talk to...

the tipton & coseley building society

Annual Report & Accounts 2019

Contents

2019 Highlights

£88m

Gross Lending

Record mortgage lending resulting in mortgage book growth of 7.5%

£334m

Total Savings Balances

Total savings balances grew by £22m

£1.4m

Profit Before Tax

In line with our expectations

29.3%

Tier 1 Capital Ratio

Our Capital position remains very strong

1.81%

Net Interest Margin

Our Interest margin remains stable

1,645

New Members

We welcomed more new members to the Society

Directors' Report

The Board is pleased to present its annual report and accounts and annual business statement for the year ended 31 December 2019.

Business Objectives and Activities

Purpose

Our principal purpose is 'enabling people to own their home at all stages of life' through the provision of residential mortgages. This is true to our founding principles and is supported through raising funds from saving members and in doing so providing them with a safe and secure home for their savings.

Being a mutual building society means we do not have to maximise profits, but we do have to find an appropriate balance between rewarding members with competitively priced products and investing for the future benefit of members, whilst always maintaining our financial strength.

We passionately believe in treating members as individuals and providing quality personal service. This is demonstrated in our approach to mortgage processing where we individually assess every new mortgage application on its merits and our mortgage team spend quality time engaging with potential borrowers to clearly understand their individual circumstances. For saving members, the personal service we provide, both in branch and over the telephone, is overlaid with our approach to ensuring our more vulnerable members remain safe.

Business Review

The Economy and Market Place

The delay to the UK's departure from the European Union (EU) during 2019 caused the UK economy to slow as individuals and businesses delayed investment and waited to see the eventual outcome of Brexit. Following the UK's withdrawal from the EU at the end of January it will be important for the next phase of Brexit, the negotiation of a trade deal with the EU, to run smoothly to restore a level of confidence for individuals and businesses to take a longer-term view.

Unemployment has remained at historical lows during the year which has led to a period of positive real wage growth. This has not fed through to the housing market though where activity has remained flat with annual transaction levels at slightly under 1.2m, the lowest since 2013, and the Nationwide House Price Index reporting a year on year increase of just 1.4% at December 2019.

With future economic growth prospects appearing subdued, both in the UK and globally, there is an expectation that the Bank of England 'base rate' will continue to remain low for some time.

Against this background, competition in the mortgage and savings markets has intensified as newly formed ring-fenced banks and new entrants focus on delivering increased volumes at very competitive rates. This has had the effect of suppressing mortgage rates and impacting savers, some of whom will have seen their rates reduce, despite no change in base rate.

Our Performance

We have continued to build on the momentum from 2018 in delivering our overall strategic objectives for the benefit of members. It is this focus combined with great personal service that has resulted in the delivery of a strong set of financial results for 2019. This includes another record-breaking year of gross mortgage lending of £88m and attracting £22m of new savings balances.

One of our key strategic objectives is continuing investment in our systems and processes to ensure we are successfully positioned to adapt to the increasing pace of change in the marketplace. When coupled with a number of one-off costs this has led to a reduction in reported profit. Your Board continues to assess and monitor our current and prospective levels of profitability and is satisfied that they are sufficient to maintain our capital strength and deliver our strategy for the benefit of members.

We have also continued to invest in our people and further strengthened our second line risk and compliance function with the recruitment of a Director of Risk & Compliance and a Head of Compliance during the year.

We remain acutely conscious of the need to balance the conflicting needs of savers and borrowers. Given our size and scale differences to the high street names we are naturally a market follower. Consequently, as a result of current market conditions and with other banks and building societies reducing savings rates, in December we reluctantly notified savings members of modest rate reductions in response to these competitive pressures. We are not able to go against market trends or to continually offer market leading rates as this would ultimately impact existing members. Nevertheless, we keep our range of savings products under continuous review and aim to launch products that offer sustainable good value to members.

Directors' Report (continued)

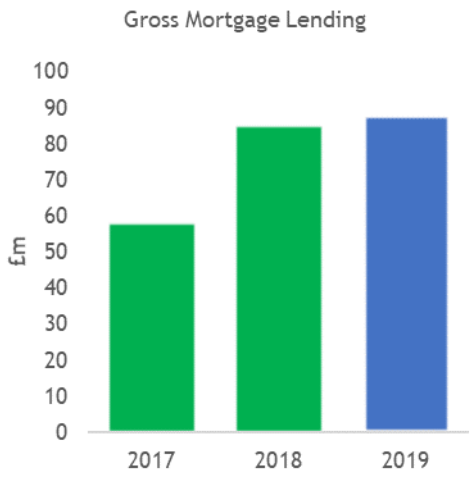
Key Performance Indicators

	2017	2018	2019
Gross Mortgage Lending	£57.7m	£84.6m	£87.7m
Savings Balances	£323.0m	£312.6m	£334.3m
Profit before Taxation	£1.7m[1]	£1.7m	£1.4m
Net Interest Margin	1.66%	1.79%	1.81%
Management Expenses	1.32%	1.38%	1.49%
Liquidity ratio	23.28%	20.72%	20.54%
Tier 1 Capital ratio	29.44%	30.56%	29.34%

[1] 2017 excludes a one-off dividend of £232k received from the winding up of our subsidiary company, Tipton & Coseley Financial Services Ltd.

Mortgages

We have achieved record gross mortgage lending for the second year running with gross advances of £87.7m (2018: £84.6m). This has resulted in mortgage book growth of 7.5%. Over the last two years we have focussed on differentiating our underwriting approach from the main high street lenders with a more tailored and personalised approach. Our underwriters fully assess each mortgage application on its own merit (we do not operate automated credit scoring) which ensures that each customer's unique circumstances and affordability requirements are considered from the outset.

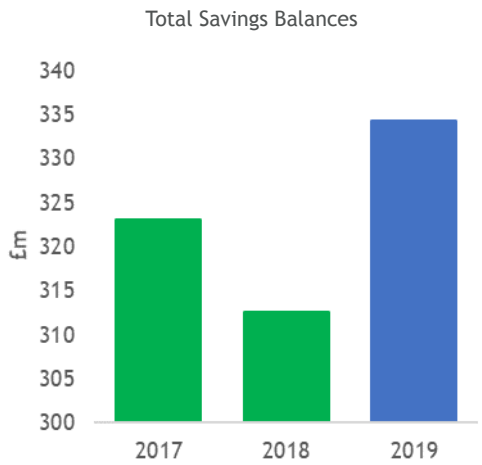


We are committed to providing mortgage products to customers at all stages of life as demonstrated by our diverse product offering. This includes products for First Time Buyers with or without family assistance, products for older borrowers with our Later Life lending range which includes Retirement Interest Only (RIO) mortgages, products for those who aspire to build their own home, and products for second homes and Buy-to-Let. Our diverse product range ensures that we do not become over exposed to any one area of the market and are well positioned to overcome further competitive pressures.

It is pleasing to report that performance of our mortgage book remains strong, this reflects our robust underwriting processes and the combined effect of the low interest rate environment and historical house price inflation. The average loan to value (LTV) of the mortgage book is 47.1% (2018: 47.8%). Arrears have remained at historically low levels and at the year-end there were no mortgages 12 months or more in arrears (2018: none).

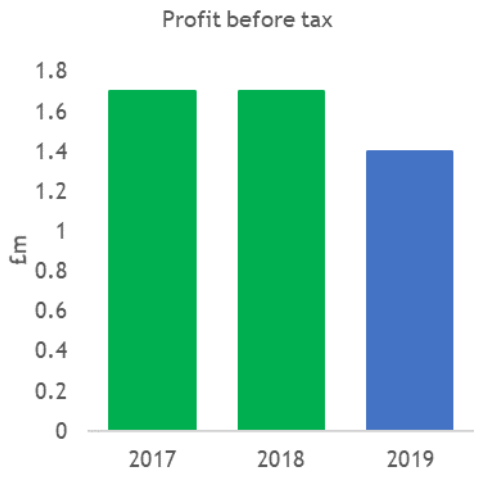
Savings

Retail savings continue to be the cornerstone of our funding strategy. Our savings balances grew by £21.7m to £334m (2018: £313m) in the year driven by a range of competitive fixed rate retail bonds and the launch of new regular savings and community based products. The community products not only offer members an attractive rate of interest but also deliver a percentage of the average balance back to the local community through a donation to the Society's charitable foundation each year. The success in attracting new funding during the year demonstrates our continued commitment to offering products that deliver value to members and across our range of accounts we consider our current interest rates to be comparable to equivalent account types in the market place.



Profitability and Capital

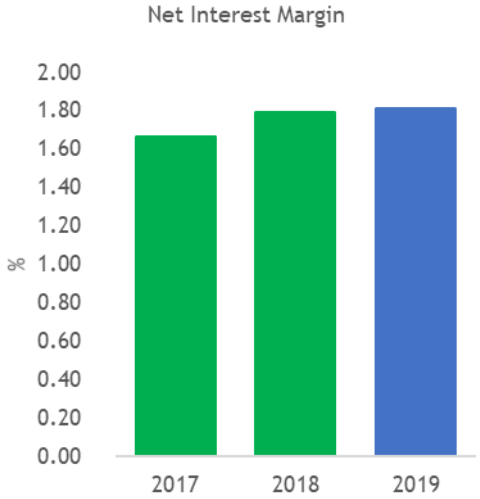
As we have no external shareholders, we are not required to maximise profits. We must generate sufficient profits to maintain a strong capital position and to allow continued investment in the Society in line with our strategic plans. Profit before tax reduced in the year to £1.4m (2018: £1.7m) primarily as a result of increased investment spend and a number of one-off costs which are not expected to recur. The increase in net interest income of £0.4m to £7m was offset by a combination of lower other income of £0.1m and increased expenditure of £0.7m.



The profit after tax ratio at 0.29% (2018: 0.37%) remained sufficient to increase our capital reserves to over £40m and our Tier 1 capital ratio remains strong at 29.3%. 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 capital. At the end of 2019 after transferring £1.1m to general reserves our gross capital (total reserves) increased to £40.9m, 11.50% (2018: 12.06%) of shares and borrowings, and free capital (aggregate of gross capital and collective loss provisions less total fixed assets) to £40.2m, 11.31% (2018: 11.92%) of shares and borrowings.

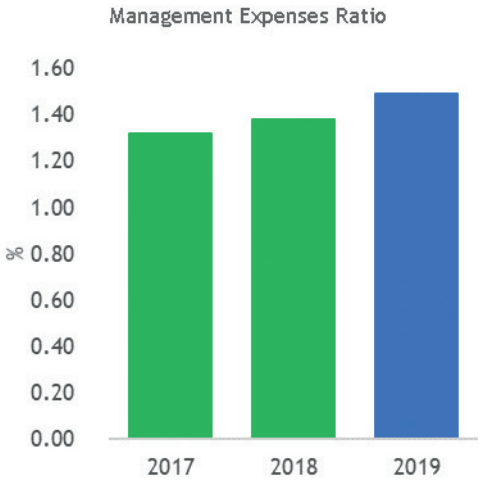
Net Interest Margin

Our objective is to optimise our net interest margin so that we balance the requirements to offer attractive rates to both savers and borrowers. Our net interest margin has increased slightly from 1.79% to 1.81% driven by growth in our lending to underserved areas of the market such as self-build and Ex-pat Buy-to-Let mortgages. We expect continued pressure on interest margins as a result of the intense competition in the lending market and through more mainstream lenders entering the traditional building society sectors of the market and consequently pushing down lending yields.



Management Expenses

Management expenses have increased by £0.7m to £5.7m in 2019 and reflects our continued investment in people, processes and technology along with a number of one-off costs. This ongoing investment will ensure we have long-term capability, particularly in digital channels, to deliver sustainable balance sheet growth whilst remaining operationally resilient and improving customer access to our products. We are also continuing to maintain and strengthen our defences against cyber security risk. Cost control remains an important focus as we continue to invest in these areas and keep abreast of new and changing market and regulatory conditions.



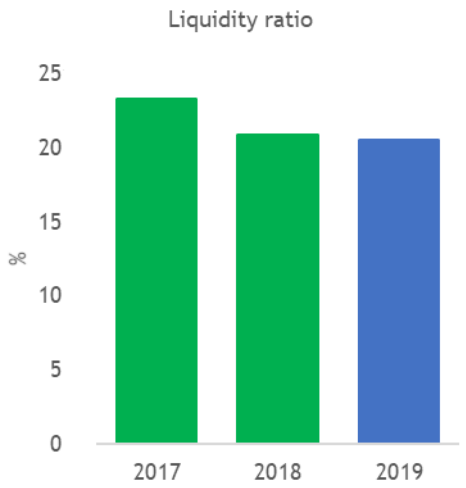
Directors' Report (continued)

Total Assets

Overall balance sheet growth was 7.3%, with total assets increasing to £397.9m (2018: £370.7m). This was primarily driven by mortgage book growth, as noted earlier, and through an increase in liquidity.

Liquid Assets

We maintain a prudent level of liquid assets with 'on-balance sheet' liquidity in the form of cash in hand and deposits with credit institutions and 'off-balance sheet' contingent liquidity in the form of mortgage collateral pre-positioned with the Bank of England.



Liquidity comfortably exceeded the minimum regulatory requirements, with the Liquidity Coverage Ratio (LCR) at 31 December 2019 being 272% (2018: 345%) and the liquid assets ratio at 20.54% (2018: 20.72%). When the off-balance sheet liquidity is taken into account, the total liquid resources available to the Society at the year-end was 26.1% (2018: 25.2%) of shares and borrowings.

Review of Events

The mortgage market remains intensely competitive with many lenders continuing to reduce rates in order to attract volume. Our approach concentrates on those areas of the market that are underserved by the main high street players. This has allowed us to focus on the individual needs of customers, with tailored and personal underwriting rather than just on price.

During the year there have been several changes to the Board as it continues to evolve as part of its succession plan. Gavin Loynes retired in May after providing long and committed service to the Society. The Board would like to express its thanks for his significant contributions during his tenure. As reported last year, Conrad Almond joined the Board in February 2019 as a Non-Executive Director following an extensive career in prudential risk and capital management. In addition, the Board were delighted to appoint Sally Morgan in April 2019 as Operations Director, she had previously held the role of Director of Operations within the Society. We also welcomed Belinda Moore to the Board in February 2020 as a Non-Executive Director, she brings with her a wealth of experience in Marketing and Communications.

Supporting and engaging with our local community is one of our core principles. During the year we donated £10,610 all of which went to our charitable foundation which in turn made or promised donations to 23 local charitable causes.

Members and staff helped us exceed our fundraising target for the Midlands Air Ambulance Charity raising over £9,500, this is a fabulous cause which receives no Government or National Lottery funding. Staff support included various fundraising events including a sponsored abseil, a sponsored 10k walk and dress down days. Staff also donated 32 bags of food to The Well Food Bank, Wolverhampton during December. For 2020 we have decided to continue our support of the Midlands Air Ambulance Charity including the launch of a new affinity savings account which at the end of each year will donate a percentage of the average balance held to the Charity.

Outlook

The economic outlook continues to remain uncertain. Whilst we have left the EU, the UK is now in a transition phase and the arguably more difficult negotiations will shortly begin around the UK's future trading relationship with the EU. It remains to be seen what impact this will have on the housing market and wider UK economy. Whatever the outcome we are confident that the Society is well positioned to withstand the impact of these matters.

This year will see us continuing to build on the strong performances of 2018 and 2019. During 2020 we will continue to invest in the development of digital offerings to ensure members are better able to transact with us in a way and at a time that is more convenient for them in the future.

Above all, we are committed to remaining an independent mutual building society, treating our members as individuals and providing them with great personal service.

Our Staff

On behalf of the Board, I would like to thank our staff for the vital part they play in our continuing success. They are the key element in the quality of what we do and the great service that members receive.

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 2019 (2018: 8 days).

Going Concern

The directors have considered the risk and uncertainties discussed on pages 8 to 10, including the possible impact if a trade deal with the EU cannot be agreed in an orderly way, and the extent to which they might affect the preparation of the Annual Report and Accounts on a going concern basis.

The Society's business activities and future plans are set out on page 4. The directors have prepared forecasts over a four year time horizon which takes account of current and possible future operating conditions, including stress testing and scenario analysis. These indicate that the Society has sufficient operating liquidity and capital for the foreseeable future.

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

Financial Risk Management Objectives and Policies

The Society operates in an environment where financial risks arise as a natural consequence of its business activities. To mitigate these risks the Society operates a formal structure for managing risk which is closely monitored and controlled by the Board, supported by the Audit & Compliance, Risk, Nominations and Remuneration Committees. In addition, the Society operates four executive management sub committees which actively measure and monitor risk; the Assets & Liabilities Committee (ALCO), the Retail Credit Risk Committee (RCRC) and the Executive Operations Committee which all report into the Risk Committee; and the Executive Compliance Committee which reports into the Audit & Compliance Committee.

The Board has overall responsibility for risk management and for ensuring that the approach is aligned to business strategy and objectives. The Board has put in place a formal risk management framework which includes a Risk Committee comprising four Non-Executive Directors, risk policy statements, 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 Society'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 Society uses financial instruments for risk management purposes, the nature of these instruments and details of the financial risks are set out in note 26.

Principle Risks and Uncertainties

Managing risk is an inevitable part of running any successful business, and many of the risks the Society 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 management framework that ensures it carefully manages the principal risks and uncertainties arising from its activities, and therefore helps to protect members' interests.

The principal risks and uncertainties are set out below:

Business Risk

Business risk is the risk of loss or reduction in profitability which arises from changes in business or economic conditions, including the failure to deliver business objectives within the corporate plan or implement the required strategy. The Society manages this with a long-term focus on ensuring a sustainable business model, encompassing carefully developed and detailed business plans and policies, which include maintaining a diverse product portfolio. The Board has formal oversight and monitoring of business performance. The key business risks and uncertainties include:

- Reducing mortgage yield – increasing competition within the mortgage market puts pressure on the Society's interest margin through reducing mortgage yields. The Society has a clear risk adjusted pricing mechanism to monitor the mortgage yield being generated by new lending with growth plans being adjusted accordingly should yield move outside of acceptable tolerances;
- Retail savings competition – with the Term Funding Scheme (TFS) approaching maturity there is a risk that competition to acquire new retail savings increases the cost beyond that included within the corporate plan. Market conditions are monitored closely to ensure product mix and cost is aligned to the corporate plan with growth plans being adjusted accordingly should they move outside of acceptable tolerances;
- Management expenses – are expected to increase over the short-term due to continued investment in people,

processes and technology. There is a risk that they continue to increase after this period beyond corporate plan expectations. Management expenses are monitored closely against the corporate plan and if necessary the Society will adjust its future plans to ensure management expenses remain at acceptable levels; and

- Business change – investment in processes and technology is important for the growth of the Society and for enhancing the ways in which customers do business with us. As the strategic investment programme evolves it is important that risks to costs and services are managed and resources prioritised to ensure maximum benefit whilst protecting members' interests. This risk is controlled through an Executive Management programme board overseen by the Board.

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 has established a treasury policy framework which limits treasury exposures to only those institutions considered highly credit worthy along with limits in place to restrict the amount of exposure that can be taken in relation to any one counterparty, industry sector and geographic region. Monitoring and oversight of treasury positions is performed by ALCO with further oversight provided by the Risk Committee.

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 customers to clear arrears, making arrangements, or forbearance. Exposure to mortgage credit risk is monitored by the RCRC with further oversight provided by the Risk Committee.

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. Monitoring and oversight of interest rate risk is performed by ALCO with further oversight provided by the Risk Committee. The interest rate sensitivity of the Society is set out in note 26.

Liquidity and Cash Flow Risk

Liquidity and Cash Flow risk is the risk that the Society is unable to meet its financial obligations as they fall due, or can only do so at excessive cost. The Board approved liquidity policy is to maintain sufficient liquid resources both as to amount and quality to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in the solvency of the Society and to meet its financial obligations as they fall due. Regular stress testing is also performed to confirm the level of liquid resources is adequate under adverse scenarios.

The Society maintains a level of liquid assets in line with the Board approved treasury policy. Adherence to these limits is monitored by the Finance Director on a day to day basis with further oversight provided by ALCO and the Risk Committee.

Operational Risk (including Cyber Risk)

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Society 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 by the Risk & Compliance team. Controls have been established and are maintained which appropriately address the risks identified and ensure conduct of the business in accordance with Society policies and risk appetite, and compliance with relevant laws, regulations and rules. In addition, insurance is used to transfer some risks.

The threat of cyber risk continues to increase. Protecting our systems and data against potential cyber attacks remains an ongoing focus of our risk management with further investment made during 2019 on additional safeguarding measures to increase resilience.

Exposure to operational risk is monitored by the Executive Operations Committee with further oversight provided by the Risk Committee.

Conduct Risk

Conduct risk is the risk that the Society's behaviour leads to poor customer outcomes. Our Conduct Risk 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. On a day-to-day basis the Compliance team are responsible for monitoring conduct risk and assessing the controls in place to manage this risk. Further monitoring of conduct risk is carried out by the Executive Compliance Committee with oversight provided by the Audit & Compliance Committee.

Replacement of LIBOR (London Interbank Offered Rate)

The Society is exposed to LIBOR through its hedging of fixed rate mortgages and savings. LIBOR is due to be phased out by the end of 2021.

It is currently expected that SONIA (Sterling Overnight Index Average) will replace LIBOR, however, there are key differences between LIBOR and SONIA. LIBOR is a 'term

rate', and is forward looking, whereas SONIA is currently a backward looking rate. To transition existing contracts that reference LIBOR to SONIA, adjustments for term and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

The Society has a significant number of legacy contracts which reference LIBOR that extend beyond 2021. The Society anticipates that the areas of greatest change are updating systems and processes which capture LIBOR referenced contracts, amendments to those contracts and updating hedge designations. The Society continues to monitor industry developments to ensure an orderly transition to SONIA and to minimise the risks arising from transition. Furthermore, all new hedging transactions reference SONIA as the benchmark interest rate.

Brexit

The Society is unlikely to be directly affected by the UK leaving the EU as it operates entirely in the UK. However, there is significant uncertainty around the indirect impact and potential risks for the wider UK economy, including the impact to bank base rate, mortgage rates, house price inflation, unemployment and inflation, all of which can have an impact on the financial performance of the Society.

The Board, as part of its corporate planning process, have considered the results of various scenario and sensitivity analysis, including that of a no deal scenario, to help inform and quantify the possible risks to the Society arising from Brexit. Economic conditions will be monitored closely and mitigating actions have been identified to adjust the corporate plan should the need arise.

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 1986 ("the Act") requires the directors to prepare Society annual accounts for each financial year. Under that law they have elected to prepare the Society annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

In preparing the 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;
- assess the Society's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

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

Directors' Report (continued)

Directors' Responsibilities for Accounting Records and Internal Controls

The directors are responsible for ensuring that the Society:

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

The directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

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

Directors

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

Non-Executive Directors

C D J Almond BSocSc (appointed 28 February 2019)
A J Higgins MA, FCA (Chairman)
M Hrycyk MBA
G E Loynes MRICS, FAAV (retired 30 May 2019)
K A Rolfe BSc (Hons) (Vice Chairman and Senior Independent Director)
S J Veitch MA, ACA

Executive Directors

A J Lumby FCA (Finance Director)
S A Morgan MBA, ACIB (Operations Director – appointed 25 April 2019)
R J Newton FCCA, ACIB (Chief Executive)

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

Post Balance Sheet Events

There are no post balance sheet events to report.

Auditor

KPMG LLP resigned during the year and following a detailed tender process by the Audit & Compliance Committee, the Board appointed BDO LLP as auditors. A resolution to reappoint BDO LLP as auditors will be proposed at the annual general meeting of the Society.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Society's auditor is unaware; and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

A J Higgins, Chairman
5 March 2020

Corporate Governance Report

Introduction

The Board is committed to high standards of corporate governance and believes this is integral to the Society's culture and values. The Board has reviewed corporate governance practices against the revised UK Corporate Governance Code (July 2018) (the Code) and although the Society is not required to comply with the Code, as it only applies to publicly listed companies, where the Code is considered relevant the Society has had regard for its principles on a proportionate basis. The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) also require the Board to have regard for the Code.

Board Leadership and Company Purpose

Code Principle A: A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

Board Comment: The Board has collective responsibility for safeguarding the interests of members. It operates effectively by directing the business of the Society, by developing and monitoring strategic matters such as the corporate plan and business objectives, and reviewing and approving policy.

The Board considers the opportunities and risks to strategy, and the resulting implications on the future success of the Society, through the Corporate Planning process. This includes assessing how the Society maintains its financial strength in a sustainable way over the long-term within the constraints of operating in a challenging market environment where interest rates have been at historical lows for over ten years. One element of overall strategy is the continuing investment in people, processes and technology to ensure long-term capability to deliver sustainable balance sheet growth whilst remaining operationally resilient and improving customer access to products and services.

Delivery of strategy is overseen through an established governance framework embedded within a transparent culture where constructive challenge is encouraged with the aim of delivering improvements for the benefit of members. During 2019 the Board held ten meetings and two strategy review meetings.

Code Principle B: The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

Board Comment: The Society's purpose, vision and values are set alongside strategy. Regular assessment of these provides the opportunity to ensure culture is aligned to them. The Society's vision is "enabling people to own their home at all stages of life". This is true to its roots, why it was established and is supported through raising funds from savings members and in doing so providing them with a safe and secure home for their savings.

The Society has a culture of striving to provide great customer service and endeavouring to do the right thing for members. This culture is embedded from the Board down and is recognised in the Society's values. The Board monitors culture through Board and sub-Committee management information which measures matters including complaints, number of risk events, feedback from customers, feedback from regulators, and employee surveys. In addition, Non-Executive Directors spend time within the business through a programme of regular business visits during which they engage with employees at all levels of the business. The Board appraises the individual performance of all Directors on an annual basis, and on a continuing basis the Board Chairperson ensures individual Directors conduct remains aligned to the Society's culture.

Code Principle C: The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Board Comment: Through the Corporate Planning process, and ongoing monitoring of performance, the Board ensures that the Society has sufficient resources to enable the Senior Leadership Team to deliver the Corporate Plan objectives and goals. Monitoring of performance and risk is through an established governance framework which includes delegation of certain matters to Board sub-Committees. A brief description of the work of these Committees is set out below, detailed terms of reference for the Board and its sub-Committees are available from the Secretary:

- Audit & Compliance Committee: page 17 contains details of the Committee, its composition and duties.
- Remuneration Committee: page 19 contains details of the Committee, its composition and duties.
- Nominations Committee: The Committee meets at least twice a year and comprises Andrew Higgins (Chairperson), Richard Newton (Chief Executive) and Keith Rolfe, Vice-Chairperson of the Board, Senior Independent Director, whistleblowing champion and a contact point for members. It reviews succession plans and considers carefully the skills and attributes necessary for Board appointments. It leads the process for Board appointments and oversees the appraisals of Directors' performance including their independence.
- Risk Committee: The Committee meets at least four times a year and comprises four Non-Executive Directors, Keith Rolfe (Committee Chairperson), Conrad Almond, Myron Hrycyk and Sally Veitch. It is responsible for developing and reviewing the 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. It monitors the Risk Register ensuring that all principal risks are assessed and adequately mitigated against and it conducts an annual review of the effectiveness of the risk governance arrangements. Further details on Risk Management is set out on pages 8 to 10.

Code Principle D: In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

Board Comment: As a mutual organisation the Society's members are also its customers. Engagement with members is carried out in several different ways including social media, customer surveys, questionnaires, in-branch suggestion boxes, an informal meeting at which members can meet and discuss issues face to face with all directors, and during activities supporting our local community. The purpose of this engagement is to better understand the needs of members and improve the service provided to them.

Each year details of the Annual General Meeting (AGM) are sent to members. This includes the Summary Financial Statement and a newsletter which outlines the Society's activity in the community and addresses topical product and service issues. The AGM pack encourages members to use their vote and attend the AGM and a donation to charity is made for each vote cast. The Society uses postal and electronic voting options to provide ease of access for members and the counting of votes is conducted by an independent scrutineer.

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 considered, this includes an advisory vote on the Report of the Remuneration Committee. 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 Directors and the Senior Leadership Team.

Code Principle E: The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Board Comment: Through its governance structure the Board approves various policy documents which relate to employees, these include matters such as equality and diversity, whistleblowing, and remuneration. The Board also receives management information which provides regular insight into employee matters including turnover, sickness and performance. The Society has a clear employee grievance and disciplinary process which includes the ability to whistle-blow and raise matters of concern with the Senior Independent Director. The Chief Executive leads a culture which encourages employees to raise matters of concern with their direct line manager and then Senior Manager, and then directly with him where matters have still not been resolved satisfactorily. The Society's purpose, vision and values are shared with employees who also have access to a regular forum with the Chief Executive and, through a programme of regular business visits, all Senior Managers and Non-Executive Directors.

Division of Responsibilities

Code Principle F: The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

Board Comment: The Chairperson sets the culture and direction of the Board, facilitating and encouraging effective contribution and challenge from Directors. The Chairperson is responsible for maintaining constructive relations between the Non-Executive and Executive Directors. The Chairperson was appointed in June 2018 as a result of his experience, commitment and capability demonstrated during his tenure. The Board considers that the Chairperson met the criteria of independence on his appointment.

Code Principle G: The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

Board Comment: At 31 December 2019 the Board consisted of five Non-Executive Directors, including the Chairperson, all of whom have been assessed and considered independent in character and judgement, and three Executive Directors, providing a complementary balance of skills and expertise. The longest serving Non-Executive Director has served for 7 years.

The offices of Chairperson and Chief Executive are distinct, separate and held by different people. The Chairperson is responsible for leading the Board, the Chief Executive's role is to lead the Society in an efficient and effective manner and to achieve the objectives set by the Board in accordance with its policies.

The Vice Chairperson is the Senior Independent Director. He provides support to the Chairperson and is an alternative route for communication from members, directors and employees. His main responsibilities are to chair the Board if the Chairperson is absent and to facilitate the annual appraisal of the Chairperson.

Code Principle H: Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

Board Comment: 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 in a constructive

manner whilst providing an appropriate level of support to the Senior Leadership Team. Non-Executive Directors have a prime role in appointing, removing and holding Executive Directors to account for their performance against agreed performance objectives. Non-Executive Directors regularly debate strategy and long-term sustainability at Board and Committee meetings and meet periodically, without Executive Directors present, to consider all aspects of Board responsibilities, governance and performance.

As part of the recruitment process the Nominations Committee evaluates the ability of potential Non-Executive Directors to commit the time required for the role. A formal appraisal process is carried out annually by the Chairperson that assesses whether all Non-Executive Directors have demonstrated this ability throughout the year. Directors seeking additional external appointments require the prior approval of the Board. Evidence of Board and Committee attendance is shown on page 16.

Code Principle I: The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Board Comment: The Chairperson ensures that the Board receive accurate, timely and clear information sufficient to enable it to discharge its responsibilities effectively and efficiently. The Board as a whole is responsible for the appointment and removal of the Secretary. The Secretary can provide guidance to Directors on the Board's governance responsibilities and how they should be discharged. The Board and each Board sub-Committee is responsible for evaluating the effectiveness of the information received by it and to ensure improvements are made where necessary. The Senior Leadership Team ensures that information is delivered in accordance with Board requirements.

Composition, Succession and Evaluation

Code Principle J: Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Board Comment: The Society has a succession plan for Directors and the wider Senior Leadership Team. This sets out the timeline for Non-Executive Director succession in the normal course of business. The plan recognises the challenge a business the size of the Society has with Executive succession from internal candidates and that during the last three years this has been completed from external recruitment.

The Nominations Committee lead the process for Board appointments. The Society values diversity and inclusion but always makes appointments on merit, based on the specific skills and experience required to complement existing skills under the succession plan and as required by the Corporate Plan. All vacancies are openly advertised and during 2019 Warren Partners, an independent specialist external search consultancy, were engaged to source suitable Non-Executive Director candidates. The Board as a whole makes the final decision on appointments.

Care is taken to ensure that new directors can devote enough time to the role. All Directors must meet stringent fitness and propriety standards in order to fulfil their regulatory responsibilities and if required must be approved by Regulators. The Board Chairperson does not chair the Nominations Committee when it is dealing with the appointment of their successor.

A formal induction programme is provided for all newly appointed Directors which is tailored to their needs. This includes 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 Chairperson ensures that Non-Executive Directors regularly update their skills and knowledge so that they may continue to fulfil their role on the Board and any Board sub-Committees. Training and development needs identified as part of the annual appraisal process are met by internal briefings, external specialist advisors, and via attendance at industry seminars and conferences. A formal training record for each Director is maintained.

Code Principle K: The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

Board Comment: The Nominations Committee leads the process to ensure that the Board has the necessary skills, experience and knowledge to enable the Society to compete effectively in the current challenging economic climate. When assessing the appropriate tenure for Non-Executive Directors the Board has regard for the disruption and transactional demands placed on Non-Executive Directors, and the potential for a reduction in accumulated knowledge, where tenure is set too short. The typical standard tenure for Non-Executive Directors is a term of six years and for the Chairperson a term of nine years subject to a maximum of six years as Chairperson. Flexibility is required for Non-Executive Directors to serve beyond the standard tenure and in exceptional circumstances any Non-Executive Director serving for over nine years will require annual re-election at the AGM. The overriding principle is that a Non-Executive Director should only continue in office if this is in the best interests of the Society. Directors must be elected by members at the first opportunity following appointment to the Board.

The Nominations Committee recommend to the Board whether or not a Non-Executive Director should be submitted for re-election. The Committee's assessment will consider whether a Non-Executive Director is independent in character and judgement, can commit enough time to the role, and continues to demonstrate capability and relevant knowledge.

The Board has considered the Code requirement for annual re-election of all Directors and is concerned that in extreme circumstances this could have immediate implications on the stable governance and management of the Society which is not in the interests of members. The Board has concluded that the current approach of appointing Directors to the Board for a term not exceeding three years, subject to satisfactory performance, and with typically one third of the Board seeking re-election annually, remains appropriate for a business of this size.

Code Principle L: Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Board Comment: The Board appraises the performance of the Executive Directors on at least an annual basis. Non-Executive Directors have an annual appraisal which is carried out by the Board Chairperson. The Chairperson is appraised by the Non-Executive Directors, without the Chairperson present, facilitated by the Senior Independent Director. In addition, there is an annual appraisal of the Board as a whole and of the performance of each Board sub-Committee. As part of this annual evaluation the Board considers the balance of skills, experience and diversity of the Board as a whole, and the independence, knowledge and effectiveness of individual Non-Executive Directors. The Board regularly considers the requirement for external evaluation of Board effectiveness, this was not considered appropriate during 2019 due to several recent changes to the Board composition.

Audit, Risk and Internal Control

Code Principle M: The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

Board Comment: pages 17 and 18 contain details of the Audit & Compliance Committee Report.

Code Principle N: 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 accounts and the statement that the business is a going concern are contained on pages 10 to 11 and 8 respectively.

Code Principle O: The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Board Comment: The Board is collectively responsible for determining the strategies for risk management and control and the nature and extent of the principal risks the Society is willing to take. The Senior Leadership 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 pages 8 to 10. The internal auditors provide independent and objective assurance that the systems are appropriate and controls effectively applied. The Society carefully manages risk and compliance in pursuit of its corporate objectives. 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.

Corporate Governance Report (continued)

Board and Committee attendance record

Director	Board	Audit & Compliance	Remuneration	Nominations	Risk
C D J Almond	8 (10)	4 (4)	-	-	4 (4)
A J Higgins	9 (10)	-	-	3 (3)	-
M Hrycyk	10 (10)	4 (4)	3 (3)	-	4 (4)
G E Loynes	4 (4)	1 (2)	2 (2)	-	-
A J Lumby	10 (10)	-	-		-
S A Morgan	8 (8)	-	-	-	-
R J Newton	10 (10)	-	-	3 (3)	-
K A Rolfe	10 (10)	-	-	3 (3)	4 (4)
S J Veitch	9 (10)	4 (4)	3 (3)	-	3 (4)

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

Audit & Compliance Committee Report

Introduction

The Audit & Compliance Committee ('Committee') is a key part of the Society's governance framework and has oversight of financial reporting, internal controls, regulatory compliance and conduct, internal audit and external audit. It reports directly to the Board.

The Committee meets at least four times a year and comprises four Non-Executive Directors, Sally Veitch (Chairperson), Conrad Almond, Myron Hrycyk and from February 2020 Belinda Moore. Other regular attendees at Committee meetings include the Chief Executive, Finance Director, Director of Risk & Compliance and the Head of Compliance along with representatives from the outsourced internal auditor Deloitte LLP, and the external auditor BDO LLP. Other senior managers are invited to attend as required. The Board is satisfied that at least one member of the Committee has recent and relevant financial services experience and all members have experience of working in regulated companies.

All meetings conclude with the Committee meeting with the internal and external auditors without the Senior Leadership Team being present. Minutes of meetings are circulated to all Board members and the Chairperson of the Committee reports to the Board at the next Board meeting.

Financial Reporting

The Committee has primary responsibility to review and assess the integrity of the financial statements. It achieves this through:

- Advising the Board on whether the Annual Report and Accounts, when taken as a whole are fair, balanced and understandable and provide the information necessary for Members to assess the Society's position and performance, business model and strategy;
- Reviewing the appropriateness and consistency of accounting policies;
- Reviewing material areas in which significant judgements and assumptions have been applied by management; and
- Reviewing the going concern assumption.

The main areas of financial reporting judgement considered by the Committee during 2019 were:

- Mortgage Impairment Provisions – review and challenge of the judgements used to determine the mortgage impairment provision in line with FRS102;
- Revenue recognition – review and challenge the estimates and judgements applied to the calculation of interest income and fees under the effective interest rate methodology;
- Other provisions and liabilities – review and challenge of the estimates and judgements made by management when calculating the level of other provisions and liabilities appropriate at year end;
- Going Concern Assumption – Evaluation of the application of the going concern assumption for the year ended 31 December 2019 through review of forecast profitability, liquidity position, funding availability and regulatory capital position. The review also considered the results of stress testing completed as part of the annual capital and liquidity assessments; and
- External audit findings – Review and assess reports and findings from the external auditor.

Internal Controls

The Board is collectively responsible for determining the strategies for risk management and control and the nature and extent of the principal risks the Society is willing to take. Each Board sub-committee is responsible for the risks and controls which fall under its remit. The Senior Leadership Team is responsible for designing, operating and monitoring of risk management systems and controls. Further details on the assessment and mitigation of risk can be found in the Directors Report on pages 8 to 10.

The Committee reviews the effectiveness of the risk management and internal control systems throughout the year to ensure they continue to be appropriate. Internal Audit provide independent assurance to the Board on the effectiveness of the internal control framework through the Committee.

The main areas of internal control which were reviewed by the Committee during 2019 were:

- Conduct & Compliance related issues;
- Prudential regulation related issues;
- Annual Internal audit plan;
- Annual Compliance monitoring plan;
- Control weaknesses identified by the external auditor, BDO LLP, in relation to the financial reporting process; and
- Status of control issues raised in internal audit reports, including volume and age of outstanding issues.

The information received by the Committee provided reasonable assurance that during 2019 there were no material breaches of control or regulatory standards. In addition, Deloitte LLP (as internal auditor) confirmed that an effective internal control framework had been maintained throughout the year.

Regulatory Compliance & Conduct

The Committee oversees the performance of the Society's compliance function, monitoring results from compliance reviews and managements progress in addressing any shortcomings.

The Committee also approves and monitors the annual Compliance plan and Compliance Monitoring plan ensuring that the programme of work adequately addresses the Society risk profile and procedures and controls.

Audit & Compliance Committee Report (continued)

Internal Audit

The Committee is responsible for monitoring and reviewing the effectiveness of internal audit activities and the adequacy of resources. In order to provide the level of expertise and depth of resources, the Society has outsourced internal audit work to Deloitte LLP.

Prior to the start of each year the Committee approves the internal audit plan and the corresponding audit fee. During the year it considers findings from internal audit reviews designed to monitor and assess the Society's internal control effectiveness and managements responsiveness to recommendations.

On an annual basis the Committee performs an annual appraisal of the effectiveness of the internal audit services provided by Deloitte LLP. The Committee concluded that the services provided during 2019 were in line with that agreed in the Internal Audit Plan.

External Audit

The Committee is responsible for overseeing the relationship with the external auditor, BDO LLP. This role includes:

- Reviewing the auditor independence and objectivity;
- Reviewing the effectiveness of the audit process;
- Recommending to the Board, the appointment, reappointment, or removal of the auditor, along with approving their annual remuneration and terms of engagement; and
- Approving the annual policy on the engagement of the auditor for non-audit services.

During the year, the Society tendered for external audit services and appointed BDO LLP for the year end 31 December 2019. As part of the tender process BDO LLP were required to demonstrate their independence and objectivity.

Audit firms often have specialist skills and expertise and can provide non-audit services competitively. Material non-audit services require Committee approval to ensure that auditor objectivity and independence is safeguarded.

Prior to the commencement of the annual audit, the Committee reviewed the external audit plan which included audit planning materiality, areas of audit focus, terms of engagement and fees payable.

The Committee carries out an annual appraisal of the external auditor to ensure that their independence and effectiveness is maintained. The Committee will consider the performance of BDO LLP as external auditors during 2020 to ensure it remains satisfied with their objectivity, independence and effectiveness.

Effectiveness of Audit & Compliance Committee

As outlined in the Corporate Governance report on page 15, each Board sub-committee undertakes an annual self-assessment to monitor its effectiveness. The review of Audit & Compliance Committee concluded that it operated effectively and in accordance with its Terms of Reference.

Report of the Remuneration Committee

Introduction

The Society has regard for the principles in the UK Corporate Governance Code (July 2018) relating to remuneration, as applicable to a mutual organisation of its size, and it has a Remuneration Policy which complies with the relevant elements of the regulators' remuneration codes. The remuneration of individual Directors is detailed on pages 20 and 21.

2019 performance and awards

The Directors report on pages 4 to 11 describes 2019 as a year of continued strategic progress in a very competitive and uncertain economic climate. The year has seen positive trading performance with an increase in total assets to £398m, mortgage assets to £322m, and retail savings balances to £334m. It is in this context that the performance related pay awards have been made to Executive Directors as detailed in this report.

Code Principle P: Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.

Board Comment: The Remuneration Committee ('Committee') consists of three Non-Executive Directors, Myron Hrycyk, appointed Chairperson on 29 August 2019 and a member of the Committee for at least 12 months prior to this appointment, Sally Veitch and from February 2020 Belinda Moore. The Chief Executive attends by invitation but takes no part in the discussion of his own salary. The Committee is responsible for the remuneration policy for all employees, has regard for alignment of this with wider organisational culture and makes independent recommendations to the Board regarding remuneration, incentive schemes and contractual arrangements. The Committee has responsibility for ensuring that the Society complies with the relevant aspects of the regulators' remuneration codes and considers the Remuneration Policy Statement and recommends its approval to the Board.

Executive Directors

The remuneration for Executive Directors reflects their responsibilities, expertise, experience and overall contribution to the successful performance of the Society. Their benefits package is designed to motivate decision making in the interests of members as a whole and is aligned to delivery of corporate strategy. This year the overall package comprised basic salary, a performance related pay scheme, and other 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 Salary: The Society requires professional and highly competent individuals in leadership roles each of whom require regulatory approval under the Senior Managers Regime. Basic salary is set having regard for these requirements, the consequential regulatory accountability, and having had consideration for information from external sources including comparable building society data.

Performance Related Pay Scheme: This annual scheme has regard for best practice by emphasising the need for sustainable performance and recognises that ensuring effective risk management and a sustainable business model are vital requirements for the long-term well-being of the Society. It has been aligned to the corporate objectives and provides an incentive to perform at the highest level in a manner consistent with the long-term interests of members. It requires high performance across a range of measures before the maximum award of 20% of basic salary can be achieved. The Committee recommends to the Non-Executive members of the Board the scheme target measures, these are designed to ensure the continuing security and financial strength of the Society, recognise corporate and individual performance in accordance with good risk management, treat customers fairly, uphold excellent customer service, conduct, and quality of work standards. In assessing performance against the Performance Related Pay Scheme, the Committee will ensure performance is aligned with business objectives and activities and have regard for the overall regulatory conduct, 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 which includes overriding formulaic outcomes.

Other Benefits: Executive Directors are members of the Society's Defined Contribution Pension Scheme, details of which can be found on page 51. The Society makes a contractual contribution of 15% of basic salary for Executive Directors pension payments and this is taken into consideration when assessing their overall remuneration package; the pension scheme provider for Executive Directors is the same as for other employees. Executive Directors also receive benefits including a car allowance and private health care scheme (covering only themselves). The Society does not provide subsidised mortgages.

Contractual Terms: Executive Directors have contracts of employment. Mr Newton's is dated 19 December 2013 and requires 12 months' notice by the Society and 6 months by Mr Newton. Mr Lumby's and Mrs Morgan's are dated 5 January 2018 and 25 April 2019 respectively and require 6 months' notice from either party. There are no special terms in the event of amalgamation, transfer of engagements or transfer of business where employment is to be terminated.

Outside Directorships: Executive Directors who hold these do not receive any remuneration from those organisations.

Report of the Remuneration Committee (continued)

Code Principle Q: A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

Board Comment: The Committee meets at least three times per 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 Chairperson of the Committee reports to the Board at the next Board meeting.

Non-Executive Directors

Fees relating to Non-Executive Directors are considered by the Chief Executive and Finance Director, with the Board Chairperson in attendance, having regard for the amount permissible under the Society's Rules. No Director is involved in setting their own fees. The basic fee payable to Non-Executive Directors is assessed using information from comparable organisations, the time commitment required and responsibilities of the role. A supplementary fee is paid to the Chairperson of the Board, the Chairperson of Audit & Compliance Committee and the Chairperson of Risk Committee to reflect the additional responsibilities and time commitment required of these roles. Non-Executive Directors do not participate in any incentive schemes or receive any other benefits. Non-Executive Directors have a letter of appointment rather than a contract of employment.

Code Principle R: Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

Board Comment: Each year the Executive Directors are appraised by the Chairperson of the Board in respect of their individual performance as members of the Board and by the Chief Executive in respect of their executive duties.

The Committee considers appropriate terms and conditions in the light of these individual appraisals, information from external sources including comparable building society data, the performance of the Society as a whole, and relevant factors from the external economic environment. It then makes recommendations to the Board regarding levels of salary, benefits, and performance related pay awards. The 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.

Directors' Remuneration

Non-Executive Directors (audited)	**2019 Total Fees £'000**	2018 Total Fees £'000
C D J Almond (appointed 28 February 2019)	**28**	-
D G Bassett (retired 16 April 2018)	**-**	9
M H P Daly (retired 28 June 2018)	**-**	22
A J Higgins (Chairman)	**46**	40
M Hrycyk	**31**	30
G E Loynes (retired 30 May 2019)	**12**	30
K A Rolfe	**36**	35
S J Shepherd (resigned 26 July 2018)	**-**	17
S J Veitch (appointed 28 June 2018)	**36**	20
Total	**189**	203

Report of the Remuneration Committee (continued)

Executive Directors (audited)	Salary	Performance related pay	Benefits	Sub-total	Pension contributions	Total
2019	£'000	£'000	£'000	£'000	£'000	£'000
R J Newton	159	15	11	185	22	207
A J Lumby	126	12	9	147	19	166
S A Morgan (appointed 25/04/2019)	77	7	6	90	12	102
	362	**34**	**26**	**422**	**53**	**475**

Mr Newton, Mr Lumby and Mrs Morgan are members of the Society's defined contribution pension scheme. During 2019 Mr Newton elected with agreement from the Society to take a proportion of his pension contributions as a cash allowance.

Executive Directors (audited)	Salary	Performance related pay	Benefits	Sub-total	Pension contributions	Total
2018	£'000	£'000	£'000	£'000	£'000	£'000
R J Newton	155	22	11	188	22	210
A J Lumby (appointed 29/01/18)	118	15	8	141	17	158
	273	**37**	**19**	**329**	**39**	**368**

Board of Directors

Non-Executive Directors

Andrew Higgins
Chairman

Andrew was appointed to the Board in 2012 and appointed Chairman in 2018. He is also Chairman of the Nominations Committee. He is a chartered accountant with a background in audit and advisory services, with a career spanning 33 years in the UK and overseas. Andrew is currently also a non-executive director of an acute NHS Foundation Trust, where he chairs the Finance and Performance Committee and is a member of the Audit Committee.

Keith Rolfe
Vice-Chairman and Senior Independent Director

Keith was appointed to the Board in 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 and Credit Suisse in Risk Management roles. Until January 2019 he was Board Member and Vice Chairman of Rooftop Housing Group. He is Chairman of the Risk Committee and is a member of the Nominations Committee.

Conrad Almond
Non-Executive Director

Conrad was appointed to the Board in 2019. He has had a career in prudential risk matters having worked full time for NatWest and then RBS for nearly 30 years in prudential risk and capital management roles, and more latterly in a consultancy capacity for HSBC and Co-operative Bank. He is currently a Trustee of Age Concern, St Albans. He is a member of the Audit & Compliance and Risk Committees.

Myron Hrycyk
Non-Executive Director

Myron was appointed to the Board in 2017. He has an MBA from Birmingham University, is a chartered member of the British Computer Society and has sat on the Midlands CBI Council. During his career he has been Group Chief Information Officer (CIO) and Digital Director at Severn Trent plc, IT Director at Unipart Advanced Logistics and he is currently a Cabinet Office Crown Representative working with the UK Government's strategic digital technology suppliers. He is Chairman of the Remuneration Committee and a member of the Audit & Compliance and Risk Committees.

Belinda Moore
Non-Executive Director

Belinda was appointed to the Board in February 2020. She has extensive experience across a wide spectrum of marketing disciplines gained from a career of over 30 years in the UK and overseas. She is currently Director of Marketing and Communications at E.ON UK with previous senior roles including Group Marketing & Communications Director at Care UK and Group Marketing Director at BMI Healthcare. She is a member of the Audit & Compliance and Remuneration Committees.

Sally Veitch
Non-Executive Director

Sally was appointed to the Board in 2018. She is a Chartered Accountant, qualifying in 1997 whilst working for Coopers & Lybrand. She is a Non-Executive Director/Chair of Audit at Redwood Bank; and formerly Chair of Audit and a Member of the Risk Committee at an East Midlands Building Society, and Chair of Audit with Amicus Finance. In her executive career, she was a senior executive at Home Retail Group PLC, as the Finance Director for their Financial Services business. She is Chair of the Audit & Compliance Committee and a member of the Risk and Remuneration Committees.

Board of Directors (continued)

Executive Directors

Richard Newton
Chief Executive

Richard joined the Society in 1991 as an administrative assistant. Following his appointment as Finance Manager he qualified as a Chartered Certified Accountant in 2001. He was appointed to the Board in July 2011 and is a former Finance Director of the Society. He was appointed Chief Executive in December 2013 and is a member of the Nominations Committee.

Andrew Lumby
Finance Director

Andrew was appointed to the Board as Finance Director upon joining the Society in 2018. He is a Chartered Accountant, qualifying in 2002 whilst working at PwC. Prior to joining the Society Andrew gained 14 years' experience at a large regional building society, most recently as a member of the Senior Leadership Team where he was responsible for the Finance, Treasury Risk and Credit Risk teams.

Sally Morgan
Operations Director

Sally was appointed to the Board in April 2019. She has 34 years' experience with 25 years in senior management roles with P&L responsibility including top 30 and top 5 at Nationwide and Coventry Building Societies respectively. Prior to joining the Society, she worked in Operations Director interim roles for Consumer Finance, Insurance and Mortgage Servicing Companies. She holds an MBA from Warwick and is a Chartered Banker.

Independent auditor's report to the members of Tipton and Coseley Building Society

Opinion

We have audited the financial statements of Tipton and Coseley Building Society (the 'Society') for the year ended 31 December 2019 which comprise of the Income Statement, Statement of Financial Position, Statement of Changes in Members' Interests, Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How we addressed the key audit matter in our audit
Effective interest rate adjustment The Society's mortgage interest income is recognised on an effective interest rate basis in accordance with the requirements of relevant accounting standards. Management's associated accounting policies are detailed on pages 33 to 38 with detail about judgements in applying accounting policies and critical accounting estimates in note 1.13 on page 38. The Society recognises an effective interest rate asset included in the balance sheet of £0.2m (2018: 0.5m) which reflects prepaid fees that are integral to the effective interest rate as well as accrued income. Both are spread over the behavioural life of the loans and advances using the effective interest rate method resulting in an effective interest rate adjustment within the income statement of £0.3m (2018: £0.1m). To ensure the Society complies with the effective interest rate method, adjustments to contractual fees and interest income are required to be calculated. The models used to achieve this are complex and reliant on the completeness and accuracy of input data. Significant management judgement is also required to determine the expected cash flows for Society's loans and advances within these models. Error within the effective interest rate models itself or bias in key assumptions applied could result in the material misstatement in the effective interest rate adjustment. The key assumptions in the effective interest rate models are the directly attributable fees and costs and the expected behavioural life and redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows.	We evaluated the design and implementation of controls over the review and approval of effective interest rate assumptions. We tested the operating effectiveness of businesses process controls over loan origination including the initial recognition of contractual interest income and associated loan fees which form key inputs into the effective interest income calculations. We checked the completeness and accuracy of data and key model inputs feeding into the effective interest rate adjustment model through reconciliation to underlying records. We utilised data analytics to perform a full recalculation of the 2019 contractual interest on loans advanced. We have assessed the modes for their sensitivities to changes in the key assumptions by considering different profiles of behavioural life. We challenged the reasonableness of the loan behavioural life assumptions used by management considering historical experience of loan behavioural lives based on customer behaviour, product type, market factors, recent performance and external data where applicable. We assessed whether the revenue recognition policies with regards to the effective interest rate adopted by the Society are in accordance with the requirements of relevant accounting standards. This included assessment of the types of fees being spread within the effective interest rate models. Through inspection of contractual terms we challenged the fees and costs included or excluded from the effective interest rate estimates, including early redemption charges. Key observation: We are satisfied that the assumptions included in the effective interest rate model are reasonable in consideration of the Society's mortgage portfolios, historic behaviours and current economic and market conditions.

Key Audit Matter	How we addressed the key audit matter in our audit
Impairment on loans and advances As disclosed in Note 12, the Society has recognised £1.3m of impairment provisions at the year-end (2018: £1.5m). This comprises a specific provision of £0.2m (2018: £0.1m) and a collective provision of £1.1m (2018: £1.4m). Management's associated accounting policies are detailed on pages 33 to 38 with detail about judgements in applying accounting policies and critical accounting estimates in note 1.13 on page 38. The Society accounts for the impairment of loans and advances to customers using an incurred loss model. In accordance with the recognition and measurement criteria of relevant accounting standards, management has calculated two types of provisions. (i) A specific provision is calculated for individual loans where there is an observable loss event. (ii) A collective provision is recognised for loans where there has not been an observable loss event but based on experience impairment is expected to be present in the portfolio of loans. Estimating both the specific and collective loan loss provision requires significant management judgement and estimate in determining the value and timing of expected future cash flows. The specific provision is sensitive to key judgements and assumptions in respect to the underlying value of collateral held. The collective provision is calculated within a model that uses a combination of the Society's historical experience, segmentation of the loans by risk and external data, adjusted for current conditions including the impact of the UK exiting the European Union. The model is sensitive to key judgements and assumptions including probability of defaults, future house price movements and forced sale discounts against collateral. Due to the sensitivity to key inputs judgements and estimates and high degree of estimation uncertainty the Society's collective impairment provision has a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. Error within the loan loss provisioning models itself or bias in key assumptions applied could result in the material misstatement of impairment provisions.	We assessed the specific and collective impairment methodology in accordance with the accounting framework. We checked the completeness and accuracy of data and key assumption inputs feeding into the collective and specific provision calculations through reconciliation to underlying records. We have checked that management's stated loan provisioning assumption inputs have been consistently applied to the specific provision and collective provision model calculations. We have profiled the loan population and tested a sample of loans, including performing loans for impairment indicators including arrears and high loan to values to identify individual loans, which may have impairments not identified by management to challenge the completeness and accuracy of management's impairment provision estimate. We assessed the collective impairment provision for sensitivity to changes in key inputs to identify areas requiring additional focus. For the specific and collective impairment provision, we evaluated and challenged management key assumptions in the model. The assumptions challenged included forced sales discount, other sales costs, probability of default and the management overlay for macroeconomic factors not identified in the model. These were challenged with reference to historic Society experience, the reasonableness of external data points used, and the level of the overall collective impairment provision to comparable peer organisations. We assessed the adequacy of the Society's disclosures in respect of loan loss provisioning and of the degree of estimation involved in arriving at the provision. Key observation: We are satisfied that the provision for loans and advances is reasonably estimated in consideration of the key assumptions and judgements made.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the audit and in forming our opinion. Materiality is assessed on both quantitative and qualitative grounds. We applied the following to the Society:

Materiality	£200,000
Performance materiality	£130,000
Reporting threshold	£4,000

We consider materiality to be the magnitude by which misstatements, individually or taken together, could reasonably be expected to influence the economic decisions of the users of the financial statements. We determined the materiality for the Society financial statements as a whole to be £200,000, which was set at 0.5% of Tier 1 Capital. This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that Tier 1 capital was the most appropriate benchmark as regulatory stability is considered to be a main driver for the Society as well as the purpose of the Society which is to optimise rather than maximise profits.

The application of materiality at the individual account or balance level is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment together with our assessment of the Society's overall control environment, our judgment was that overall performance materiality for the Society should be 65% of materiality.

We agreed with the Audit Committee that we would report all individual audit differences in excess of the reporting threshold to the Audit Committee and any other differences that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Society's activities and the overall control environment. Based on this understanding, we assessed those aspects of the Society's transactions and balances which were most likely to give risk to a material misstatement.

Capability of the audit to detect irregularities, including fraud

We gained an understanding of the legal and regulatory framework applicable to the Society and the industry in which it operates and considered the risk of acts by the Society which would be contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Building Societies Act 1986, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations, pension legislation, tax legislation.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We considered compliance with this framework through discussions with the Audit Committee and performed audit procedures on these areas as considered necessary. Our procedures involved enquiry with the management, internal audit, Audit Committee, Risk Committee, and the Board, review of the reporting to the Directors with respect to compliance with laws and regulation, review of board meeting minutes and review of legal correspondence.

There are inherent limitations in an audit of financial statements and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report (continued)

Opinions on other matters prescribed by the Building Societies Act 1986

In our opinion, based on the work undertaken in the course of the audit:

- The annual business statement and the directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with 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.

In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given on page 70 for the financial year ended 31 December 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, within the directors' report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Board on 4 July 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the years ending 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society and we remain independent of the Society in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an 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.

Matthew Hopkins (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom

5 March 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Income Statement
for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Interest receivable and similar income	2	**10,187**	9,245
Interest payable and similar charges	3	**(3,222)**	(2,653)
Net interest income		**6,965**	6,592
Fee and commissions receivable		**591**	579
Fees and commissions payable		**(564)**	(473)
Net gains from derivative financial instruments	4	**2**	4
Total net income		**6,994**	6,702
Administrative expenses	5	**(5,575)**	(4,930)
Depreciation and amortisation	15,16	**(158)**	(147)
Impairment credit on loans and advances	14	**171**	98
Provisions for liabilities	23	**(60)**	(50)
Profit Before Tax		**1,372**	1,673
Tax expense	8	**(265)**	(325)
Profit for the financial year	24	**1,107**	1,348

Profit for the financial year arises from continuing operations. Total comprehensive income is the same as the profit for the 2019 and 2018 financial years and is attributable to the members of the Society.

The notes on pages 33 to 70 form part of these accounts.

Statement of Financial Position
as at 31 December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Liquid assets			
Cash in hand and balances with Bank of England	9	**65,250**	58,565
Loans and advances to credit institutions	10	**7,734**	9,750
Derivative financial instruments	12	**60**	56
Loans and advances to customers	13	**322,390**	299,941
Intangible fixed assets	14	**122**	165
Tangible fixed assets	15	**1,674**	1,691
Deferred tax assets	16	**46**	53
Prepayments and accrued income		**588**	493
Total assets		**397,864**	370,714
Liabilities			
Shares	17	**334,301**	312,610
Amounts owed to credit institutions	18	**16,538**	14,531
Amounts owed to other customers	19	**4,569**	2,579
Derivative financial instruments	11	**682**	121
Other liabilities	20	**113**	140
Accruals and deferred income	21	**775**	893
Provisions for liabilities	22	**22**	83
Total liabilities		**357,000**	330,957
Reserves			
General reserves	24	**40,864**	39,757
Total liabilities and Equity (Members' Capital)		**397,864**	370,714

The notes on pages 33 to 70 form part of these accounts.

These accounts were approved by the Board of Directors on 5 March 2020 and signed on its behalf:

A J Higgins Chairman
R J Newton Chief Executive
A J Lumby Finance Director

Statement of Changes in Members' Interests
for the year ended 31 December 2019

	Notes	General reserves £'000	Total £'000
2019			
Balance as at 1 January 2019		**39,757**	**39,757**
Profit for the year		**1,107**	**1,107**
Balance as at 31 December 2019	24	**40,864**	**40,864**
2018			
Balance as at 1 January 2018		38,409	38,409
Profit for the year		1,348	1,348
Balance as at 31 December 2018	24	39,757	39,757

The notes on pages 33 to 70 form part of these accounts.

Statement of Cash Flows
for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Cash flows from operating activities			
Profit before tax		**1,372**	**1,673**
Depreciation and amortisation		**158**	159
(Gain) on disposal of tangible and intangible assets		**-**	(12)
Provisions for bad and doubtful debts		**(171)**	(98)
Loans and advances written off net of recoveries		**4**	(6)
Total cashflow from operating activities		**1,363**	1,716
Changes in operating assets and liabilities			
(Increase)/decrease in prepayments and accrued income		**(95)**	151
Increase in accruals and deferred income		**42**	237
(Decrease)/increase in other liabilities		**(61)**	11
Net (increase) in loans and advances to customers		**(22,282)**	(14,105)
Net decrease in loans and advances to credit institutions		**2,114**	1,000
Net increase in amounts owed to credit institutions		**2,000**	14,531
Net increase in amounts owed to other customers		**1,963**	1,036
Net increase/(decrease) in shares		**21,564**	(10,357)
Movement in derivative financial instruments		**557**	85
Movement in fair value adjustments		**(2)**	1
Taxation paid		**(285)**	(364)
Net cash inflow/(outflow) from operating activities		**6,878**	(6,058)
Cash flows from investing activities			
Sales of debt securities		-	2,016
Purchase of tangible and intangible assets		(103)	(234)
Disposal of tangible and intangible assets		5	59
Net cash (outflow)/inflow from investing activities		**(98)**	1,841
Net increase/(decrease) in cash		**6,780**	(4,217)
Cash and cash equivalents at start of year		**63,295**	67,512
Cash and cash equivalents at end of year	25	**70,075**	63,295

The notes on pages 33 to 70 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 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 accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

The accounts have been prepared on the going concern basis as outlined in the Directors report on page 8.

Judgments 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 1.13.

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 Society's Income Statement reported on page 29.

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.

Changes in accounting policy

For year ending 31 December 2019, the Society has elected to early adopt the 'Amendments to IAS39 and IFRS7 Interest Rate Benchmark Reform' issued in September 2019. In accordance with the transition provisions, the amendments have been adopted respectively to hedging relationships that existed at the start of the reporting period or were designated thereafter.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

In summary, the reliefs provided by the amendments that apply to the Society are:

- in assessing whether the hedge is expected to be highly effective on a forward looking basis, the Society has assumed that the LIBOR interest rate on which the cash flows of the interest rate swap that hedges fixed rate mortgages and savings is not altered by IBOR reform;
- the Society will not discontinue hedge accounting during the period IBOR related uncertainty solely because the retrospective effectiveness falls outside the required 80-125% range; and
- the Society has assessed whether the hedged LIBOR risk component is a separately identifiable risk only when it first designates a hedged item as included in its macro portfolio hedge and not on an ongoing basis.

The Principal Risks and Uncertainties section of the Directors report on pages 8 to 10 provides the required disclosure of the uncertainty arising from IBOR reform.

1.1 Measurement convention

The annual accounts are prepared under the historical cost basis except for the following assets and liabilities which are stated at their fair value: derivative financial instruments and investment property classified as at fair value through profit or loss.

1.2 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 Society 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.

1.3 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 1.2).

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

1.4 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.

1.5 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 Society 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.

1.6 Financial instruments

Recognition

The Society 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 Society transfers any consideration for an instrument. If any transactions were committed to at the year-end date these are included in contractual commitments. No adjustments 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 Society classifies its financial assets into one of the following categories:

a) 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 Society 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 1.2). When the Society chooses to designate the loans and advances as measured at fair value through profit or loss, they are measured at fair value with fair value changes recognised immediately in profit or loss.

Should the Society 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 annual accounts.

b) 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.

1.6 Financial instruments (continued)

Fair value hedges

On initial designation of the hedge, the Society 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. An assessment is made, both at inception of the hedge relationship and on an on- going 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%.

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

Derecognition

Financial assets or liabilities are derecognised when the contractual right 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. The Society have not transferred the risks and rewards of ownership of any financial assets to another party during the year ended 31 December 2019.

Measurement

a) 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.

b) 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 fair value of an instrument is measured 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 on-going basis.

If there is no quoted price in an active market, then the Society 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 it is determined 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 Society 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.

1.6 Financial instruments (continued)

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 Society on terms that the Society 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.

Evidence of impairment for loans and advances is considered 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, modelling is used, as well as the timing of recoveries and the amount of loss incurred, and an adjustment is made 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.

1.7 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.

1.8 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; and
- Computer hardware – 20% straight line.

1.8 Tangible fixed assets (continued)

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 initially recognised at cost and subsequently carried at fair value. Changes in fair value are recognised in the Income Statement in the period that they arise. No depreciation is provided in respect of investment properties.

1.9 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 Society 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 dependent 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.

1.10 Impairment excluding financial assets and deferred tax assets

The carrying amounts of the 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.

1.11 Employee benefits

Pensions

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

Incentive Schemes

The costs of discretionary bonuses payable after the year end in which they are earned are recognised in the year in which the employees render the related service.

1.12 Provisions and contingent liabilities

A provision is recognised in the Statement of Financial Position when the 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 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 Statement of Financial Position.

1.13 Accounting estimates and judgements

The Society 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 mortgage portfolio is reviewed on at least a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Specific impairment triggers are principally when an account has been in arrears in the 12 months preceding the Statement of Financial Position date, or when forbearance arrangements have been agreed. 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 Society's estimate of collective impairment at 31 December 2019 assumes a deterioration in credit risk outcomes compared with recent historical experience. This is primarily represented by a decrease in expected recoveries on impaired accounts due to forecast decreases in house prices, together with anticipated increase in the probability of default due to a decline in the economic environment and increasing unemployment. These expectations are based on possible scenarios contained within reports and commentaries from external agencies. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions. In the event that a fall in house prices was 5% less, the estimated impact would be to reduce the impairment provision by £205k. The directors believe that these assumptions adequately address the risk presented from the possibly of being unable to negotiate a trade deal with the EU.

b) Effective interest rate

Amounts related to the effective interest rate (EIR) included within the income statement is £264k (2018: £130k) with an EIR asset included in the balance sheet of £212k (2018: £475k). The effective interest rate will affect the carrying values of loans and receivables. One of the key components of the estimates within EIR is the expected mortgage life. In determining the expected life of mortgage assets, the Society uses historical and forecast redemption data as well as management judgement. During the year, the expected life of mortgage assets are reassessed for reasonableness. This year the expected average lives have reduced, reflecting the Society's proactive approach to contacting customers shortly before the end of their initial product term and the competitive nature of the remortgage market. 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 £21k.

c) Fair value of derivatives and financial assets

The following techniques are employed in determining the fair value of its derivatives and financial assets:

- Derivative financial instruments - calculated by discounted cash flow models using yield curves that are based on observable market data, which is discussed further in note 4.

The impact of interest rate risk sensitivities can be found in note 26 to the financial statements.

d) Effect of LIBOR reform

In calculating the change in fair value attributable to the hedged risk for fixed rate mortgages and savings, the Society has made the following assumptions:

- There are no changes to the terms and conditions of existing fixed rate mortgages or savings; and
- Fixed rate mortgages and savings will be hedged by SONIA linked derivatives from 2022 and the spread will be similar to the spread on existing LIBOR derivatives.

Notes to the accounts (continued)

2. Interest receivable and similar income

	2019 £'000	2018 £'000
On loans fully secured on residential property	**9,696**	8,646
On other loans	**169**	205
On liquid assets	**546**	474
On derivative hedging of financial assets	**(224)**	(80)
At 31 December	**10,187**	9,245

3. Interest payable and similar charges

	2019 £'000	2018 £'000
On shares held by individuals	**3,008**	2,553
On deposits and other borrowings	**214**	93
On derivative hedging of financial liabilities	**-**	7
At 31 December	**3,222**	2,653

4. Net gains from derivative financial instruments

	2019 £'000	2018 £'000
Derivatives in designated fair value hedge relationships	**(561)**	(82)
Adjustments to hedged items in fair value hedge accounting relationships	**554**	94
Derivatives not in designated fair value hedge relationships	**9**	(8)
At 31 December	**2**	4

The net gain from derivative financial instruments of £2k (2018: £4k) 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 underlying performance.

5. Administrative expenses

	2019 £'000	2018 £'000
Staff costs		
Wages and salaries	**2,554**	2,402
Social security costs	**270**	249
Other pension costs	**189**	217
	3,013	2,868
Operating lease rentals	**25**	25
Other administrative costs	**2,537**	2,037
At 31 December	**5,575**	4,930

Other administrative costs include:

Remuneration of Auditor and its associates (excluding VAT):		
Audit of these financial statements	**80**	65
For other services	**-**	13

6. Employees

	2019 Number	2018 Number
The average number of persons employed during the year was:		
Full time	**55**	46
Part time	**32**	37
	87	83

The average number of persons employed during the year was:		
Head office	**58**	56
Branch offices	**29**	27
	87	83

The average number of employees on a full time equivalent basis was 72 (2018: 65) and all of these are employed within the UK.

7. Directors' loans and transactions

a) Directors' remuneration

Directors' remuneration totalling £664,000 for 2019 (2018: £571,000) is shown as part of the Report of the Remuneration Committee on pages 20 and 21.

b) Directors' loans

There were no loans granted or outstanding to directors or connected persons in the year (2018: 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 2019 was £29,825 (2018: £51,965).

8. Taxation

	2019 £'000	2018 £'000
UK corporation tax at 19% (2018: 19%)	**261**	287
(Over)/under provision in previous year	**(3)**	3
Total current tax	**258**	290
Deferred tax (note 16)	**7**	35
Total tax expense	**265**	325

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	**1,372**	1,673
Expected tax at 19% (2018: 19%)	**261**	318
Effects of:		
Expenses not deductible for corporation tax purposes	**3**	1
Changes in tax rate	**(1)**	(1)
Short term timing difference	**-**	(2)
Fixed asset differences	**5**	6
Adjustment for prior years	**(3)**	3
Tax expense for the year	**265**	**325**

Reductions in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) were substantively enacted on 15 September 2016. This will reduce the Society's future current tax charge accordingly.

The deferred tax asset at 31 December 2019 has been calculated based on the prevailing tax rate when the timing differences are expected to reverse.

9. Cash in hand and balances with Bank of England

	2019 £'000	2018 £'000
Cash in hand	**449**	414
Bank of England Reserve Account	**64,801**	58,151
Included in cash and cash equivalents (note 25)	**65,250**	58,565

10. Loans and advances to credit institutions

	2019 £'000	2018 £'000
Accrued interest	**23**	20
Repayable on demand (note 25)	**4,825**	4,730
In not more than three months	**2,000**	5,000
In more than three months but not more than one year	**886**	-
At 31 December	**7,734**	9,750

At 31 December 2019, £886,000 (2018: £nil) of cash has been deposited as collateral against derivative contracts.

11. Derivative financial instruments

At 31 December 2019	Contract/notional	Fair values	
	Amount	Assets	Liabilities
	£'000	£'000	£'000
a) Unmatched derivatives			
Interest rate swaps	**15,052**	**1**	**(7)**
b) Derivatives designated as fair value hedges			
Interest rate swaps	**144,648**	**59**	**(675)**
Total recognised derivative assets/(liabilities)	**159,700**	**60**	**(682)**

At 31 December 2018	Contract/notional	Fair values	
	Amount	Assets	Liabilities
	£'000	**£'000**	**£'000**
a) Unmatched derivatives			
Interest rate swaps	17,324	2	(17)
b) Derivatives designated as fair value hedges			
Interest rate swaps	82,026	54	(104)
Total recognised derivative assets/(liabilities)	99,350	56	(121)

Typically unmatched derivatives arise during the final 3 months of an interest rate swap's life where the derivative's 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 Statement of Financial Position.

At 31 December 2019 £886,000 of cash collateral has been paid by the Society against derivative contracts (2018: nil). No collateral was provided to any other parties during the year including collateral secured against loans and advances to credit institutions or customers (2018: nil).

At 31 December 2019, derivatives with a notional value of £159,700,000 are directly impacted by the replacement of LIBOR.

12. Loans and advances to customers

	2019 £'000	2018 £'000
Loans fully secured on residential property	**320,825**	298,810
Other loans – loans fully secured on land	**2,265**	2,538
	323,090	301,348
Provision for impairment losses on loans and advances (note 13)	**(1,302)**	(1,469)
Fair value adjustment for hedged risk	**602**	62
At 31 December	**322,390**	299,941

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	**2,750**	3,672
In more than three months but not more than one year	**8,280**	8,474
In more than one year but not more than five years	**51,295**	50,735
In more than five years	**261,367**	238,529
	323,692	301,410
Provision for impairment losses on loans and advances (note 13)	**(1,302)**	(1,469)
At 31 December	**322,390**	299,941

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

Loans and advances totalling £82.5m (2018: £51.4m) have been pledged as collateral with the Bank of England to provide access to contingent liquidity and secured funding, including the Term Funding Scheme.

13. 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 2019	**74**	**-**	**74**
Amounts written off	**-**	**-**	**-**
Charge for the year	**78**	**16**	**94**
At 31 December 2019	**152**	**16**	**168**
Collective provision			
At 1 January 2019	**1,350**	**45**	**1,395**
Amounts written off	**-**	**-**	**-**
(Release) for the year	**(218)**	**(43)**	**(261)**
At 31 December 2019	**1,350**	**2**	**1,134**
Individual provision			
At 1 January 2018	14	39	53
Charge/(Release) for the year	60	(39)	21
At 31 December 2018	74	-	74
Collective provision			
At 1 January 2018	1,283	237	1,520
Amounts written off	(13)	-	(13)
Charge/(Release) for the year	80	(192)	(112)
At 31 December 2018	1,283	45	1,395

The credit to the income statement comprises:

Net credit for the year (above)	(167)
Amounts written off less recoveries	(4)
Credit to the income statement in 2019	**(171)**
Credit to the income statement in 2018	(98)

14. Intangible fixed assets

	Purchased Software
	£'000
2019	
Cost	
At 1 January 2019	**948**
Additions	**7**
At 31 December 2019	**955**
Amortisation	
At 1 January 2019	**783**
Charge for the year	**50**
At 31 December 2019	**833**
Net Book Value	
At 31 December 2019	**122**
2018	
Cost	
At 1 January 2018	828
Additions	120
At 31 December 2018	948
Amortisation	
At 1 January 2018	730
Charge for the year	53
At 31 December 2018	783
Net Book Value	
At 31 December 2018	165

15. Tangible fixed assets

	Freehold Land & buildings	Short leasehold	Equipment, fixtures, fittings and vehicles	Total
	£'000	£'000	£'000	£'000
2019				
Cost				
At 1 January 2019	**1,566**	**101**	**1,450**	**3,117**
Additions	-	-	**96**	**96**
Disposals	-	-	**(18)**	**(18)**
At 31 December 2019	**1,566**	**101**	**1,528**	**3,195**
Depreciation				
At 1 January 2019	**186**	**56**	**1,184**	**1,426**
Charge for the year	**23**	**7**	**78**	**108**
On disposals	**-**	**-**	**(13)**	**(13)**
At 31 December 2019	**209**	**63**	**1,249**	**1,521**
Net Book Value				
At 31 December 2019	**1,357**	**38**	**279**	**1,674**
2018				
Cost				
At 1 January 2018	1,566	101	1,458	3,125
Additions	-	-	114	114
Disposals	-	-	(122)	(122)
At 31 December 2018	1,566	101	1,450	3,117
Depreciation				
At 1 January 2018	163	50	1,182	1,395
Charge for the year	23	6	77	106
On disposals	-	-	(75)	(75)
At 31 December 2018	186	56	1,184	1,426
Net Book Value				
At 31 December 2018	1,380	45	266	1,691

Land and buildings

The net book value of freehold land and buildings occupied for own use at 31 December 2019 was £1,285,000 (2018: £1,308,000). Land and buildings include investment properties held at fair value at 31 December 2019 of £72,000 (2018: £72,000); no gains or losses have been recognised in 2019 (2018: nil).

Depreciation and amortisation

The Income Statements 'Depreciation and amortisation' includes profit on sale of tangible fixed assets in 2019 of £nil (2018: profit £12,467).

16. Deferred tax

	2019 £'000	2018 £'000
At 1 January	**53**	88
Decrease in asset for the year (note 8)	**(7)**	(35)
At 31 December	**46**	53
Tax effect of timing differences due to:		
FRS102 transitional adjustments	**(13)**	(19)
Accelerated capital allowances	**(45)**	(53)
Collective loss provision	**104**	125
	46	**53**

Reductions in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) were substantively enacted on 15 September 2016. This will reduce the Society's future current tax charge accordingly. The deferred tax asset at 31 December 2019 has been calculated based on the prevailing tax rate when the timing differences are expected to reverse.

17. Shares

	2019 £'000	2018 £'000
Held by individuals	**334,305**	312,600
Other shares	**11**	12
Fair value adjustment for hedged risk	**(15)**	(2)
At 31 December	**334,301**	312,610

Shares are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows:

Accrued interest	**705**	578
Repayable on demand	**213,742**	209,864
In not more than three months	**77,888**	77,514
In more than three months but not more than one year	**29,913**	18,665
In more than one year but not more than five years	**17,068**	5,991
Fair value adjustment for hedged risk	**(15)**	(2)
At 31 December	**334,301**	**312,610**

18. Amounts owed to credit institutions

	2019 £'000	2018 £'000
Amounts owed to credit institutions are repayable at the reporting date in the ordinary course of business as follows:		
Accrued interest	**38**	31
In not more than three months	**2,000**	-
In more than one year but not more than five years	**14,500**	14,500
At 31 December	**16,538**	14,531

Amounts owed to credit institutions include £14,500,000 (2018: £14,500,000) secured against certain loans and advances to customers.

19. Amounts owed to other customers

	2019 £'000	2018 £'000
Amounts owed to other customers are repayable at the reporting date in the ordinary course of business as follows:		
Accrued interest	**27**	-
Repayable on demand	**1,642**	1,579
In not more than three months	**1,900**	1,000
In more than one year but not more than five years	**1,000**	-
At 31 December	**4,569**	2,579

20. Other liabilities

	2019 £'000	2018 £'000
Falling due within one year		
Corporation tax	**113**	140
At 31 December	**113**	140
Corporation tax		
As at 1 January	**140**	214
Current year corporation tax charge (note 8)	**258**	290
Payments made in year	**(285)**	(364)
At 31 December	**113**	140

21. Accruals and deferred income

	2019 £'000	2018 £'000
Accruals	**775**	893
At 31 December	**775**	893

22. Provision for liabilities

	2019 FSCS £'000	2019 Other Provisions £'000	2019 Total £'000	2018 FSCS £'000	2018 Other Provisions £'000	2018 Total £'000
At 1 January	**6**	**77**	**83**	46	25	71
Charge for the year	**-**	**60**	**60**	(27)	77	50
Provision utilised	**(6)**	**(115)**	**(121)**	(13)	(25)	(38)
At 31 December	**-**	**22**	**22**	6	77	83

Financial Services Compensation Scheme

The FSCS levy represents the estimated amount payable under the FSCS for the 2019/20 scheme year, which runs from April 2019 to March 2020. No levy is expected.

Other Provisions

Other provisions have been made in respect of various customer claims, including claims in relation to previous sales of payment protection insurance. It is expected that the liability will predominantly crystallise over the next 12 months.

23. Retirement benefit obligations

Defined contribution scheme

The Society operates a defined contribution scheme, the assets of which are held separately from those of the Society. The total cost was £189,000 (2018: £217,000). There were no outstanding or prepaid contributions at either the beginning or end of the year.

24. General reserves

	2019	2018
	£'000	£'000
At 1 January	**39,757**	38,409
Profit for the financial year	**1,107**	1,348
At 31 December	**40,864**	**39,757**

25. Cash and cash equivalents

		2019	2018
	Notes	**£'000**	£'000
Cash in hand and balances with the Bank of England	9	**65,250**	58,565
Loans and advances to credit institutions repayable on demand	10	**4,825**	4,730
At 31 December		**70,075**	63,295

26. 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 Executive 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.

The Society 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	Society pays fixed, receives variable
Fixed rate savings accounts	Decrease in interest rates	Society receives fixed, pays variable

The fair values of these hedges at 31 December 2019 and 31 December 2018 are shown in note 11.

26. 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
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

26. 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 Society's assets and liabilities by financial classification:

Carrying values by category 31 December 2019	Held at amortised cost		Held at fair value		
	Loans and receivables	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedges	Unmatched derivatives	**Total**
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash in hand and balances with Bank of England	-	65,250	-	-	65,250
Loans and advances to credit institutions	-	7,734	-	-	7,734
Derivative financial instruments	-	-	59	1	60
Loans and advances to customers	322,390	-	-	-	322,390
Financial assets	**322,390**	**72,984**	**59**	**1**	**395,434**
Non-financial assets	**-**	2,430	**-**	**-**	2,430
Total assets	**322,390**	**75,414**	**59**	**1**	**397,864**
Financial liabilities					
Shares	-	334,301	-	-	334,301
Amounts owed to credit institutions	-	14,538	-	-	14,538
Amounts owed to other customers	-	6,569	-	-	6,569
Derivative financial instruments	-	-	675	**7**	682
Financial liabilities	**-**	**355,408**	**675**	**7**	**356,090**
Non-financial liabilities	-	910	-	-	910
Total liabilities	**-**	**356,318**	**675**	**7**	**357,000**

26. Financial instruments (continued)

Carrying values by category 31 December 2018	Held at amortised cost		Held at fair value		
	Loans and receivables	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedges	Unmatched derivatives	**Total**
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash in hand and balances with Bank of England	-	58,565	-	-	58,565
Loans and advances to credit institutions	-	9,750	-	-	9,750
Derivative financial instruments	-	-	54	2	56
Loans and advances to customers	299,941	-	-	-	299,941
Financial assets	**299,941**	**68,315**	**54**	**2**	**368,312**
Non-financial assets	**-**	2,402	**-**	**-**	2,402
Total assets	**299,941**	**70,717**	**54**	**2**	**370,714**
Financial liabilities					
Shares	-	312,610	-	-	312,610
Amounts owed to credit institutions	-	14,531	-	-	14,531
Amounts owed to other customers	-	2,579	-	-	2,579
Derivative financial instruments	-	-	104	17	121
Financial liabilities	**-**	**329,720**	**104**	**17**	**329,841**
Non-financial liabilities	-	1,116	-	-	1,116
Total liabilities	**-**	**330,836**	**104**	**17**	**330,957**

There have been no reclassifications during either year.

26. Financial instruments (continued)

Fair values of financial assets and liabilities

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

		2019 Book value £'000	2019 Fair value £'000	2018 Book value £'000	2018 Fair value £'000
Financial assets					
Cash in hand and balances with Bank of England	a	**65,250**	**65,250**	58,565	58,565
Loans and advances to credit institutions	b	**7,734**	**7,734**	9,750	9,750
Loans and advances to customers	c	**322,390**	**331,851**	299,941	304,710
Other assets		**2,430**	**2,430**	2,402	2,402
Financial liabilities					
Shares	d	**334,301**	**334,702**	312,610	312,651
Amounts owed to credit institutions	e	**14,538**	**14,538**	14,531	14,531
Amounts owed to other customers	e	**6,569**	**6,569**	2,579	2,579
Other liabilities		**910**	**910**	1,116	1,116

Fair value is the value for which an asset or liability could be exchanged or settled between knowledgeable willing parties in an arm's 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 credit institutions and 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.

26. Financial instruments (continued)

Fair values of financial assets and liabilities

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

	Notes	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2019					
Financial assets					
Derivative financial instruments					
Interest rate swaps	11	-	60	-	60
		-	60	-	60
Financial Liabilities					
Derivative financial instruments					
Interest rate swaps	11	-	682	-	682
		-	682	-	682
31 December 2018					
Financial assets					
Derivative financial instruments					
Interest rate swaps	11	-	56	-	56
		-	56	-	56
Financial Liabilities					
Derivative financial instruments					
Interest rate swaps	11	-	121	-	121
		-	121	-	121

Valuation techniques

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

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.

26. Financial instruments (continued)

Credit risk

Credit risk is the risk that the Society incurs a financial loss arising from the failure of a customer or counterparty to meet their contractual obligations. The Society 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 port folios of high quality.

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

	2019	2018
	£'000	£'000
Credit Risk Exposure		
Cash in hand and balances with Bank of England	**65,250**	58,565
Loans and advances to credit institutions	**7,734**	9,750
Derivative financial instruments	**60**	56
Loans and advances to customers	**322,390**	299,941
Total statement of financial position exposure	**395,434**	368,312
Off balance sheet exposure – mortgage commitments	**21,321**	17,215
Total	**416,755**	385,527

26. Financial instruments (continued)

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

The Board 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 Finance Director and reviewed monthly by the ALCO.

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 treasury asset concentration is shown in the tables below:

	2019	**2019**	2018	2018
	£'000	**%**	£'000	%
Industry sector				
Banks	**5,732**	**7.86**	4,744	6.94
Building Societies	**2,002**	**2.74**	5,006	7.33
Central Bank	**65,250**	**89.40**	58,565	85.73
Total	**72,984**	**100.00**	68,315	100.00

	2019	**AA**	**A**	**Other**	2018
	£'000	**%**	**%**	**%**	£'000
Geographic region					
United Kingdom	**72,984**	**89.43**	**7.83**	**2.74**	68,315

'Other' relates to investments in unrated Building Societies.

There is no exposure to foreign exchange risk. All instruments are denominated in Sterling.

The derivative financial instruments are analysed in the table below:

	2019	**AA**	**A**	**Other**	2018
	£'000	**%**	**%**	**%**	£'000
Geographic region					
United Kingdom	**159,700**	**-**	**100**	**-**	99,350

There are no impairment charges against any of the Society's treasury assets at 31 December 2019 (2018: £nil).

26. Financial instruments (continued)

b) Loans and advances to customers

All mortgage loan applications are assessed with reference to the Society's credit risk appetite statement and lending policy which are approved by the Board. When deciding on the overall risk appetite that is to be adopted, 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 requirements. The lending portfolio as originated is monitored by the Board to ensure that it remains in line with the stated risk appetite, including adherence to the lending principles, policies and lending limits.

For new customers the first assessment of credit risk is achieved through 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 Society. All mortgage applications are overseen by the Mortgage department who ensure that lending criteria are applied and that all information submitted within the application is validated.

To ensure good customer outcomes and responsible lending the Society ensures 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 with reference to external credit reference agency data. The maximum credit risk exposure is disclosed in the table on page 58.

Loans and advances to customers are predominately made up of retail loans fully secured against UK residential property (£321m), split between primarily residential loans and a small portfolio of buy-to-let loans with the remaining £2m being secured on commercial property.

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

Geographical analysis	**2019**	2018
	%	%
East Anglia	**2.66**	1.87
East Midlands	**7.31**	8.00
Greater London	**13.30**	8.78
North	**1.19**	0.84
North West	**4.60**	3.80
South East	**5.55**	3.80
South West	**7.84**	5.93
Wales	**1.66**	1.18
West Midlands	**52.10**	62.13
Yorkshire and Humberside	**3.79**	3.67

26. 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 (HPI) for loans which are on residential property.

The average LTV of mortgage loans is 47.08% (2018: 47.83%). Mortgage Indemnity Insurance is taken out for all residential loans above 80% LTV at origination for a five year period from inception with a Lloyds of London insurance firm. Total mortgage loans of £163,059,000 are covered by mortgage indemnity guarantees which covers 15.7% of the outstanding credit exposure (2018: £179,030,000, 16.3%).

Further LTV information on the mortgage portfolio is shown below:

	2019	2018
	%	%
LTV analysis		
>0% - 50%	**27.87**	25.90
>50% - 60%	**15.72**	15.76
>60% - 70%	**16.92**	15.08
>70% - 80%	**15.82**	17.85
>80% - 90%	**19.61**	18.24
>90% +	**4.06**	7.17
	100.00	100.00
Average loan to value of mortgage loans	**47.08**	47.83

26. Financial instruments (continued)

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

	2019 £'000	2019 %	2018 £'000	2018 %
Arrears analysis				
Not impaired:				
Neither past due or impaired	**318,682**	**98.85**	297,888	99.31
Past due up to 3 months but not impaired	**1,280**	**0.40**	1,342	0.45
Past due over 3 months but not impaired	**1,028**	**0.32**	210	0.07
Impaired:				
Not past due	**573**	**0.18**	-	-
Past due up to 3 months	**510**	**0.16**	356	0.12
Past due 3 to 6 months	**206**	**0.06**	145	0.05
Past due 6 to 12 months	**111**	**0.03**	-	-
	Indexed £'000	**Unindexed £'000**	Indexed £'000	Unindexed £'000
Value of Collateral held:				
Neither past due or impaired	**668,927**	**586,655**	615,557	525,192
Past due but not impaired	**11,689**	**9,088**	8,921	6,870
Impaired	**1,148**	**913**	222	181
	681,764	**596,656**	624,700	532,243

The Society 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 house 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 2019 is £2,307,534 (2018: £1,552,345) against an outstanding debt of £2,307,534 (2018: £1,552,345). In addition, the value of collateral held against 'Impaired' assets at 31 December 2019 is £1,400,356 (2018: £501,081) against outstanding debt of £1,400,356 (2018: £501,081).

Mortgage indemnity insurance acts as additional security. It is taken out for all residential loans where the borrowing exceeds 80% 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 Society has taken action to realise the underlying security. Various forbearance options are available to support customers who may find themselves in financial difficulty.

26. 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 can be 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.

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:

	2019	2018
	Number	Number
Type of Forbearance		
Interest only concessions at year end	**10**	15
Total	**10**	15

These are included as part of the collective impairment provision of £1.13m (2018: £1.4m). Total loans in forbearance represent £1.13m (2018: £1.52m).

26. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Society will not have sufficient financial resources available to meet its obligations as they fall due, under either normal business conditions or a stressed environment. A significant amount of liquid 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 ILAAP demonstrates 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 from time to time by UK Government Treasury bills. At the end of the year the ratio of liquid assets to shares and deposits was 20.54% compared to 20.72% for 2018.

The table below analyses the Society'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 Society'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.

26. Financial instruments (continued)

Residual maturity as at 31 December 2019	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	65,250	-	-	-	-	-	65,250
Loans and advances to credit institutions	4,848	2,000	886	-	-	-	7,734
Total liquid assets	70,098	2,000	886	-	-	-	72,984
Derivative financial instruments	-	-	57	3	-	-	60
Loans and advances to customers	-	2,750	8,280	51,295	261,367	(1,302)	322,390
Other assets	-	-	-	-	-	2,430	2,430
	70,098	4,750	9,223	51,298	261,367	1,128	397,864
Financial liabilities and reserves							
Shares	214,447	72,845	29,875	17,134	-	-	334,301
Amounts owed to credit institutions	38	-	-	16,500	-	-	16,538
Amounts owed to other customers	1,669	1,900	-	1,000	-	-	4,569
Derivative financial instruments	-	3	92	587	-	-	682
Other liabilities	-	-	-	-	-	910	910
Reserves	-	-	-	-	-	40,864	40,864
	216,154	74,748	29,967	35,221	-	41,774	397,864
Net liquidity gap	(146,056)	(69,998)	(20,744)	16,077	261,367	(40,646)	-

26. Financial instruments (continued)

Residual maturity as at 31 December 2018	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	58,565	-	-	-	-	-	58,565
Loans and advances to credit institutions	4,750	5,000	-	-	-	-	9,750
Total liquid assets	63,315	5,000	-	-	-	-	68,315
Derivative financial instruments	-	3	44	9	-	-	56
Loans and advances to customers	-	3,088	8,484	50,862	238,976	(1,469)	299,941
Other assets	-	-	-	-	-	546	546
	63,315	8,091	8,528	50,871	238,976	933	370,714
Financial liabilities and reserves							
Shares	210,442	77,555	18,622	5,991	-	-	312,610
Amounts owed to credit institutions	31	-	-	14,500	-	-	14,531
Amounts owed to other customers	1,579	1,000	-	-	-	-	2,579
Derivative financial instruments	-	-	1	120	-	-	121
Other liabilities	-	-	-	-	-	1,116	1,116
Reserves	-	-	-	-	-	39,757	39,757
	212,052	78,555	18,623	20,611	-	40,873	370,714
Net liquidity gap	(148,737)	(70,464)	(10,095)	30,260	238,976	(39,940)	-

Liquid assets include amounts of £886,000 (2018: nil) that are encumbered as at the balance sheet date.

26. Financial instruments (continued)

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

31 December 2019	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	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Financial liabilities and reserves					
Shares	**214,447**	**72,861**	**30,202**	**17,585**	**335,095**
Amounts owed to credit institutions	**-**	**2,005**	**-**	**14,733**	**16,738**
Amounts owed to other customers	**1,642**	**1,916**	**-**	**1,029**	**4,587**
Derivative financial instruments	**-**	**376**	**896**	**1,817**	**3,089**
Total liabilities	**216,089**	**77,158**	**31,098**	**35,164**	**359,509**

31 December 2018	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	Total
	£'000	£'000	£'000	£'000	£'000
Financial liabilities and reserves					
Shares	210,442	77,516	18,704	6,208	312,870
Amounts owed to credit institutions	-	-	-	14,842	14,842
Amounts owed to other customers	1,579	1,002	-	-	2,581
Derivative financial instruments	-	233	612	1,043	1,888
Total liabilities	212,021	78,751	19,316	22,093	332,181

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 Society at the Statement of Financial Position date.

26. 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 exposure to interest rate risk. Included in the table are assets and liabilities, including derivative financial instruments which are principally used to reduce exposure to interest rate risk, categorised by repricing date.

Interest rate risk as at 31 December 2019	Not more than three months **£'000**	More than three months but not more than one year **£'000**	More than one year but not more than five years **£'000**	More than five years **£'000**	Non interest bearing **£'000**	Total **£'000**
Financial assets						
Liquid assets	**71,627**	**886**	**-**	**-**	**471**	**72,984**
Derivative financial instruments	**-**	**-**	**-**	**-**	**60**	**60**
Loans and advances to customers	**181,525**	**46,164**	**94,353**	**836**	**(488)**	**322,390**
Intangible assets	**-**	**-**	**-**	**-**	**122**	**122**
Tangible assets	**-**	**-**	**-**	**-**	**1,674**	**1,674**
Other assets	**-**	**-**	**-**	**-**	**634**	**634**
	253,152	**47,050**	**94,353**	**836**	**2,473**	**397,864**
Financial liabilities and reserves						
Shares	**272,751**	**39,931**	**20,929**	**-**	**690**	**334,301**
Amounts owed to credit institutions	**16,500**	**-**	**-**	**-**	**38**	**16,538**
Amounts owed to other customers	**3,542**	**-**	**1,000**	**-**	**27**	**4,569**
Derivative financial instruments	**-**	**-**	**-**	**-**	**682**	**682**
Other liabilities	**-**	**-**	**-**	**-**	**888**	**888**
Provisions for liabilities	**-**	**-**	**-**	**-**	**22**	**22**
Reserves	**-**	**-**	**-**	**-**	**40,864**	**40,864**
	292,793	**39,931**	**21,929**	**-**	**43,211**	**397,864**
Impact of derivative instruments	**79,461**	**(17,421)**	**(62,117)**	**77**	**-**	**-**
Interest rate sensitivity gap	**39,820**	**(10,302)**	**10,307**	**913**	**(40,738)**	**-**
Sensitivity to profit and reserves						
Parallel shift of 1%	**(48.2)**	**59.5**	**(338.2)**	**(43.1)**	**-**	**(370.0)**
Parallel shift of 2%	**(96.4)**	**119.0**	**(676.4)**	**(86.2)**	**-**	**(740.0)**

26. Financial instruments (continued)

Interest rate risk as at 31 December 2018		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	Non interest bearing	Total
		£'000	£'000	£'000	£'000	£'000
Financial assets						
Liquid assets	67,879	-	-	-	436	68,315
Derivative financial instruments	-	-	-	-	56	56
Loans and advances to customers	193,779	34,301	72,792	-	(931)	299,941
Intangible assets	-	-	-	-	165	165
Tangible assets	-	-	-	-	1,691	1,691
Other assets	-	-	-	-	546	546
	261,658	34,301	72,792	-	1,963	370,714
Financial liabilities and reserves						
Shares	282,296	23,747	5,991	-	576	312,610
Amounts owed to credit institutions	14,500	-	-	-	31	14,531
Amounts owed to other customers	2,579	-	-	-	-	2,579
Derivative financial instruments	-	-	-	-	121	121
Other liabilities	-	-	-	-	1,033	1,033
Provisions for liabilities	-	-	-	-	83	83
Reserves	-	-	-	-	39,757	39,757
	299,375	23,747	5,991	-	41,601	370,714
Impact of derivative instruments	70,914	(18,099)	(52,915)	100	-	-
Interest rate sensitivity gap	33,197	(7,545)	13,886	100	(39,638)	-
Sensitivity to profit and reserves						
Parallel shift of 1%	(39.5)	48.9	(313.0)	(4.6)	-	(308.2)
Parallel shift of 2%	(79.1)	97.9	(626.1)	(9.2)	-	(616.5)

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 Credit Support Annexes (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. At 31 December 2019 £886,000 (2018: £nil) of collateral had been deposited against derivative contracts.

The Society is not exposed to foreign currency risk.

27. Guarantees and financial commitments

	2019 £'000	2018 £'000
a) Capital commitments		
Capital expenditure contracted for but not provided for in the accounts	-	-
b) Total of future operating lease commitments at the year end		
Not later than one year	**25**	25
Later than one year and not later than five years	**100**	100
Later than five years	**17**	42

28. Related Party Transactions

During the year ended 31 December 2019 a total of £680 (2018: none) was paid to Sally Morgan in respect of rental for use of property on an arm's length basis whilst she was a Board director.

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 due to their sensitive nature. The aggregate amount of all savings balances at 31 December 2019 was £29,825 (2018: £51,965).

29. Country By Country Reporting

Article 89 of the Capital Requirements Directive IV requires credit institutions and investments firms in the EU to disclose annually, specifying by Member State in which it has an establishment, the following information for the year: name, nature of activities, geographical location, turnover, number of employees, profit before tax, corporation tax paid and public subsidies received.

The principal activities of the Society is the provision of residential mortgages and retail savings products. Tipton & Coseley Building Society operates only in the United Kingdom.

Average employee numbers are disclosed in Note 6. Turnover is £6,994,000 (2018: £6,702,000), Profit before tax £1,372,000, (2018: £1,673,000), and corporation tax paid £285,000 (2018: £364,000). Turnover consists of net interest income, net fees and commissions received or paid and other income.

No public subsidies were received by the Society.

Basis of preparation
The Country by Country information for the year ended 31 December 2019 has been prepared on the following basis:

The number of employees has been calculated as the average number of full and part-time employees, on a monthly basis, as disclosed in note 6.

Turnover represents total operating income as disclosed in the Income Statement. Total operating income comprises net interest income, fees and commissions receivable and payable and other income.

Pre-tax profit or loss represents the Society profit or loss before tax, as reported in the Income Statement.

Corporation tax paid represents the cash amount of corporation tax paid during the year, as disclosed in the Statement of Cash Flow.

No public subsidies were received during the year, however the Society is a participant of the Term Funding Scheme. Borrowings from the scheme are shown in note 18.

Statement of Directors' responsibilities in relation to the Country by Country Reporting (CBCR) Information.
The Directors of the Society are responsible for preparing the CBCR Information for the year ended 31 December 2019 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 set out above to 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.

Annual Business Statement

1. Statutory percentages

	2019 %	Statutory limit %
Lending limit		
Proportion of business assets not in the form of loans fully secured on residential property	**1.10**	25
Funding limit		
Proportion of shares and borrowings not in the form of shares held by individuals	**5.94**	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 Statement of Financial Position.

Business assets are the total assets of the Society as shown in the Statement of Financial Position plus impairment for losses on loans and advances (note 13), 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 Statement of Financial Position. Shares held by individuals are set out in note 17.

Annual Business Statement (continued)

2. Other percentages

	2019 %	2018 %
As a percentage of shares and borrowings		
Gross capital	**11.50**	12.06
Free capital	**11.31**	11.92
Liquid assets	**20.54**	20.72
As a percentage of mean total assets		
Profit after taxation	**0.29**	0.37
Management expenses	**1.49**	1.38
As a percentage of year end assets		
Return on assets	**0.28**	0.36

The above percentages have been calculated from the accounts.

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

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

'Free capital' is gross capital plus collective impairment for losses on loans and advances (note 13) less property, plant and equipment and intangible assets in the 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.

'Liquid assets' are the total of cash in hand and balances with the Bank of England and Loans and advances to credit institutions.

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

3. Information relating to Directors as at 31 December 2019

Directors

Name and year of birth	Appointment date	Occupation	Other directorships
A J Higgins MA, FCA 1953	1 May 2012	Chartered Accountant	Countess of Chester Hospital NHS Foundation Trust Roseville Court Management Ltd
C D J Almond BSocSc 1966	28 February 2019	Consultant	Arkle Solutions Ltd
M Hrycyk MBA 1956	20 November 2017	Chief Information Officer	Maple Hawthorn Ltd
A J Lumby FCA 1978	29 January 2018	Building Society Finance Director	None
S A Morgan MBA, ACIB 1967	25 April 2019	Building Society Operations Director	None
R J Newton FCCA, ACIB 1970	1 July 2011	Building Society Chief Executive	Roseville Court Management Ltd
K A Rolfe BSc (Hons) 1961	1 June 2015	Retired banker	None
S J Veitch MA, ACA 1973	28 June 2018	Non-Executive Director	Redwood Bank Ltd

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 19.

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.
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 (continued)

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.
Tier 1 Capital	Tier 1 capital consists of internally generated capital from retained profits less intangible assets and other regulatory deductions.
Tier 1 ratio	Tier 1 capital as a percentage of Risk Weighted Assets (RWA's)

the tipton
& coseley building society

We monitor and record phone calls for your security and our training purposes.

We are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Our Financial Services Register Number is 159601. We are a member of the Building Societies Association.

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