Financial instruments (continued)

Group

Residual maturity as at 31 December 2016	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	No specific maturity and loss provision	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets							
Liquid assets							
Cash in hand and balances with Bank of England	59,521	-	-	-	-	-	59,521
Loans and advances to credit institutions	8,138	1,009	4,006	-	-	-	13,153
Debt securities	-	9,044	1,505	-	-	-	10,549
Total liquid assets	67,659	10,053	5,511	-	-	-	83,223
Loans and advances to customers	-	3,051	9,227	49,778	226,845	(1,832)	287,069
Derivative financial instruments	-	1	2	14	-	-	17
Tangible assets	-	-	-	-	-	1,488	1,488
Intangible assets	-	-	-	-	-	77	77
Other assets	-	-	-	-	-	598	598
	67,659	13,105	14,740	49,792	226,845	331	372,472
Financial liabilities and reserves							
Shares	210,940	91,677	22,317	6,055	-	-	330,989
Amounts owed to other customers	1,358	1,002	907	-	-	-	3,267
Derivative financial instruments	-	6	72	103	-	-	181
Other liabilities	-	-	-	-	-	971	971
Provisions for liabilities - FSCS Levy	-	-	-	-	-	67	67
Reserves	-	-	-	-	-	36,997	36,997
	212,298	92,685	23,296	6,158	-	38,035	372,472
Net liquidity gap	(144,639)	(79,580)	(8,556)	43,634	226,845	(37,704)	-

28. Financial instruments (continued)

Group

Residual maturity as at 31 December 2015	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	No specific maturity and loss provision	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets							
Liquid assets							
Cash in hand and balances with Bank of England	48,464	-	-	-	-	-	48,464
Loans and advances to credit institutions	7,103	4,016	2,006	-	-	-	13,125
Debt securities	-	8,621	11,131	-	-	-	19,752
Total liquid assets	55,567	12,637	13,137	-	-	-	81,341
Loans and advances to customers	-	2,756	9,047	48,125	222,668	(2,294)	280,302
Derivative financial instruments	-	-	-	6	-	-	6
Tangible assets	-	-	-	-	-	1,574	1,574
Intangible assets	-	-	-	-	-	47	47
Other assets	-	-	-	-	-	547	547
	55,567	15,393	22,184	48,131	222,668	(126)	363,817
Financial liabilities and reserves							
Shares	193,651	97,604	19,244	8,689	-	-	319,188
Amounts owed to other customers	1,180	2,754	3,819	-	-	-	7,753
Derivative financial instruments	-	3	97	47	-	-	147
Other liabilities	-	-	-	-	-	1,306	1,306
Provisions for liabilities - FSCS Levy	-	-	-	-	-	114	114
Reserves	-	-	-	-	-	35,309	35,309
	194,831	100,361	23,160	8,736	-	36,729	363,817
Net liquidity Gap	(139,264)	(84,968)	(976)	39,395	222,668	(36,855)	-

There is no material difference between the maturity profile for the Group and that for the Society. All Group liquid assets are unencumbered as at the balance sheet date (2015: nil).

28. Financial instruments (continued)

The following is an analysis of gross cash flows payable under financial liabilities.

Group

31 December 2016	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial liabilities							
Shares	210,939	91,691	22,508	6,186	-	-	331,324
Amounts owed to other customers	1,358	1,002	910	-	-	-	3,270
Derivative financial instruments	-	133	274	131	-	-	538
Other liabilities	-	-	-	-	-	971	971
Provisions for liabilities – FSCS Levy	-	-	-	-	-	67	67
Total liabilities	212,297	92,826	23,692	6,317	-	1,038	336,170

Group

31 December 2015	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial liabilities and reserves							
Shares	193,651	97,624	19,439	8,926	-	-	319,640
Amounts owed to other customers	1,180	2,757	3,833	-	-	-	7,770
Derivative financial instruments	-	188	399	155	-	-	742
Other liabilities	-	-	-	-	-	1,306	1,306
Provisions for liabilities – FSCS Levy	-	-	-	-	-	114	114
Total liabilities	194,831	100,569	23,671	9,081	-	1,420	329,572

The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the Statement of Financial Position date. The derivative financial instrument cash flows include the payable leg of all interest rate swap derivatives held by the Group and Society at the Statement of Financial Position date.

28. Financial instruments (continued)

Market risk

Market risk is the risk of changes to the Society's financial condition caused by market interest rates. The Society is exposed to market risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long term interest rates and divergence of interest rates for different balance sheet elements (basis risk).

The Society has adopted the 'Matched' approach to interest rate risk, as defined by the PRA. Societies adopting the Matched approach should have a balance sheet where assets and liabilities are entirely in sterling and use hedging contracts (or internal matching of assets and liabilities with similar interest rate and maturity features) to neutralise the risk arising from loans or funding other than at administered rates, on a tranche by tranche, product by product basis. By implication, societies adopting this approach should not be taking an interest rate view for the purposes of determining a hedging strategy.

The management of interest rate risk is based on a full Statement of Financial Position gap analysis. The Statement of Financial Position is subjected to a stress test of a 2% rise in interest rates on a monthly basis and the results are reported to the Board monthly. In addition management review interest rate basis risk which is reported to the Board monthly. Both sets of results are measured against the risk appetite for market risk which is currently set at a maximum level of capital. These are in turn reviewed quarterly by the ALCO and reported to the Board.

The table below summarises the Group's exposure to interest rate risk. Included in the table are Group assets and liabilities, including derivative financial instruments which are principally used to reduce exposure to interest rate risk, categorised by repricing date.

Group

Interest rate risk as at 31 December 2016	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets						
Liquid assets	77,155	5,504	-	-	564	83,223
Loans and advances to customers	205,828	28,596	53,908	-	(1,263)	287,069
Derivative financial instruments	-	-	-	-	17	17
Tangible assets	-	-	-	-	1,488	1,488
Intangible assets	-	-	-	-	77	77
Other assets	-	-	-	-	598	598
	282,983	34,100	53,908	-	1,481	372,472
Financial liabilities and reserves						
Shares	295,317	28,859	6,052	-	761	330,989
Amounts owed to other customers	2,358	900	-	-	9	3,267
Derivative financial instruments	-	-	-	-	181	181
Other liabilities	-	-	-	-	971	971
Provisions for liabilities – FSCS Levy	-	-	-	-	67	67
Reserves	-	-	-	-	36,997	36,997
	297,675	29,759	6,052	-	38,986	372,472
Impact of derivative instruments	46,500	(5,500)	(41,000)	-	-	-
Interest rate sensitivity gap	31,808	(1,159)	6,856	-	(37,505)	-
Sensitivity to profit and reserves						
Parallel shift of +1%	(39.75)	14.25	(104.23)	-	-	(129,73)
Parallel shift of +2%	(79.30)	27,98	(202.20)	-	-	(253.52)

28. Financial instruments (continued)

Group

Interest rate risk as at 31 December 2015	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets						
Liquid assets	67,690	13,121	-	-	530	81,341
Loans and advances to customers	204,070	38,347	39,710	-	(1,825)	280,302
Derivative financial instruments	-	-	-	-	6	6
Tangible assets	-	-	-	-	1,574	1,574
Intangible assets	-	-	-	-	47	47
Other assets	-	-	-	-	547	547
	271,760	51,468	39,710	-	879	363,817
Financial liabilities and reserves						
Shares	283,278	26,451	8,689	-	770	319,188
Amounts owed to other customers	3,930	3,800	-	-	23	7,753
Derivative financial instruments	-	-	-	-	147	147
Other liabilities	-	-	-	-	1,306	1,306
Provisions for liabilities – FSCS Levy	-	-	-	-	114	114
Reserves	-	-	-	-	35,309	35,309
	287,208	30,251	8,689	-	37,669	363,817
Impact of derivative instruments	49,750	(21,500)	(28,250)	-	-	-
Interest rate sensitivity gap	34,302	(283)	2,771	-	(36,790)	-
Sensitivity to profit and reserves						
Parallel shift of +1%	(42.85)	13.69	(51.63)	-	-	(80.79)
Parallel shift of +2%	(85.49)	26.82	(99.25)	-	-	(157.92)

There is no material difference between the interest rate risk profile for the Group and that for the Society. The Group is not exposed to foreign currency risk.

The Society does not have any financial assets or liabilities that are offset with the net amount presented in the Statement of Financial Position as FRS 102 Section 11.38A requires both an enforceable right to set off and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Neither of these conditions are met by the Society. All financial assets and liabilities are presented on a gross basis in the Statement of Financial Position.

The Society has one Credit Support Annex (CSA) for its derivative instruments which typically provides for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure. As at 31 December 2016 no exchange of collateral has taken place due to the trigger points within the CSA not being exceeded.

Notes to the accounts

29. Guarantees and financial commitments

	Group and Society	
	2016	2015
	£'000	£'000
a) Capital commitments Capital expenditure contracted for but not provided for in the accounts	**-**	21
b) Operating lease commitments at the year end Leases which expire in more than 5 years	**25**	25

30. Related Party Transactions

During the year ended 31 December 2016 a total of £19,965 (2015: £2,304) was paid to Higgs & Sons for professional advice relating to procurement contracts and property. Sara Shepherd, a Non-Executive Director, is a partner at Higgs & Sons, but was not party to the advice and the transactions were carried out on normal commercial terms.

During the year ended 31 December 2016, a total of £1,200 (2015: nil) was paid to Bruton Knowles for professional advice relating to surveyor valuations. Gavin Loynes, a Non-Executive Director, is a consultant Chartered Surveyor of Bruton Knowles, but was not party to the advice and the transactions were carried out on normal commercial terms.

At 31 December 2016 there were no related party liabilities (2015: nil).

31. Country By Country Disclosures

The Society's Board reviews and approves the Society's ICAAP on an annual basis. The main Pillar 3 disclosures are not subject to audit, and these are disclosed on the Society's website. The additional Country by Country disclosures are subject to an independent external audit. The Country by Country disclosures together with the Directors responsibilities, and basis of preparation are stated below; the Country by Country reporting note forms part of the audited financial statements and therefore will not have a separate audit report.

The Capital Requirements (Country by Country Reporting) Regulations 2013 introduced reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV). The requirements aim to give increased transparency regarding the activities of institutions.

Basis of preparation

The CBCR information for the year ended 31 December 2016 has been prepared on the following basis:

- The CBCR information is consistent with the consolidated Annual Accounts of the Group. The Annual Accounts were prepared in accordance with UK Generally Accepted Accounting Practice.
- The number of employees has been calculated on a full time equivalent basis as at 31 December 2016. This is a different basis to those disclosed in note 6 to the Annual Accounts, which is prepared from the average number of full and part-time employees, on a monthly basis.
- Turnover represents total net income as disclosed in the Group Income Statement. Total net income comprises net interest, fees and commissions receivable and other operating income.
- Pre-tax profit represents the Group profit before tax, as reported in the Group Income Statements.
- Corporation tax paid represents the cash amount of corporate income tax paid during the year, as disclosed in the Group Cash Flow Statement.
- The Society received no Government Grants or Public subsidies during the year to 31 December 2016.

Statement of directors' responsibilities in relation to the country by country (CBCR) information

The Directors of Tipton & Coseley Building Society (the Society) are responsible for preparing the CBCR Information for the year ended 31 December 2016 in accordance with the Capital Requirements (Country by Country Reporting) Regulations 2013. In preparing the CBCR Information, the Directors are responsible for:

- Interpreting the requirements of the Capital Requirements (Country by Country Reporting) Regulations 2013;
- Determining the acceptability of the basis of preparation of the CBCR information;
- Making judgements and estimates that are reasonable and prudent; and
- Establishing such internal control as the Directors determine is necessary to enable the preparation of CBCR Information that is free from material misstatement, whether due to fraud or error.

The Society and its subsidiary are both UK registered entities, the activities of which are disclosed on page 3 to 5.

The Society's total operating income and the number of full time equivalent employees during the year to 31 December were:

	Group 2016	Group 2015
Total net income	**£6.1m**	£6.7m
Profit before tax	**£2.1m**	£2.9m
Tax paid	**£0.6m**	£0.6m
Number of employees on a full time equivalent basis	**68**	67

Annual Business Statement

1. Statutory percentages

	2016 %	Statutory limit %
Lending limit		
Proportion of business assets not in the form of loans fully secured on residential property	**1.45**	25
Funding limit		
Proportion of shares and borrowings not in the form of shares held by individuals	**1.03**	50

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 and are based on the Group Statement of Financial Position.

Business assets are the total assets of the Society and its subsidiary undertakings as shown in the Group Statement of Financial Position plus impairment for losses on loans and advances (note 14), less property, plant and equipment, intangible assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable.

Total ‘shares and borrowings’ are the aggregate of ‘shares’, ‘amounts owed to credit institutions’, and ‘amounts owed to other customers’ in the Group Statement of Financial Position. Shares held by individuals are set out in note 20.

Annual Business Statement

2. Other percentages

	2016	2015
	%	%
As a percentage of shares and borrowings		
Gross capital	**11.07**	10.80
Free capital	**11.09**	10.82
Liquid assets	**24.90**	24.88
As a percentage of mean total assets		
Profit after taxation	**0.46**	0.63
Management expenses	**1.15**	1.06

The above percentages have been calculated from the Group accounts.

'Shares and borrowings' are the aggregate of 'shares' and 'amounts owed to other customers' in the Group Statement of Financial Position.

'Gross capital' are the reserves as shown in the Group Statement of Financial Position.

'Free capital' is gross capital plus collective impairment for losses on loans and advances (note 14) less property, plant and equipment and intangible assets in the Group Statement of Financial Position.

'Mean total assets' are calculated by halving the aggregate of total assets at the beginning and end of the financial year for the Group.

'Liquid assets' are the first three items on the asset side of the Group Statement of Financial Position.

'Management expenses' are the aggregate of administrative expenses, depreciation and amortisation taken from the Group Income Statement.

Annual Business Statement

3. Information relating to Directors as at 31 December 2016

Directors

Name and year of birth	Appointment date	Occupation	Other directorships
D G Bassett ACII, Cert PFS 1954	29 May 2008	Chartered Insurance Practioner	Tipton & Coseley Financial Services Ltd
S J Costley FCCA, AMCT 1975	13 November 2013	Building Society Finance Director	Roseville Court Management Ltd
M H P Daly FCA 1957	29 December 2005	Finance Director	3147398 Ltd, Birmingham & Regional Properties Ltd, Bond Wolfe Homes Ltd, Bond Wolfe Associates Ltd, Boothmanor Ltd, Brandon Court Management Company Ltd, B W B Estates Ltd, Datalore Ltd, Eurocity (Crawley) Ltd, Michael Kay & Company Ltd, Metro Court (WB) Ltd, Real Estate Investors PLC, Real Homes One Ltd, Rightforce Ltd, Roseville Court Management Ltd, Southgate Derby Retail Ltd
A J Higgins MA, FCA 1953	1 May 2012	Chartered Accountant	Countess of Chester Hospital NHS Foundation Trust, Stockport Credit Union Ltd
G E Loynes MRICS, FAAV 1960	26 May 2011	Consultant & Company Director – Chartered Surveyors and Property Consultants	Tipton & Coseley Financial Services Ltd, Charles Edwards Property Consultants Ltd
R J Newton FCCA, ACIB 1970	1 July 2011	Building Society Chief Executive	Tipton & Coseley Financial Services Ltd, Roseville Court Management Ltd
K A Rolfe BSc (Hons) 1961	1 June 2015	Retired Banker	Rooftop Housing Group Ltd
S J Shepherd BA (Hons) 1969	1 May 2012	Solicitor	-

Documents may be served on the above named directors c/o Higgs & Sons, Solicitors, 3 Waterfront Business Park, Brierley Hill, West Midlands, DY5 1LX. We do not accept service of documents by email.

Details of the Directors' service contracts are shown in the Report of the Remuneration Committee on page 13.

Annual Business Statement

4. Information relating to Officers as at 31 December 2016

Officers

Name	Occupation	Directorships
D A Cox ACIB	Mortgage Manager	-
M C Fellows BSc (Hons)	Technical Services Manager	-
H J Gilbert FCCA	Finance Manager	-
R A Groom ACIM	Head of Mortgage Sales (Intermediary and Direct)	-
L K R Judson ACIB, Cert PFS	General Manager (Sales & Marketing)	Tipton & Coseley Financial Services Ltd
R C Savage BSc (Hons), PG (Dip)	Assistant General Manager (Information Systems)	Tipton & Coseley Building Society Charitable Foundation
M A Schofield	Branches & Training Manager	-
L A Thacker	Risk & Compliance Executive	-
S A Wrigglesworth ACIB, MBA	Operations Executive	Worth Management Consulting Ltd
J Yardley	Finance Regulatory Manager	-

Glossary

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears	A customer is in arrears when they are behind in meeting their contractual obligations with the result that an outstanding loan payment is overdue. The value of the arrears is the value of any payments that have been missed.
Basel III	The Basel Committee on Banking Supervision issued the Basel III rules text in December 2010, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. Basel III became effective from 1 January 2015 through CRD IV.
Buy to let loans	Buy to let loans are those loans which are offered to customers buying residential property specifically to let out.
Contractual maturity	The date at which a loan or financial instrument expires, at which point all outstanding principal and interest has been paid.
Credit risk	This is the risk that a customer or counterparty fails to meet their contractual obligations.
Capital Requirements Directive (CRD IV)	CRD IV is the European legislation which came into force from 1 January 2015 to implement Basel III. It has revised the capital requirements framework and introduced liquidity requirements, which regulators use when supervising firms.
Debt securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.
Deferred tax asset	Corporation tax recoverable (or payable) in future periods resulting from temporary or timing differences, between the accounting value of assets and liabilities and the tax base of those assets and liabilities.
Defined benefit obligation	The present value of expected future payments required to settle the obligations of a defined benefit plan resulting from employee service.
Derivative financial instruments	A derivative financial instrument is a contract between two parties whose value is based on an underlying price or index rate it is linked to, such as interest rates or exchange rates of stock market indices. The Society uses derivative financial instruments to hedge its exposure to interest rates.
Effective interest rate method (EIR)	The method used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The calculation includes all fees and penalties paid and received between parties which are integral to the contract.
Financial Services Compensation Scheme	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the FCA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.
Forbearance strategies	Strategies to support borrowers in financial difficulty, such as agreeing a temporary reduction in the monthly payment, extending mortgage terms and a conversion to an interest-only basis. The aim of forbearance strategies is to avoid repossession.
Free capital	The aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and intangible assets.
Funding limit	Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals. The calculation of the funding limit is explained in the Annual Business Statement.
General reserves	The accumulation of the Society's historic and current year profit.
Gross capital	The aggregate of general reserves, and available for sale reserves.

Glossary

Impaired loans	Loans where there is objective evidence that an impairment event has occurred, meaning that the Society does not expect to collect all the contractual cash flows or expect to collect them later than they are contractually due.
Individually/collectively assessed impairment	Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that it is likely that losses may be realised.
Interest rate risk	The risk of loss due to a change in market interest rates. Interest rate risk can have an impact on Society's mortgages and savings products.
Internal Capital Adequacy Assessment Process (ICAAP)	The Society's own assessment, as part of Basel III requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements for risks it faces under a business as usual scenario including stress events.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Society's own assessment, as part of CRD IV requirements, of the levels of liquidity that it needs to hold in respect of its regulatory requirements for risks it faces under a business as usual scenario including stress events.
Lending limit	Measures the proportion of business assets not in the form of loans fully secured on residential property.
Liquid assets	Total of cash in hand, loans and advances to credit institutions, and debt securities.
Liquidity risk	Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due, or can only secure them at excessive cost. This risk arises from timing mismatches of cash inflows and outflows.
Loan to value (LTV)	LTV expresses the amount of a mortgage as a percentage of the value of the property.
Loans past due	Loans are past due when a loan payment that has not been made as of its due date.
Management expenses	The aggregate of administrative expenses, depreciation and amortisation. The management expense ratio is management expenses expressed as a percentage of mean total assets.
Mean total assets	Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
Member	A person who has a share investment or a mortgage loan with the Society.
Net interest income	The difference between interest receivable on assets and similar income and interest paid on liabilities and similar charges.
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Prudential Regulation Authority (PRA)	The statutory body responsible for the prudential supervision of banks, building societies, insurers and small number of significant investment firms in the UK from the 1 April 2013. The PRA is a subsidiary of the Bank of England.
Residential loans	Loans that are loaned to individuals rather than institutions. Residential mortgage lending is secured against residential property.
Risk appetite	The articulation of the level of risk that the Society is willing to accept (or not accept) in order to safeguard the interests of the Society's members whilst also achieving business objectives.
Shares	Funds deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.
Shares and borrowings	The aggregate of shares, amounts owed to credit institutions and amounts owed to other customers.

Tipton & Coseley Building Society
70 Owen Street, Tipton, West Midlands. DY4 8HG
Telephone: 0121 557 2551 Fax: 0121 557 8570
www.thetipton.co.uk