

ANNUAL REPORT

Year ended 30 November 2014



IPSWICH
BUILDING SOCIETY

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Chairman's Report

The year ended November 2014 was dominated by the complete change of our IT systems onto a new platform, built and operated by a different supplier. This was an enormous undertaking and it is credit to the level of effort and focus of our Executive team and the experience of our own finance, mortgage and branch specialists coupled with selected expert project managers that members were largely unaware of the change to the new system when it eventually 'went live' in October 2014. For many months, significant numbers of staff had been working to test the systems so that the eventual 'go live' went off without a hitch.

The change of IT systems was forced upon us when our previous supplier withdrew from the market of supplying outsourced services. Though we might not have chosen to change systems, over time we expect the new system will make processing mortgages and administering savings business quicker and easier than before.

The change of IT system had a significant impact on our ability to write and process new mortgage business throughout the year. Therefore, this year saw us substantially withdraw from the mortgage market. The result can be seen in our financial figures where the size of the mortgage balances outstanding shrank from £485m at 30 November 2013 to £474m at 30 November 2014. Members should not view this as a cause for concern. On the contrary, it was as a result of a deliberate management decision.

With the new IT system now in place, we are able to return to the mortgage market and have plans to grow the mortgage book steadily in the years ahead. The pace of growth will be moderated by our need to increase, and keep, sufficient levels of regulatory capital which is designed to protect members from reasonably foreseeable losses. Planned, steady growth enables us to manage our resources and our risk in a prudent and efficient way and to build on our already established reputation in the market place; particularly in our heartland of Suffolk.

In recent years we have become known for enabling a range of people who might otherwise have been excluded from the property market, to buy their own homes. We have been able to do this because of our understanding of the market, our individual underwriting and flexible approach. We intend to continue this focus in the year ahead, looking at niche areas where other lenders, many of whom apply an automated approach, are unwilling or unable to lend. The Mortgage Market Review, which is described in more detail in the Chief Executive's report, provides new rules for all mortgage lenders aiming to reduce the risk of irresponsible lending so that prospective borrowers can afford a mortgage. Our individual, manual, underwriting has always focused on the ability of a borrower to meet their obligations and we will continue to work to help individuals fulfil their dream of their own home.

Our mortgage lending is substantially funded by retail deposits from members and we pride ourselves on providing a safe place for you to deposit your money. The savings market continues to be challenging for members with many accounts offering rates below the rate of inflation. Our task is to balance our savings and lending books; we need sufficient retail deposits to be able to lend mortgages but too many deposits sitting on our own books and not earning money is very costly and would cause long term damage to the sustainability of the Society. Therefore, we took the very difficult decision to reduce the savings rates offered on some of our accounts.

Whilst we do have to reduce rates from time to time to sensibly manage the costs and risks of the Society we do remain committed to providing our existing members with the best value possible. We do not have 'new customer only' deals and our existing member rates have often been in excess of the wider market best buy rates of that time.

We carefully balance offering the best possible rates and a great service to our members while ensuring the Society remains a safe place for deposits. To do this, we need to be financially strong, with sufficient level of reserves and an adequate level of profit to reinvest in the business to improve our service to you and build our capital base.

Our change of IT systems has some wider implications for our business and in particular brings a step change in our cost base. Despite all efforts to find a system which combined stability, integrity, compliance with regulatory requirements and value for money, the service cost for our new system will be significantly higher than the old system. This additional cost will flow directly through to the bottom line and reduce profits. Accordingly, members will not see the level of profit in the next few years that we have come to expect in recent times. Other pressures on costs and profits come from new staff in areas such as risk, IT support and mortgage sales.

The Society is capable of absorbing this new level of cost and whilst profit will be reduced it will remain sufficient to continue to build our capital so the Society remains a secure place for deposits in the future.

Mutual and role in Community

The Society is proud to be a mutual, owned by you, its members. With no external shareholders setting the agenda, our focus can be on members and providing you with a range of products which are appropriate for you, transparent and which you truly understand and a level of service which is second to none. Member satisfaction may seem a rather old fashioned concept but we believe it is entirely consistent with mutuality, particularly as one of our objectives is to build a long term relationship with you. During 2014 we invited members who visited our branches or telephoned us to let us know their thoughts about our customer service and products.

We achieved a satisfaction score of 90% from members who visit branches. We are still collecting results for our telephone service, but early results show satisfaction levels are high with this channel. The feedback that you provide is regularly reviewed by the Executive team and discussed with the Board and influences our thinking on both what we do and the way in which we do it.

We also believe that, as a mutual embedded in a local region, there is an important role for us to take in improving the lives of people in our local communities. Through our branch network we are embedded in our local communities and able to work with them on issues which are important to them. We also encourage our staff to volunteer their time and work with schools to increase financial education of children at primary school in the region. In 2015 we will launch a financial education programme for 14 and 15 year olds. In recent months we have held a series of meetings with members to understand from you what you believe our role in the community should be. The outcomes of these meetings will help to shape our thinking and focus our resources into areas which are most important to you.

Charles Tilley, Chairman of the Audit and Compliance Committee, has decided to stand down from the Board due to increasing pressure on his time from his other business commitments. I would like to thank Charles for his dedication and hard work for the Society over the past six years on the Board. I should also like to thank all our members for their continued support and to thank all members of staff for their hard work and dedication over what has been, in many ways, a challenging year.

With our renewed focus on the mortgage market and our local communities, we are anticipating a busy and exciting year ahead for the Society.



E. Sarah Evans
Chairman
29 January 2015

Chief Executive's Report

This was a year of success in unusual circumstances.

We kept the ship steady through the Mortgage Market Review, a major IT project and continuing economic uncertainty. Lending fell slightly, but we served our members well and made a very strong profit, maintaining our healthy balance sheet.

On top of that, we continued to support the community with financial education, volunteering and event participation, and we launched a new brand, All In, to reinforce the benefits of being part of a member-owned organisation.

Overall, I'm very pleased with our progress this year and our position going into 2015.

Key Results 2014

- Total assets reached £601m (2013: £601m)
- Total mortgage assets £474m (2013: £485m)
- Total savings balances £539m (2013: £549m)
- Total profit (before tax) £3.8m (2013: £3.2m)

Capital Performance 2014

- Capital increased to £34m (2013: £33m)
- Gross capital 6.05% of shares and borrowings (2013: 5.86%)

Arrears and Possessions 2014

- Total arrears case over 12 months: 16
- Total possessions: 4 at year end

Overview of financial performance

2013/14 saw the Society's total assets maintained at £601m (£601m 2012/13). Mortgage assets decreased from £485m in 2012/13 to £474m in 2013/14 as the Society focused its resources on delivering the IT project and serving existing members rather than stretching resources and impacting service levels to attract new mortgage business.

Our priority was to have satisfied members whilst delivering our key projects and achieving a healthy profit. Profit increased from £3.2m in 2012/13 to £3.8m 2013/14 and this is essential so we can continue to add to our capital. Our capital is in excess of the regulatory requirements and we plan to continue this trend in the future – an essential part of continuing to show the Society is a safe place for savers.

Management expenses increased during the year (2013/14: £7.3m from 2012/13: £6.3m) due to IT costs and costs for new roles. Overall costs also increased due to the continuation of funding the Financial Services Compensation Scheme. These areas of expenditure were unavoidable and/or essential to the success of the Society and have been absorbed to still deliver a profitable year.

A major IT project

This year, we successfully completed our two-year project to implement a completely new IT system. Our mortgage origination, branch, finance, customer, savings and mortgage administration systems have all been migrated to the new platform, and our employees have started using it in their day-to-day work.

A significant amount of our resource, particularly in our Mortgage team was diverted to deliver the project over the past two years. The impact of this has been a reduction in our mortgage lending in 2014 as we made the choice not to stretch resource and impact service levels, but instead to focus upon serving existing members and completing the project. We achieved both, completing our IT migration in October 2014 and retaining a high proportion of maturing mortgage business. Our branches also felt the impact of our IT project with all employees requiring dedicated training for the new system at our Head Office and the requirement to close the branches and agencies for two days to fulfil the migration process. This was essential to ensure the migration was completed securely and accurately. I would like to thank members for their patience during this time and the weeks that followed as employees become more familiar with the new IT system.

The system is still bedding down, and we're still discovering how to get the best out of it, but overall we're very pleased with the project and the results so far. We expect the full benefits to be realised over the next two years or so.

The Mortgage Market Review

The key regulatory change this year was the Mortgage Market Review (MMR), introduced by the FCA to reduce the risk of irresponsible lending. The MMR introduced more prescriptive rules to assess whether people can afford a mortgage. For us, it meant making some changes to our processes and we successfully delivered these ahead of time.

Prior to the introduction of MMR, we raised the issue that some previously credit worthy borrowers would find it harder to obtain a mortgage; such as the self-employed and those on average salaries. It seems that sadly this has come to pass with the Bank of England reporting a 14 month low in mortgage approvals in September 2014. It would seem that the application of the rules have been exacerbated by some larger lenders; banks' mortgage approvals have reduced by 16% during the year. Older borrowers have also been impacted as some lenders reduced their maximum lending age. Meanwhile building societies increased their share of the mortgage market to 29% from a natural state of 20%.

We have applied MMR in the spirit it was intended, using a sensible approach to affordability, applying use of verified expenditure from borrowers (rather than relying on a statistical data) and always ensuring the loan is the best outcome for the borrower. Within the rules of MMR we will continue to welcome self-employed and older borrowers.

We take the time to understand fully each individual's financial position before making a decision to lend to them. We also used the transitional rules under MMR for existing borrowing members who don't meet the new affordability criteria and where it was in the best interests to do so, so they could access our mortgage deals.

Our pragmatic approach to lending works and our levels of total arrears over 12 months has reduced slightly from 17 in 2013 to 16 in 2014. By sticking with the practices that have served us so well in the past, we can help creditworthy 'mortgage misfits' to access the right loan – which will help us grow our mortgage book in 2015.

The MMR also obliges lenders to offer a fully advised process when they sell direct to borrowers, recommending a product instead of allowing customers to choose for themselves. Some lenders were unprepared for the extra workload involved, and their customers had to wait months to see an advisor. We invested in appointing and training new advisors in good time, and following a short period of slightly longer waiting times for appointments, we're now completely back to pre-MMR levels.

Our commitment to service, simplicity and the local community

Offering an excellent level of service, straightforward products and our role in the local community and economy provides us with a close relationship with members, strong roots in the community and a stable source of funding. We're committed to dealing with our members face to face, and offering them a nearby branch or agency where they can come in and see us. During the year we achieved a customer satisfaction score of 90% and retained 75% of all maturing savings and mortgage products; a clear testament to the excellent service we provide.

Supporting the building society sector

The Society has signed up to the Building Societies Associations' 'Manifesto for Financial Mutuals'. This aims to create a more level playing field between shareholder controlled plcs and mutually owned providers. It calls for:

- A fair deal for consumers
- A level playing field for financial mutuals
- A rational approach by regulators to capital
- A more coordinated approach to promoting mutuals, creating a stronger savings culture and tackling the housing crisis

We'll be working with the Building Societies Association (BSA) and local politicians and media to raise awareness of these requirements. In particular I believe we need to focus on addressing housing needs.

If we want our children and grandchildren to be able to buy their own homes and have access to good quality rental accommodation, we have to build more houses. The Manifesto for Financial Mutuals also states the need for a Cabinet level housing Minister and a coherent integrated housing policy to get building at the right levels and with the right levels of infrastructure to support this.

The Society will also do its bit by continuing to support those with low deposits or more unusual circumstances who wish to own their own home by offering mortgages up to 95% loan to value, using our manual underwriting to review circumstances and providing shared ownership mortgages.

A great place to work

For the fourth year in a row, we've been given a one-star 'Best Companies to Work For' award. The awards recognise employee engagement, and are based on our employees' responses to an impartial, third-party survey. It's the HR equivalent of a Michelin star, and it reflects our commitment to making the Society a great place to work. A happy workforce is a motivated workforce, which translates into better service for members and a more effective business.

We want our employees to be as fit and healthy as possible; that's why we provided yoga sessions in all our branches and Head Office to help staff stay supple and to promote good back health. We also award extra time off to employees who take time to improve their physical and mental health, for example by taking a walk at lunchtime or travelling to work on foot or by bike. We delivered a number of health and well-being campaigns during the year providing information about mental illness, diabetes, skin cancer and heart health. We also added some practical touches such as free sun cream for those hot months when employees spend their lunch break outside and we changed one of our meeting rooms into a quiet room for those wishing to meditate or read.

I am also delighted to confirm that all employees earn the living wage or more and we have made available free independent financial advice to all employees regarding their pension plans.

Chief Executive's Report

continued

Supporting the community

We're proud to support the local communities where we operate. This year, we increased our employee volunteering hours from 375 last year to 616, provided a total of 231 hours' financial education in local schools and a local prison, launched an app to teach children about money and supported a range of good causes with funding and donations.

All employees are allowed four hours paid leave per month to volunteer. This provides them with the opportunity to gain different skills as well as giving something back to their local community. It is excellent that more employees took advantage of this in 2014 than ever before.

We also appointed a Financial Education officer to bolster our commitment to improving the levels of financial literacy across Suffolk. In 2014 they created a new financial education programme for year 10 students and this will be rolled out in 2015.

During the year we supported a number of events, too many to mention them all, so here are a few highlights. For Sport Relief in March, our branches and Head Office raised over £400 through activities including a Walk to Work over 14 miles between our Hadleigh and Ravenswood branches (a 3am start followed by a full day's work). During June and July, each of our branches hosted a 'donation station' for a local food bank or community resource centre, and in October, we took part in the ever-popular Macmillan Coffee Morning, which raised £1,711 and saw the return of the Great Hadleigh Bake-Off. The Directors' Report contains further examples of our community work during the year.

All In

In September 2014 we launched All In, our new membership programme. With this initiative, we aim to demonstrate the benefits of being part of a member-owned organisation; the opportunity to join in discussions or ask questions about Society decisions, having a voice and helping others.

Our website now allows members to talk to each other, provide feedback on our work and share the causes they care about. We've offered a range of opportunities for members to get involved in, including trips to Glemham Hall, RSPB Havergate Island, Ipswich Transport Museum and many more.

So far, the response to All In has been incredibly positive, and we're looking forward to developing it much further during 2015.

Looking forward

As a regional building society we take great pride in being close to our local area, but as a financial services business it is important we're also cognisant of potential risks in the UK and global economy.

Europe is entering a turbulent period with the potential of Greece leaving the Euro, deflation and flagging growth across the region. The United States is expected to return to being the globe's economic powerhouse in 2015.

In the UK, inflation is expected to remain at around 1% for the first half of 2015 and it is expected that house prices will continue to increase but at a gentler rate than the levels seen in 2014. It is generally expected that the Bank of England will increase the base rate towards the end of 2015. Any increase is likely to be small and we are confident that the majority of our mortgage members could withstand this increase. In 2015 the test for the UK economy will be its ability to continue to grow in a housing market which is growing at a slower rate than in 2014. Furthermore, we await the result of the General Election in May and any policy changes this may bring.

The Society reviews these factors on an on-going basis and has contingency plans ready for a range of economic circumstances. Whilst we may not be able to control wider macro economic factors, we are prepared and ready to respond to our changing environment, ensuring we always operate in the best interest of our members.

Last year I introduced to you our new strategy and vision to become the most socially responsible building society in the UK. We've had a busy year moving towards this, increasing our volunteering hours, investing in expanding our financial education programme and completing a review of the performance of our suppliers and their social responsibility.

With MMR and our IT project behind us, 2015 will see us return to the mortgage market in force. We're looking to supporting local residents, the self-employed, self-builders, first-time buyers and shared owners, drawing on our expertise in manual underwriting to help more people own their own home.

During the coming year, we'll turn our attention to creating an online savings service. At the same time, we'll make sure we maintain the face-to-face presence that our members value. And we'll stay focused on long-term sustainability; delivering great service and straight-forward products to our members and carefully managing the Society to achieve healthy profits over the years to come.



Paul Winter
Chief Executive
29 January 2015

Directors' Report

The Directors have pleasure in presenting the 165th Annual Report for the year ended 30 November 2014.

Business objectives and activities

Our primary purpose remains that of making loans secured on residential property to enable people to buy their own homes; doing this profitably and building our capital in the long term. These loans will be funded substantially by members.

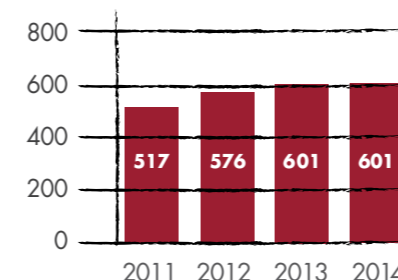
Key Performance Indicators

The Board reviews a series of KPIs to ensure the effective management and success of the Society. These include arrears and forbearance KPIs to ensure the Society is not at risk of making losses at a level beyond our risk tolerance levels.

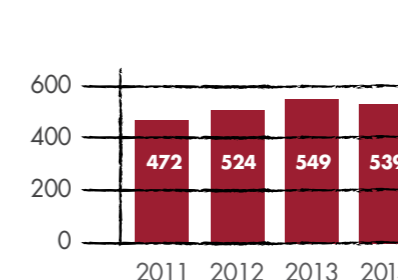
Performance KPIs	2014 £m	2013 £m
Total Assets	601	601
Total Mortgage Assets	474	485
Total Retail Savings Balances	539	549
Management Expenses*	7.3	6.3
Profit before tax	3.8	3.2
Total Capital	34	33

*Management expenses consist of administrative expenses, depreciation and amortisation.

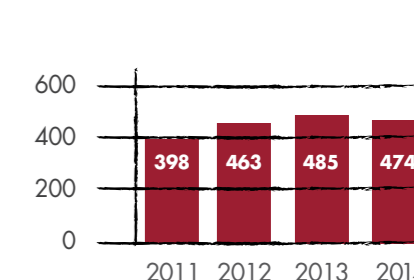
Total Assets £m



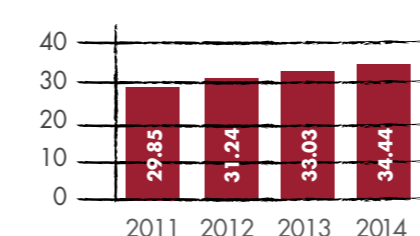
Savings Balances £m



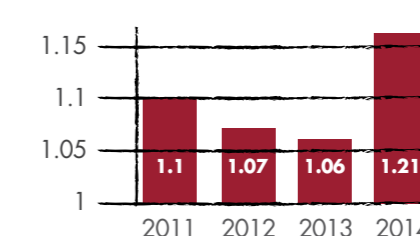
Mortgage Assets £m



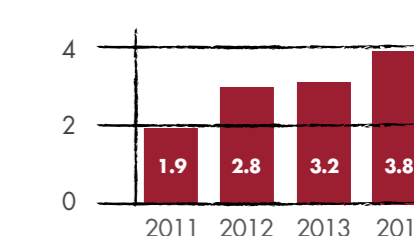
Capital £m



Management Expenses Ratio



Profit Before Tax £m



* Includes £855,000 profit on redemption of subordinated debt.

Arrears and forbearance* KPIs:

Arrears and forbearance cases and changes	2014	2013	% change
Arrears cases over 12 months	16	17	-5.8%
Total £ capital outstanding of arrears cases over 12 months	£1,273,230	£1,213,362	4.9%
Total £ arrears over 12 months	£129,766	£145,299	-10.6%
Forbearance cases	148	144	2.8%
Total £ balances of cases in forbearance	£12,027,549	£11,100,286	8.4%

The total balances of cases in forbearance (£12,027,549) in 2014 are 2.56% of total mortgage balances. 63 of these cases had arrears totalling £136,127 (2013: £99,144). Where the Society considers there is a possibility of loss, a provision is made in accordance with the Society's policies.

*The Financial Conduct Authority defines forbearance to have occurred "when a lender grants a concession for reasons relating to the actual or apparent financial stress of a customer."

Directors' Report

continued

Performance summary

- Total asset size has remained steady. Mortgage balances decreased as resources were focused on the IT project and the Society held more in liquidity
- The dominant feature of the year was the migration of our entire IT systems to a new supplier. The IT project required significant levels of human resources for its successful delivery. As a result the Society completed lower levels of mortgage business reducing our total mortgage assets
- Savings balances have shown a slight decline reflecting our reduced business appetite during the IT project
- Total capital has seen a steady increase as we build this with our retained earnings and this sees gross capital as a % of our share and deposit liabilities at 6.05% and free capital as a % of our share and deposit liabilities is 5.30%
- Strengthened our capital position by redeeming £5m of subordinated debt which was partially ineligible as capital and issuing new eligible subordinated debt. This also resulted in a one off gain of £855,000 and was an exceptional gain which is unlikely to be repeated in future years
- Our Tier 1 Capital Leverage ratio is 4.37% - this is a ratio set by the Financial Policy Committee (an independent committee of the Bank of England with the aim of removing or reducing systemic risk in UK financial services) and takes our retained profits as a % of total assets
- Management expenses ratio shows the cost of running the Society for every £100 of mean total assets. This has increased in 2014 due to additional costs for the IT project and recruitment of key new roles
- Profit before tax has increased year on year reaching £3.8m in 2014. Capital, which comprises the general reserve and eligible subordinated liabilities, has reached £34m
- Arrears cases over 12 months have reduced to 16 whilst forbearance cases have increased slightly by 4. The increase in forbearance cases reflects the diligent work of the Arrears team identifying those members with payment difficulties and providing them with a range of forbearance methods appropriate to their financial situation.
- The Board reviews a number of risk, liquidity and capital KRIs and KPIs to ensure the continued performance of the Society

Our Pillar 3 disclosure and Country by Country Reporting documents can be found on our website: www.ibs.co.uk/about-us/results/pillar-3

Overview of business performance

We are able to deliver another set of positive results, despite a year consisting of a major IT project and significant regulatory change in the mortgage sector (the Mortgage Market Review).

IT project

We completed our IT migration in October 2014, successfully moving our

teller, finance and mortgage origination systems to a new IT supplier. This followed the migration of our IT network and hardware to a new supplier in 2013. The system is still bedding down and the Society's employees are increasing their knowledge of how to get the best from the system, but overall the Society is pleased with the results so far.

Our IT project started in 2012 following the announcement from our former IT supplier that they no longer wished to provide these services. We undertook a thorough procurement exercise at the end of which we appointed two new suppliers based on their experience in the market, the quality of their systems and levels of support, IT security and costs. We also worked with two other building societies to share and reduce the costs of the procurement exercise and the costs of the IT systems and services.

The IT project has required significant use of our human resources over the past two years. At points during the project 40% of our Mortgage team and many individuals from our Finance, Data and IT and Savings teams at Head Office have been deployed to the project. Whilst our branches saw less impact we did need to spend significant time in 2014 training branch employees to use the new IT system.

We have been careful to manage the costs of the project, selecting where to invest our budget to ensure a stable and successful IT system and choosing to use appropriately experienced existing employees where possible in preference to engaging external consultants. We did appoint two experienced IT project managers as this was a skill we did not possess in-house and their input was vital to the success of the project.

Despite all our best endeavours, the project has been an expensive exercise both in reducing our opportunity to lend in 2014 and in increasing our costs not only in 2014 but also in future years.

During 2015 we will continue to enhance our new IT systems to ensure they work as efficiently as possible for the Society and for our members.

Mortgage Market Review Project

Our second significant project in 2014 was to implement the required changes of the Financial Conduct Authority's Mortgage Market Review. These new rules required mortgage lenders to offer a fully advised sales process and to use new affordability rules for lending decisions. We implemented the required changes to our processes, procedures and training programmes ahead of the 26 April 2014 deadline.

The Society's financial performance in 2013/14

The Society's balance sheet has remained static at £601m and we remain almost wholly funded from retail deposits.

Profitability has increased from £3.2m in 2012/13 to £3.8m 2013/14. Our aim is to make a reasonable profit so we can add to our capital (essential to protect our members from unexpected losses) and ensure the long term sustainability of the Society. We generate profit based on the difference of our blended mortgage rate and our blended savings rate less the costs of running the business. We are also careful with our mortgage lending to ensure losses are minimised. Managing these elements and ensuring we provide the best value

rates and service for our members has resulted in a strong profit performance.

The Society experienced a one off gain of £855,000 from the early redemption of £5m of subordinated debt. The Society has held this debt for a number of years and the interest rate sat below market rates. The Society was therefore able to negotiate a rebate for redeeming this early with the supplier. The eligibility of this debt for inclusion in regulatory capital was amortising with £1.33m of this ineligible as regulatory capital.

We issued £3.5m of new subordinated debt (this debt is subordinated to all other forms of debt and contributes to our total capital) and with our continued profitability from the year we have strengthened our total capital base. We are in excess of the new Tier 1 capital leverage ratio, holding 4% against 3% set by the Financial Policy Committee.

Management expenses increased (2013/14: £7.3m from 2012/13: £6.3m) due to the costs of the IT project, a higher cost of IT services compared to 2012/13 and the appointment of new senior management roles. Continuation of funding the Financial Services Compensation Scheme also saw overall costs increasing.

Mortgage performance

In 2013/14 total mortgage assets reduced as the Society dedicated employees to delivering the IT project. In particular the Mortgage team diverted significant people resource to the IT project and they worked on defining the processes and testing of the new system. At peak points up to 40% of the Mortgage team worked on the IT project.

We focused our remaining resource on retaining and providing a good and supportive customer service to our existing mortgage members. We retained 78% in 2013/14 of mortgage accounts who had a maturing product with us during the year (83% in 2012/13).

Our Arrears team worked diligently and with care to support those members with payment difficulties during the year. Early identification of payment difficulties and the use of appropriate forbearance methods form part of the Society's strategy to minimise credit losses. These forbearance activities include providing members with payment arrangements, extending the term of a capital and interest repayment mortgage, changing the payment date or method of payment and temporarily converting a mortgage from a capital and interest repayment to interest-only. Once a mortgage account is in forbearance, the Society will monitor and review each account on a regular basis to ensure that the forbearance measure is still appropriate for the member's financial situation. The Society's proactive approach to forbearance saw a reduction in arrears cases over 12 months (2013/2014: 16 from 2012/13: 17) and a slight increase of four forbearance cases (2013/14: 148 from 2012/13: 144). Whilst we aim to minimise losses through our work with members, we do apply appropriate provisioning to cover any potential losses in accordance with our policies.

Our mortgage book continued to be a mix of prime residential mortgages, shared ownership mortgages and buy to let mortgages. This blend of mortgage business meets our requirements of low risk

lending, delivering an acceptable margin and helping those with lower deposits to access the mortgage market.

In 2015 we intend to be more active in the mortgage market, steadily attracting new mortgage business as our new IT system beds down.

Savings performance

During 2013/14 we aimed to offer our members an excellent, personal service and good value savings products. External market conditions resulted in the Society having to make some difficult choices on rates during the year in order to manage our total savings balances within our business plan. However we aimed to do this with the best interest of all our members in mind over that of new business.

For the first three quarters of the year we saw savings balances steadily increase to a peak of £562m whilst our business plan in 2013/14 required these to reduce to £539m (in line with our expectation that our mortgage assets would not grow). Our analysis showed that the interest rates paid on accounts held by existing members and closed to new members had become increasingly competitive as savings rates in the wider market reduced. As a result these closed accounts were attracting the majority of inflows. We needed to reduce the volume of inflows and took the difficult decision to reduce interest rates on some of our closed accounts. This reduced the volume of inflows into total savings balances but these still remained in excess of our total savings balances target.

In October 2014 our five year savings bond matured. The majority of holders of our five year bond came from outside of the East of England and had been attracted by its market leading rate (up to 5.10%). We achieved a planned outflow from this product (retaining the majority of local members) and this reduced our total savings to £539m successfully putting us in line with our three year business plan.

Whilst we took the decision to see outflows on our five year bond, overall savings bond retention levels have been strong. We retained 82% of all maturing savings accounts in 2013/14 (84.7% 2012/13) and this increased to 85% if our five year bond out of area members are not included.

Our branches achieved high levels of customer satisfaction and recommendation in 2013/14 with a service satisfaction score of 90.5% and a Net Promoter Score (NPS) of +66.93. NPS is a score showing how likely members are to recommend us to others.

Our commitment to being a member-owned business

We reaffirmed our commitment to being a membership-owned organisation by launching a new membership programme called All In. Research conducted by the Society had identified that 62% of members polled identified themselves as a customer rather than a member of the Society. We believe it is integral to our purpose and to our vision (based on social responsibility) to help our membership realise and understand their position as owners of the Society. Activity so far has included production of information materials, a new section on our website and a series of member events which have proved popular with members. This work will continue in 2015.

Directors' Report

continued

Looking after our local community, economy and environment

The Society has a very strong commitment to social responsibility in all its forms and our work in this area was recognised in 2014 with a Highly Commended Award for Small/Medium Sized Responsible Business of the Year from Business in the Community (BITC).

We continued our employee volunteering programme which allows all employees four hours per month to volunteer. In 2014 we gave 616 hours of volunteering to the community, a year-on-year increase of 59%, worth an approximate £13,000. We delivered 231 hours of financial education in local schools and achieved over 5593 downloads of our free financial education app "My Puppy: Maths & Money". In addition we also delivered financial education sessions to HMP Highpoint.

Our employees raised £10,206 for local charities through fundraising in branches or personal sponsorship. The Society offers match funding for personal sponsorship of local charities and added a further £5,983 to this total. Examples of fundraising and sponsorship include cakes sales, dress downs, marathons and walks. We also donated £5,000 to Suffolk Community Foundation's Suffolk Fund, for grassroots charities and £350 to other local charitable causes.

We have been efficient in our running costs and supported the environment through our use of solar panels (saving £4,117 in 2014), recycling our office waste and securely recycling our old IT equipment.

The Society, through its Chief Executive, also supported the delivery of the City Deal bid for Ipswich, securing millions of pounds for the County to increase the employability of young adults and generating additional Apprenticeship placements.

Looking after our employees

The Society wishes to attract and retain appropriately qualified and experienced individuals and places great importance on being an outstanding employer to work for.

The Society is committed to being a representative employer so it can serve its membership appropriately and to the highest standards. During the year the Society employed a total of 117 employees. Of these 84 were female and 33 male. The Board had six Non-Executive Directors in 2013/14, of which two are female and four are male and the Executive team had five members of which two are female and three are male.

For the fourth consecutive year we achieved a one-star award in The Best Companies survey. The award recognises employee engagement and is recognition of the Society as being a great place to work. This is an independent award based upon the responses our employees provided to a third party, impartial survey.

The Society pays all its employees at least the living wage and does not have any employees on zero hour contracts. We run a health and well-being programme that rewards healthy behaviours, provides time for exercising and information about different health matters.

Ten employees achieved a qualification in 2014 and we have 15

employees studying at present. Employees also attended workshops organised by the Building Societies Association on topics including CRDIV Capital Requirements and Mortgage Market Review. Our sickness levels are 1.57% of all contracted hours and our turnover levels are at 16% of total full time equivalent roles.

We needed to invest in additional staff during the year to increase our capacity and range of skills; this included the appointment of a new Head of Mortgage Sales and a Head of Risk and Compliance (who commenced on 6 January 2015). We also recruited an undergraduate Intern and three new Apprentices. To date we have appointed eight Apprentices into the Society with nearly all of them now having permanent roles with us.

The Society has continued to fund a Defined Benefit Pension scheme (closed in 2006) to ensure this can meet its future liabilities.

Looking ahead

The Board has approved an update of the rolling three year corporate strategy running from December 2014.

During this period the Society will steadily grow its mortgage assets by attracting low risk business and using its underwriting expertise. Our manual underwriting enables us to assess individually each application and hence we can complete more complicated cases while not increasing our risk.

The Board is committed to maintaining the quality and commitment of the Executive team and all employees across the Society and will continue to place the highest priority of delivering the best customer service to our members.

The Society will also continue to raise awareness of the benefits of belonging to a mutual organisation.

Costs will need careful management and the Society will strive to be more efficient by increasing its mortgage assets at a rate greater than its costs so that every £1 of costs will achieve a greater volume of mortgage assets.

This combination of low risk lending focused on key areas of the mortgage market, serving members well and monitoring costs will ensure we can continue to be profitable and build our capital base for the future.

Directors

The Directors of the Society during the year were:

E. Sarah Evans (Chairman)
Derek W Bowden (Deputy Chairman)
Paul Winter (Chief Executive)
Kieron F Blackburn (Finance Director)
Alan Harris
Charles B Tilley
Michelle A Tennens (Senior Independent Director)
Andrew L Wilson

We would like to express our thanks to Charles Tilley for his service to the Board over the last seven years particularly as Chairman of the Audit and Compliance Committee. Charles will be standing down at the Annual General Meeting on 25 March 2015.

The Board made significant progress to appoint a new Non-Executive Director to be effective from 25 March 2015 (subject to regulatory approval). The preferred candidate has significant audit, compliance and risk management experience. In accordance with the Society's Rules they will stand for election at the 2016 Annual General Meeting.

In accordance with Society Rule 26, Michelle Tennens, Derek Bowden (Non-Executive Directors) and Paul Winter (CEO) will retire at the Annual General Meeting on 25 March 2015 and are eligible for re-election.

Michelle Tennens and Derek Bowden were first appointed to the Board on 30 November 2006 and their re-election will during their next term take them beyond the maximum tenure of nine years suggested by the UK Corporate Governance Code. It is the view of the Board that both Michelle Tennens and Derek Bowden remain independent in character and judgement and are free of any relationship or circumstance which could interfere with the exercise of their judgement. Furthermore both individuals continue to represent our members, bring wide and varied commercial experience and continuity during a period of change in membership of the Board.

Principal risks and uncertainties

The Society has a risk strategy that ensures it holds sufficient capital to protect members from losses in all reasonably foreseeable circumstances. This means should the Society experience a loss on a mortgage loan, saving members will not see their savings taken away or reduced as a result. The Society's risk strategy also ensures we hold sufficient liquidity to ensure it can meet its costs, such as employee salaries and supplier costs; this liquidity also ensures we can meet reasonably foreseeable requests for withdrawals of funds by members.

Our Risk Tolerance and Culture Policy, Lending Policy, Treasury Management Policy and Internal Liquidity Systems Assessment (ILSA) set out our risk tolerance for our business, mortgage lending and liquidity assets. We also undertake an Internal Capital Adequacy Assessment Process (ICAAP) every year. We plan our capital requirements on an annual basis and operate with sufficient capital to protect our members from potential losses. These policies not only define our risk parameters and mitigations, but also enable us to operate in ways so our members can have confidence in the sustainability of our business.

The Board reviews the Risk Tolerance and Culture Policy (as part of the ICAAP) annually and this is monitored by the Board Risk Committee. There are four management committees reporting to the Board Risk Committee. These are Retail Credit Risk, Assets and Liabilities, Conduct Risk and Operational Risk. We also have a comprehensive business-wide risk register to capture all the key risks across our business and managers are responsible for identifying and detailing risks in this document and their associated mitigations and controls. Our principal risks are detailed below. In 2014 the Board considered our primary risk to be failure to migrate our IT systems.

We have sought to enhance our risk management function further through the appointment of a Head of Risk and Compliance who joined the Society in January 2015.

Retail credit risk

This risk materialises when a loss is incurred through non-repayment of mortgage lending. These risks are mitigated through our Board-approved Lending Policy which shows our low risk tolerance for our lending and includes clear guidelines for mandate levels and lending. We also focus on supporting borrowers who may be having payment difficulties to help mitigate any potential loss and assist the borrower in returning to a normal repayment pattern.

Where we consider the potential for a loss we make a provision for this in accordance with our policies.

Liquidity risk

Liquidity risk is the risk that the Society will not be able to meet its financial obligations as they fall due. This includes requests from members to withdraw funds. The Society is required by regulation to hold a calculated level of liquidity. It is the Society's policy to hold at least 15% more than this required level. Liquidity investments are held in either 'on call' accounts or as short term dated investments including Certificates of Deposit (CDs) and Floating Rate Notes (FRNs). We hold the majority of our 'on-call' liquidity investments with the Bank of England.

At 30 November 2014 we had a total of £122m invested with our counterparties; £57m of this is available 'on-call' (£52m with the Bank of England) and the remainder sits in cash, CDs and FRNs; £38m of this is held in Sterling outside of the UK. In addition the Society also maintains borrowing facilities at the Bank of England.

Wholesale credit risk

Wholesale credit risk is the risk of default on assets held to mitigate liquidity risk ('on call' accounts, CDs and FRNs). We manage the risk of investing these liquid assets by having strict criteria for accepting counterparties to invest in and absolute limits for these investments with each counterparty. These criteria and limits are stated in our Board approved Treasury Management Policy, and include a requirement for counterparties to have a Fitch rating of A- or higher (except building societies where management may use their specialist knowledge). We review our approved counterparty list and investments made at the Assets and Liabilities Committee meeting which is held monthly.

Operational risk

Operational risk is the risk of loss through inadequate or failed internal processes or systems, including human error or external events.

Operational risks are logged and assessed on our Risk Register and mitigations put in place to ensure their management. Outsourced services are assessed and managed for risk through contractual terms with agreed service level agreements, performance indicators and documented processes where relevant. Our most significant operational and business risk during 2014 was our IT project and implementation and compliance with the FCA's Mortgage Market Review (MMR) which we have successfully implemented. MMR now falls within our

Directors' Report

continued

usual risk controls. The IT project has completed its migration and the project team remains in place whilst the system fully beds down. The Steering Committee also remains, with attendance by the Chief Executive and Executive team.

Looking ahead the Society's most significant operational risks remain in the technology space. The Society's new technology is bedding down and staff knowledge of the system is improving. The Society needs to continue to develop the operations of the system to ensure it is efficient, effective and well controlled, and that the Society maintains its high standards of member service. The Society is closely monitoring the use and performance of our telephony and IT systems so we remain compliant with regulatory, data and payment requirements.

Interest rate risk

Interest rate risk arises from a mismatch between the interest rate characteristics or maturity profiles of assets and liabilities. The Board-approved Financial Risk Management Policy includes set limits for assets and liabilities on different interest rate bases. Where possible we use natural hedging between our fixed rate mortgages and fixed rate savings bonds. We also use derivatives known as interest rate swaps to manage interest rate risk within our Balance Sheet. Further details can be found in note 28 of the Accounts.

Regulatory risk

Regulatory risk is the risk to the business, through financial loss or reputational damage, arising from non compliance with laws and regulations. Regulatory risk also covers the risk that changes in laws and regulations materially impact on business operations and profitability. The Board will continue to monitor regulatory changes, in order that the Society continues to meet all of its regulatory requirements.

Conduct risk

Conduct risk arises when a firm's behaviour results in inappropriate or poor outcomes for customers. We have developed our culture on the basis that each of our members has a right to expect that his or her relationship with us will be conducted in a fair and consistent manner. We see our members as individuals, with individual requirements and expectations and this approach is demonstrated within our conduct risk framework.

We believe our membership can only be served by having committed, knowledgeable staff, with the ability and authority to meet the requirements and expectations of our members and as such we encourage all staff to undertake personal development and advancement, and we recognise and reward their achievements, creating a sense of pride in serving our membership, and in providing total customer satisfaction.

Capital

The Society complies with the Basel II Capital Requirements Directive (CRD) which requires the Society to assess the adequacy of its capital through an Internal Capital Adequacy Assessment Process (ICAAP). To assist the Board in determining the level of capital required, stress testing and scenario analysis is performed on key business risks to

assess whether the Society could survive a severe economic downturn and other severe business shocks. Through the application of the ICAAP the Board ensures that the Society holds a level of capital to satisfy both the CRD's Pillar 1 minimum capital requirements and to cover those risks that the Board has identified under Pillar 2. The Pillar 3 disclosures required under the CRD are available from the Society's Secretary, or on our website www.ibs.co.uk.

In addition the Society has reviewed the new Tier 1 Leverage ratio requirement set by the Financial Policy Committee. This ratio takes the Society's best quality capital (retained profits) as a % of our total assets. The requirement is a minimum of 3%. We are and plan to continue to be in excess of this.

Defined benefit pension scheme

The Society has an ongoing commitment to fund the defined benefit pension scheme. This scheme was closed to future accruals in 2006. Further details are given in Note 7 to the Accounts.

Supplier payment policy

Our policy is to pay invoices on receipt of the completed provision or service, unless staged payments are agreed in advance. We operate within agreed payment terms with our suppliers. At 30 November 2014 we had an average of 12 days' purchases outstanding in trade creditors (2013: 14 days).

Going concern

The Board regularly engages in the forward planning of the business to ensure we meet the liquidity, capital, lending and retail savings balances defined in our corporate strategy and annual plan. Board members also consider our liquidity and capital requirements in further detail within our ICAAP and ILSA; these include the results of placing both requirements under significant stress scenarios. As a result of these considerations 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 a going concern basis.

Auditor

In accordance with Section 77 of the Building Societies Act 1986, a resolution for the re-appointment of KPMG LLP as auditor is to be proposed at the forthcoming Annual General Meeting.



On behalf of the Directors

E. Sarah Evans
Chairman
29 January 2015

Corporate Governance Report

Ipswich Building Society is committed to best practice in corporate governance. As a building society it is not required to fully comply with the UK Corporate Governance Code, but the Society has regard to the Code when establishing and reviewing its own corporate and governance arrangements. This report explains how the Society applies the principles of the UK Corporate Governance Code.

The Board's role and responsibilities

The Society's Board is here to ensure the Society's long term success and sustainability for the good of its members. It does this by setting the Society's strategy to ensure it meet the needs of its members and regulators, remains competitive and delivers services appropriately with a profit to help build its capital over the long term. The Board formulates the Society's strategy, reviews business performance, oversees the identification and management of risks, adherence to laws and regulations in order that the required controls are in place and

aligned to the strategy. And it supports the Society's aim to look after its employees to deliver the best service levels possible and ensure it keeps staff attendance and turnover at acceptable levels.

Four years of successive increases in profit, successful completion of a major IT project, implementation of mortgage regulation and an increase in assets since 2007 is testament to the success and effectiveness of Ipswich Building Society's Board.

The Board meets regularly with two additional days dedicated to strategy. Non-Executive Directors also meet without Executive Directors at least once a year. Board meetings have a formal schedule with Board packs circulated in a timely manner to ensure Board members can perform their duties effectively. Minutes record details of Board, Board Committee and Management meetings.

A summary of Board responsibilities is detailed below:

Strategy and performance

Oversight and responsibility for the Society; delegating appropriately to the Executive and management teams to achieve the agreed strategy and performance

Approval of our corporate strategy

Review of performance to strategy and objectives, plans and budgets

Capital and costs

Management of capital and liquidity levels

Approval of our capital and liquidity plans and budgets

Review and assessment of actual against budgets

Financial reporting and significant projects

Monthly review of results

Confirmation of year end results

The Annual Report and Accounts

Policy review and approval of changes

Oversight of business wide and significant change projects

Board membership

Changes to the structure, size and composition of the Board, based on recommendation from the Chairman's and Nominations Committee.

Succession planning for senior management as recommended by the Chairman's and Nominations Committee.

Appointments to the Board.

Selection of Auditors following recommendation from the Audit and Compliance Committee.

Lending

Approval of lending policy and risk tolerance

Approval of treasury management and wholesale funding

Internal controls and risk management

Reviews risk management and controls are maintained and connected across the business.

Approval of the Society's risk tolerance and management framework, key regulatory documents.

Oversight and approval of work from other committees.

Remuneration

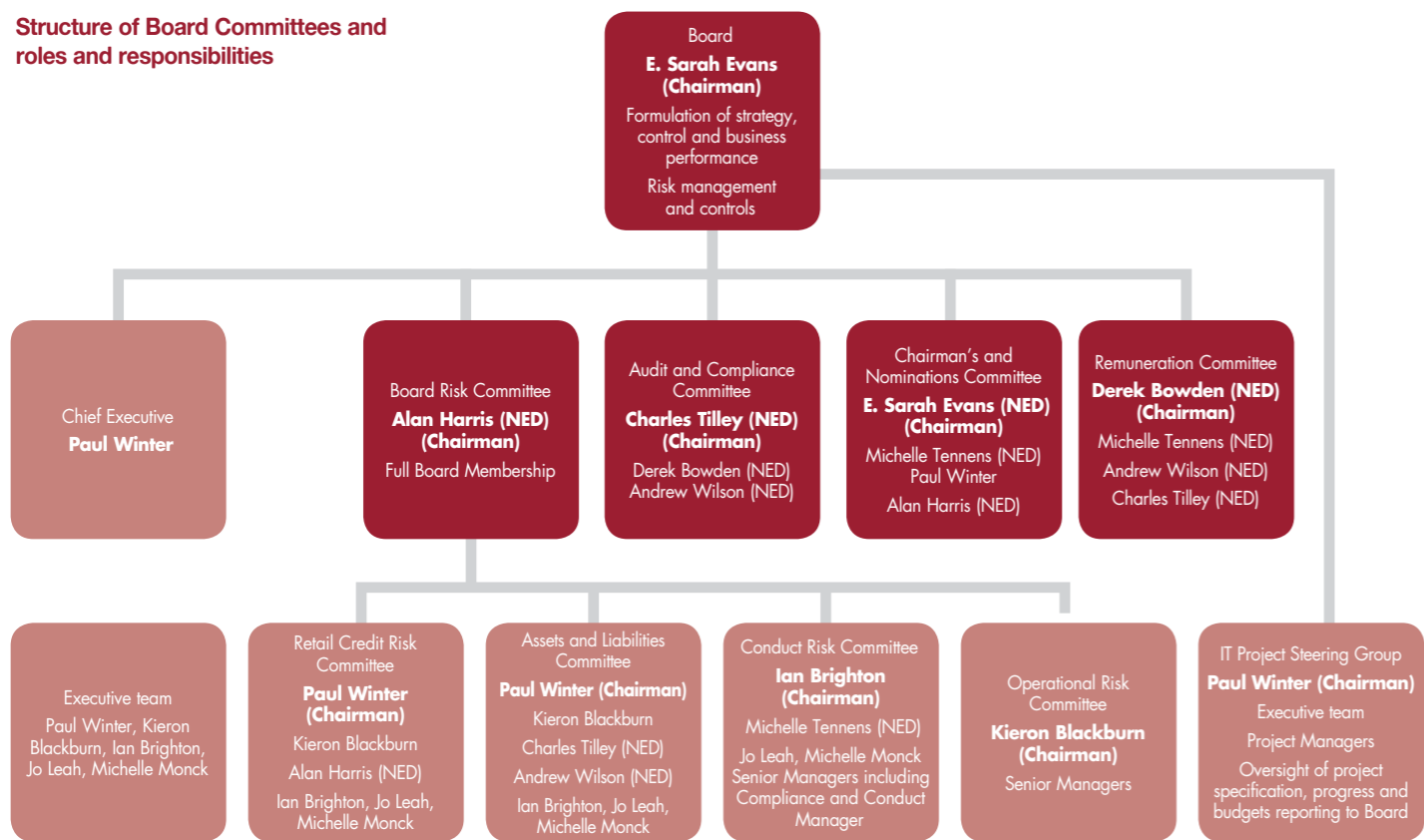
Determining the Remuneration for the Chairman. The Remuneration Report contains further information about how fees are set for the Executive and Non-Executive Directors.

Corporate governance

Annual performance review of individual Directors and Committees.

Review of overall corporate governance arrangements.

Structure of Board Committees and roles and responsibilities



Note: NED – Non-Executive Director

● Board Committee ● Executive committee.

Roles of the Chief Executive and Chairman

There are two separate roles for Chairman and Chief Executive and these are held by different people. Each role has its own job description approved by the Board. No individual has autonomous powers of decision making. The Chairman is elected by the Board annually.

Below is a summary of each role:

Chairman

- Leadership of the Board, setting the tone of organisational culture and values
- Ensuring the Board is effective in its duties
- Setting and monitoring the strategic direction and risk appetite
- Long term sustainability of the Society
- Development and evaluation of the Board of Directors
- Leading open and honest debate and encouraging challenge in Board meetings
- Liaise with regulators as appropriate

Chief Executive

- With support of the Executive team implementation of the Board strategies and policies
- On-going management of the Society guided by risk management
- Implementing and monitoring processes, people and systems to ensure effective delivery of corporate plans and budgets
- Developing an effective working relationship with the Chairman and Board of Directors
- Develop positive relationships with regulators, media, trade organisations, other building societies to promote the Society and lobby on key issues in the corporate strategy.

Role of the Deputy Chairman

The Deputy Chairman acts as a sounding board for the Chairman and undertakes the Chairman’s annual appraisal. They also stand in for the Chairman in the event that they are unable to attend a meeting or perform their duties.

Role of the Senior Independent Director

The Senior Independent Director is available for members to refer issues to that they have not been able to resolve via the Chairman, Chief Executive or the other Executive Director for matters where it is not appropriate to raise these issues directly with these Directors. The Senior Independent Director also assists the Deputy Chairman in performing the Chairman’s appraisal. The Senior Independent Director is also the point of contact for staff who have may wish to make a disclosure under the Society’s Whistleblowing Policy.

Role of the Executive team

Members of the Executive team work with the Chief Executive and Board to ensure the effective implementation of strategies and policies within agreed budgets and timeframes. They hold a leadership role within the business, acting to ensure the correct culture is developed and that the relevant resources, people and systems are utilised efficiently and towards the aims of the corporate strategy and policies set by the Board. They are also responsible for the development of employees, delivering consistent high quality customer service standards, implementation of effective systems within the business and reporting and tracking progress towards our key performance indicators and key results indicators. The Executive team is also responsible for designing, operating and monitoring risk management systems and controls.

Roles of Board Committees

The Board Committees are chaired by a Non-Executive Director and consist primarily of Non-Executive Directors. The Chairman does not sit on the Audit and Compliance Committee or the Remuneration Committee.

The Committees’ Terms of Reference are available on our website: www.ibs.co.uk.

Board Risk Committee

It reviews and monitors the Society’s risk tolerance in accordance with the Board-approved Risk Tolerance and Culture Policy and reviews the Society’s future risk strategy for economic, capital, liquidity, reputational and operational risk profiles. The Committee uses a variety of internal and external sources to make these assessments. It ensures an appropriate risk management framework is in place and reviews the effectiveness of the Society’s risk management processes and risk reporting, including the Society’s Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Systems Assessment (ILSA). All Directors of the Society are members of the Board Risk Committee and members of the Executive team attend by invitation.

Audit and Compliance Committee

The Committee reviews the adequacy of controls and judgements made in financial reporting and regulatory compliance and assesses the effectiveness of internal audit and compliance. The Committee sets the Terms of Reference for our External Auditors and ensures their continued independence and effectiveness particularly around the provision of non-audit services. The Committee also ensures that the Society has an effective whistleblowing process which enables employees to raise concerns confidentially. Minutes of the meetings are circulated to the Board, along with a report from the Chairman of the Audit and Compliance Committee highlighting key issues for review by the Board.

The Committee is comprised of not less than three Non-Executive Directors and the Chief Executive, Finance Director, Society Secretary and Compliance and Conduct Manager and Internal and External Auditors may also attend by invitation. This Committee meets at least four times a year and at least annually it meets with the External and Internal Auditors without the Executive Directors present. The Board is satisfied that the members of the Committee have specialist expertise including current and relevant financial, legal and risk management expertise.

The Committee considers the appointment, performance and remuneration of the Internal Auditor and agrees the scope of the annual audit plan.

The Committee considers the Annual Report, Summary Financial Statement and Associated Reports including appraisal of accounting policies. It provides advice to the Board on whether the Annual Report and Accounts are fair, balanced and provide the information necessary for members to assess the Society’s performance.

In conjunction with the External Auditors the Committee specifically considers the risks associated in managing a building society including;

- Assessing the adequacy, and effectiveness of operation, of the Society’s financial environment and procedures for risk management and control including fraud prevention;

- Assessing the Society’s risk management and controls relating to technology;
- Ensuring the Society’s Financial Statements are properly prepared, in terms of an appropriate level of accuracy and detail, and are compliant with prevailing statute and regulation;
- Reviewing the effectiveness of the system for monitoring compliance with laws and regulations including Anti Money Laundering;
- Ensuring that the Society operates an adequate Whistleblowing Policy;
- Keeping the Board appropriately updated.

The Committee receives quarterly reports from the Compliance and Conduct Manager regarding the conduct of the Society’s business.

The Committee considers the appointment, removal, performance and remuneration of the External Auditors including consideration of any proposed non-audit services, the planning, scope and conclusion of the annual external audit including the receipt and response to the Auditor’s management letter.

KPMG LLP were appointed last year (previously KPMG Audit Plc) and their performance is reviewed by the Committee annually taking into account the skills, experience, and objectivity of the firm and as such the Committee is recommending the re-appointment of KPMG LLP to the Board and the resolution will be put to members at the 2015 Annual General Meeting.

Chairman’s and Nominations Committee

This Committee is responsible for making recommendations to the Board on matters relating to the structure of the Board, balance of skills and experience, succession planning for the Board and senior management, the appointment of new Directors and the election and re-election of Directors. The Committee also leads the process for new appointments to the Board.

Remuneration Committee

This Committee is responsible for approving the remuneration and incentive schemes for the Society’s Executive team and senior management. The Chief Executive may attend this Committee by invitation only. Further details about the work of this Committee and our approach to remuneration may be found in the Director’s Remuneration Report on Page 20.

Management Committees

Management Committees are chaired by Executive Directors or a member of the Executive team.

Retail Credit Risk Committee

This Committee is responsible for monitoring the Society’s high level policy on lending. This includes ensuring the mortgage book limits stay within agreed levels and adhere to the PRA’s Specialist Sourcebook for Building Societies. The Committee also ensures oversight and challenge to our underwriting, mortgage quality and long-term credit risk. The Committee reviews the Society’s Lending Policy Statement, ensuring this aligns with our Risk Tolerance and Culture Policy; it then recommends this to the Board for approval.

The Committee is made up of one Non-Executive Director, two Executive Directors and the Executive team. The Head of Mortgage Sales, Head of Customer Services and Mortgage Manager may attend by invitation.

Assets and Liabilities Committee

This Committee is responsible for ensuring the Society operates within agreed parameters set out in our Treasury Management Policy, ILSA and ICAAP. It operates to review the basis and interest rate risks, counterparty risk and levels of capital and liquidity. It also reviews and recommends the Contingency Funding Plan and ILSA to the Board Risk Committee. The Committee meets monthly and is made up of two Non-Executive Directors, two Executive Directors and the Executive team. Members of the Finance team attend by invitation.

Conduct Risk Committee

This Committee meets quarterly and aims for the Society to have robust systems and controls, skills, caring attitude and judgement to ensure positive outcomes for members and stakeholders. The Committee ensures compliance with the FCA Conduct of Business Rules, by reviewing and monitoring the Society's conduct risk appetite, conduct risk register and conduct risk key risk indicators (KRIs). The Committee meets at least four times a year and is made up of one Non-Executive Director, three members of the Executive team and senior managers.

Operational Risk Committee

This Committee considers the risk of a loss arising from inadequate or

failed internal processes or systems, including human error or external events. The Committee confirms the risk register reflects these risks, identifying appropriate mitigation for likelihood and severity. The Committee ensures on-going identification, control and migration of risks in the business. The Committee meets quarterly and is made up of one Director and senior managers.

IT Steering Group

This Steering Group was a temporary group formed to oversee the migration of IT systems. Project Managers and members of the project team attended and the group considered the status of the project highlighting areas that required action or review. During the IT migration the Board appointed an independent person from Deloitte to review and report progress of the project.

Risks of the IT project were monitored by the Board and at Board Risk Committee, Conduct Risk Committee and the Operational Risk Committee.

Ensuring the Board is effective

The Society reviews the effectiveness of the Board through a series of processes. These include self assessment, an annual appraisal process, continuous professional development, induction plan and a review to ensure that Directors are contributing sufficient time to their duties. These are all conducted annually. In addition the Society undertakes reviews of Board effectiveness and these are conducted by an external expert. The next review will take place early in 2016.

Attendance at Board and Board Committee meetings

Director	Board Meetings	Audit and Compliance Committee	Remuneration Committee	Chairman's and Nominations Committee	Board Risk Committee
Sarah Evans (Chairman)	10 (10)	–	–	1 (1)	4 (4)
Derek Bowden (Deputy Chairman)	9 (10)	3 (5)	3 (3)	–	4 (4)
Kieron Blackburn (Finance Director)	10 (10)	–	–	–	4 (4)
Alan Harris (Board Risk Committee Chairman)	10 (10)	–	–	1 (1)	4 (4)
Michelle Tennens (Senior Independent Non-Executive Director)	10 (10)	–	3 (3)	1 (1)	4 (4)
Charles Tilley (Chairman of Audit and Compliance Committee)	10 (10)	5 (5)	3 (3)	–	4 (4)
Andrew Wilson	10 (10)	5 (5)	3 (3)	–	4 (4)
Paul Winter (Chief Executive)	9 (10)	–	–	1 (1)	4 (4)

Note 1: Numbers in () denote the total number of meetings held during the year. Numbers not in brackets denote the number of meetings attended during the year.

Note 2: (–) indicates this Director is not a member of this committee.

Note 3: In addition to the above Directors may have attended meetings as an invitee but not as an official committee member.

Overview of Induction for Non-Executive Directors

- The nature of building societies
- The wider financial services industry
- Directors' responsibilities and duties
- The range of MI and how to interpret this
- An outline of the Society's policies, procedures and Board timetable
- Background to Ipswich Building Society
- Our local market place
- Overview of regulatory requirements and risk management
- Key current issues in the industry

Appointing new Directors

The Society has recently appointed an executive search agency to identify and short list suitable candidates for Non-Executive Director positions. This agency follows a methodical process for searching and shortlisting candidates to conduct a broad search of the marketplace. All appointments are made based upon merit and reflecting the specific skills and experience required. These requirements are determined by the Chairman's and Nominations Committee and meet the requirements of the Board's succession plan. All Directors must meet the Financial Conduct Authority's (FCA) 'tests of fitness and propriety' and be registered with the FCA as an Approved Person to fulfil their controlled functions as a Director. The appointment decision is made by the Board.

Appraisal process

An annual performance appraisal process is also used to evaluate the performance of individual Directors, the Chairman, the Board and Board Committees annually. The Chairman's and Nominations Committee evaluates the performance of the Chief Executive. This annual appraisal process includes a self assessment questionnaire and feedback from all members of the Board. The Chairman evaluates the performance of all Non-Executive Directors on an annual basis.

Following this process the Chairman feeds back to the Board any general issues about performance or training needs. A training plan is developed as required and may include attendance at seminars, conferences, internal briefings, together with reading material.

The Chief Executive evaluates the Finance Director as a member of the Executive team. The Chairman is evaluated by the Deputy Chairman and Senior Independent Director, after consulting with other Directors for views.

Board governance

The Board consists of individuals with the appropriate range of skills and experience to meet the needs of the Society, as set out in the Board's and Committees' Terms of Reference. Each year these Terms of Reference are reviewed by the appropriate Committee and approved by the Board. The Chairman's and Nominations Committee review the suitability of the Board's skills and experience against these Terms of Reference annually.

In the view of the Board all Non-Executive Directors are independent in character and judgement. They are free of any relationship or circumstance which could interfere with the exercise of their judgement and continue to represent our members, bringing wide and varied commercial experience to the deliberations of the Board.

All Directors are required to declare any conflicts of interest and can do this at the Board meetings during the year.

Risk management and internal control

The Board has reviewed the effectiveness of risk management systems and concluded that the Society has a strong risk management and compliance culture and systems that are effective and appropriate for the size and complexity of the business.

Each Board Committee is responsible for the risks and controls within its remit. On an on-going basis the Board Risk Committee assesses the adequacy of this process on behalf of the Board.

The information received and considered by the Audit and Compliance Committee provided reasonable assurance that during the financial year there were no material breaches of control or regulatory standards and that overall the Society maintained an appropriate system of internal control. Internal audit under the direction of Audit and Compliance Committee provides independent assurance to the Board on the effectiveness of the system of internal control.

The external audit

The earlier section detailing the responsibilities and processes of the Audit and Compliance Committee states the approach to audit including use of External Auditors. External Auditors are also engaged for non-audit purposes such as advice on corporation tax. There is a Board-approved policy for the appointment of Auditors for non-audit services to ensure the continued independence and objectivity of the External Auditor.

Communication with members

The importance of listening to and engaging with members in the Society's activities is an important part of its culture. It does this by using research to ask members their views; asking for feedback about service experiences with the Society. It does this within its branches, on its website and in other communications. The Society circulates regular e-newsletters to keep members informed regarding developments at the Society, with reaction and feedback encouraged and it offers members the opportunity to ask our Board questions at our Annual General Meeting (AGM). Each year the Society sends the details of its AGM within its voting packs. This is distributed by an independent scrutineer 21 days prior to the AGM and is sent to all qualifying members. Voting enables members to have their say on issues such as Directors' Remuneration and election and re-election of Directors. The Society also offers members the option of a proxy vote to select someone to vote on their behalf if they are unable to attend the AGM or vote by other means. All votes are counted through independent scrutineers and are published in full on the Society's website.

Directors' Remuneration Report

The purpose of this report is to inform members of the Society about our policy on the remuneration of the Executive and Non-Executive Directors. The report explains how we have regard to the UK Corporate Governance Code 2014 relating to remuneration, as far as is applicable for a Building Society of our size and the relevant elements of the FCA's Remuneration Code. The remuneration of individual directors is given in note 5 on pages 29 and 30.

Approach to Directors' remuneration

The Society provides Directors with remuneration designed to attract and retain appropriately qualified and experienced individuals. Also to reward Directors according to their experience, expertise, overall contribution to the success of the Society and to reflect their roles and responsibilities within the Society. The Society does not offer concessionary home loans to Directors.

The procedure for setting remuneration

Responsibility for the Society's Remuneration Policy and approach to contractual arrangements for Executive Directors is determined by the Remuneration Committee and approved by the Board. This Committee is chaired by myself and the membership includes three other Non-Executive Directors; Michelle A Tennens, Charles B Tilley and Andrew L Wilson. The Chief Executive may attend by invitation only and is never present in discussions relating to his own salary. The Committee meets at least twice a year and reviews relevant data including external professional advice and external salary benchmarking. Reports and minutes of the Committee's meetings are issued to all members of the Committee. The Chairman of the Committee reports at the Board meeting following a Committee meeting. The Executive team and Chairman of the Society meet annually to review the Non-Executive Directors' fees including those with supplementary roles. The Board, other than the Chairman, is responsible for approving the Chairman's fees.

Executive Directors' remuneration

The Executive Directors' remuneration packages are designed to motivate decision-making in the interests of the Society and its members and reflect their responsibilities and roles within the Society. In 2014 this comprised basic salary, a three year performance related pay scheme and a range of benefits. These benefits are taxable and include car allowance and a private health care scheme for the Directors and their families. The Society also makes a contribution of between 17.5% and 20% of salary to Executive Directors' private pension arrangements.

Executive Directors with commitments such as Directorships do not receive remuneration from those organisations and their time commitment to these roles is monitored.

Mr Winter is a deferred member of the Ipswich Building Society Pension and Life Assurance Scheme, a defined benefit pension which became paid up on 31 March 2006. In 2014 Mr Blackburn received a one off payment of £21,812 in respect of removal costs agreed when he joined the Society.

Salaries are reviewed on an annual basis by the Remuneration Committee with reference to external salary benchmarking data from the Building Society and financial services sectors.

Executive Directors are employed on open-ended service contracts requiring 12 months notice to be given by the Society and six months notice by the individual.

A performance related pay (PRP) scheme operated during the year for Executive Directors; this was designed to encourage the achievement of targets central to the long term financial health and sustainability of the Society. The PRP scheme was created in 2010 and currently allows up to a maximum of 20% of salary earned for achievement of all targets set. One third of this payment is deferred until the end of a three year period to ensure consistent performance is delivered over the longer term. The Remuneration Committee sets the targets for the scheme annually and assesses whether any discretionary bonus payment should be made.

During the financial year 2012/13 the Remuneration Committee recommended that payment of the non-deferred element of the PRP award for 2012/13 be delayed until the IT project was finalised. The IT project completed in October 2014 and the Committee therefore then agreed to pay the 2012/13 PRP amount. During 2014, the Committee endorsed a 5% discretionary bonus, in respect to the 2012/13 year, to be paid to Executive Directors and this was consistent with the 5% bonus paid to all employees of the Society in 2012/13. This amount is included in the 2014 table shown in note 5.

At the end of the financial year 2013/14 the Remuneration Committee recommended not to award payment under the PRP scheme for performance in 2013/14. All criteria of the PRP scheme had been met with the exception of the override objective for mortgage lending, which had narrowly missed target. However, the Committee recognised the hard work and commitment of the Executive Directors during the year, including a successful profit performance, stable savings balances and a smooth transition of our major IT project. As a result, the Committee decided to recommend to the Board that a discretionary payment be made to recognise these efforts. This award was made in the 2013/14 financial year and one third of this is deferred for three years. This amount is included in the 2014 table shown in note 5.

Non-Executive Directors' remuneration

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations. Remuneration comprises a basic fee with a supplementary payment for the respective roles of Chairman of the Audit and Compliance Committee, the Deputy Chairman, the Senior Independent Director and of the Chairman of the Board Risk Committee. This additional payment reflects the increased responsibilities and time commitments for these positions. Non-Executive Directors receive travel expenses for attending meetings and in the performance of their duties for the Society. Their fees are not pensionable and they do not participate in any incentive or performance related pay schemes.

Non-Executive Directors do not have service contracts with the Society.



Derek Bowden
Chairman of the Remuneration Committee
29 January 2015

Statement of Directors' Responsibilities

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

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

The Building Societies Act ("the Act") requires the Directors to prepare the Society's Annual Accounts for each financial year. Under that law they have elected to prepare the Society's Annual Accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The Society's 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 these 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;
- prepare the Annual Accounts on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

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

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;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the 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.

Independent Auditor's Report to the Members of Ipswich Building Society

We have audited the Annual Accounts of Ipswich Building Society for the year ended 30 November 2014 set out on pages 24 to 45. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 21 the Directors are responsible for the preparation of Annual Accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the Annual Accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Annual Accounts

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

Opinion on Annual Accounts

In our opinion the Annual Accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Society as at 30 November 2014 and of the income and expenditure of the Society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

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

Matters on which we are required to report by exception

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

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

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
 Chartered Accountants
 Ipswich
 29 January 2015

Income & expenditure account

for the year ended 30 November 2014

	Notes	Continuing operations	
		2014 £000	2013 £000
Interest receivable and similar income	2	20,992	22,053
Interest payable and similar charges	3	(10,984)	(12,931)
Net interest receivable		10,008	9,122
Pension finance income	7	43	5
Fees and commissions receivable		1,157	1,417
Fees and commissions payable		(530)	(614)
Net profit or loss on financial operations		10,678	9,930
Profit on repurchase of Subordinated Liabilities	23	855	-
Other operating income		30	34
Total income		11,563	9,964
Administrative expenses	4	(6,962)	(6,060)
Depreciation and amortisation	14	(317)	(210)
Other operating charges		(44)	(18)
Operating profit before provisions		4,240	3,676
Provisions for bad and doubtful debts	13	(41)	(122)
Provisions for contingent liabilities & commitments	22	(4)	(16)
Provision for FSCS levy	22, 25	(429)	(372)
Operating profit and profit before tax		3,766	3,166
Tax on profit on ordinary activities	8	(850)	(768)
Profit for the financial year		2,916	2,398

Statement of total recognised gains and losses

for the year ended 30 November 2014

	Notes	2014 £000	2013 £000
Profit for the financial year		2,916	2,398
Actuarial loss recognised in the pension scheme	7	(669)	(289)
Movement in deferred tax relating to pension scheme		142	59
Total recognised gains	24	2,389	2,168

The notes to these Accounts are contained on pages 27 to 45.

Balance Sheet

as at 30 November 2014

	Notes	2014 £000	2013 £000
Assets			
Liquid assets			
Cash in hand and balances with Bank of England		51,877	52,606
Loans and advances to credit institutions	10	5,412	10,054
Debt securities	11	64,945	50,056
Total liquid assets		122,234	112,716
Loans and advances to customers			
Loans fully secured on residential property		471,077	481,396
Loans fully secured on land		3,146	3,260
Total loans and advances to customers	12, 13	474,223	484,656
Tangible fixed assets	14	4,593	3,840
Other assets	15	101	30
Prepayments and accrued income	16	87	132
Total assets		601,238	601,374
Liabilities			
Shares	17	472,625	481,102
Amounts owed to credit institutions	18	20,962	9,978
Amounts owed to other customers	19	69,272	73,078
Other liabilities	20	1,328	1,191
Accruals and deferred income	21	1,222	1,330
Provisions for liabilities	22, 25	536	405
Net pension liability	7	1,067	849
Subordinated liabilities	23	7,967	9,571
		574,979	577,504
Reserves			
General reserves	24	26,259	23,870
Total liabilities		601,238	601,374

The accounting policies and notes on pages 27 to 45 form part of these Accounts.

Approved by the Board of Directors on 29 January 2015.

E. Sarah Evans, Chairman
Paul Winter, Chief Executive
Kieron Blackburn, Finance Director

Cash flow statement

for the year ended 30 November 2014

	Notes	2014 £000	2013 £000
Net cash inflow from operating activities	26	10,576	14,311
Returns on investment & servicing of finance			
Interest paid on subordinated liabilities		(894)	(872)
Taxation		(413)	(1,194)
Capital expenditure & financial investment			
Purchase of tangible fixed assets	14	(1,070)	(1,115)
Disposal of tangible fixed assets		-	1
Purchase of debt securities	11	(30,003)	(44,494)
Sale and maturity of debt securities	11	15,265	24,004
Financing costs on issue of subordinated liabilities	23	(184)	-
Financing			
Issue of subordinated liabilities		3,500	-
Repurchase of subordinated liabilities		(4,145)	-
(Decrease) in cash	26	(7,368)	(9,359)

The notes to these Accounts are contained on pages 27 to 45.

Notes to the Accounts

for the year ended 30 November 2014

1. Statement of accounting policies

(a) Accounting convention

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

(b) Tangible fixed assets and depreciation

The cost of all additions and major improvements to office premises, plant, fixtures and fittings and vehicles are capitalised where appropriate.

Depreciation is provided by the Society as follows:

- Freehold buildings over the estimated useful economic life, not exceeding 50 years. The cost of additions to freehold buildings is depreciated on a similar basis, with branch fitting-out costs written off in equal instalments over a term not exceeding 10 years. No depreciation is charged on land.
- Short leasehold properties over the term of the lease, or estimated useful economic life where shorter, in equal annual instalments.
- Plant and machinery and other office equipment, motor vehicles, computer systems and other tangible fixed assets on a straight line basis over the estimated useful economic lives not exceeding 20 years. Where this equipment has been supplied as part of a supply contract it will be amortised over the shorter of useful economic life or remaining term of the supply contract.
- Improvement to IT systems are amortised over the remaining life of the IT supply contract, or over a shorter period where it is felt the Society will not draw value from the systems over the life of the contract.
- Assets under construction are not depreciated

Estimated economic lives are reviewed regularly to ensure that they remain appropriate in the light of changes in technology, usage and other relevant factors.

(c) Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation arising as a consequence of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax at anticipated tax rates on a non-discounted basis. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

(d) Liquid assets

Liquid assets are stated at cost to the Society adjusted for accrued interest to the balance sheet date.

Marketable instruments are stated at cost, adjusted to exclude accrued interest at the date of purchase; a similar adjustment is made on realisation. Premiums or discounts, representing the difference between purchase price, as adjusted, and par value are amortised over the residual term of the instrument, or a shorter term where considered appropriate. Where there is an impairment of a financial asset a provision is made so as to write down the cost of the asset to its recoverable amount.

(e) Pension costs

The Society operates both a defined benefit pension scheme and a defined contribution pension scheme, which are funded by contributions from the Society and its employees.

The defined benefit scheme was closed to new members with effect from 1 January 2001 and was made paid-up at 31 March 2006.

For the defined benefit scheme assets are measured at market value at the balance sheet date and scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency. The resulting pension scheme surplus (where considered recoverable) or deficit is recognised immediately on the balance sheet, net of deferred tax, and any resulting actuarial gains or losses are recognised immediately in the statement of total gains and losses.

For the defined contribution scheme, contributions are charged to the income and expenditure account as they become payable in accordance with the rules of the scheme.

(f) Leases

Where the Society enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. All other leases are accounted for as 'operating leases' and the rental charges are charged to the income and expenditure account on a straight line basis over the term of the lease contract.

(g) Repairs and renewals

All repairs and renewals are expensed as incurred, with the exception of major improvements to office premises where the cost is capitalised and written off in accordance with the relevant depreciation policy.

(h) Incentives to borrowers

The initial cost of interest rate discounts associated with new mortgage products is charged to the income and expenditure account within interest receivable as incurred. Cashback payments to borrowers and other incentives not having the characteristics of interest are charged within other operating charges.

(i) Other fees and commissions

Application and completion fees charged to mortgage customers relating to the cost of processing the application are recognised in the period in which they are charged.

Where a fee is regarded as including an element of interest rate substitution, that element of the fee is spread over the period to which the discounted rate applies.

Valuation and other fees receivable from mortgage applicants and fees payable to third parties are included in the accounts in the period to which they relate within fees and commissions receivable and fees and commissions payable respectively.

Notes to the Accounts

continued

(j) Provisions for bad and doubtful debts

Provisions are made to reduce the value of loans and advances to the amount that is considered to be likely to be ultimately recoverable in the event of the relevant property held as security being sold in possession by the Society.

Throughout the year and at the year end individual assessments are made of all loans and advances which are in possession or are significantly in arrears and a specific provision is made against those cases which are considered to be impaired. In considering the specific provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale within three months of that date. Where a property in possession is subject to an acceptable offer from a potential purchaser and the Directors are satisfied that visible commitment to completion of the transaction exists, the specific provision has been made on the basis of the agreed selling price. On the basis of the Society's previous experience it is recognised that not all serious arrears cases will ultimately result in possession, and the amounts provided on individual cases not in possession reflect the estimated propensity for a loss to be realised.

A specific provision is also made in the case of accounts, which may not currently be in arrears, where the Society has exercised forbearance in the conduct of the account. The provision is based on the propensity of the account to realise a loss, had forbearance not been shown. In all cases account is taken of any amounts recoverable under contracts of indemnity insurance and of anticipated disposal costs. No provision is made against the future carrying costs of impaired loans.

A general provision is made against those advances for which the Society's experience and the general economic climate would indicate that impairment events have occurred but have yet to be notified and as such will ultimately result in a loss.

Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable, except in respect of cases where the property has been taken into possession and other cases where recoverability of the interest is subject to material doubt.

Loans and advances to customers in the balance sheet are stated net of both specific and general provisions. The effect on the income and expenditure account comprises the movement in the provisions including losses written off or recovered in the year.

(k) Mortgage indemnity insurance

The Society has entered into external indemnity insurance contracts to cover a proportion of anticipated future losses on certain residential secured loans with high loan to value ratios.

Excess advance fees received from borrowers and the associated premiums paid to the insurance company in respect of such lending activity are included within fees and commissions receivable and fees and commissions payable respectively on a cashflow basis.

(l) Subordinated liabilities

The carrying value of subordinated liabilities is stated net of unamortised issuance costs. The finance costs are allocated to accounting periods at a constant rate based on the net carrying value. The amount attributed to the debt instrument is the initial net issue proceeds, to which is added the financing costs and from which is deducted interest paid to the holder; the net carrying value of the instrument at the date of redemption will therefore equate to the nominal par value.

(m) Wholesale funding

Commissions arising in connection with the raising of short-term wholesale funds are charged as incurred. Commissions arising in respect of medium and long-term loans and facilities are amortised over the period to maturity on a straight line basis where material. All such costs are included within fees and commissions payable.

(n) Hedging instruments

The Society has entered into prescribed contracts specifically and exclusively for the purpose of reducing the risk of loss arising from changes in interest rates, which may adversely affect non-administered rate business. Receipts and payments arising under interest rate swap agreements are included in the accounts within interest receivable or interest payable as appropriate, on an accruals basis.

Receipts and payments arising under other interest rate agreements are included in the accounts within interest receivable or interest payable as appropriate, on an accruals basis. Where the upfront cost of a contract is amortised over the duration of the contract and is similar in nature to interest, the cost is included in the accounts within interest receivable or interest payable, under net expense on financial instruments. Other upfront costs are included in the accounts within other operating charges.

(o) Repurchase agreements

Securities that are sold under agreements to repurchase continue to be recognised in the balance sheet and are measured in accordance with the accounting policy of the category that they have been classified and are presented as investments. The proceeds from the sale of the securities are reported as liabilities to banks. The difference between the sale price and the repurchase price is recognised as interest on an accrual basis.

(p) Funding for Lending (FLS) Scheme

In order for the Society to access funding from the FLS, mortgage assets are required to be pledged as collateral. Where the risk and reward of ownership of the mortgage assets remains with the Society they are retained on balance sheet. The interest receivable on these assets continues to be the Society's and is accounted for as earned on an accruals basis.

Treasury bills borrowed under the FLS are not recognised on the balance sheet when substantially all the risks and rewards of the ownership remain with the lender. The interest cost of borrowing the treasury bills is accrued in the accounts on a straight line basis over the drawdown period.

If treasury bills are lent or sold subject to a commitment to repurchase, the net proceeds received are recognised as cash on the balance sheet together with a corresponding liability. Interest is accrued over the life of the agreement on a straight line basis.

02 Interest receivable and similar income	2014 £000	2013 £000
On loans fully secured on residential property	20,760	22,143
On other loans	138	143
On debt securities		
Interest and other income	539	330
Net gain arising on realisation	1	39
On other liquid assets		
Interest and other income	253	342
Net expense on financial instruments	(699)	(944)
	20,992	22,053

03 Interest payable and similar charges	2014 £000	2013 £000
On shares held by individuals	9,622	11,438
On other shares	-	-
On deposits and other borrowings		
Subordinated liabilities (aggregate financing costs)	937	896
Other	1,191	1,417
Net income on financial instruments	(766)	(820)
	10,984	12,931

04 Administrative expenses	2014 £000	2013 £000
Staff costs		
Wages and salaries	2,795	2,520
Social security costs	280	253
Other pension costs	253	234
	3,328	3,007
Other administrative expenses	3,634	3,053
	6,962	6,060

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

Audit of these financial statements	64	53
Other services	22	-
Other services relating to taxation	4	4
	90	57

These fees are shown net of VAT

05 Remuneration of Directors	2014 fees £000	2013 fees £000
Table 1 Non-Executive Directors		
D W Bowden (Deputy Chairman)	23.0	20.0
E S Evans (Chairman appointed 20 March 2013)	39.0	33.7
A Harris	22.8	21.8
M J Sargeantson (Chairman retired 20 March 2013)	0.0	12.7
M A Tennens	21.0	20.0
C B Tilley	24.7	22.6
A L Wilson	21.0	20.0
Total	151.5	150.8

05 Remuneration of Directors (continued)

	Salary £000	Performance related pay		Discretionary bonus		Benefits £000	Sub Total £000	Pension Contributions £000	Total £000
		Payable now £000	Deferred £000	Payable now £000	Deferred £000				
Table 2 Executive Directors 2014									
P Winter (Chief Executive)	152	0	0	28	10	17	207	30	237
K F Blackburn (Finance Director)	128	0	0	20	7	12	167	19	186
Total	280	0	0	48	17	29	374	49	423
2013									
P Winter (Chief Executive)	149	0	30	0	0	18	197	30	227
K F Blackburn (Finance Director)	101	0	21	0	0	11	133	18	151
Total	250	0	51	0	0	29	330	48	378

Included in Mr Blackburn's salary is a one-off payment in relation to relocation of £21,812 (2013: £0)
Total Directors' remuneration amounted to £575,539 (2013: £528,640).
For 2013, performance related pay of £20,000 for Mr Winter and £14,000 for Mr Blackburn has been reclassified from 'payable now' to 'deferred'.

06 Employees

	2014 Full time	2014 Part time	2013 Full time	2013 Part time
The average number of persons, including Executive Directors, employed during the year was as follows:				
Head Office	46	18	45	15
Branch offices	18	30	18	30
	64	48	63	45

07 Pension arrangements

(a) Defined benefit scheme

The Society sponsors the Ipswich Building Society Pension and Life Assurance Scheme which is a funded defined benefit pension scheme for the executive and senior managers. This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities for past scheme members. The level of retirement benefit is principally based on the pension accrued by these members as active members of the scheme.

This scheme was closed to new members with effect from 1 January 2001 and was made paid-up at 31 March 2006, with the consequence that no defined benefits accrue to members in respect of service beyond this date.

The trustees of the scheme are required to act in the best interest of the scheme's beneficiaries. The appointment of the trustees is determined by the scheme's trust documentation.

A full actuarial valuation was carried out as at 30 November 2012 in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the scheme

is agreed between the Society and the trustees in line with those requirements. These in particular require the surplus/deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions.

This actuarial valuation showed a deficit of £2,778,000. The Society has agreed with the trustees that it will aim to eliminate the deficit over a period of seven years from 1 December 2013 by the payment of annual contributions of £350,000 in respect of the deficit. In addition and in accordance with the actuarial valuation, the Society has agreed with the trustees that it will meet the expenses of the scheme and the levies to the Pension Protection Fund.

The next valuation is due as at 30 November 2015.

For the purposes of FRS17 the actuarial valuation as at 30 November 2012, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 30 November 2014.

07 Pension arrangements (continued)

	2014 £000	2013 £000
Present values of scheme liabilities, fair value of assets and surplus (deficit)		
Fair value of scheme assets	7,337	6,490
Present value of scheme liabilities	(8,688)	(7,565)
Deficit in scheme	(1,351)	(1,075)
Liability to be recognised	(1,351)	(1,075)
Deferred tax	284	226
Net liability to be recognised	(1,067)	(849)

The present value of scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out by the scheme. This is known as the accumulated benefit obligation, as benefits under the scheme have ceased to accrue. In assessing the figure for the purpose of these disclosures, allowance has been made for future statutory revaluation of benefits up to retirement.

A further measure of the scheme liabilities is the solvency basis, often taken as an estimate of the cost of buying out the benefits at the balance sheet date with a suitable insurer. This amount represents the amount that would be required to settle the scheme liabilities rather than the Society continuing to fund the ongoing liabilities of the scheme. The estimated value of liabilities at the date of the last full actuarial valuation prepared for the trustees of the pension scheme as at 30 November 2012 was £12,742,000 compared with assets at the same date of £6,216,000.

	2014 £000	2013 £000
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Reconciliation of opening and closing balances of the present value of the scheme liabilities

Scheme liabilities at start of period	7,565	7,295
Interest cost	341	321
Actuarial losses	939	123
Benefits paid	(157)	(174)
Scheme liabilities at end of period	8,688	7,565

	2014 £000	2013 £000
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Reconciliation of opening and closing balances of the fair value of the scheme assets

Fair value of scheme assets at start of period	6,490	6,215
Expected return on scheme assets	384	326
Actuarial gains/(losses)	270	(166)
Contributions by the Society	350	289
Benefits paid	(157)	(174)
Fair value of scheme assets at end of period	7,337	6,490

The actual return on the scheme assets over the period ending 30 November 2014 was £654,000.

07 Pension arrangements (continued)	2014 £000	2013 £000
Total income recognised in income and expenditure account		
Interest cost	341	321
Expected return on scheme assets	(384)	(326)
Total (income) recognised in income and expenditure account	(43)	(5)

Statement of total recognised gains and losses	2014 £000	2013 £000
Difference between expected and actual return on scheme assets: gain/(loss)	270	(166)
Experience gains and losses arising on scheme liabilities: gain/(loss)	7	(60)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities: (loss)	(946)	(63)
Total amount recognised in statement of total recognised gains and losses: (loss)	(669)	(289)

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since adoption of FRS17 is (£4,915,000) (a loss).

Assets	2014 £000	2013 £000	2012 £000
Equities	3,219	2,280	2,132
Bonds	2,746	2,806	2,760
Property	1,177	1,093	1,027
Cash	195	311	296
Total assets	7,337	6,490	6,215

None of the fair values of the assets shown above include any of the Society's own financial instruments or any property occupied by, or other assets used by, the Society.

It is the policy of the trustees and the Society to review the investment strategy at the time of each funding valuation. The trustees' investment objectives and the processes undertaken to measure and manage the risk inherent in the scheme investment strategy are documented in the scheme's Statement of Investment Principles.

Assumptions	2014	2013	2012
Rate of discount	3.65%	4.55%	4.45%
Inflation (RPI)	3.10%	3.50%	2.70%
Allowance for revaluation of deferred benefits			
service to 30 November 2003	5.00%	5.00%	5.00%
service from 1 December 2003	3.10%	3.50%	2.70%
Allowance for pension in payment increases			
service to 5 April 2005	3.00%	3.45%	2.65%
service from 6 April 2005	2.10%	2.50%	2.45%
Allowance for commutation of pension for cash at retirement	90% of	90% of	90% of
	Post A day	Post A day	Post A Day

The mortality assumptions adopted at 30 November 2014 are 100% of the standard tables S1PxA, Year of Birth, no age rating for males and females, projected using CMI_2013 converging to 1.00% p.a. These imply the following life expectancies:

Male retiring in 2014	21.96
Female retiring in 2014	24.19
Male retiring in 2039	23.71
Female retiring in 2039	26.07

07 Pension arrangements (continued)

Expected long term rates of return

The expected rate of return on cash reflects the expected long-term prospects of this investment. The expected return on bonds is determined by reference to UK long dated gilt and bond yields at the valuation date. The expected rate of return on equities and property have been determined by setting an appropriate risk premium above gilt/bond yields having regard to market conditions.

The expected long term rates of return applicable at the start of each period are as follows:

	Period commencing	
	1/12/13	1/12/12
Equities	7.20%	6.40%
Bonds	4.35%	3.95%
Property	7.20%	6.40%
Cash	4.35%	3.95%
Overall for the scheme	5.83%	5.20%

Analysis of the sensitivity to the principal assumptions of the value of the scheme liabilities

Assumption	Change in assumption	Change in liabilities
Discount rate	Increase/ decrease by 0.5% p.a.	Decrease/ increase by 10.0%
Rate of inflation	Increase/ decrease by 0.5% p.a.	Increase/ decrease by 5.0%
Rate of mortality	1 year increase in life expectancy	Increase by 3.0%

Duration of liabilities and expected benefits payable

It is estimated that the average duration of the scheme liabilities is 18 years.

Amounts for the current and previous four periods	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Fair value of scheme assets	7,337	6,490	6,215	5,717	5,412
Present value of scheme liabilities	8,688	7,565	7,295	6,496	5,761
Deficit in scheme	(1,351)	(1,075)	(1,080)	(779)	(349)
Experience adjustment on scheme assets	270	(166)	63	(203)	(15)
Experience adjustment on scheme liabilities	7	(60)	(48)	(29)	(302)

The best estimate of contributions to be paid by the Society to the scheme for the year commencing 1 December 2014 is £350,000.

08 Tax on profit on ordinary activities	2014 £000	2013 £000
The taxation charge for the year comprises:		
UK corporation tax at 21.66% (2013: 23.33%)	660	618
Adjustment for previous periods	-	-
Current tax charge for the year	662	618
Deferred tax		
Origination/reversal of timing differences	195	142
Change in rate	(8)	14
Adjustments in respect of previous years	3	(6)
Total deferred tax	190	150
Tax on profit on ordinary activities	850	768
The actual current tax charge for the year differs from that calculated using the standard rate of corporation tax in the United Kingdom. The differences are explained as follows:		
Profit before tax	3,766	3,166
Theoretical tax charge at the standard rate of 21.66% (2013: 23.33%)	814	739
Effects of:		
Accelerated capital allowances	(124)	(74)
Changes in non-allowable bad debt provisions	-	(9)
Other timing differences	(85)	(69)
Expenses not deductible for tax purposes	55	31
Current tax charge for the year	660	618

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the Society's future current tax charge accordingly. The deferred tax liability at 30 November 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

09 Deferred taxation	2014 £000	2013 £000
Deferred taxation at 20% (2013: 21%)		
Net liability at 1 December	(159)	(92)
Origination/reversal of timing differences - current period	(195)	(142)
Origination/reversal of timing differences - prior period	(3)	6
Transferred to net pension liability	83	83
Effect of change in rate	8	(14)
Net liability at 30 November (Note 22)	(266)	(159)
The amounts provided in respect of deferred taxation are as follows:		
Differences between accumulated depreciation and capital allowances	(347)	(245)
General provision for bad and doubtful debts	77	81
General provision for liabilities and charges	4	5
	(266)	(159)

No provision has been made for deferred tax on gains recognised in 2004 on the sale of freehold properties where potentially taxable gains have been rolled over into replacement property assets. Such tax would become payable only if the replacement property were sold without it being possible to claim rollover relief. The total amount of deferred tax unprovided for is £52,000; at present it is not envisaged that any of this liability will become payable in the foreseeable future.

10 Loans and advances to credit institutions	2014 £000	2013 £000
Accrued interest	22	25
Repayable on demand	3,390	10,029
Other loans and advances by residual maturity repayable from the balance sheet date:		
In not more than three months	-	-
In more than three months but not more than one year	2,000	-
	5,412	10,054

11 Debt securities	2014 £000	2013 £000
Issued by public bodies	-	-
Issued by other borrowers	64,945	50,056
Debt securities have remaining maturities from the Balance Sheet date as follows:		
Accrued interest	176	86
In not more than one year	35,001	15,169
In more than one year	29,768	34,801
	64,945	50,056

Transferable debt securities as stated above comprise:

Listed securities	-	-
Unlisted securities	64,945	50,056
	64,945	50,056
Market value of listed transferable debt securities	-	-
Included within debt securities are:		
Unamortised premiums	70	126
Unamortised discounts	-	-

The Directors of the Society consider that the primary purpose of holding securities is prudential. All transferable securities held as liquid assets are held with the intention of use on a continuing basis in the Society's activities and are therefore classified as financial fixed assets, rather than current assets.

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

	£000
Adjusted cost and net book value (excluding accrued interest)	
At 1 December 2013	49,970
Additions	30,003
Disposals	(15,265)
Other movements	61
At 30 November 2014	64,769

12 Loans and advances to customers	2014 £000	2013 £000
The maturity of loans and advances to customers from the Balance Sheet date is as follows:		
In not more than three months	5,076	5,317
In more than three months but not more than one year	16,099	16,229
In more than one year but not more than five years	92,652	97,743
In more than five years	361,128	366,076
	<u>474,955</u>	<u>485,365</u>
Less: provisions for bad & doubtful debts (Note 13)	(732)	(709)
	<u>474,223</u>	<u>484,656</u>

Repayments of interest and principal due to the Society where the borrower is in arrears under the terms of the loan contract have been included in the above table on the assumption that the arrears are cleared over a thirty-six month period from the balance sheet date. It is the Society's experience, in common with most mortgage lenders, that many loans will be repaid earlier than the contractual maturity date.

13 Provisions for bad and doubtful debts	Specific £000	General £000	Total £000
Provisions for losses on loans and advances fully secured on residential property have been made as follows and deducted from the appropriate asset values shown in the Balance Sheet:			
At 1 December 2013	325	384	709
Amounts written off	(18)	-	(18)
Recoveries of amounts previously written off	-	-	-
Charge for the year	41	-	41
At 30 November 2014	<u>348</u>	<u>384</u>	<u>732</u>

14 Tangible fixed assets	Freehold buildings £000	Short leasehold buildings £000	Equipment, fixtures, vehicles £000	Total £000
Cost				
At 1 December 2013	3,169	1,076	2,501	6,746
Additions during year	-	-	1,070	1,070
Disposals during year	-	-	-	-
At 30 November 2014	<u>3,169</u>	<u>1,076</u>	<u>3,571</u>	<u>7,816</u>
Depreciation				
At 1 December 2013	839	848	1,219	2,906
Charged in year	105	44	168	317
Disposals during year	-	-	-	-
At 30 November 2014	<u>944</u>	<u>892</u>	<u>1,387</u>	<u>3,223</u>
Net book value				
At 30 November 2014	<u>2,225</u>	<u>184</u>	<u>2,184</u>	<u>4,593</u>
At 30 November 2013	<u>2,330</u>	<u>228</u>	<u>1,282</u>	<u>3,840</u>

Additions of £1,070,194 (2013: £710,597) in Equipment, fixtures and vehicles relate to replacement of the Society's core IT system.

	2014 £000	2013 £000
The net book value of land and buildings occupied by the Society for its own activities comprises:		
Freehold	1,942	2,042
Short leasehold	184	228
	<u>2,126</u>	<u>2,270</u>

15 Other assets	2014 £000	2013 £000
Other assets	101	30
	<u>101</u>	<u>30</u>

16 Prepayments and accrued income	2014 £000	2013 £000
Income accruals relating to off balance sheet instruments	26	74
Other	61	58
	<u>87</u>	<u>132</u>

17 Shares	2014 £000	2013 £000
Held by individuals	472,579	481,045
Other shares	46	57
	<u>472,625</u>	<u>481,102</u>

Shares are repayable from the Balance Sheet date in the ordinary course of business as follows:

Accrued interest	2,400	3,328
Repayable on demand	468,349	476,045
In not more than three months	-	1
In more than three months but not more than one year	1,749	1,579
In more than one year but not more than five years	127	149
In more than five years	-	-
	<u>472,625</u>	<u>481,102</u>

18 Amounts owed to credit institutions	2014 £000	2013 £000
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Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	1	1
In not more than three months	20,961	9,977
In more than three months but not more than one year	-	-
In more than one year but not more than five years	-	-
	<u>20,962</u>	<u>9,978</u>

Included in amounts owed to credit institutions is £20,961,000 (2013 : £9,977,000) relating to the sale and repurchase agreement of treasury bills borrowed from the Bank of England under the Funding for Lending Scheme.

All sale and repurchase transactions are conducted in line with market standard terms and conditions as defined in ISMA PSA Global Master Repurchase Agreements.

19 Amounts owed to other customers	2014 £000	2013 £000
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Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	361	420
On demand	68,911	71,658
In not more than three months	-	1,000
In more than three months but not more than one year	-	-
In more than one year but not more than five years	-	-
	<u>69,272</u>	<u>73,078</u>

20 Other liabilities	2014 £000	2013 £000
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Income tax	622	662
Corporation tax	353	106
Other taxation and social security costs	83	72
Other creditors	270	351
	<u>1,328</u>	<u>1,191</u>

21 Accruals and deferred income	2014 £000	2013 £000
Accruals relating to off balance sheet instruments	46	65
Other	1,176	1,265
	<u>1,222</u>	<u>1,330</u>

22 Provisions for liabilities	Deferred tax (note 9)	FSCS Levy	Customer Redress	Total
At 1 December 2013	159	236	10	405
Settlements made in the year	-	(405)	(4)	(409)
Charge for the year	107	429	4	540
At 30 November 2014	<u>266</u>	<u>260</u>	<u>10</u>	<u>536</u>

These provisions have been made in respect of the costs of customer redress attributable to claims and potential claims on endowment policies and the Financial Services Compensation Scheme compensation levy as described in Note 25.

23 Subordinated liabilities	2014 £000	2013 £000
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Floating rate subordinated loan repayable 27 November 2017	-	2,000
Floating rate subordinated loan repayable 27 November 2018	-	1,500
Floating rate subordinated loan repayable 06 November 2019	500	500
Floating rate subordinated loan repayable 30 November 2021	-	1,500
Floating rate subordinated loan repayable 16 March 2020	500	500
Floating rate subordinated loan repayable 1 December 2019	50	50
Fixed rate 14.81% subordinated loan repayable 21 December 2020	3,500	3,500
Fixed rate 10.25% subordinated loan repayable 17 October 2024	3,500	-
	<u>8,050</u>	<u>9,550</u>
Unamortised issuance costs	(222)	(75)
	<u>7,828</u>	<u>9,475</u>
Net carrying value	139	96
Accrued interest		
	<u>7,967</u>	<u>9,571</u>

The Society's subordinated loans are unsecured and denominated in Sterling.

The rights of repayment of the holders of subordinated debt, which rank pari passu with each other, are subordinated to the claims of all depositors, creditors and investing members of the Society.

Interest payments are made on the floating rate loans at a rate set with reference to an external market rate.

Interest accrued but unpaid on the loans is subject to subordination.

The Society may, with the prior consent of the Prudential Regulation Authority, prepay each loan at the fifth anniversary date prior to the scheduled maturity date.

During the year subordinated liabilities with a nominal value of £5,000,000 were repaid, leading to a profit on redemption of £855,000.

During the year subordinated liabilities with a nominal value of £3,500,000 were issued. Legal costs of £183,691 will be amortised over the life of the debt.

Capital Requirement Regulations issued by European Parliament and Council allow subordinated debt to be included within the Society's capital, subject to meeting eligibility requirements. Of the subordinated liabilities held by the Society £7,821,567 (2013:£9,163,000) is eligible to be included as regulatory capital at 30 November 2014.

24 General reserves	2014 £000	2013 £000
At 1 December	23,870	21,702
Total recognised gains relating to the financial year	2,389	2,168
At 30 November	26,259	23,870
Reserves excluding pension liability	27,326	24,719
Net pension liability (Note 7)	(1,067)	(849)
	26,259	23,870

25 Commitments	2014 £000	2013 £000
Capital commitments		
Capital expenditure contracted for at 30 November but not provided for in these accounts	81	151

Leasing commitments

At the Balance Sheet date, annual commitments under operating leases relating to land, buildings and equipment were as follows:

	2014 Equipment £000	2014 Land and buildings £000	2013 Equipment £000	2013 Land and buildings £000
Leases which expire:				
In not more than one year	-	76	-	-
In more than one but not more than five years	4	-	4	76
After five years	-	100	-	100
	4	176	4	176

Financial commitments

Financial Services Compensation Scheme

In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts - a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford and Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society. The FSCS meets these current claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members, including Ipswich Building Society, over this period. In addition to the management levies, the FSCS commenced charging for compensation levies over a number of scheme years commencing 1 April 2012. The provision at 30 November 2014 includes an estimate of the management expenses levy for the scheme year 2014/15. The compensation levy for 2014/15 was paid in the year to 30 November 2014. No provision has been made for any levies relating to 2015/16 and subsequent scheme years.

Customer redress claims

Ipswich Building Society, like many other distributors of investment products to retail customers, has experienced customer concerns regarding the future maturity value of endowment and similar life assurance-linked policies used to repay certain residential mortgages. Concern has historically recognised that the maturing value of certain policies may be below the amount required to repay the mortgage in full. A number of these concerns convert to formal complaints on the grounds that the customer has been sold an inappropriate investment product or has otherwise been misadvised. The Society reviews all such complaints on a case-by-case basis in accordance with its published procedures. Where it is established that a valid claim exists corrective action is taken, which may include the payment of compensation to the customer. The provision included in the Accounts is based on the Society's experience to date and the anticipated profile of future claims.

26 Notes to the cash flow statement	2014 £000	2013 £000
Reconciliation of operating profit to net cash flow from operating activities		
Profit before tax	3,766	3,166
(Increase)/decrease in prepayments and accrued income	(42)	17
Decrease in accruals and deferred income	(1,095)	(296)
Provisions for bad and doubtful debts	41	122
Loans and advances written off, net of recoveries	(18)	(102)
Depreciation and amortisation	355	210
Interest on subordinated liabilities	937	896
Pension contributions	(350)	(289)
Increase in provisions for liabilities and charges	131	66
Profit on the sale of subordinated liabilities	(855)	-
Other non-cash movements	(104)	(32)

Net cash inflow from trading activities	2,766	3,758
Net decrease/(increase) in loans and advances to customers	10,410	(21,184)
Net (decrease)/increase in shares	(7,549)	25,919
Net increase/(decrease) in amounts owed to credit institutions and other customers	7,237	(2,319)
Net (increase)/decrease in loans and advances to credit institutions	(2,000)	8,024
Net (increase)/decrease in other assets	(71)	20
Net (decrease)/increase in other liabilities	(217)	93
Net cash inflow from operating activities	10,576	14,311

Analysis of the balances of cash as shown in the Balance Sheet:

	2013 £000	Flows £000	2014 £000
Cash in hand	52,606	(729)	51,877
Loans and advances to credit institutions repayable on demand	10,029	(6,639)	3,390
	62,635	(7,368)	55,267

27 Directors' loans and related party transactions

There were no loans or similar arrangements between Directors and the Society falling due to be reported in the financial statements at either 30 November 2014 or 30 November 2013.

A register is maintained at the Society's Head Office containing details of loans, transactions and arrangements made between the Society and Directors of the Society or persons connected with Directors of the Society. The register will be available for inspection by members at the Head Office for a period of 15 days up to and including the Annual General Meeting.

There are no qualifying disclosures falling to be reported under FRS 8 Related Party Transactions.

28 Financial instruments

A financial instrument is a contract which creates a financial asset and a corresponding liability. Ipswich Building Society is a retailer of financial instruments, where these are primarily in the form of mortgage loans to customers and deposits taken from customers. The Society uses wholesale financial instruments when investing liquid assets and borrowing funds from the London money markets and other corporate sources, and to manage interest rate and other risks arising from its business operations.

Types of derivative instruments

The principal derivatives used to manage interest rate risk within the Society's Balance Sheet are interest rate swaps, interest rate guarantee contracts, interest rate options and forward rate agreements. Interest rate risk arises from a mismatch between the interest rate characteristics or maturity profiles of assets and liabilities, primarily in respect of fixed rate mortgage and savings products and funding and liquidity management activities.

The following table describes the significant activities undertaken by the Society, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. These risks may alternatively be managed on Balance Sheet on a matched asset/liability basis, as part of an integrated approach to risk management.

Activity	Risk	Type of hedging contract
Fixed rate retail and wholesale funding	Sensitivity to falls in the general level of interest rates	Receive fixed interest rate swaps Receive fixed rate under forward rate agreements Purchase interest rate floor contracts
Fixed rate retail mortgage products and fixed rate liquid assets	Sensitivity to increases in the general level of interest rates	Receive floating interest rate swaps Purchase interest rate cap contracts

Control of derivatives

The Society has a formal structure for managing risk. Exposure limits have been established, accompanied by reporting lines, mandates and control procedures. Control of both exposures and the use of derivatives is subject to a Board-adopted policy statement covering Balance Sheet structural risk management. Under this policy statement, the use of derivative instruments is monitored by the Assets and Liabilities Committee (ALCO), an Executive Committee formally reporting to the Board.

The Board is satisfied that the use of derivatives by the Society is consistent with Section 9(A) of the Building Societies Act 1986 and that all contracts entered into are for the purpose of managing financial risk.

The following table details derivative instruments by contract type and maturity and shows the nominal principal amounts, credit risk weighted amounts, and replacement costs. The nominal principal amount is the amount of business outstanding at the balance sheet date, and does not relate to the actual underlying exposures carried. The risk weighted values of these contracts has been calculated in accordance with the EU Solvency Ratio Directive. The replacement costs have been obtained by marking contracts to market and aggregating those with a positive value.

	2014			2013		
	Nominal principal amount £000	Credit risk weighted amount £000	Replacement cost £000	Nominal principal amount £000	Credit risk weighted amount £000	Replacement cost £000
Unmatured interest rate contracts						
Interest rate swaps	163,050	377	409	165,050	771	1,151
	163,050	377	409	165,050	771	1,151
These contracts mature from the Balance Sheet date as follows:						
In not more than one year	94,000	-	-	87,000	273	546
In more than one but not more than five years	69,050	377	409	78,050	498	605
	163,050	377	409	165,050	771	1,151

28 Financial instruments (continued)

All the Society's derivatives activities are contracted with OECD financial institutions.

Fair value disclosures under FRS13 are provided in a following section of this note.

Credit risk

Retail loan applications are assessed within a framework consistent with that set out in the Board-approved Lending Policy statement. In common with most major lending organisations, the Society uses a hierarchical system of individual decision-making authority mandates.

Exposures to treasury counterparties are taken in accordance with the Board-approved Treasury Management Policy statement. The ALCO is responsible for approving credit lines to individual institutions and monitoring actual exposures.

Liquidity risk

It is the Society's policy to maintain sufficient funds in an appropriately liquid form to ensure that maturing obligations can be discharged in full as they fall due. The over-riding objective of liquidity management operations is to smooth out mismatches between maturing assets and liabilities.

Interest rate risk

The Society is exposed to changes in net earnings and market value of assets and liabilities arising from movements in interest rates occurring in the economic environment in which it operates. These exposures derive principally from the interest rates applying to assets and liabilities having differing repricing characteristics. The Society manages exposures by the use of on- and off-balance sheet financial instruments.

The table below summarises interest rate repricing mismatches on settled positions at the year end date. Items are allocated to specific timebuckets by reference to the earlier of the next repricing date or maturity date:

	2014						Total £000
	3 months or less £000	More than 3 months less than 6 months £000	More than 6 months less than 1 year £000	More than 1 year less than 5 years £000	More than 5 years £000	Non-interest bearing £000	
Assets							
Liquid assets	110,023	10,000	2,000	-	-	211	122,234
Loans and advances to customers	265,895	21,152	64,452	123,456	-	(732)	474,223
Tangible fixed assets	-	-	-	-	-	4,593	4,593
Other assets	-	-	-	-	-	101	101
Prepayments and accrued income	-	-	-	-	-	87	87
Total assets	375,918	31,152	66,452	123,456	-	4,260	601,238
Liabilities							
Shares	304,529	18,007	50,696	96,993	-	2,400	472,625
Amounts owed to credit institutions and other customers	88,278	-	-	1,594	-	362	90,234
Other liabilities	-	-	-	-	-	1,365	1,365
Accruals and deferred income	-	-	-	-	-	1,222	1,222
Provisions for liabilities	-	-	-	-	-	601	601
Net pension liability	-	-	-	-	-	1,067	1,067
Subordinated liabilities	50	500	500	7,000	-	(83)	7,967
Reserves	-	-	-	-	-	26,157	26,157
Total liabilities	392,857	18,507	51,196	105,587	-	33,091	601,238
Off-balance sheet items	88,050	-	(60,000)	(28,750)	700	-	-
Interest rate sensitivity gap	71,111	12,645	(44,744)	(10,881)	700	(28,831)	-
Cumulative gap	71,111	83,756	39,012	28,131	28,831	-	-

28 Financial instruments (continued)

Interest rate risk (continued)

	2013						Total £000
	3 months or less £000	More than 3 months less than 6 months £000	More than 6 months less than 1 year £000	More than 1 year less than 5 years £000	More than 5 years £000	Non-interest bearing £000	
Assets							
Liquid assets	106,438	6,167	-	-	-	111	112,716
Loans and advances to customers	280,057	27,436	52,771	125,101	-	(709)	484,656
Tangible fixed assets	-	-	-	-	-	3,840	3,840
Other assets	-	-	-	-	-	30	30
Prepayments and accrued income	-	-	-	-	-	132	132
Total assets	386,495	33,603	52,771	125,101	-	3,404	601,374
Liabilities							
Shares	277,228	49,462	97,279	53,768	-	3,365	481,102
Amounts owed to credit institutions and other customers	79,052	2,045	-	1,538	-	421	83,056
Other liabilities	-	-	-	-	-	1,191	1,191
Accruals and deferred income	-	-	-	-	-	1,330	1,330
Provisions for liabilities	-	-	-	-	-	405	405
Net pension liability	-	-	-	-	-	849	849
Subordinated liabilities	50	3,596	500	3,500	-	1,925	9,571
Reserves	-	-	-	-	-	23,870	23,870
Total liabilities	356,330	55,103	97,779	58,806	-	33,356	601,374
Offbalance sheet items	20,050	27,000	5,000	(52,050)	-	-	-
Interest rate sensitivity gap	50,215	5,500	(40,008)	14,245	-	(29,952)	-
Cumulative gap	50,215	55,715	15,707	29,952	29,952	-	-

These tables do not take into account the effect of interest rate options used by the Society to manage interest rate risk.

A negative rate sensitivity gap exists where more liabilities than assets reprice in a specific time period. In general, a negative gap will enhance earnings in a falling interest rate environment, although the extent of any improvement in operating margins is highly dependent on a number of external and internal factors.

The ALCO monitors the exposure to repricing risk on a routine basis. The Society has implemented a proprietary risk management software application to enable it to undertake modelling and simulation testing of both existing and forecast positions under static and dynamic scenarios.

28 Financial instruments (continued)

Fair values of financial instruments

Set out below is a comparison of carrying values of certain of the Society's financial assets and financial liabilities as at 30 November 2014. The Society does not undertake transactions for trading or speculative purposes. The table excludes certain financial assets and financial liabilities which are not listed on a recognised exchange, or are publicly traded, or for which a liquid and active market does not exist. The table therefore excludes items such as retail loan and savings products and non-negotiable wholesale financial instruments:

	2014		2013	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Financial assets and liabilities for which an active market exists:				
Debt securities	64,866	65,107	50,056	50,032
Interest rate swaps	(20)	(295)	8	340

Market values have been used to determine the fair value of interest rate swaps and debt securities held. The fair value of interest rate caps and interest rate floors have been calculated using option-pricing models.

Gains and losses on hedges

Gains or losses on hedges of financial instruments are recognised in the income and expenditure account over the residual life of the underlying instruments. A gain or loss is otherwise recognised only in the event of the underlying exposure itself being unwound. The following table sets out the movements in recognised and unrecognised gains and losses in the year to 30 November 2014:

	Gains £000	Losses £000	Total net gains/ (losses) £000
Unrecognised gains and losses on hedges at 1 December 2013	1,077	(746)	331
Gains and losses arising in previous years that were recognised in 2014	(451)	140	(311)
Gains and losses arising before 1 December 2013 that were not recognised in 2014	626	(606)	20
Gains and losses arising in 2014 that were not recognised in 2014	(243)	(52)	(295)
Unrecognised gains and losses on hedges at 30 November 2014	383	(658)	(275)
Of which:			
Gains and losses expected to be recognised in the year to 30 November 2015	0	(168)	(168)
Gains and losses expected to be recognised in the year to 30 November 2016 or later	383	(490)	(107)
	383	(658)	(275)

Gains and losses are expected to be matched by similar opposite movements on the value of products they are hedging.

Annual Business Statement

for the year ended 30 November 2014

01 Statutory percentages	2014 %	Statutory limit %
Lending limit	0.7	25.0
Funding limit	16.0	50.0

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

The statutory limits are as laid down under the Building Societies Act 1986 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its shareholding members.

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

Business assets are defined as total Society assets plus bad debt provisions less liquid assets and tangible fixed assets.

The funding limit represents the proportion of shares and borrowings not in the form of shares held by individuals. Shares and borrowings represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.

02 Other percentages	2014 %	2013 %
As a percentage of shares and borrowings:		
- Gross capital	6.05	5.86
- Free capital	5.30	5.24
- Liquid assets	21.72	19.98

As a percentage of mean total assets:

- Profit after tax for the financial year	0.48	0.41
- Management expenses	1.21	1.06

"Shares and borrowings" represent the total of shares, amounts owed to credit institutions, and amounts owed to other customers.

"Gross capital" represents the aggregate of general reserves and subordinated liabilities

"Free capital" represents the aggregate of gross capital and general loss provisions for bad and doubtful debts, less tangible fixed assets.

"Mean total assets" represent the average of total assets as stated in the balance sheet at 30 November 2013 and 30 November 2014.

"Liquid assets" represent the aggregate of cash in hand, loans and advances to credit institutions, debt securities, treasury bills and other liquid assets.

"Management expenses" represent the aggregate of administrative expenses and depreciation and amortisation.

The notes to these Accounts are contained on pages 27 to 45.

03 Information relating to Directors at 30 November 2014

Name	Occupation	Date of birth	Date of appointment	Other Directorships
K F Blackburn, TD, BSc (Hons), ACA, ACIB	Building Society Executive	11/05/62	30/11/08	-
D W Bowden	Chief Executive of Essex Cricket	30/09/56	30/11/06	Essex Cricket & Community Trust Essex County Cricket Board Ltd
E S Evans BSc (Hons) Sp, ACA	Non-Executive Director	26/11/63	30/11/08	Non-Executive Chairman of The International Exhibition Co-operative Wine Society
A Harris MBA, FCII	Non-Executive Director	22/08/56	01/07/11	Aegon Direct Marketing Services Europe Ltd Stonebridge International Insurance Ltd Cornerstone International Holdings Ltd The Prince Henry's High School Academy Trust PHHS Trading Company Ltd
M A Tennens FCIM, DipM, DipTh	Company Director	14/03/67	30/11/06	redPepper Marketing Ltd
C B Tilley FCA, FCMA, CGMA	Chief Executive, CIMA	22/12/50	30/11/08	The Chartered Institute of Management Accountants Enterprises Ltd The Chartered Institute of Management Accountants SE Asia Shd Bhd Great Ormond Street Hospital Foundation Trust Sea View Yacht Club
A L Wilson BSc FRICS	Chartered Surveyor	08/06/54	01/10/12	UK Commercial Property Trust Chartsymbol Ltd Folgate Holdings Ltd Folgate Estates Ltd
P Winter BA, FCIB	Building Society Executive	20/10/50	01/12/90	BSA Pension Trustees Ltd University Campus Suffolk Ltd

Directors' service contracts

At 30 November 2014 the Executive Directors are employed on open ended service contracts under which notice periods of one year and six months are required to be given by the Society and Director respectively in circumstances in which the contract is to be terminated. The contract for P Winter was entered into on 15 November 2007 and for K F Blackburn on 30 November 2008.

Correspondence and documents

Correspondence to Directors, jointly or individually, should be addressed "Private and Confidential" and c/o KPMG LLP, Chartered Accountants, 6 Lower Brook Street, Ipswich, IP4 1AP.

04 Information relating to other Officers at 30 November 2014

Name	Occupation	Other Directorships
I A Brighton CeMAP, CeRGI, CeRCC, CeRCH, AdvCeMAP	General Manager (Business Services)	-
J Leah MCIM	General Manager (Sales)	-
M E Monck DipM	General Manager (Marketing)	-



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