# ANNUAL REPORT

Year ended 30 November 2016

IPSWICH BUILDING SOCIETY

# Contents

# Chairman's Report

The overriding theme for this year is one of change that will impact on our future: change nationally and internationally and also closer to home within our own business. While we cannot at this stage be sure how some of that change will affect us, we are confident that the Society is well equipped to deal with the matters as they arise and is in a strong position to continue to work with borrowers and savers in our chosen markets.

The performance of the business this year has also seen a significant change. After two years in which we substantially withdrew from the mortgage market while we were replacing our IT system, this year we worked hard to re-establish our position and build strong relationships with our chosen brokers. We have focused on improving the speed of our mortgage processing and by the end of the year the average time between application and offer was 19 days. We have received very positive feedback from the broker market and were delighted with the level of referrals made to us.

The year ended with mortgage assets up £23m compared with last year at £477m. Profit before tax for the year was £2.6m (2015: £2.5m).

### A year of change

On 24 June we awoke to the news that the UK had voted to leave the European Union. Several months on we are no closer to knowing what the terms of that exit might be and the implications for the UK economy and our own business. So far, the predictions of gloom and a slide into an extended recession have not proved to be correct and in fact the UK economy has been shown to be relatively strong with encouraging levels of employment and inward investment. UK financial services are very tightly linked to European financial services with many of the rules that we need to apply, and ratios that we need to maintain (such as capital and liquidity), being driven by European regulators. We do not expect there will be any significant changes to UK requirements for financial services firms, all large financial institutions will need to continue to comply with European requirements in order to do business in Europe and we do not envisage a different regime for UK based businesses that intend only to transact in the UK.

More uncertainty still has been created by the election of Donald Trump as the next President of the USA in what must be seen as another vote against the establishment and globalisation.

At the time of writing, we have no idea what impact Mr Trump's Presidency will have within the USA or across the world, only time will tell. Europe too is facing uncertainty with key elections due in 2017 which may bring more change and uncertainty.

### New CEO

Closer to home, the Society has seen significant change amongst its personnel. On 1 December 2016, Paul Winter stood down as CEO after almost 10 years in the role. Paul joined the Society in 1982 as Assistant General Manager, was appointed to the Board in 1990 and became CEO on 1 April 2007.

His leadership of the Society has seen us navigate through the financial crises of the last 10 years, faring well by concentrating on what we did best: being prudently run and serving the mortgage and savings needs of members, resulting in growth and a stronger financial position.

Whilst there have been many individual successes during Paul's tenure, I would like to highlight the following in particular.

- Ipswich Building Society was the first lender to identify and respond to Mortgage Misfits, coining the term which has become industry recognised.
- Paul has influenced the Society to support the affordable housing market and leading to new product development such as Home Ownership for Longterm Disabled (HOLD) partnership with Suffolk County Council, Saffron Housing Association and Orwell Housing Association and the Sweat Equity mortgage, the UK's first ever self build, shared ownership product.
- Paul chaired the Greater Ipswich City Deal in 2014 bringing £18m of Government funding into the area to equip people with the skills local businesses need to grow.
- In 2015 Paul was awarded an MBE for services to young people.

On behalf of the Board, I should like to thank Paul for all he has done for the Society, its members and our local communities and wish him a long and happy retirement.

Richard Norrington succeeded Paul as CEO on 1 December 2016. Richard has long experience in the banking sector having spent 10 years at Clydesdale Bank and 16 years at Barclays Bank PLC prior to that. He is an experienced leader of businesses and understands well the role of a business as part of its local community. As his career has progressed, Richard has found himself increasingly drawn to smaller, customer orientated businesses and he is delighted to join a building society with a strong reputation in its local community and with its members.

### New Non-Executive Directors

We have also continued to make changes within the Non-Executive members of the Board with those changes being imposed on us by the Corporate Governance code which strongly suggests that Non-Executive Directors should serve for a maximum of nine years. In last year's report I said that Derek Bowden, who had then served nine years, would be stepping down from the Board at the AGM or as soon after that as we were able to appoint a successor. In the event, despite extensive searches and with the help of a recruitment firm, we were unable to find someone with the range of skills and experience that we were after. I am delighted that Derek therefore continued on the Board. Our Non-Executive Directors searches continued and in the second half of the year we were successful in recruiting Steve Reid to join us from 1 November. Steve is a financial services specialist and has worked in retail financial services for many years. We are delighted that he has joined us; bolstering our skills and knowledge in this particular area.

### A new flagship branch for Ipswich

The timing of Steve Reid's arrival could not be better as we prepare for the opening in 2017 of our new flagship branch, Mutual House, on the junction of Princes Street and King Street in the centre of Ipswich. On a site left vacant when another building society closed, Mutual House has long been associated with financial services having originally been built for Parr's Bank in 1901. Across the UK we have seen thousands of branch closures in recent years and most banks report that the increase in online banking means that the need for branches has fallen away sharply. By contrast we believe that branches have a fundamental role to play in Ipswich Building Society: they provide an interaction between the Society and its members, they are our 'window onto the world' and provide an important resource in our local communities. We are excited about the opportunities that Mutual House presents to us for creating a space that we can use with our members.

### Senior Independent Director

Our search for new Non-Executive Directors continues as Michelle Tennens has also reached nine years. If a suitable new Non-Executive Director has been found by that time, Michelle will retire from the Board at the AGM, though I am delighted that she has agreed to stay on beyond that date should we still be looking for the right candidate.

Michelle is the Senior Independent Director, an important role to whom others, including members, can turn in the event that they face obstacles in pursuing an issue through the normal reporting lines. The Senior Independent Director can also act as a sounding board for the Chairman or for the other Directors and can help to resolve issues should conflict arise within the Board. Happily there has been no such conflict within our Board. During her time as Non-Executive Director Michelle, who runs her own marketing consultancy, has been a regular visitor at our branches and agencies, keeping in touch with the local team and their work in their communities and getting a feel for the local markets.

### Senior Management Regime

Finding suitably qualified individuals to serve as Non-Executive Directors is not an easy task. The responsibilities are significant and many of the issues, in particular the regulatory rules, are technical and constantly evolving. In March 2016 the Financial Conduct Authority (FCA) introduced the Senior Manager Regime (SMR) which seeks to boost personal accountability by putting the onus on an individual to demonstrate that they are taking reasonable steps to do the right thing. The SMR applies to all Executive and Non-Executive Directors and members of staff who hold positions of influence and responsibility within the Society (together, known in the SMR as 'Senior Managers').

The FCA intends that under the new SMR regime, supervision and enforcement will increasingly focus on the actions of individual Senior Managers as opposed to the overall actions of the firm. Senior Managers should understand the need to ensure that they have full control of their areas of responsibility and that their individual actions can be evidenced and are defensible.

We believe that we have been applying the principles which underpin the SMR consistently across the business. Therefore while we do not expect the SMR to fundamentally change what we do or the decision making processes that we have, it will mean that we take extra care to document our decisions fully.

### Looking ahead to 2017

In an uncertain and changeable world, it is important that we stay focused on our key objectives.

We enter the next financial year at a point at which we are almost able to benefit fully from the new IT system that members will be aware has taken so long to put in place and which has absorbed so much time from our senior team. We are looking forward to exploring the opportunities to improve further the efficiency of our internal processes, to improve turnaround times in mortgage processing and enable the delivery of a service to members which is right first time.

Together with the strengthened position in the mortgage market and with our selected brokers we are in a strong position for 2017 and will continue to build our mortgage base. With the prospect of a new flagship branch in Ipswich and new members of our senior team to lead the business, the prospects for 2017 look exciting.

I am sure that you will join me in wishing Paul Winter a long and happy retirement and wishing Richard Norrington and our new Non-Executive Director all the very best for the year ahead.

**E. Sarah Evans**
Chairman
26 January 2017

# Chief Executive's Report

I am delighted to be joining Ipswich Building Society at this exciting time. I have asked Paul Winter to write a summary of the previous year as he was the CEO during this period.

### Summary of 2015/2016 from Paul Winter

It is with some sadness that I write what will be my last report as Chief Executive of Ipswich Building Society. However I am delighted to be retiring on a high note with the Society getting back to growing its mortgage book (after the slower years necessitated by the changing of our IT systems) and improving profitability. Details of the 2016 results are set out in the Directors' Report on pages 7 to11 of this Annual Report. I will cover some of the many other successes and highlights from the last 12 months.

### Savings

Interest rates have of course continued at record low levels and indeed following the result of the referendum on our membership of the EU, the Bank of England saw the need to reduce its base rate by a further 0.25%. The Society recognised the need to offer to members savings products which met member needs and on 1 July we revised our entire savings range and introduced new accounts which were based not only on market conditions but also drawing on insights from our members. The new range offers innovative and accessible products for the whole family. At the same time we have continued to support local charities through our revised Mutual Advantage account. Each of our branches has their own annually nominated local charity to benefit. The Society pays 1% to the charity based on the average balances held in 'their' accounts that year.

### Housing and Mortgages

There continues to be a great deal of discussion around the difficulties many people have in buying a home of their own. It is pleasing to see that the Government is now putting a much higher priority in this area and in particular dealing with the long standing chronic shortage of new homes being built. For our part we have continued to be active in the Self Build market following the launch of the Right to Build Act.

Even where properties are available, there continues to be significant numbers of people who are 'locked out' of the mainstream mortgage market as a result of their particular circumstances. Ipswich Building Society has continued to champion the cause of the 'mortgage misfit' and as well as continuing to support the likes of the self employed, during 2016 we reviewed our criteria to assist those who were divorcing or separating and who may be relying on child maintenance as part of their income.

Retaining mortgage customers when they come to the end of their fixed or discount period is something the Society has been focused on for some time. Our borrowers are offered a competitive deal when they come to their product maturity and we have an active communications programme to ensure that they are fully aware of the choices available to them.

Over 80% of our mortgage business is introduced to the Society by a mortgage intermediary. We pride ourselves on the service we offer to those intermediaries both by speed of service and sensible decision making. During 2016 we carried out research to see what intermediaries thought of us. It was gratifying to see that 90% were satisfied or very satisfied. We were however disappointed that in 2016 we were unable to reintroduce the facility for intermediaries to submit cases online but we are confident this will be available in the spring of 2017. We have widened our network of intermediaries in 2016 by joining with a number of national firms who are keen to take advantage of our competitive products and bespoke underwriting capabilities.

### Community Involvement

The Society takes very seriously its role in the local community. We believe that a strong healthy local economy is good for our members. We support our communities in many different ways, including:

- staff and member volunteering
- financial education in schools, colleges and prisons
- branches fundraising activities
- direct support of events.

One of the events we supported was as the Community Engagement partner of the Pigs Gone Wild art trail in Ipswich. The trail is estimated to have brought a £1m boost to the local economy, generated 250,000 visitors to the town and raised £200,000 for the St Elizabeth Hospice. 87% of people surveyed thought the trail brought a stronger sense of community.

Our own pig sculpture, Pretty Penny, is now a permanent feature in Head Office and branches and is being used for a variety of community events to aid financial education.

On a personal note I was delighted to be awarded an MBE in the New Years Honours list for my work helping to improve the skills and employability of young people in Suffolk. The Society is in a strong position to continue to develop and I would like to wish our new CEO, Richard Norrington, every success.

**Paul Winter MBE**

### In conclusion

With mortgage assets growing by £23m and savings balances by £17m, and the acquisition of our flagship Ipswich town centre branch Mutual House, the Society has continued to strengthen. We have a solid foundation to enter our next financial year and to continue to serve the needs of our members.

**Richard Norrington**
Chief Executive
26 January 2017

# Directors' Report

The Directors have pleasure in presenting the 167th Annual Report and Accounts for the year ended 30 November 2016.

## Business objectives and activities

For 167 years the Society has been bringing savers and borrowers together for their common benefit. As a mutual we are owned by our members which means we are able to keep our members' interests at the heart of everything we do. It is important to invest in the business; however we also need to balance carefully the need to retain sufficient earnings to ensure the sustainability of the Society for the members, employees and local community.

Offering simple and straightforward savings products to investing members and providing mortgages so that borrowing members can buy a home has been the Society's main purpose for 167 years and continues to be so.

This year's Report and Accounts reflects a mandatory change in Accounting Standards. The Society has adopted Financial Reporting Standard 102 (FRS102) and, as a result, much of the content of our financial accounts for the previous year ended 30 November 2015 has been restated so that it is presented on a basis consistent with this year's results and can be compared. Where necessary we have referred to the previously reported figures and the restated figures for clarity. Further information on this is set out in detail in Note 32 to the Accounts.

## Key Performance Indicators

| Key performance indicator | 2016 | 2015 (restated under FRS102) | 2015 | 2014 |
|---|---|---|---|---|
| Mortgage Assets (£m) | **477** | 454 | 453 | 474 |
| Arrears cases over 12 months | **5** | 11 | 11 | 16 |
| Retail savings balance (£m) | **541** | 524 | 524 | 539 |
| Profit before tax (£m) | **2.6** | 2.5 | 1.9 | 3.8 |
| Management expenses (£m) | **8.4** | 8.0 | 8.0 | 7.3 |
| Total Capital (£m) | **33** | 36 | 36 | 34 |

## Business review

2016 has been a positive year for the Society. The IT system has now embedded which has resulted in less manual workarounds for our employees. As a result Society staff have been able to concentrate on the business of growing the mortgage book and it is pleasing to end the year with a £23m increase in the size of the Society's mortgage asset. There was a large increase in the number of mortgage applications processed by the Society's lending team from 617 applications in 2015 to 1011 in 2016. This resulted in 623 completions for the year with an average loan size of £206k. 113 of these completions were to self build borrowers.

The uncertainty around the result of the referendum on the UK's membership of the EU and other external economic factors meant that the pace of writing mortgages slowed for the Society in the middle of the year. However it is pleasing to finish the year with six months of successive growth in the size of the mortgage book. External economic factors also had an impact on savers, which is discussed in more detail below.

The Society has been working hard to improve the level of service it provides for mortgage applications. The Society now publishes service levels to brokers on its website and it is pleasing to report that the average number of days it took for an application to reach offer stage was 19 days compared with 35 in 2015. The Society has strengthened its relationship with intermediaries and it now has 25 brokers that have each placed over £1m business with the Society in the last 12 months, compared with six the previous year. Close work with our intermediaries has seen a significant uplift in business from previously untapped channels. All intermediaries have seen an increase in business placed with the Society this year.

In September 2016 the Society purchased new premises in Ipswich, with the intention to relocate the branch from the Society's current location in Sailmakers Shopping Centre. The new premises will provide the Society with the ability to provide a better branch experience to its members as well as use the space for other activities such as financial education and community engagement. The new branch will open in 2017 following a period of refurbishment. The new premises will be called Mutual House and the Society looks forward to welcoming members in due course.

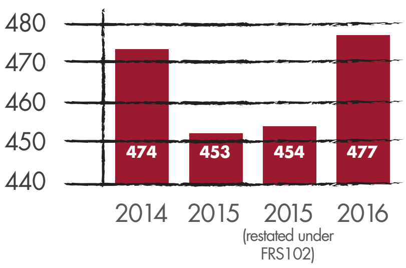
We are committed to being a member owned organisation. As a mutual building society we act in our members' best interests and in those of the wider community. We believe that it is integral to the Society's purpose and vision for members to be aware of their position as the owners of the Society. Our member initiative 'All In' encourages our members to become involved in member events and have their say in how we are run and helping to improve our products and services. It is intended to highlight the benefit of being a member instead of just a customer. The events this year have included discounted tickets to the Sandringham Flower Show, which was attended by 51 members, two visits to the Suffolk Constabulary Museum; the first event was so popular we organised another and a visit to the Orfordness Lighthouse. Each year, we sponsor Eastern Angles, a local theatre group, and this year 62 of our members enjoyed watching a free performance in their local theatre, village/community hall or at Debach Airfield. All our events have proved hugely popular and we look forward to greeting members in the next year.

## Looking ahead

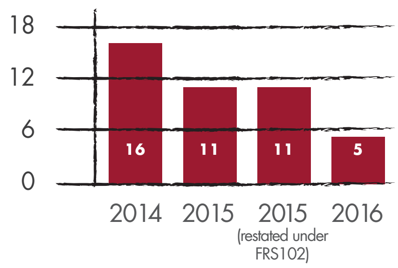
The Directors of the Society are committed to ensuring the long term sustainability of the Society. The Society is well placed with its strong and individual offering to the mortgage market as it is able to underwrite individually and look at each and every mortgage application purely on its merits, using its own judgment to assess outgoings and affordability.

# Directors' Report continued

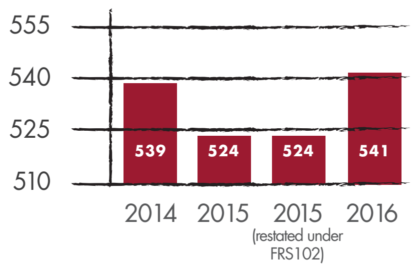
## Mortgage Assets (£m)



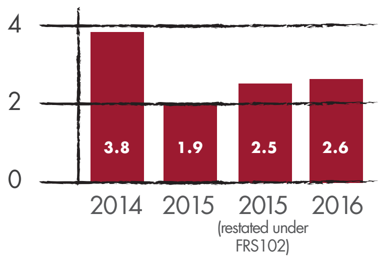

## Arrears Cases



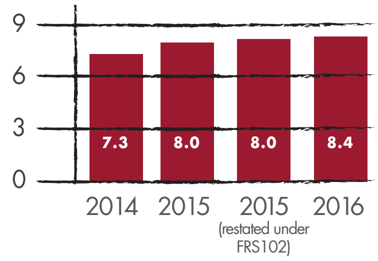

## Retail savings balances (£m)



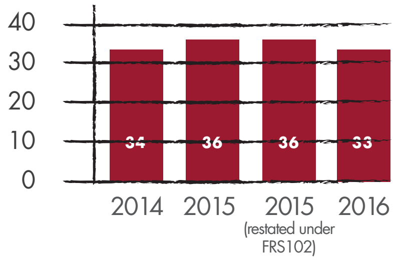

## Profit before tax (£m)




## Management Expenses (£m)




## Capital (£m)




### Mortgage Assets

We are pleased to report a growth in our mortgage book this year of £23m. The majority of this growth has been towards the end of the year as we started the year with a relatively low level of applications. It is the Society's plan to continue to grow mortgage balances in forthcoming years and it is pleasing that the Society starts 2017 with a strong number of applications to bolster this growth.

### Arrears

The Society's number of cases in arrears has reduced again this year and remains below the market level. This has been achieved by our arrears team working diligently and with care to support members with payment difficulties. We have continued with a sympathetic and positive approach, agreeing sensible and affordable payment arrangements with those borrowers, ensuring that we work together to enable them to manage their payment difficulties.

At 30 November 2016 there were 5 (2015: 11) mortgage accounts where payments were 12 months or more in arrears. The total amount of principal outstanding in these cases was £566k (2015: £980k) with the total amount of arrears being £77k (2015: £118k). At 30 November 2016 the Society has eight properties in possession. Six of these properties are under offer and five of them are shared ownership.

At 30 November 2016, the Society has 100 (2015: 126) mortgage accounts subject to forbearance, which equates to 2.49% by number of the total mortgage book. These mortgage accounts have a total balance of £7.2m (2015: £9.15m). 53 of these cases are currently in arrears, with total arrears balances of £94k (2015: £118k). Where the Society considers there is a possibility of loss an impairment allowance is made in accordance with the Society's policies.

### Retail savings balance

The Society has seen inflows of retail savings and the retail savings balance has increased by £17m in the last year.

The Society refreshed its entire savings range during 2016 and worked hard to ensure that these products are straightforward and easy to understand. This had a very positive effect on savings balances and net new members in the second half of the year.

The Directors were disappointed to have to make a reduction in the interest rates paid across all our savings products in October 2016. However this decision was as a result of the reduction in the Bank of England Base Rate and was necessary to rebalance the savings and lending book to generate profit and capital for the Society as a whole. The Directors ensured that reductions in rate were applied only when necessary and in a fair manner and sought to ensure that no past or present account was paid less than 0.10% interest.

To maintain our overall plan, taking into account our lending experience this year the Society has:

- Regularly reviewed the rates being offered on main range products.
- Continued to pay a loyalty differential above our fixed rate offer to savers with maturing fixed rate bonds.

It is encouraging to see that we retained 82% of maturing funds in 2015/16. Members tell us that they appreciate the communications provided and the opportunity to reinvest at preferential rates.

### Profit for the financial year

The Society achieved a healthy profit before tax of £2.6m (2015: £2.5m). The Board remains confident the Society can remain profitable over the three year corporate plan period which will build the capital required to support the growth of the mortgage book at a rate faster than the rate of growth of management expenses.

### Management expenses

Management expenses consist of administrative expenses, depreciation and amortisation. Over the last few years the Society's management expenses have increased as a result of the increased cost of IT and the increase in regulation affecting the financial services sector as a whole. It is important that the Board and Executive exercise close control over costs in the forthcoming year while continuing to invest in the business. This year there has been an increase in management expenses, but these fell within the Society's planned level.

### Capital

As at 30 November 2016 gross capital and free capital as a percentage of share and deposit liabilities stood at 6.03% (2015: 6.84%) and 5.27% (2015: 6.09%) respectively. The Society's capital is £33m, a decrease of £3m with the last year. Despite the Society making a healthy profit during the year the FRS102 adjustments and a significant increase in the Society's deferred pension deficit as a result of external market conditions has meant that we have only been able to add £668k to reserves. In addition in January 2016 the Society redeemed £3.5m of subordinated debt. Whilst this has resulted in a reduction in the Society's capital in the long term this is beneficial to the Society because it means that there will be a reduction of £500k in interest payments made by the Society each year. The overall impact of these factors is a net decrease of reserves of £3m.

12% of the Society's total capital is subordinated debt (remunerated capital) compared with 23% at 30 November 2015. The remainder of our capital is made up of retained reserves and therefore our capital structure is now stronger than it was last year. The Board considers the level of remunerated capital to be appropriate for a business of our size. In order to grow the business in the future the Board may consider issuing further remunerated capital instruments to replace current subordinated debt and maintain capital strength.

As part of the Capital Requirements Directive (CRD) the Board has conducted an assessment of the adequacy of the Society's capital resources. Information about the Society's Pillar 3 disclosures, which is a requirement of the CRD, together with the disclosure to comply with the requirements of Article 89 of the CRDIV, are provided on the Society's website www.ibs.co.uk.

### Financial Services Levy

The Society continues to need to contribute to the Financial Services Compensation Scheme. The charge for the year was £143k (2015: £271k).

### Community, economy and environment

The Society has a strong commitment to social responsibility in all its forms. We continued our employee volunteering programme which allows all employees four hours per month to volunteer. In 2016 we gave 1,134 hours of volunteering to the community. We continued to deliver our financial education programme in local schools and HMP Highpoint and HMP Hollesley Bay. Our employees raised £5k for local charities through fundraising in branches or personal sponsorship. The Society offers matched funding for personal sponsorship of local charities.

The Society is efficient in its running costs and supports the environment by the use of solar panels, reducing printing wherever possible and recycling office waste.

### Customer satisfaction

The Society is committed to serving its members face to face via our branch network. Our branches achieved a customer satisfaction score of over 98%, consistent with last year and a Net Promoter Score (NPS) +83 (2015: +82). NPS is a score showing how likely members are to recommend us to others. This year our branches have concentrated on increasing the level of customer surveys completed and in June 311 surveys were completed which is the highest number since 2013 when the surveys were launched.

During 2016 both Gorleston and Clare agencies closed. We communicated with members affected by this and focused on ensuring that members receive the same experience and high level of customer service whichever location they visit.

### Directors

The Directors of the Society during the year were as follows:-

E Sarah Evans (Chairman)
Kieron F Blackburn (Executive Director)
Derek W Bowden (Deputy Chairman)
Valerie M Dias
Peter C Elcock
Alan Harris
Steve Reid (appointed 1 November 2016)
Richard Norrington (Executive Director appointed 30 November 2016)
Michelle A Tennens (Senior Independent Director)
Paul Winter (Executive Director) (retired 31 December 2016)

We welcome Steve Reid to the Board. His experience in retail financial services will be valuable to the Society. Richard Norrington joined the Board on his appointment as Chief Executive. Derek Bowden will retire at the conclusion of the Society's AGM and Michelle Tennens will retire during 2017 as soon as a suitable replacement candidate is found. We would like to thank Derek and Michelle for their service to the Society during their appointments.

# Directors' Report continued

## Principal risks and uncertainties

The Society's risk strategy is:

- To ensure that it holds sufficient capital so no investor suffers a loss in all reasonably foreseeable circumstances
- To hold sufficient liquidity to ensure all payments due and expenses can be met on time
- To hold sufficient liquidity to ensure members' requests to withdraw funds can be met in all reasonably foreseeable circumstances.

On an annual basis the Society undertakes an Internal Liquidity Adequacy Assessment Process and Internal Capital Adequacy Assessment Process which plan our liquidity and capital requirements and ensure we operate with sufficient capital to protect our members. The process develops the Society's Risk Tolerance and Culture Policy which sets out our level of acceptable risk to ensure we stay within our liquidity and capital requirements. In addition we have in place a Lending Policy, Liquidity Policy and a Financial Risk Management Policy which sets out how we implement our Risk Tolerance and Culture Policy within our business. These policies not only define our risk parameters and mitigations, but also enable us to operate in ways that ensure our members can have confidence in the sustainability of our business.

There are four management committees reporting to the Board Risk and Compliance Committee. These are Retail Credit Risk, Assets and Liabilities, Conduct Risk and Operational Risk. We also have a comprehensive strategic risk register and individual registers for conduct and operational risk to capture all the key risks across our business. The Senior Management Team are responsible for identifying and detailing risks in this document and their associated mitigations and controls. Like most financial institutions the Board considers the Society's biggest challenge is the threat of a cyber security attack on the Society and as a result there is a constant need for significant adaptations and developments to our IT system and processes to ensure that our members are fully protected. Our principal risks are detailed below.

*Retail Credit Risk*
This risk materialises when an unexpected loss is incurred through non-repayment of mortgage lending, and is mitigated through our Board-approved Lending Policy which shows our 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 borrowers in returning to a normal repayment pattern.

Where we consider the potential for a loss we make an impairment allowance 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. 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 2016 we had a total of £102m held as liquid assets; £58m of this was available 'on-call' (£57m with the Bank of England) and the remainder sat in cash, CDs and FRNs.

*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 in 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 Liquidity 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 monthly at the Assets and Liabilities Committee meeting.

*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 2016 was, along with most other financial service firms, the threat of a cyber crime attack on the Society.

*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 termed interest rate swaps to manage interest rate risk within our Statement of Financial Position. Further details can be found in note 31 of the accounts.

*Regulatory Risk*
Regulatory risk is the risk that the Society breaches a regulatory requirement. As a result we have policies and procedures in place to ensure compliance with the regulations that affect our business. The volume and complexity of compliance with these regulatory issues may impact the Society's ability to compete and grow. The Board will continue to monitor regulatory changes, to ensure 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. Our culture is based upon ensuring that

# Directors' Report continued

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 recognise our members as the owners of the Society, 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 requirements and expectations of our members. 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 Risk*
The Board complies with the Capital Requirements Directive (CRD) which requires the Society to assess the adequacy of its capital through an Internal Capital Adequacy Assessment Process. 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 this process the Board ensures that the Society holds a level of capital sufficient 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.

## Internal Audit

The Society's internal auditors provide independent and objective assurance that there are appropriate systems and controls in place and that they are effectively applied. The Society outsources the Internal Audit function to Deloitte LLP. The Directors consider that this is beneficial to the Society because it means it is able to benefit from a wide range of expertise and resources. The Society considers that the Internal Audit function is adequately resourced and sufficiently independent.

## Defined benefit pension scheme

The Society has an ongoing commitment to fund the defined benefit pension scheme. This scheme was closed to new members in 2001 and future accruals in 2006. Further details are given in Note 9 to the Accounts.

## Supplier payment policy

Our policy is to pay invoices on receipt of the completed provision of service, unless staged payments are agreed in advance. We operate within agreed payment terms with our suppliers. At 30 November 2016 we had an average of eight days' purchases outstanding in trade creditors (2015: 13 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 capital and liquidity adequacy assessments; 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 Board of Directors.

**E. Sarah Evans**
Chairman
26 January 2017

# Corporate Governance Report

In September 2014 changes were made to the UK Corporate Governance Code (the Code) effective from 1 October 2014. As a building society we are not required to fully comply with the Code, but we have regard to the Code when establishing and reviewing our own corporate governance arrangements. The Directors of the Society are committed to best practice in corporate governance. This Report highlights the best practice suggested by the Code by inclusion of the relevant paragraph and then explains the Society's approach.

## The Role of the Board

*A.1. Every company should be headed by an effective Board, which is collectively responsible for the long-term success of the Company.*

The Board is here to ensure our long term sustainability for the good of our members. We do this by setting our strategy to ensure we meet the needs of our members and regulators, remain competitive and deliver our services appropriately with a profit to help build our capital over the long term. The Board formulates our strategy, reviews business performance, oversees the identification and management of risks, adherence to laws and regulations and ensures that the required controls are in place and aligned to our strategy. The results achieved by the Society over recent years are a testament to the Board's effectiveness.

The Board meets at least 11 times a year with two additional days dedicated to strategy. 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.

The Society has a process to evaluate, at least annually the performance and effectiveness of individual Directors, the Chairman, the Board and Board Committees. The performance of the Chief Executive is evaluated by the Chairman's and Nominations Committee. This appraisal process includes a self assessment questionnaire and feedback from all members of the Board. The Chairman is evaluated by the Deputy Chairman, with assistance from the Senior Independent Director, after consulting and obtaining the views of the other Directors and the Executive Team. The Chairman also evaluates the performance of all the Non-Executive Directors on an annual basis. The Chief Executive evaluates the Finance Director as a member of the Executive Team. The Board also annually evaluates its overall performance and the performance of the Board Committees. Annually the various Committees are also subject to review and assessment, and their future membership and Terms of Reference agreed.

The Board has established four Committees. Board Risk and Compliance Committee and the Audit Committee meet at least quarterly, and the Remuneration Committee and Chairman's and Nominations Committee meet at least twice a year. There are four management Committees; Assets and Liabilities Committee and Retail Credit Risk Committee both of which meet monthly, and the Conduct Risk Committee and Operational Risk Committee, both of which meet quarterly. The Terms of Reference for Committees can be found on the Society's website www.ibs.co.uk, or are available from the Society's Secretary on request.

The composition of all the Committees can be found on page 14 of this report.

## Board Committees

*Audit Committee*

The Committee oversees the effectiveness of the management of the risk environment. It does this by assessing the effectiveness and ensuring the adequacy of controls by reviewing the work of our Internal Auditor. It also makes judgements in financial reporting and regulation and assesses the effectiveness of the Internal Auditor. The Committee sets the Terms of Reference for our External Auditor 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 whistle-blowing 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 Committee highlighting key issues for review by the Board.

At least annually this Committee 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 internal 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.

The Committee considers the appointment, removal, performance and remuneration of the External Auditor 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.

*Chairman's and Nominations Committee*

The Committee is responsible for making recommendations to the Board on matters relating to the composition of the Board, including Board and Executive succession planning, the appointment of new Directors, election and re-election of Directors and the Chief Executive's annual appraisal.

*Remuneration Committee*

The Committee's main role is to approve the remuneration and incentive schemes for the Society's Executive and senior management. The Executive together with the Chairman meet annually to review Non-Executive Director fees, including those of the Deputy Chairman, Senior Independent Director, Chairman of the Audit Committee and Chairman of Board Risk and Compliance Committee.

The Directors' Remuneration Report can be found on pages 18 and 19.

*Board Risk and Compliance Committee*

The role of the Committee is to act as a second line of defence to the Society's risk management framework. In 2016 the Committee's Terms of Reference were amended to transfer the responsibility for overseeing the Society's Compliance function from Audit Committee to Board Risk and Compliance Committee. The Committee assists the Board in fulfilling its oversight responsibilities by receiving regular reports from the Management Committees which enables the Committee to assess the risks involved in the firm's business (including those risks that would threaten its business model, future performance, solvency or liquidity) and to consider the principal risks identified by management and consider if they are appropriate. It reviews the Society's Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). The Committee is responsible for ensuring the Society complies with the Board's Risk Tolerance and Culture Policy. It also 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.

**Management Committees**

*Assets and Liabilities Committee*

This Committee manages wholesale credit risk (the risk of default on assets), liquidity risk (the risk that the Society will not be able to meet its financial obligations) and interest rate risk (arising from a mismatch between interest rate characteristics). This Committee is responsible for ensuring the Society operates within agreed parameters set out in the Board's Liquidity and Financial Risk Management Policies. It is involved in the development of the Society's ICAAP and ILAAP.

*Conduct Risk Committee*

The Committee manages Conduct Risk which is the risk that the Society's behaviour results in inappropriate or poor outcomes for customers. The Committee meets to ensure there are robust systems and controls, skills 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).

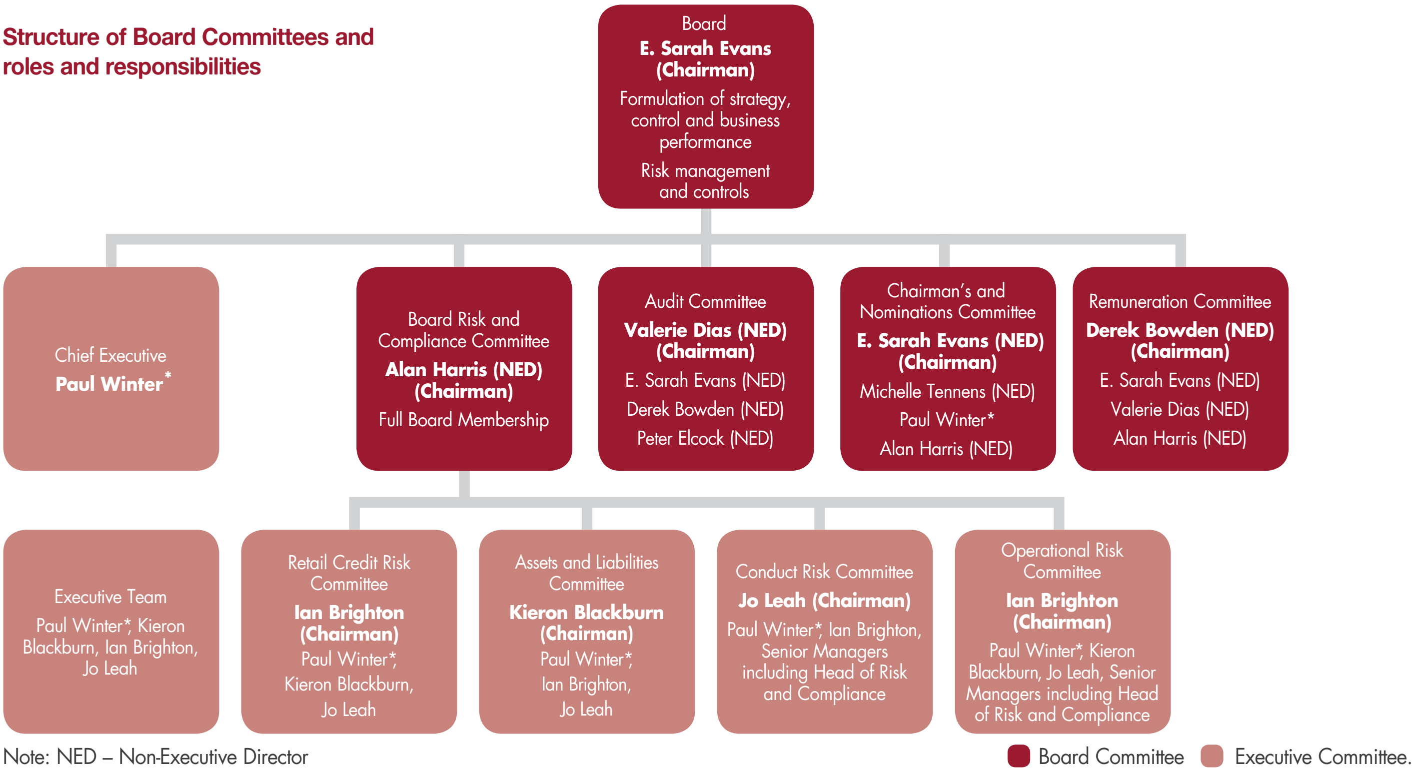
*Operational Risk Committee*

This Committee considers operational risk, which is the risk of loss through inadequate or failed internal processes or systems, including human error or external events. The Committee ensures the risk register reflects these risks, identifying appropriate mitigation for likelihood and severity. The Committee ensures ongoing identification, control and mitigation of risks in the business.

*Retail Credit Risk Committee*

Retail credit risk arises when unexpected losses are incurred through non-repayment of mortgage lending. This Committee is responsible for monitoring the Society's high level policy on lending. This includes ensuring the mortgage assets stay within agreed Board-approved levels, including reference to the PRA's Specialist Sourcebook for Building Societies. The Committee also ensures oversight and challenge to our underwriting policy and long-term credit risk approach. 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.

## Structure of Board Committees and roles and responsibilities




Note: NED – Non-Executive Director

*Paul Winter retired as Chief Executive with effect from 30 November 2016. Richard Norrington was appointed as Chief Executive on 1 December 2016.

## Division of Responsibilities

*A.2. There should be a clear division of responsibilities at the head of the company between the running of the Board and the Executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.*

*A.3. The Chairman is responsible for leadership of the Board and ensuring its effectiveness of all aspects of its role.*

We have 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 appointed 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
- Ensuring long term sustainability of the Society
- Development and evaluation of Board Directors
- Leading open and honest debate and encouraging challenge in Board meetings
- Liaise with regulators as appropriate.

### Role of the Deputy Chairman

Throughout 2016 the Deputy Chairman was Derek Bowden. The Deputy Chairman acts as a sounding board for the Chairman and with the Senior Independent Director 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

During 2016 the Senior Independent Director was Michelle Tennens. 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 other Executive Directors or 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. Michelle is also the Society's Whistleblowing Champion and provides an independent point of contact for members of staff who may wish to raise issues.

### 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 Directors
- Develop positive relationships with regulators, media, trade organisations, and other building societies to promote the Society and lobby on key issues in the corporate strategy.

### 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.

### Non-Executive Directors

*A.4. As part of their role as members of a unitary Board, Non-Executive Directors should constructively challenge and help develop proposals on strategy.*

The Non-Executive Directors of the Society are drawn from a wide range of backgrounds to ensure that the Board has the appropriate skills, knowledge and experience to provide a robust level of challenge and debate. The role requires an understanding of the risks in business, commercial leadership within a framework of prudent and effective risk management controls and the ability to monitor performance and resources whilst providing support to the Executive in developing the Society. We are currently recruiting for new Non-Executive Directors.

### The Composition of the Board

*B.1. The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.*

As at 30 November, the Board consisted of seven Non-Executive Directors (including the Chairman) and three Executive Directors providing a balance of skills and experience appropriate for the requirements of the Society. The mix of the Board and Committees is reviewed annually by the Chairman's and Nominations Committee to ensure that appropriate expertise and skills are maintained. One Non-Executive Director was appointed in 2016, subject to appointment at the AGM, providing retail financial services experience.

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

Richard Norrington was appointed as Executive Director following his appointment as Chief Executive Officer. Paul Winter has retired as a Director of the Society on 31 December 2016 following completion of his handover.

### Appointments to the Board

*B.2. There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.*

The Society makes Non-Executive Director appointments on merit, based on the specific skills and experience required under the succession plan. The Chairman's and Nominations Committee meet as necessary to oversee the Board succession plan. The Society has appointed an independent executive search agency to identify and shortlist candidates for positions on the Board. This agency follows a methodical process for searching and shortlisting candidates to conduct a broad search of the marketplace. In addition the Society has placed adverts in local newspapers and on social media. The Chairman's and Nominations Committee lead the recruitment process, although the Board as a whole makes the final decision. During 2016 Stephen Reid was appointed as a Non-Executive Director of the Society.

During 2016 the Society appointed a new Chief Executive (with effect from 1 December 2016) following the announcement of Paul Winter's retirement. The Society used the services of an external recruitment provider. A role specification was prepared setting out the expectations of a new Chief Executive and the competency and capability required in order to assist the recruitment provider's search. A shortlist of four candidates was agreed. The candidates were interviewed by four members of the Board and the shortlist refined to two candidates. Both candidates attended the firm's Head Office and met with members of the Senior Management Team. The candidates were then asked to give a presentation to all of the Society's Non-Executive Directors. The presentation was followed by a full interview. Richard Norrington was appointed at the end of this process following a unanimous decision by the Non-Executive Directors.

All Directors must meet the tests of fitness and propriety designed by the Financial Conduct Authority and Prudential Regulation Authority and all Directors are required to be registered with the regulators as Senior Managers with responsibilities for specific areas of business allocated to them, together with their overall responsibility as a Director.

The Society is committed to diversity and currently has a 33% (2015: 37.5%) female representation on the Board and therefore exceeds the recommendations of the Davies Report which, for diversity purposes, has set a minimum target of 25% female representation.

### Commitment

*B.3. All Directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.*

The Chairman's and Nominations Committee evaluate the ability of Directors to commit the time required for the role, prior to appointment. The formal appraisal process carried out by the Chairman each year also assesses whether Directors have demonstrated this ability during the year.

Set out following are details of the Directors during 2016 and their attendance record at Board meetings and relevant Board Committee meetings in the year. The number in brackets is the maximum number of scheduled meetings that each Director was eligible to attend.

**Attendance at Board and Board Committee meetings**

| Name/Title | Board Meetings | Audit and Compliance Committee | Remuneration Committee | Chairman's and Nominations Committee | Board Risk Committee |
|---|---|---|---|---|---|
| Sarah Evans<br>Chairman | 11 (11)* | 4 (4) | 5 (5) | 3 (3)* | 7 (7) |
| Derek Bowden<br>Deputy Chairman | 8 (11) | 3 (4) | 5 (5)* | – | 6 (7) |
| Alan Harris<br>Non-Executive Director | 10 (11) | – | 3 (3) | 3 (3) | 7 (7)* |
| Michelle Tennens<br>Non-Executive Director and Senior Independent Director | 11 (11) | – | – | 3 (3) | 7 (7) |
| Valerie Dias<br>Non-Executive Director | 9 (11) | 4 (4)* | 4 (5) | – | 5 (7) |
| Peter Elcock<br>Non-Executive Director | 11 (11) | 2 (4) | – | – | 7 (7) |
| Steve Reid<br>Non-Executive Director (appointed 1.11.16) | 1 (1) | – | – | – | 1 (1) |
| Kieron Blackburn<br>(Finance Director) | 11 (11) | – | – | – | 7 (7) |
| Paul Winter<br>(Chief Executive) | 11 (11) | – | – | 3 (3) | 7 (7) |

* Chairman of Committee

It should be noted that in addition to attendance at the above meetings both Executive and Non-Executive Directors have been invited on occasions to attend Committees of which they are not members.

### Development

*B.4. All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.*

The Society provides a formal induction for Non-Executive Directors tailored to their individual needs. This induction has recently been refreshed. The induction programme includes the nature of building societies, the wider financial services industry, Director's responsibilities and duties, the management information they will be provided with and how to interpret this, information on the Society and its local market, an overview of the regulatory requirements together with details of any significant current issues for the industry. The Chairman ensures that Non-Executive Directors continually update their skills and knowledge to fulfil their role on the Board and Committees. Training and development needs are identified as part of the annual appraisal of the Board and individual Director performance and effectiveness; these needs are usually met by attendance at industry seminars and conferences, internal briefings and specialist speakers.

### Information and support

*B.5. The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.*

The Chairman ensures that the Board receives information sufficient to enable it to discharge its responsibilities. Each Committee of the Board is responsible for evaluating the effectiveness of the information received and improvements are made where necessary. Board information is subject to on going review to ensure that it meets the needs of the Board in the current and future environment.

The Executive Directors and/or the Secretary ensure that information requests are delivered in accordance with the requests of the Board.

### Evaluation

*B.6. The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors.*

Each Director has an annual performance appraisal carried out by the Chairman. The Chairman's performance is facilitated through the Deputy Chairman and Senior Independent Director taking into account the views of all the Directors. The Chairman gives feedback to the Board on general issues of performance improvement following the appraisal process to allow it to review its own performance. The Board evaluates its overall performance and that of its Committees each year.

### Re-election

*B.7. All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.*

The Society's Rules require that all Directors be submitted for election at the Annual General Meeting (AGM) following their appointment to the Board and accordingly Stephen Reid and Richard Norrington stand for election in March 2017. Each Non-Executive Director is appointed to the Board for a term of up to three years, subject to satisfactory performance. After three terms the Board is required to review and satisfy itself of the continued independence of judgement and character of a Non-Executive Director prior to re-election. At the Annual General Meeting 2017 Michelle Tennens and Derek Bowden will have held office for over nine years. Derek will be retiring following the conclusion of the AGM. Michelle Tennens will be retiring during the 2017 year. As a result the Board does not consider it necessary to put either Michelle or Derek forward for re-election. The Chairman's and Nominations Committee has reviewed the independence, character and judgement of Michelle Tennens and confirms that she is able to commit the appropriate amount of time and demonstrate capability and independence for the short period during the year for which she will remain as a Non-Executive Director. In addition, the Board have agreed that Alan Harris will stand for re-election, having previously been elected in 2014.

## Financial and business reporting

*C.1. The Board should present a fair, balanced and understandable assessment of the company's position and prospects.*

The responsibilities of the Directors in relation to the preparation of the Society's accounts and the statement that the business is a going concern are contained in the Directors' Report on page 7 and Directors' Responsibilities on page 20.

## Risk management and internal control

*C.2 The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.*

The Directors have a responsibility, both under the Building Societies Act and the Financial Services and Markets Act, to establish and maintain systems of control appropriate to the business. Executive Management is responsible for designing, operating and monitoring risk management systems and controls. The principal risks faced by the Society are set out in the Directors' Report on page 10. Each Board and Management Committee is responsible for the risks and controls within its remit. The Board Risk and Compliance Committee asseses the adequacy of this process on behalf of the Board. The Internal Auditor provides independent assurance to the Board on the effectiveness of the system of internal control through the Audit Committee.

The information received and considered by the Audit 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 adequate system of internal control.

## Audit Committee and Auditors

*C.3. The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.*

The role and membership of the Audit Committee have been set out earlier in the Corporate Governance Report.

The Society has engaged the Auditors historically for non-audit services which includes advice on corporation tax issues. The Board has a policy relating to the engagement of external auditors to supply non-audit services, the purpose of which is to ensure the continued independence and objectivity of the External Auditor.

## The level & components of remuneration

*D.1 Executive Directors' remuneration should be designed to promote the long term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.*

The Directors' Remuneration Report on page 18 explains how the Society complies with the Code Principles relating to remuneration.

## Dialogue with shareholders

*E.1. There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.*

The Society does not have shareholders in the same way as a listed company; as a mutual society our members are our shareholders. The importance of listening to and engaging with members in the Society's activities is an important part of its culture. We endeavour to elicit their views on the products and service being offered by the Society through market research and dialogue with our staff. We hold members events and do all we can to encourage members to attend and ask questions at the Annual General Meeting (AGM).

## Constructive use of the Annual General Meeting (AGM)

*E.2. The Board should use general meetings to communicate with investors and to encourage their participation.*

Each year the Society sends details of the AGM and voting forms to those members eligible to vote. The resolutions include receipt of the Report and Accounts, election and re-election of Directors, the Director's Remuneration Policy, and any other relevant matters. Members are provided with forms and given online access, which enable them to appoint a proxy to vote on their behalf if they are unable to attend in person. The distribution of AGM notices (with at least 21 clear days' notice) and the receipt and counting of proxy votes is carried out by independent scrutineers. At the AGM a poll is called in relation to each resolution and the proxy votes cast are included in the result. The results are subsequently disclosed on the Society's website.

The Society is keen to encourage as many members as possible to attend the Annual General Meeting as this gives the opportunity for members to meet the Society's Directors and Executive Team to discuss issues that are of concern. The Chairmen of all the Committees are also available to answer any questions.

On behalf of the Directors

**E. Sarah Evans**
Chairman
26 January 2017

# Directors' Remuneration Report

The purpose of this Report is to inform members of the Society about our policy on the remuneration of Executive and Non-Executive Directors. The Report explains how the Society has regards to the principles of the UK Corporate Governance Code 2014 relating to remuneration, as far as they are applicable to a mutual organisation of our size. The Society has adopted a Remuneration Policy, which complies with the relevant elements of the FCA's Remuneration Code. The remuneration of individual Directors is detailed in note 6 of the accounts.

## The level and components of remuneration

*D.1. Executive Directors' remuneration should be designed to promote the long term success of the company. Performance related elements should be transparent, stretching and rigorously applied.*

The Society's policy is to reward Directors according to their expertise, experience and overall contribution to the successful performance of the Society and reflects their roles and responsibilities within the Society. The Executive Directors' benefit package is designed to motivate decision-making in the long term interests of the Society and members as a whole. A performance related pay scheme operated during the year for Executive Directors. This was carefully designed to encourage achievement of targets that maintain the financial strength and integrity of the Society; and to recognise performance in accordance with good robust risk management.

## Non-Executive Directors

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

Remuneration comprises a basic fee with a supplementary payment for the Audit Committee Chairman, Board Risk and Compliance Committee Chairman, Deputy Chairman and Senior Independent Director. This fee reflects the additional responsibilities and time commitments of these positions. Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not take part in any incentive scheme or receive any other benefits. Non-Executive Directors do not have service contracts with the Society.

## Executive Directors

The remuneration of Executive Directors reflects their responsibilities and roles within the Society. This year it comprised basic salary, participation in a three-year performance related pay scheme and various benefits. The Society has no share option scheme and none of the Executive Directors have any beneficial interest in, or any rights to subscribe for shares in or debentures of, any connected undertaking of the Society.

## Basic salary

Salaries are reviewed by reference to jobs carrying similar responsibilities and from external salary benchmarking data from the building society sector and financial services sector as well as other UK and regional salary data. This encompasses the responsibility and complexity of the role. Those Executive Directors who hold outside Directorships do not receive remuneration from those organisations.

## Three year performance related pay scheme

A three year 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 sustainability of the Society. The PRP currently allows a maximum of 20% of salary earned for achievement of all targets set which are based on financial performance. One third of this payment is deferred until the end of the three-year period to ensure consistent performance is delivered over the longer term. As part of the process the Remuneration Committee sets targets and assesses whether any payment should be made.

The Remuneration Committee also has the facility to provide an additional discretionary payment for exceptional performance.

## Pensions

The Society makes a contribution of between 17.5% and 20% of salary to Executive Directors' private pension arrangements. 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.

## Benefits

Executive Directors receive other taxable benefits including a car allowance, and a private health care scheme, which covers the Directors and their families. The Society does not provide concessionary home loans to Directors.

### Contractual terms

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

### The procedure for determining remuneration

*D.2. There should be a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.*

The Remuneration Committee consists of four Non-Executive Directors under the Chairmanship of Derek Bowden. The Chief Executive attends by invitation only but takes no part in the discussion of his own remuneration. The Committee is responsible for the remuneration policy of all Executive Directors and it makes recommendations to the Board regarding remuneration and contractual arrangements. The Committee meets at least twice a year and reviews supporting evidence, including external professional advice, if appropriate, on comparative remuneration packages.

Reports and minutes of the Committee's meetings are circulated to all members of the Committee and the Chairman of the Committee reports at the Board meeting following a Committee meeting.

Annually the Executive Team together with the Chairman are responsible for setting the Non-Executive Directors' fees, and the Board, with the exception of the Chairman, agree the Chairman's fee.

**Derek Bowden**
Chairman of the Remuneration Committee
26 January 2017

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

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

In preparing 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 2016 set out on pages 22 to 59. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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

## Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 20, 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 2016 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*
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH
26 January 2017

# Statement of Comprehensive Income

## for the year ended 30 November 2016

| | Notes | 2016 £000 | 2015 £000 |
|---|---|---|---|
| Interest receivable and similar income | 2 | 18,013 | 19,273 |
| Interest payable and similar charges | 3 | (6,751) | (8,817) |
| Net interest receivable | | 11,262 | 10,456 |
| Pension finance expense | 9 | (24) | (43) |
| Fees and commissions receivable | | 392 | 350 |
| Fees and commissions payable | | (516) | (473) |
| Net income from other financial instruments at fair value through profit and loss | 4 | 105 | 64 |
| Net profit on financial operations | 8 | 11,219 | 10,354 |
| Other operating income | | 30 | 18 |
| Total income | | 11,249 | 10,372 |
| Administrative expenses | 5 | (7,910) | (7,502) |
| Depreciation and amortisation | 17, 18 | (497) | (460) |
| Other operating charges | | (51) | (15) |
| Operating profit before impairment allowance and provisions | | 2,791 | 2,395 |
| Impairment losses on loans and advances to customers | 16 | (82) | 373 |
| Provisions for contingent liabilities and commitments | 26 | – | (22) |
| Provision for FSCS levy | 26, 29 | (143) | (271) |
| Operating profit and profit before tax | | 2,566 | 2,475 |
| Tax on profit on ordinary activities | 10 | (550) | (493) |
| Profit for the financial year | | 2,016 | 1,982 |

Other Comprehensive Income

| | Notes | 2016 £000 | 2015 £000 |
|---|---|---|---|
| Actuarial (loss)/gain recognised in the pension scheme | 9 | (1,636) | 63 |
| Movement in deferred tax relating to pension scheme | 9 | 294 | (13) |
| Movement in fair value of debt securities | 13 | (7) | (31) |
| Income tax on other comprehensive income | | 1 | 7 |
| Total comprehensive income for the year | 28 | 668 | 2,008 |

The notes to these Accounts are contained on pages 26 to 59.

# Statement of Financial Position

## as at 30 November 2016

| | Notes | 2016 £000 | 2015 £000 |
|---|---|---|---|
| **Assets** | | | |
| Liquid assets | | | |
| Cash in hand and balances with Bank of England | 11 | 56,932 | 47,736 |
| Loans and advances to credit institutions | 12 | 676 | 5,053 |
| Debt securities | 13 | 44,344 | 54,483 |
| Total liquid assets | | 101,952 | 107,272 |
| Derivative financial instrument assets | 14 | 109 | 167 |
| Loans and advances to customers | | | |
| Loans fully secured on residential property | 15 | 473,986 | 450,692 |
| Loans fully secured on land | 15 | 2,959 | 3,054 |
| Total loans and advances to customers | 15 | 476,945 | 453,746 |
| Tangible fixed assets | 17 | 2,917 | 2,650 |
| Intangible fixed assets | 18 | 1,546 | 1,678 |
| Other assets | 19 | 369 | 449 |
| Deferred tax | 10 | 73 | – |
| Prepayments and accrued income | 20 | 164 | 164 |
| Total assets | | 584,075 | 566,126 |
| **Liabilities** | | | |
| Shares | 21 | 489,178 | 465,785 |
| Amounts owed to credit institutions | 22 | 4,120 | 9 |
| Amounts owed to other customers | 23 | 53,774 | 60,853 |
| Derivative financial instrument liabilities | 14 | 118 | 529 |
| Other liabilities | 24 | 428 | 689 |
| Accruals and deferred income | 25 | 683 | 739 |
| Deferred tax | 10 | – | 160 |
| Provisions for liabilities | 26 | 180 | 195 |
| Net pension liability | 9 | 2,291 | 981 |
| Subordinated liabilities | 27 | 4,483 | 8,034 |
| | | 555,255 | 537,974 |
| Reserves | | | |
| Available for sale reserve | 28 | 24 | 30 |
| General reserves | 28 | 28,796 | 28,122 |
| Total liabilities | | 584,075 | 566,126 |

The accounting policies and notes on pages 26 to 59 form part of these Accounts.

Approved by the Board of Directors on 26 January 2017.

E. Sarah Evans, Chairman

Richard Norrington, Chief Executive

Kieron Blackburn, Finance Director

# Statement of Changes in Members' Interests

## for the year ended 30 November 2016

| | General reserves 2016 £000 | Available for sale reserve 2016 £000 | Total reserves 2016 £000 |
|---|---|---|---|
| Balance at 1 December 2015 | 28,122 | 30 | 28,152 |
| Total comprehensive income for the year | | | |
| Profit for the year | 2,016 | – | 2,016 |
| Other comprehensive income | (1,342) | (6) | (1,348) |
| | 674 | (6) | 668 |
| Balance at 30 November 2016 | 28,796 | 24 | 28,820 |

The notes to these Accounts are contained on pages 26 to 59.

# Statement of Cash Flows

## for the year ended 30 November 2016

| | Notes | 2016 £000 | 2015 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 2,566 | 2,475 |
| *Adjustments for:* | | | |
| Depreciation and amortisation of fixed assets | 17, 18 | 497 | 460 |
| Loss / (profit) on disposal of tangible fixed assets | 17 | 38 | (3) |
| Impairment losses on loans and advances to customers | 16 | 90 | (456) |
| | | 3,191 | 2,476 |
| **Changes in operating assets and liabilities** | | | |
| Changes in fair values of financial instruments at fair value through the Statement of Comprehensive Income | 4 | (105) | (69) |
| Changes in fair values of financial instruments at fair value through Other Comprehensive Income | | – | 1 |
| Decrease / (increase) in prepayments and accrued income | 20 | 36 | (114) |
| (Decrease) in accruals, deferred income | 25 | (56) | (83) |
| Decrease / (increase) in other assets | 19 | 27 | (348) |
| (Decrease) in other liabilities | 24 | (402) | (339) |
| (Decrease) other provisions | | (15) | (76) |
| (Decrease) pensions provisions | 9 | (326) | (200) |
| (Increase) / decrease in loans and advances to customers | 15 | (23,640) | 20,941 |
| Taxation paid | 10 | (294) | (700) |
| **Net cash generated by operating activities** | | (24,775) | 19,013 |
| **Cash flow from financing activities** | | | |
| *Movement in:* | | | |
| Shares | 21 | 23,500 | (6,969) |
| Amounts owed to credit institutions and other customers | 22, 23 | (2,968) | (29,372) |
| Subordinated debt | 27 | (3,551) | – |
| Loans and advances to credit institutions | 12 | 2,008 | 20 |
| **Net cash inflow from financing activities** | | 18,988 | (36,321) |
| **Cash flows from investing activities** | | | |
| Purchase of debt securities | 13 | (41,748) | (24,501) |
| Proceeds on maturity of debt securities | 13 | 51,841 | 35,041 |
| Purchase of tangible fixed assets | 17 | (628) | (33) |
| Proceeds on disposal of tangible fixed assets | 17 | 43 | - |
| Purchase of intangible fixed assets | 18 | (85) | (161) |
| **Net cash generated by investing activities** | | 9,423 | 10,346 |
| **Net increase / (decrease) in cash and cash equivalents** | | 6,827 | (4,486) |
| **Cash and cash equivalents** | | | |
| At 1 December | 11 | 50,781 | 55,267 |
| Movement in the year | | 6,827 | (4,486) |
| At 30 November | 11 | 57,608 | 50,781 |

The notes to these Accounts are contained on pages 26 to 59.

# Notes to the Accounts

## for the year ended 30 November 2016

**Statement of accounting policies**

Ipswich Building Society (the "Society") has prepared these Society annual accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*) as issued in September 2015. The Society has also chosen to apply the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* (as adopted for use in the EU). The presentation currency of these annual accounts is Sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.

In the transition to FRS 102 from old UK GAAP, the Society has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected the financial position and financial performance of the Society is provided in note 32.

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

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the annual accounts and estimates with a significant risk of material adjustment in the next year are discussed in note 1.14.

**1.1 Measurement convention**

The annual accounts are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified at fair value through the profit or loss ("FVTPL") or available for sale.

**1.2 Interest**

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

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

Interest income and expense presented in the Statement of Comprehensive Income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on available for sale investment securities calculated on an effective interest basis;

Fair value changes on derivatives held for risk management purposes, and the financial assets and financial liabilities that they hedge are presented in net income from other financial instruments at fair value through profit or loss in the Statement of Comprehensive Income.

**1.3 Fees and commission**

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see 1.2).

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

**1.4 Expenses**

*Operating lease*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

*Finance lease*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

**1.5 Taxation**

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the date of the Statement of Financial Position, and any adjustment to tax payable in respect of previous years. Deferred tax is provided on timing differences

# Notes to the Accounts continued

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

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

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

### 1.6 Financial instruments

*Recognition*

The Society initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Society becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

*Classification*

*Financial assets*

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

- Loans and receivables

'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental fees received and paid, and subsequently measured at their amortised cost using the effective interest method (see 1.2) less any impairment losses.

- Held to maturity

'Held to maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Society has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held to maturity investments are carried at amortised cost using the effective interest method (see 1.2), less any impairment losses.

- Available for sale

'Available for sale investments' are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Available for sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available for sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method (see 1.2). Impairment losses are recognised in profit or loss.

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

- At fair value through profit and loss

The Society designates some investment securities as at fair value, with fair value changes recognised immediately in profit or loss.

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

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

*Fair value hedges*

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised

# Notes to the Accounts continued

immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the Statement of Comprehensive Income (even if those gains would normally be recognised directly in reserves). If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

*Financial liabilities*

The Society classifies its financial liabilities, as measured at amortised cost or fair value through profit or loss.

*Derecognition*

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Society is recognised as a separate asset or liability.

The Society enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions (see 1.13).

*Measurement*

*Amortised cost measurement*

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

*Fair value measurement*

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

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

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

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

*Identification and measurement of impairment*

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

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

# Notes to the Accounts continued

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

In assessing collective impairment, the Society uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

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

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

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

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

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

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

### 1.7 Cash and cash equivalents

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

The Statements of Cash Flows have been prepared using the indirect method.

### 1.8 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

The Society assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

# Notes to the Accounts continued

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

| | |
|---|---|
| • buildings | 50 years |
| • branch fitting out costs | 10 years |
| • equipment fixtures and vehicles | 20 years |
| • computer equipment | 10 years |
| • assets under construction | not depreciated |

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

**1.9 Intangible assets**

*Software development*

Intangible assets relating to the development of the Society's core IT system are stated at cost less accumulated amortisation and less accumulated impairment losses. Amortisation is charged to the profit or loss on a straight-line basis from the date the assets are available for use over the life of the IT supply contract, or over a shorter period where it is felt that the Society will not draw value from the systems over the life of the contract. The estimated useful life of the IT system is 10 years. The Society reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date. In addition, the assets are assessed for impairment at least annually.

**1.10 Impairment excluding financial assets, and deferred tax assets**

The carrying amounts of the Society's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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

**1.11 Employee benefits**

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.

*Defined contribution plan*

A defined contribution plan is a post-employment benefit plan under which the Society pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

*Defined benefit plan*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Society's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets are deducted. The Society determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the date of the Statement of Financial Position on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of, the Society's obligations. A valuation is performed tri-annually by a qualified actuary using the projected unit credit method. The entity recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in the Statement of Comprehensive Income.

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

**1.12 Provisions**

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

**1.13 Sale and repurchase agreements**

Investments and other securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained within the Statement of Financial Position when substantially all the risks and rewards of ownership remain within the Society, and the liability associated with the cash advanced is included separately within the Statement of Financial Position.

The difference between the sale and repurchase price is accrued over the life of the agreements and recognised within net interest income.

**1.14 Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment is set out below:

- Impairment losses on loans and advances to customers

The Society reviews its mortgage portfolio at least quarterly to assess impairment. In determining whether an impairment loss should be recorded the Society is required to exercise a degree of judgement. Allowances for impairment are calculated using externally provided propensity to default statistics, historical arrears experience, and expected cash flows. Estimates are applied to determining prevailing market conditions including interest rates and house prices and the length of time expected to complete the sale of properties in possession. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions.

Sensitivity analysis has been carried out on the allowance for impairment by altering i) the percentage of collateral that it is estimated would be recovered in the event of repossession, and ii) the length of time from the date of the Statement of Financial Position to the point at which the debt is recovered. The maximum increase in the value of mortgage assets at 30 November 2016 and the profit for the year were £263,000 and £82,000 respectively. Similarly, the maximum decrease in these values was £630,000 and £17,000 respectively.

- Effective interest rate (EIR)

The effective interest rate will affect the carrying values of loans and receivables. One of the key components of the EIR is the expected life of the asset. In determining the expected life of mortgage assets the Society used historical and forecast redemption data as well as management judgement. At least annually the expected life of mortgage assets is reassessed for reasonableness. Any variation in the expected life of mortgage assets will change the carrying value in the Statement of Financial Position and the timings of the recognition of interest income.

Sensitivity analysis has been carried out on the expected life of mortgage assets. Doubling the period from the date of maturity of a mortgage product to the point at which the borrower switches to another mortgage product or redeems their mortgage increased the value of mortgage assets at 30 November 2016 by £438,000 and profit by £53,000.

- Financial Services Compensation Scheme (FSCS)

The Society determines a provision for a levy by reference to the expected path of future interest rates applicable at 31 December 2015 and estimates of the interest charge published by FSCS. Changes in interest rates over the period of the levy will impact the final amount of the payments. There has been no change in this methodology compared to prior years.

- Fair value of derivatives and financial assets

The Society employs the following techniques in determining the fair value of its derivatives and financial assets:

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

## 02 Interest receivable and similar income

| | 2016 £000 | 2015 £000 |
|---|---|---|
| On loans fully secured on residential property | 17,838 | 18,788 |
| On other loans | 127 | 138 |
| On debt securities | | |
| Interest and other income | 459 | 556 |
| On other liquid assets | | |
| Interest and other income | 205 | 305 |
| Net expense on derivatives | (616) | (514) |
| | 18,013 | 19,273 |

## 03 Interest payable and similar charges

| | 2016 £000 | 2015 £000 |
|---|---|---|
| On shares held by individuals | 5,694 | 7,404 |
| On deposits and other borrowings | | |
| Subordinated liabilities (aggregate financing costs) | 510 | 986 |
| Other | 733 | 681 |
| Net income on derivatives | (186) | (254) |
| | 6,751 | 8,817 |

## 04 Net income from other financial instruments at fair value through profit and loss

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Derivatives in designated fair value hedge relationships | 250 | (140) |
| Adjustments to hedged items in fair value hedge relationships | (247) | 174 |
| Derivatives not in designated fair value hedge relationships | 102 | 30 |
| | 105 | 64 |

## 05 Administrative expenses

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Staff costs | | |
| Wages and salaries | 3,393 | 2,855 |
| Social security costs | 311 | 266 |
| Other pension costs | 293 | 271 |
| | 3,997 | 3,392 |
| Other administrative expenses | 3,913 | 4,110 |
| | 7,910 | 7,502 |

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

| | 2016 | 2015 |
|---|---|---|
| Audit of these financial statements | 95 | 61 |
| Other services | – | – |
| Other services relating to taxation | – | 5 |
| | 95 | 66 |

These fees are shown net of VAT

## 06 Remuneration of Directors

| Table 1 Non-Executive Directors | 2016 fees £000 | 2015 fees £000 |
|---|---|---|
| D W Bowden (Deputy Chairman) | 24.5 | 24.0 |
| V Dias | 26.3 | 17.2 |
| P Elcock | 22.5 | 11.0 |
| E S Evans (Chairman) | 41.0 | 40.0 |
| A Harris | 25.8 | 25.2 |
| S J Reid (Appointed 01.11.16) | 1.9 | – |
| M A Tennens | 24.5 | 24.0 |
| C B Tilley (Retired 25.03.15) | – | 8.6 |
| A L Wilson (Retired 01.06.15) | – | 12.8 |
| Total | 166.5 | 162.8 |

| Table 2 Executive Directors | Salary £000 | Performance related pay Payable now £000 | Performance related pay Deferred £000 | Discretionary bonus Payable now £000 | Discretionary bonus Deferred £000 | Benefits £000 | Sub Total £000 | Pension Contributions £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|---|
| 2016 | | | | | | | | | |
| P Winter (Chief Executive) | 156 | – | – | – | – | 17 | 173 | 28 | 201 |
| K F Blackburn (Finance Director) | 109 | – | – | 5 | – | 12 | 126 | 19 | 145 |
| Total | 265 | – | – | 5 | – | 29 | 299 | 47 | 346 |
| 2015 | | | | | | | | | |
| P Winter (Chief Executive) | 154 | 3 | 1 | – | – | 17 | 175 | 31 | 206 |
| K F Blackburn (Finance Director) | 107 | 2 | 1 | – | – | 12 | 122 | 19 | 141 |
| Total | 261 | 5 | 2 | – | – | 29 | 297 | 50 | 347 |

Total Directors' remuneration amounted to £512,500 (2015: £509,800).

## 07 Employees

| The average number of persons, including Executive Directors, employed during the year was as follows: | 2016 Full time | 2016 Part time | 2015 Full time | 2015 Part time |
|---|---|---|---|---|
| Head Office | 54 | 28 | 46 | 23 |
| Branch offices | 25 | 25 | 23 | 29 |
| | 79 | 53 | 69 | 52 |

## 08 Country by Country Reporting

The Capital Requirements (Country by Country Reporting) Regulation 2013 places certain reporting obligations on financial institutions that are within the scope of EU Capital Requirements Directive (CRD IV).

The objective of the country by country reporting requirements is to provide increased transparency regarding the source of the financial institution's income and the locations of its operations. Ipswich Building Society is a UK registered entity.

| Name, nature of activities and geographical location: Ipswich Building Society is a deposit taker and lender, is not part of a group and operates only in the United Kingdom. | 2016 £000 | 2015 £000 |
|---|---|---|
| Turnover | 11,219 | 10,354 |
| Profit before tax | 2,566 | 2,475 |
| Corporation Tax paid | (294) | (700) |
| Number of Employees on a full time equivalent basis | See note 7 | See note 7 |

Turnover is defined as total income (net interest receivable and net fee/commission income) in accordance with guidance from UK Treasury.
Corporation tax paid in 2016 is in respect of the results for the year ended 30 November 2015.

## 09 Pension arrangements

### (a) Defined benefit scheme

The Society operates a defined benefit pension scheme in the UK. This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities. A full actuarial valuation was carried out at 30 November 2015 and updated to 30 November 2016 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

This most recent full actuarial valuation as at 30 November 2015 showed a deficit of £2,817,000. The Society has agreed with the trustees that it will aim to eliminate the deficit over a period of 8 years and 1 month from 1 December 2016 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 expenses of the scheme and levies to the Pension Protection Fund.

| | 2016 £000 | 2015 £000 | 2014 £000 |
|---|---|---|---|
| **Present values of defined benefit obligation, fair value of assets and defined benefit asset (liability)** | | | |
| Fair value of plan assets | 8,187 | 7,773 | 7,337 |
| Present value of defined benefit obligation | (10,478) | (8,754) | (8,688) |
| Surplus / (deficit) in plan | (2,291) | (981) | (1,351) |
| Defined benefit / (liability) to be recognised | (2,291) | (981) | (1,351) |
| Deferred tax | 389 | 177 | 284 |
| Net defined benefit liability to be recognised | (1,902) | (804) | (1,067) |

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Reconciliation of opening and closing balances of the defined benefit obligation** | | |
| Defined benefit obligation at the start of the period | 8,754 | 8,688 |
| Interest expense | 321 | 314 |
| Actuarial (gains)/losses | 1,572 | (87) |
| Benefits paid | (169) | (161) |
| Defined benefit obligation at the end of the period | 10,478 | 8,754 |

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Reconciliation of opening and closing balances of the fair value of the plan assets** | | |
| Fair value of plan assets at start of period | 7,773 | 7,337 |
| Interest income | 297 | 271 |
| Actuarial (losses)/gains | (64) | (24) |
| Contributions by the Society | 350 | 350 |
| Benefits paid | (169) | (161) |
| Fair value of plan assets at end of period | 8,187 | 7,773 |

The actual return on the scheme assets over the period ending 30 November 2016 was £233,000 (2015: £247,000).

## 09 Pension arrangements (continued)

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Defined benefit costs recognised in profit or loss** | | |
| Net interest cost | (24) | (43) |
| Defined benefit costs recognised in profit or loss | (24) | (43) |

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Defined benefit costs recognised in other comprehensive income** | | |
| Return on scheme assets (excluding amounts included in net interest cost) - gain/(loss) | (64) | (24) |
| Experience gains and losses arising on the plan liabilities - gain/(loss) | (129) | – |
| Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities - gain/(loss) | (1,443) | 87 |
| Total amount recognised in other comprehensive income - gain/(loss) | (1,636) | 63 |

| | 2016 £000 | 2015 £000 | 2014 £000 |
|---|---|---|---|
| **Assets** | | | |
| Growth fund | 5,706 | 5,451 | 3,219 |
| Bonds | 2,483 | 2,301 | 2,746 |
| Property | – | – | 1,177 |
| Cash | (2) | 21 | 195 |
| Total assets | 8,187 | 7,773 | 7,337 |

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.

| Assumptions | 2016 % per annum | 2015 % per annum | 2014 % per annum |
|---|---|---|---|
| Rate of discount | 2.90 | 3.70 | 3.65 |
| Inflation (RPI) | 3.35 | 3.20 | 3.10 |
| Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less | 3.35 | 3.20 | 3.10 |
| Allowance for pension in payment increases of RPI or 5% p.a. if less | 3.20 | 3.10 | 3.00 |
| Allowance for pension in payment increases of RPI or 2.5% p.a. if less | 2.15 | 2.10 | 2.10 |
| Allowance for commutation of pension for cash at retirement | 90% of Post A Day | 90% of Post A Day | 90% of Post A Day |

The mortality assumptions adopted at 30 November 2016 imply the following life expectancies:

| | |
|---|---|
| Male retiring in 2016 | 21.90 |
| Female retiring in 2016 | 23.90 |
| Male retiring in 2041 | 23.60 |
| Female retiring in 2041 | 25.80 |

The best estimate of contributions to be paid by the Society to the scheme for the period commencing 1 December 2016 is £350,000.

## 09 Pension arrangements (continued)

### (b) Defined contribution scheme

For staff previously not eligible to join the defined benefit pension scheme and for all qualifying staff from 1 April 2006 the Society operates a defined contribution scheme. The Society additionally funds the cost of life assurance cover for its staff.

### (c) Summary of employer's contributions:

| Employer's contributions included within the Accounts were as follows: | 2016 £000 | 2015 £000 |
|---|---|---|
| Defined Contribution scheme | 293 | 271 |

Payments into Executive Directors' personal pension plans after 1 April 2006 are included within employer's contributions paid in respect of the deferred contribution scheme as stated above and are disclosed in Note 6 of these Financial Statements.

As at 30 November 2016 there were employer's contributions totalling £nil (2015: £nil) accrued under the defined contribution scheme and included within the figure of £293,000 (2015: £271,000) as stated above.

## 10 Tax on profit on ordinary activities

| | 2016 £000 | 2015 £000 |
|---|---|---|
| UK corporation tax at 20% (2015:20.33%) | 488 | 291 |
| Adjustment for previous periods | – | – |
| Current tax charge for the year | 488 | 291 |
| Deferred tax: | | |
| Origination/reversal of timing differences | 51 | 229 |
| Change in rate | 4 | (17) |
| Adjustments in respect of previous years | 7 | (10) |
| Total deferred tax | 62 | 202 |
| Tax on profit on ordinary activities | 550 | 493 |

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:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Profit before tax | 2,566 | 2,475 |
| Theoretical tax charge at the standard rate of 20% (2015: 20.33%) | 513 | 503 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 26 | 17 |
| Adjustments for prior periods | 7 | (10) |
| Change in rate | 4 | (17) |
| Current tax charge for the year | 550 | 493 |

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to 17% (effective 1 April 2020) was substantively enacted on 16 March 2016. This will reduce the Society's future current tax charge accordingly. The deferred tax liability at 30 November 2016 has been calculated based on these rates.

## 10 Tax on profit on ordinary activities (continued)

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Deferred tax assets and liabilities** | | |
| Accelerated capital allowances | (306) | (317) |
| Deferred tax on Defined Benefit Pension Scheme | 389 | 176 |
| Employee benefits | 10 | – |
| Other | (20) | (19) |
| Net deferred tax asset/(liability) | 73 | (160) |

## 11 Cash and cash equivalents

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Balances held with the Bank of England | 56,575 | 47,375 |
| Cash in hand | 357 | 361 |
| Loans and advances to credit institutions | 676 | 3,045 |
| | 57,608 | 50,781 |

## 12 Loans and advances to credit institutions

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Accrued interest | 2 | 8 |
| Repayable on demand | 674 | 3,045 |
| Other loans and advances by residual maturity repayable from the date of the Statement of Financial Position: | | |
| In not more than three months | – | – |
| In more than three months but not more than one year | – | 2,000 |
| | 676 | 5,053 |

## 13 Debt securities

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Certificates of deposit | 20,110 | 24,691 |
| Floating rate notes | 20,063 | 29,792 |
| Bonds | 4,171 | – |
| | 44,344 | 54,483 |

Debt securities have remaining maturities from the date of the Statement of Financial Position as follows:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Accrued interest | 178 | 214 |
| In not more than one year | 29,113 | 49,262 |
| In more than one year | 15,053 | 5,007 |
| | 44,344 | 54,483 |

Transferable debt securities as stated above comprise:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Listed securities | – | – |
| Unlisted securities | 44,166 | 54,269 |
| | 44,166 | 54,269 |

## 13 Debt securities (continued)

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 available for sale financial assets.

Movements during the year of transferable securities classified as available for sale financial assets are analysed as follows:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| At 1 December | 54,269 | 64,836 |
| Additions | 41,748 | 24,501 |
| Disposals | (51,841) | (35,041) |
| Fair value changes through profit and loss, hedged item | (3) | 4 |
| Fair value changes through other comprehensive income | (7) | (31) |
| At 30 November | 44,166 | 54,269 |

At 30 November 2016 £360,000 (2015: £360,000) of cash has been pledged against derivative contracts.

## 14 Derivative financial instruments

| | 2016 Fair value - assets £000 | 2016 Fair value - liabilities £000 | 2015 Fair value - assets £000 | 2015 Fair value - liabilities £000 |
|---|---|---|---|---|
| The fair values of derivative financial instruments held at 30 November are set out below. | | | | |
| Derivatives designated as fair value hedges | | | | |
| Interest rate swaps | 21 | 90 | 167 | 486 |
| Derivatives not designated as fair value hedges | | | | |
| Interest rate swaps | 88 | 28 | – | 43 |
| | 109 | 118 | 167 | 529 |

## 15 Loans and advances to customers

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Loans fully secured on residential property | 474,567 | 450,833 |
| Loans fully secured on land | 2,959 | 3,054 |
| Fair value adjustment for hedged risk | 130 | 480 |
| | 477,657 | 454,367 |
| Less: allowance for impairment (Note 16) | (711) | (621) |
| | 476,945 | 453,746 |

The maturity of loans and advances to customers from the date of the Statement of Financial Position is as follows:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| In not more than three months | 4,543 | 3,575 |
| In more than three months but not more than one year | 8,832 | 8,450 |
| In more than one year but not more than five years | 65,039 | 62,993 |
| In more than five years | 399,112 | 378,869 |
| Fair value adjustment for hedged risk | 130 | 480 |
| | 477,656 | 454,367 |
| Less: allowance for impairment (Note 16) | (711) | (621) |
| | 476,945 | 453,746 |

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 date of the Statement of Financial Position. It is the Society's experience, in common with most mortgage lenders, that many loans will be repaid earlier than the contractual maturity date.

## 16 Allowance for impairment

| | Loans fully secured on residential property £000 | Loans fully secured on land £000 | Total £000 |
|---|---|---|---|
| Impairment allowance for losses on loans and advances to customers fully secured on residential property have been made as follows and deducted from the appropriate asset values shown in the Statement of Financial Position: | | | |
| **Individual impairment allowance** | | | |
| At 1 December 2015 | 360 | – | 360 |
| Amounts written off | (2) | – | (2) |
| Recoveries of amounts previously written off | 10 | – | 10 |
| Charge for the year | 36 | – | 36 |
| **At 30 November 2016** | 404 | – | 404 |
| **Collective impairment allowance** | | | |
| At 1 December 2015 | 261 | – | 261 |
| Amounts written off | – | – | – |
| Recoveries of amounts previously written off | – | – | – |
| Charge for the year | 46 | – | 46 |
| **At 30 November 2016** | 307 | – | 307 |
| **Individual impairment allowance** | | | |
| At 1 December 2014 | 860 | – | 860 |
| Amounts written off | (84) | – | (84) |
| Recoveries of amounts previously written off | – | – | – |
| Charge for the year | (416) | – | (416) |
| At 30 November 2015 | 360 | – | 360 |
| **Collective impairment allowance** | | | |
| At 1 December 2014 | 218 | – | 218 |
| Amounts written off | – | – | – |
| Recoveries of amounts previously written off | – | – | – |
| Charge for the year | 43 | – | 43 |
| At 30 November 2015 | 261 | – | 261 |

## 17 Tangible fixed assets

| | Freehold buildings £000 | Short leasehold buildings £000 | Equipment, fixtures, vehicles £000 | Computer equipment £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 December 2015 | 3,169 | 863 | 1,131 | 727 | 5,890 |
| Additions during year | 589 | – | 38 | 1 | 628 |
| Disposals during year | (98) | – | – | – | (98) |
| **At 30 November 2016** | 3,660 | 863 | 1,169 | 728 | 6,420 |
| **Depreciation** | | | | | |
| At 1 December 2015 | 1,049 | 723 | 998 | 470 | 3,240 |
| Charged in year | 101 | 40 | 46 | 93 | 280 |
| Disposals during year | (17) | – | – | – | (17) |
| **At 30 November 2016** | 1,133 | 763 | 1,044 | 563 | 3,503 |
| **Net book value** | | | | | |
| **At 30 November 2016** | 2,527 | 100 | 125 | 165 | 2,917 |
| At 30 November 2015 | 2,120 | 140 | 133 | 257 | 2,650 |

| The net book value of land and buildings occupied by the Society for its own activities comprises: | 2016 £000 | 2015 £000 |
|---|---|---|
| Freehold | 2,343 | 1,837 |
| Short leasehold | 100 | 140 |
| | 2,443 | 1,977 |

## 18 Intangible assets

| | Software development costs £000 |
|---|---|
| Cost | |
| At 1 December 2015 | 1,891 |
| Additions during year | 85 |
| At 30 November 2016 | 1,976 |
| Amortisation | |
| At 1 December 2015 | 213 |
| Charged in year | 217 |
| At 30 November 2016 | 430 |
| Net book value | |
| At 30 November 2016 | 1,546 |
| At 30 November 2015 | 1,678 |

## 19 Other assets

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Cash collateral pledged against derivative financial instruments | 360 | 360 |
| Other | 9 | 89 |
| | 369 | 449 |

## 20 Prepayments and accrued income

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Derivative interest accruals | 2 | 26 |
| Other | 162 | 138 |
| | 164 | 164 |

## 21 Shares

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Held by individuals | 489,111 | 465,612 |
| Other shares | 46 | 46 |
| Fair value adjustment for hedged risk | 21 | 127 |
| | 489,178 | 465,785 |

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

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Accrued interest | 1,557 | 1,918 |
| Fair value adjustment for hedged risk | 21 | 128 |
| Repayable on demand | 485,746 | 461,846 |
| In not more than three months | 16 | 14 |
| In more than three months but not more than one year | 1,765 | 1,778 |
| In more than one year but not more than five years | 73 | 101 |
| In more than five years | – | – |
| | 489,178 | 465,785 |

## 22 Amounts owed to credit institutions

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Accrued interest | 13 | 9 |
| Amounts owed under repurchase agreements | 4,107 | – |
| | 4,120 | 9 |

The Society entered into a short term repurchase agreement for the purpose of testing a liquidity line. The cash acquired was repaid on 16 December 2016.

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

| Amounts owed to credit institutions are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows: | 2016 £000 | 2015 £000 |
|---|---|---|
| Accrued interest | 13 | 9 |
| In not more than three months | 4,107 | – |
| | 4,120 | 9 |

## 23 Amounts owed to other customers

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Amounts owed to other customers are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows: | | |
| Accrued interest | 186 | 249 |
| On demand | 53,588 | 60,604 |
| In not more than three months | – | – |
| In more than three months but not more than one year | – | – |
| In more than one year but not more than five years | – | – |
| | 53,774 | 60,853 |

## 24 Other liabilities

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Income tax | – | 405 |
| Corporation tax | 143 | – |
| Other taxation and social security costs | 113 | 83 |
| Other creditors | 172 | 201 |
| | 428 | 689 |

## 25 Accruals and deferred income

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Accruals relating to derivatives | 23 | 15 |
| Other | 660 | 724 |
| | 683 | 739 |

## 26 Provisions for liabilities

| | FSCS levy | Customer redress | Total |
|---|---|---|---|
| At 1 December 2015 | 175 | 20 | 195 |
| Settlements made in the year | (158) | – | (158) |
| Charge for the year | 143 | – | 143 |
| At 30 November 2016 | 160 | 20 | 180 |

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 levy as described in Note 29.

## 27 Subordinated liabilities

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Floating rate subordinated loan repayable 6 November 2019 | **500** | 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 |
| Fixed rate 10.25% subordinated loan repayable 17 October 2024 | **3,500** | 3,500 |
| | **4,550** | 8,050 |
| Unamortised issuance costs | **(118)** | (153) |
| Net carrying value | **4,432** | 7,897 |
| Accrued interest | **51** | 137 |
| | **4,483** | 8,034 |

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.

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, £4,151,342 (2015: £7,861,919) is eligible to be included as regulatory capital at 30 November 2016.

## 28 General reserves

| | Available for Sale Reserve 2016 £000 | General Reserve 2016 £000 | Available for Sale Reserve 2015 £000 | General Reserve 2015 £000 |
|---|---|---|---|---|
| At 1 December | **30** | **28,122** | 54 | 26,090 |
| Total recognised gains relating to the financial year | **(6)** | **674** | (24) | 2,032 |
| At 30 November | **24** | **28,796** | 30 | 28,122 |
| Reserves excluding pension liability | **24** | **31,087** | 30 | 29,103 |
| Net pension liability (Note 9) | **–** | **(2,291)** | – | (981) |
| | **24** | **28,796** | 30 | 28,122 |

## 29 Commitments

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Capital commitments** | | |
| Capital expenditure contracted for at 30 November but not provided for in these accounts | – | 36 |

**Leasing commitments**
At the date of the Statement of Financial Position, annual commitments under operating leases relating to land, buildings and equipment were as follows:

| | 2016 Equipment £000 | 2016 Land and buildings £000 | 2015 Equipment £000 | 2015 Land and buildings £000 |
|---|---|---|---|---|
| Leases which expire: | | | | |
| In not more than one year | – | 53 | – | – |
| In more than one but not more than five years | 3 | 51 | 3 | 90 |
| After five years | – | 72 | – | 87 |
| | 3 | 176 | 3 | 177 |

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

The Society's FSCS provision reflects market participation on 1 April (the start of each scheme year). The year end provision relates to the estimated interest levy for the scheme year 2016/17. This amount was calculated on the basis of the Society's share of protected deposits taking into account the FSCS' estimate of total interest levy for each scheme year. The interest levy for 2015/16 was paid and utilised in 2016.

**Customer redress claims**
Ipswich Building Society, like many other distributors of insurance and investment products to retail customers, has experienced customer concerns regarding whether the products were completely appropriate for the customer. A number of these concerns convert to formal complaints on the grounds that the customer has been sold an inappropriate investment or insurance 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.

## 30 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 2016 or 30 November 2015.

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.

## 31 Financial instruments

A financial instrument is a contract that gives rise to a financial asset or a financial liability. The Society is a retailer of financial instruments, mainly in the form of mortgage and savings products, however the Society also uses other financial instruments to invest liquid asset balances and raise wholesale funding. In addition, the Society uses derivative financial instruments ('derivatives') to manage the risks arising from its operations.

The financial risks arising from the Society's activities include liquidity, interest rate and credit risk. The Board reviews and agrees policies for managing each of these risks, which include the establishment of the Society's risk appetite, risk limits, clear reporting lines and other controls. In addition, the Society's Assets and Liabilities Committee (ALCO) monitors the financial risks relating to the financial instruments held as well as funding and liquidity, in line with the Society's prudent policy statements. The Retail Credit Risk Committee will also ensure that the management of retail credit risk is consistent with the credit risk appetite.

The Society does not hold derivatives for trading or speculative purposes but uses them for hedging purposes only in accordance with the Building Societies Act 1986, specifically to limit the interest rate exposure that arises with the provision of fixed rate mortgage and savings products.

### Categories of financial instruments

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

At 30 November 2016

| | Loans and receivables £000 | Available for sale £000 | Fair value through profit and loss £000 | Total £000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash in hand and balances with Bank of England | 56,932 | – | – | 56,932 |
| Loans and advances to credit institutions | 676 | – | – | 676 |
| Debt securities | – | 44,344 | – | 44,344 |
| Derivative financial instruments | – | – | 109 | 109 |
| Loans and advances to customers | 476,945 | – | – | 476,945 |
| Other assets | 371 | – | – | 371 |
| Total financial assets | 534,924 | 44,344 | 109 | 579,377 |
| Non-financial assets | – | – | – | 4,698 |
| Total assets | 534,924 | 44,344 | 109 | 584,075 |

| | Other financial liabilities £000 | Fair value through profit and loss £000 | Total £000 |
|---|---|---|---|
| **Financial liabilities** | | | |
| Shares | 489,178 | – | 489,178 |
| Amounts owed to credit institutions | 4,120 | – | 4,120 |
| Amounts owed to other customers | 53,774 | – | 53,774 |
| Subordinated liabilities | 4,483 | – | 4,483 |
| Pension liability | 2,291 | – | 2,291 |
| Derivative financial instruments | – | 118 | 118 |
| Accruals | 683 | – | 683 |
| Other liabilities | 172 | – | 172 |
| Total financial liabilities | 554,701 | 118 | 554,819 |
| Non-financial liabilities | – | – | 29,256 |
| Total liabilities | 554,701 | 118 | 584,075 |

## 31 Financial instruments (continued)

At 30 November 2015

| | Loans and receivables £000 | Available for sale £000 | Fair value through profit and loss £000 | Total £000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash in hand and balances with Bank of England | 47,736 | – | – | 47,736 |
| Loans and advances to credit institutions | 5,053 | – | – | 5,053 |
| Debt securities | – | 54,483 | – | 54,483 |
| Derivative financial instruments | – | – | 167 | 167 |
| Loans and advances to customers | 453,746 | – | – | 453,746 |
| Other assets | 423 | – | – | 423 |
| Total financial assets | 506,958 | 54,483 | 167 | 561,608 |
| Non-financial assets | – | – | – | 4,518 |
| Total assets | 506,958 | 54,483 | 167 | 566,126 |

| | Other financial liabilities £000 | Fair value through profit or loss £000 | Total £000 |
|---|---|---|---|
| **Financial liabilities** | | | |
| Shares | 465,785 | – | 465,785 |
| Amounts owed to credit institutions | 9 | – | 9 |
| Amounts owed to other customers | 60,853 | – | 60,853 |
| Subordinated liabilities | 8,034 | – | 8,034 |
| Pension liability | 981 | – | 981 |
| Derivative financial instruments | – | 529 | 529 |
| Accruals | 739 | – | 739 |
| Other liabilities | 201 | – | 201 |
| Total financial liabilities | 536,602 | 529 | 537,131 |
| Non-financial liabilities | – | – | 28,995 |
| Total liabilities | 536,602 | 529 | 566,126 |

### Fair value disclosure

#### Valuation of financial instruments carried at fair value

The Society holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

#### Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1 The most reliable fair values of financial instruments are quoted market prices in an actively traded market.

Level 2 These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. Valuations are based on 3 month LIBOR yield curves in line with the terms of the underlying instruments. No adjustment is made for credit risk.

Level 3 These are valuation techniques for which one or more significant input is not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models.

## 31 Financial instruments (continued)

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

| As at 30 November 2016 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Available for sale | | | | |
| Debt securities (excluding accrued interest) | 44,166 | – | – | 44,166 |
| Fair value through comprehensive income | | | | |
| Interest rate swaps | – | 109 | – | 109 |
| | 44,166 | 109 | – | 44,275 |
| **Financial liabilities** | | | | |
| Fair value through comprehensive income | | | | |
| Interest rate swaps | – | 118 | – | 118 |
| | – | 118 | – | 118 |

| As at 30 November 2015 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Available for sale | | | | |
| Debt securities (excluding accrued interest) | 54,269 | – | – | 54,269 |
| Fair value through comprehensive income | | | | |
| Interest rate swaps | – | 167 | – | 167 |
| | 54,269 | 167 | – | 54,436 |
| **Financial liabilities** | | | | |
| Fair value through comprehensive income | | | | |
| Interest rate swaps | – | 529 | – | 529 |
| | – | 529 | – | 529 |

### Financial assets pledged as collateral

The total financial assets recognised in the Statement of Financial Position that had been pledged as collateral for liabilities at 30 November are shown below:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Loans and advances to customers | 42,687 | 50,822 |

### Credit Risk

Credit risk is the risk that counterparties will not meet their obligations as they fall due. All loan applications are assessed with reference to the Society's lending policy.
Treasury counterparties are approved and monitored by the Assets and Liabilities Committee.
The Society operates an experienced credit risk function, driven by the need to manage the potential and actual risk both currently and in the future. Through this, any variations in risk resulting from market, economic or competitive changes are identified and appropriate controls and strategies are implemented.

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

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Cash in hand and balances with Bank of England | 56,932 | 47,736 |
| Loans and advances to credit institutions | 676 | 5,053 |
| Debt securities | 44,344 | 54,483 |
| Derivative financial instruments | 109 | 167 |
| Loans and advances to customers | 476,945 | 453,746 |
| Fair value adjustment for hedged risk | (130) | (480) |
| Total statement of financial position exposure | 578,876 | 560,705 |
| Off-balance sheet exposure – mortgage commitments | 33,228 | 18,420 |
| | 612,104 | 579,125 |

## 31 Financial instruments (continued)

### Loans and advances to customers

The Society is committed to mitigating risk through all stages of the lending cycle. The Society monitors customer affordability and the loan-to-value (LTV) percentages of all loans at the application stage. Additionally, the Society employs underwriting and fraud detection policies to minimise losses once loans have been approved as well as taking a proactive approach to the monitoring and treatment of impaired loans through the collections and recovery functions. The Society maintains comprehensive management information on the performance and movements within the various loan portfolios to ensure that credit risk is adequately controlled, and any adverse trends are identified before they impact on performance. Society performance is benchmarked against the industry when appropriate to identify any outlying trends. This management information is distributed throughout the Society and monitored at a Board committee level.

The table below provides further information on the Society's loans and advances to customers by payment due status as at 30 November, and the allowance for impairment held by the Society against those assets. The balances exclude the fair value adjustment for hedge risk and are stated before allowance for impairment losses.

### Credit quality analysis of loans and advances to customers

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Loans fully secured on residential property £000 | Loans fully secured on land £000 | Loans fully secured on residential property £000 | Loans fully secured on land £000 |
| Neither past due nor impaired | 456,913 | 2,959 | 430,446 | 3,054 |
| **Past due but not impaired** | | | | |
| Up to 1 month | 5,622 | – | 6,103 | – |
| More than 1 month but less than 3 months | – | – | – | – |
| More than 3 months but less than 6 months | – | – | – | – |
| More than 6 months but less than 12 months | – | – | – | – |
| More than 12 months | – | – | – | – |
| | 5,622 | – | 6,103 | – |
| **Individually impaired** | | | | |
| Not past due | 3,197 | – | 4,185 | – |
| Up to 1 month | 1,334 | – | 1,035 | – |
| More than 1 month but less than 3 months | 3,656 | – | 4,327 | – |
| More than 3 months but less than 6 months | 1,865 | – | 2,627 | – |
| More than 6 months but less than 12 months | 802 | – | 1,130 | – |
| More than 12 months | 564 | – | 843 | – |
| In possession | 614 | – | 137 | – |
| | 12,032 | – | 14,284 | – |
| **Allowance for impairment** | | | | |
| Individual | 404 | – | 360 | – |
| Collective | 307 | – | 261 | – |
| Total allowance for impairment | 711 | – | 621 | – |

Individual assessments are made of all mortgage loans where objective evidence indicates that losses are likely, for example, when loans are past due, the account is in forbearance or the property is in possession, or where fraud or negligence has been identified. Further consideration is given in accounting policy 1.6 to the Accounts.

### Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained during the year by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements and held at the year end are shown below. The amounts stated are the most recent valuations adjusted to take account of changes in the Halifax House Price Index published by Lloyds Banking Group Plc.

## 31 Financial instruments (continued)

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Property | 1,390 | 366 |

The Society's policy is to pursue timely realisation of the collateral in an orderly manner. The Society does not generally use the non-cash collateral for its own operations.

### Collateral held and other credit enhancements

The Society holds collateral against its retail credit exposures in the form of residential property. This collateral is valued by adjusting the valuation at inception of the loan for changes in the Halifax House Price Index published by Lloyds Banking Group Plc. Values are updated on a quarterly basis. No allowance is made for the costs of realising the collateral.

| The table below sets out the value of collateral held against the loan portfolio. | 2016 £000 | 2015 £000 |
|---|---|---|
| Full value of collateral held | 1,288,997 | 1,163,136 |
| Value of collateral limited to the amount of debt outstanding | 477,257 | 453,521 |
| Percentage of collateral to Loans and advances to customers | 100.00% | 99.95% |

In addition to holding residential property as collateral, the Society holds mortgage indemnity insurance where the ratio of the loan at application to the value of the property is more than 75%.

### Loan to value

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

| | 2016 £000 | 2015 £000 |
|---|---|---|
| LTV ratio | | |
| Up to 50% | 237,233 | 207,525 |
| More than 50% and up to 70% | 142,974 | 180,881 |
| More than 70% and up to 90% | 90,608 | 58,034 |
| More than 90% and up to 100% | 6,712 | 6,954 |
| More than 100% | – | 493 |
| | 477,527 | 453,887 |

### Forbearance

In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty. These measures can take several different forms and in each case an individual assessment is made to ensure forbearance is in the best interests of both the borrower and the Society. It is expected that the borrowers will resume normal payments once they are able. Accounts in forbearance are included in the individual assessment for impairment.

The table below analyses residential mortgage balances with renegotiated terms at the year end date:

| | Number of accounts | 2016 £000 | Number of accounts | 2015 £000 |
|---|---|---|---|---|
| Account restructured and arrears capitalised | 2 | 89 | 3 | 126 |
| Temporary transfer to interest only | 41 | 3,036 | 63 | 4,570 |
| Term extension | 3 | 177 | 4 | 185 |
| Payment arrangement in place | 31 | 2,208 | 33 | 2,674 |
| Multiple forbearance actions | 22 | 1,589 | 22 | 1,422 |
| Other measures | 1 | 147 | 1 | 173 |
| | 100 | 7,246 | 126 | 9,150 |

## 31 Financial instruments (continued)

Liquidity Risk

Liquidity risk is the risk that the Society will encounter difficulty in meeting the obligations associated with its financial liabilities that are to be settled by delivering cash or another financial asset. The Society's liquidity policy is to maintain sufficient funds in a liquid form at all times to ensure that it can meet its liabilities as they fall due. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities and to provide protection against any unexpected events that may occur.

Liquidity is monitored daily and reported to the ALCO on a monthly basis. The Society's liquidity policy is designed to provide the Society with the resources to withstand a range of stressed scenarios. A number of appropriate stressed scenarios have been identified as part of the Society's liquidity risk management. The scenarios developed include idiosyncratic, market-wide and combination stress tests, fulfilling the specific requirements of the Prudential Regulatory Authority ('PRA').

The Society's high quality liquid assets comprise deposits with the Bank of England and investment grade fixed and floating notes issued by highly rated Multinational Development Banks. The Society also holds off-balance sheet Treasury bills issued under the Funding for Lending scheme. At the year end the percentage of total shares and deposit liabilities held in these high quality liquid assets was 14.8% (2015: 10.0%).

In addition the Society also holds deposits with UK banks and portfolios of certificates of deposits ('CDs') and time deposits ('TDs') with other financial institutions. When taking the bank deposits, CDs and TDs into account, the percentage of total shares and deposit liabilities held in liquidity resources was 18.6% (2015: 20.4%).

Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining contractual maturities of the Society's financial assets and financial liabilities. In practice, contractual maturities are not a reflection of actual experience and therefore the information is not representative of the Society's management of liquidity. For example, the contractual term for the majority of the loans and advances to customers range from 10-30 years, however borrowers tend to repay ahead of contractual maturity, with the average life of a loan under seven years. Conversely customer deposits (for example, shares) repayable on demand are likely to remain on the Statement of Financial Position much longer. With regard to the net pension deficit, this has been analysed across time periods in accordance with the payment of the annual contributions agreed with the Trustees to eliminate the deficit.

Contractual maturities of financial assets and liabilities

For the year ended 30 November 2016

| | On demand £000 | Not more than three months £000 | More than three months but not more than one year £000 | More than one year but not more than five years £000 | More than five years £000 | Non-defined maturity £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Financial assets | | | | | | | |
| Cash in hand | 56,932 | – | – | – | – | – | 56,932 |
| Loans and advances to credit institutions | 676 | – | – | – | – | – | 676 |
| Debt securities | – | 14,110 | 15,003 | 15,053 | – | 178 | 44,344 |
| Derivative financial instruments | – | – | 13 | 96 | – | – | 109 |
| Loans and advances to customers | – | 4,543 | 8,832 | 65,039 | 399,112 | (581) | 476,945 |
| Other financial assets | – | 371 | – | – | – | – | 371 |
| Total financial assets | 57,608 | 19,024 | 23,848 | 80,188 | 399,112 | (403) | 579,377 |
| Non-Financial assets | – | – | – | – | – | 4,698 | 4,698 |
| Total assets | 57,608 | 19,024 | 23,848 | 80,188 | 399,112 | 4,295 | 584,075 |
| Financial liabilities | | | | | | | |
| Shares | 485,746 | 16 | 1,765 | 73 | – | 1,578 | 489,178 |
| Amounts owed to credit institutions | – | 4,107 | – | – | – | 13 | 4,120 |
| Amounts owed to other customers | 53,588 | – | – | – | – | 186 | 53,774 |
| Subordinated liabilities | – | (9) | (28) | 4,469 | – | 51 | 4,483 |
| Pension liability | 2,291 | – | – | – | – | – | 2,291 |
| Derivative financial instruments | – | 5 | 113 | – | – | – | 118 |
| Accruals | – | 683 | – | – | – | – | 683 |
| Other liabilities | 172 | – | – | – | – | – | 172 |
| Total financial liabilities | 541,797 | 4,802 | 1,850 | 4,542 | – | 1,828 | 554,819 |
| Non-Financial liabilities and Reserves | – | – | – | – | – | 29,256 | 29,256 |
| Total liabilities | 541,797 | 4,802 | 1,850 | 4,542 | – | 31,084 | 584,075 |

## 31 Financial instruments (continued)

For the year ended 30 November 2015

| | On demand £000 | Not more than three months £000 | More than three months but not more than one year £000 | More than one year but not more than five years £000 | More than five years £000 | Non-defined maturity £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash in hand | 47,736 | – | – | – | – | – | 47,736 |
| Loans and advances to credit institutions | 3,053 | – | 2,000 | – | – | – | 5,053 |
| Debt securities | – | 24,507 | 24,755 | 5,007 | – | 214 | 54,483 |
| Derivative financial instruments | – | – | 167 | – | – | – | 167 |
| Loans and advances to customers | – | 3,575 | 8,450 | 62,993 | 378,869 | (141) | 453,746 |
| Other financial assets | – | 423 | – | – | – | – | 423 |
| Total financial assets | 50,789 | 28,505 | 35,372 | 68,000 | 378,869 | 73 | 561,608 |
| Non-Financial assets | | | | | | 4,518 | 4,518 |
| Total assets | 50,789 | 28,505 | 35,372 | 68,000 | 378,869 | 4,591 | 566,126 |
| **Financial liabilities** | | | | | | | |
| Shares | 461,846 | 14 | 1,778 | 101 | – | 2,046 | 465,785 |
| Amounts owed to credit institutions | – | – | – | – | – | 9 | 9 |
| Amounts owed to other customers | 60,604 | – | – | – | – | 249 | 60,853 |
| Subordinated liabilities | – | (13) | (22) | 7,932 | – | 137 | 8,034 |
| Pension liability | 981 | – | – | – | – | – | 981 |
| Derivative financial instruments | – | – | 338 | 191 | – | – | 529 |
| Accruals | – | 739 | – | – | – | – | 739 |
| Other liabilities | 201 | – | – | – | – | – | 201 |
| Total financial liabilities | 523,632 | 740 | 2,094 | 8,224 | – | 2,441 | 537,131 |
| Non-Financial liabilities and Reserves | – | – | – | – | – | 28,995 | 28,995 |
| Total liabilities | 523,632 | 740 | 2,094 | 8,224 | – | 31,436 | 566,126 |

Grossed up financial liability exposure table

The following is an analysis of the total gross cash flows (including all interest due) payable over the lives of the Society's financial liabilities.

For the year ended 30 November 2016

| | On demand £000 | Not more than three months £000 | More than three months but not more than one year £000 | More than one year but not more than five years £000 | More than five years £000 | Non-defined maturity £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Shares | 485,746 | 839 | 4,557 | 2,025 | – | 1,578 | 494,745 |
| Amounts owed to credit institutions | – | 4,125 | 40 | 8 | – | – | 4,173 |
| Amounts owed to other customers | 53,588 | 127 | 380 | – | – | 186 | 54,281 |
| Subordinated liabilities | – | 10 | 390 | 5,311 | – | – | 5,711 |
| Pension liability | – | 350 | – | 1,400 | 1,400 | – | 3,150 |
| Derivative financial instruments | – | 45 | 80 | 67 | – | – | 192 |
| Accruals | – | 683 | – | – | – | – | 683 |
| Other liabilities | 172 | – | – | – | – | – | 172 |
| Total financial liabilities | 539,506 | 6,179 | 5,447 | 8,811 | 1,400 | 1,764 | 563,107 |

# 31 Financial instruments (continued)

For the year ended 30 November 2015

| | On demand £000 | Not more than three months £000 | More than three months but not more than one year £000 | More than one year but not more than five years £000 | More than five years £000 | Non-defined maturity £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | | |
| Shares | 461,846 | 1,006 | 5,950 | 987 | – | 2,046 | 471,835 |
| Amounts owed to credit institutions | – | 13 | 39 | 61 | – | 9 | 122 |
| Amounts owed to other customers | 60,604 | 189 | 567 | – | – | 249 | 61,609 |
| Subordinated liabilities | – | 3,671 | 390 | 5,766 | – | – | 9,827 |
| Pension liability | – | 350 | – | 1,400 | – | – | 1,750 |
| Derivative financial instruments | – | 105 | 490 | 130 | – | – | 725 |
| Accruals | – | 739 | – | – | – | – | 739 |
| Other liabilities | 201 | – | – | – | – | – | 201 |
| Total financial liabilities | 522,651 | 6,073 | 7,436 | 8,344 | – | 2,304 | 546,808 |

## Market risk

'Market risk' is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: currency risk, interest rate risk and other price risk. As the Society is not exposed to foreign currencies the primary risk associated with market prices comes from interest rate risk.

The Society is exposed to movements in interest rates, either due to them being referenced to different bases or due to the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Society manages this exposure continually within approved limits and, where necessary, by using derivative financial instruments.

## Interest rate risk

The Society has adopted the 'Matched' approach to interest rate risk, as defined by the PRA, operating within the exemptions permitted within section 9A of the Building Societies Act 1986. The 'Matched' approach aims to use 'standard' hedging instruments to manage the interest rate risks associated with offering fixed rate retail products, as detailed below. 'Standard' instruments include interest rate swaps and plain vanilla 'over the counter' ('OTC') derivatives.

The Society's interest risk management includes a regular review of the products used for hedging purposes by senior management, supported by monthly review by the ALCO and the Board. In addition interest rate gap and basis risk analysis is performed on a monthly basis and presented to the ALCO and Board for review.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. The analysis below, also an interest rate sensitivity assessment, represents market value movement, calculated using a discounted cash flow basis on all of the Society's financial assets and liabilities. The sensitivity analysis is based on immediate 200 basis point parallel shifts in interest rates.

All exposures include investments of the Society's reserves. Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics; say LIBOR and Bank of England Base Rate) and prepayment risk (the risk of loss arising from early repayments of fixed rate mortgages and loans) are also monitored closely and regularly reported to the ALCO.

The analysis below summarises the Society's exposure to interest rate risk. The tables present the Society's assets and liabilities by repricing date, along with the derivative financial instruments that are used to reduce the exposure to interest rate risk.

## 31 Financial instruments (continued)

Interest rate risk at 30 November 2016

| | Not more than three months £000 | More than three months but not more than one year £000 | More than one year but not more than five years £000 | More than five years £000 | Non-interest bearing £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash in hand and balances with Bank of England | 56,932 | – | – | – | – | 56,932 |
| Loans and advances to credit institutions | 676 | – | – | – | – | 676 |
| Debt securities | 14,110 | 15,003 | 15,053 | – | 178 | 44,344 |
| Derivative financial instruments | – | – | – | – | 109 | 109 |
| Loans and advances to customers | 366,213 | 54,062 | 56,537 | – | 133 | 476,945 |
| Other assets | – | – | – | – | 5,069 | 5,069 |
| Total assets before derivatives | 437,931 | 69,065 | 71,590 | – | 5,489 | 584,075 |
| Derivatives - Interest rate swaps | 47,300 | 20,000 | 10,000 | – | – | 77,300 |
| Total assets after derivatives | 485,231 | 89,065 | 81,590 | – | 5,489 | 661,375 |
| **Liabilities and reserves** | | | | | | |
| Shares | 346,888 | 51,711 | 88,997 | – | 1,582 | 489,178 |
| Amounts owed to credit institutions | 4,111 | – | – | – | 9 | 4,120 |
| Amounts owed to other customers | 53,588 | – | – | – | 186 | 53,774 |
| Subordinated liabilities | 50 | 1,000 | 3,500 | – | (67) | 4,483 |
| Derivative financial instruments | – | – | – | – | 118 | 118 |
| Other liabilities | – | – | – | – | 3,582 | 3,582 |
| Reserves | – | – | – | – | 28,820 | 28,820 |
| Total liabilities before derivatives | 404,637 | 52,711 | 92,497 | – | 34,230 | 584,075 |
| Derivatives - Interest rate swaps | 40,000 | 27,300 | 10,000 | – | – | 77,300 |
| Total liabilities after derivatives | 444,637 | 80,011 | 102,497 | – | 34,230 | 661,375 |
| Interest rate sensitivity gap | 40,594 | 9,054 | (20,907) | – | (28,741) | – |
| **Sensitivity to general reserves** | | | | | | |
| Parallel shift of +2% | (253) | (7) | 524 | – | – | 264 |
| Parallel shift of -2% | 253 | 7 | (524) | – | – | (264) |

## 31 Financial instruments (continued)

Interest rate risk at 30 November 2015

| | Not more than three months £000 | More than three months but not more than one year £000 | More than one year but not more than five years £000 | More than five years £000 | Non-interest bearing £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash in hand and balances with Bank of England | 47,736 | – | – | – | – | 47,736 |
| Loans and advances to credit institutions | 3,053 | 2,000 | – | – | – | 5,053 |
| Debt securities | 49,229 | 5,000 | – | – | 254 | 54,483 |
| Derivative financial instruments | – | – | – | – | 167 | 167 |
| Loans and advances to customers | 271,019 | 116,604 | 65,150 | – | 973 | 453,746 |
| Other assets | – | – | – | – | 4,941 | 4,941 |
| Total assets before derivatives | 371,037 | 123,604 | 65,150 | – | 6,335 | 566,126 |
| Derivatives - Interest rate swaps | 91,050 | 13,000 | – | – | – | 104,050 |
| Total assets after derivatives | 462,087 | 136,604 | 65,150 | – | 6,335 | 670,176 |
| **Liabilities and reserves** | | | | | | |
| Shares | 316,484 | 112,005 | 35,251 | – | 2,045 | 465,785 |
| Amounts owed to credit institutions | – | – | – | – | 9 | 9 |
| Amounts owed to other customers | 60,604 | – | – | – | 249 | 60,853 |
| Subordinated liabilities | 3,550 | 1,000 | 3,500 | – | (16) | 8,034 |
| Derivative financial instruments | – | – | – | – | 529 | 529 |
| Other liabilities | – | – | – | – | 2,764 | 2,764 |
| Reserves | – | – | – | – | 28,152 | 28,152 |
| Total liabilities before derivatives | 380,638 | 113,005 | 38,751 | – | 33,732 | 566,126 |
| Derivatives - Interest rate swaps | 13,000 | 53,750 | 37,300 | – | – | 104,050 |
| Total liabilities after derivatives | 393,638 | 166,755 | 76,051 | – | 33,732 | 670,176 |
| Interest rate sensitivity gap | 68,449 | (30,151) | (10,901) | – | (27,397) | – |
| **Sensitivity to general reserves** | | | | | | |
| Parallel shift of +2% | (394) | 430 | 209 | – | – | 245 |
| Parallel shift of -2% | 394 | (430) | (209) | – | – | (245) |

## 31 Financial instruments (continued)

### Derivatives held for risk management

### Fair value hedges of interest rate risk

The Society uses derivatives designated to manage certain risks it faces in accordance with Section 9A of the Building Societies Act 1986. In particular, the Society employs 'fair value hedges' in the form of interest rate swaps to manage the exposure to interest rate risk inherent when providing fixed rate retail products. The interest rate swaps essentially hedge the exposure to changes in the fair values of the fixed products.
The Society does not hold derivatives for trading or speculative purposes but uses them for hedging purposes only.
The interest rate swap contracts used to manage the interest rate risks are summarised below:

| Activity | Risk | Fair value interest rate hedge |
|---|---|---|
| Fixed rate mortgage | Increase in interest rates | Society pays fixed, receives variable |
| Fixed rate savings | Decrease in interest rates | Society receives fixed, pays variable |
| Debt securities - fixed rate | Increase in interest rates | Society pays fixed, receives variable |

The fair values of derivatives designated as fair value hedges are as follows.

| 2016 | | 2015 | |
|---|---|---|---|
| Assets £000 | Liabilities £000 | Assets £000 | Liabilities £000 |
| 109 | (118) | 167 | (529) |

Interest rate swaps

Interest rate swaps are matched to specific issuances of fixed rate retail shares or loans or acquisitions of debt securities. All hedges are supported by comprehensive hedging documentation as per the requirement in FRS 102 with the adoption of IAS 39. The Society utilises the derivative instruments for hedging purposes only and no such instruments are used for trading activity or speculative purposes. All fair value hedges are against 3 month LIBOR.

### Capital Structure

The Society's policy is to maintain a strong capital base to secure member, creditor and market confidence and to sustain the Society's plans for the future. Capital consists of the Society's general reserves, which are the profits of the Society accumulated over the last 167 years, together with an amount of capital raised in the form of allowable subordinated debt. Society capital provides a financial buffer. The Society manages its capital requirements through the annual ICAAP (Internal Capital Adequacy Assessment Process). This is carried out in conjunction with the PRA. The ICAAP is closely monitored by the Board and the Board receive regular updates on the amount of capital held and the amount of headroom the Society has over its required level of capital. The required level of capital is set by the PRA through the Society's Internal Capital Guidance (ICG). This allows the Board to ensure that the quantity and quality of capital held is both sufficient and appropriate to mitigate the risks that the Society faces and to safeguard members' interests.
During the year an option was exercised to prepay £3,500,000 (nominal value) of subordinated debt (2015: £nil). This reduced the amount of tier 2 capital accordingly.
There were no breaches of capital requirements during the year, and there have been no material changes in the Society's management of capital during the year.
Under Basel III Pillar 3 the Society is required to publish further information regarding its capital structure and exposures. The Society's Pillar 3 disclosures are available on our website or can be obtained by writing to the Society Secretary at our head office.

| Common equity tier 1 capital | 2016 £000 | 2015 £000 |
|---|---|---|
| General reserve | 28,796 | 28,122 |
| Revaluation reserve | 24 | 30 |
| Intangible assets | (1,546) | (1,678) |
| Total common equity tier 1 capital | 27,274 | 26,474 |
| **Tier 2 capital** | | |
| Eligible subordinated debt | 4,151 | 7,862 |
| Collective impairment allowance | 307 | 261 |
| Total tier 2 capital | 4,458 | 8,123 |
| Total capital | 31,732 | 34,597 |

## 32 Explanation of transition to FRS 102 from old UK GAAP

This is the first year that the Society has presented its annual accounts under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The Society has chosen to apply the recognition and measurement provisions of IAS 39 as adopted for use in the EU, utilising the accounting policy choice presented by FRS 102 within Sections 11 and 12 covering financial instruments, resulting in recognition and measurement policies consistent with the International Financial Reporting Standards ('IFRS') as adopted for use in the EU.

The following disclosures are required in the year of transition. The last financial statements prepared under the previous UK GAAP ('old UK GAAP') were for the year ended 30 November 2015 and the date of transition to FRS 102 was therefore 1 December 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

### Reconciliation of equity

In preparing its FRS 102 Statement of Financial Position, the Society has adjusted amounts reported previously in annual accounts prepared in accordance with its old basis of accounting under old UK GAAP. An explanation of how the transition from old UK GAAP to FRS 102 has affected the Society's financial position and financial performance is set out in the following tables (and the notes that accompany the tables).

| Restatement of assets and liabilities | 1 December 2014 | | | 30 November 2015 | | |
|---|---|---|---|---|---|---|
| | Old UK GAAP £000 | Effect of transition to FRS 102 £000 | FRS 102 £000 | Old UK GAAP £000 | Effect of transition to FRS 102 £000 | FRS 102 £000 |
| **Assets** | | | | | | |
| Liquid assets | | | | | | |
| Cash in hand and balances with Bank of England | 51,877 | – | 51,877 | 47,736 | – | 47,736 |
| Loans and advances to credit institutions | 5,412 | 6 | 5,418 | 5,053 | – | 5,053 |
| Debt securities | 64,945 | 67 | 65,012 | 54,443 | 40 | 54,483 |
| Total liquid assets | 122,234 | 73 | 122,307 | 107,232 | 40 | 107,272 |
| Derivative financial instrument assets | – | 384 | 384 | – | 167 | 167 |
| Loans and advances to customers | 474,223 | 60 | 474,283 | 452,949 | 797 | 453,746 |
| Tangible fixed assets | 4,593 | (1,698) | 2,895 | 4,328 | (1,678) | 2,650 |
| Intangible fixed assets | – | 1,698 | 1,698 | – | 1,678 | 1,678 |
| Other assets | 101 | – | 101 | 449 | – | 449 |
| Prepayments and accrued income | 87 | – | 87 | 164 | – | 164 |
| **Total assets** | 601,238 | 517 | 601,755 | 565,122 | 1,004 | 566,126 |
| **Liabilities** | | | | | | |
| Shares | 472,625 | 362 | 472,987 | 465,657 | 128 | 465,785 |
| Amounts owed to credit institutions | 20,962 | – | 20,962 | 9 | – | 9 |
| Amounts owed to other customers | 69,272 | – | 69,272 | 60,853 | – | 60,853 |
| Derivative financial instrument liabilities | – | 631 | 631 | – | 529 | 529 |
| Other liabilities | 1,328 | – | 1,328 | 689 | – | 689 |
| Accruals and deferred income | 1,222 | (333) | 889 | 917 | (178) | 739 |
| Deferred tax | 266 | (312) | (46) | 243 | (83) | 160 |
| Provisions for liabilities | 270 | – | 270 | 195 | – | 195 |
| Net pension liability | 1,067 | 284 | 1,351 | 804 | 177 | 981 |
| Subordinated liabilities | 7,967 | – | 7,967 | 8,034 | – | 8,034 |
| | 574,979 | 632 | 575,611 | 537,401 | 573 | 537,974 |
| **Reserves** | | | | | | |
| Available for sale reserves | – | 54 | 54 | – | 30 | 30 |
| General reserves | 26,259 | (169) | 26,090 | 27,721 | 401 | 28,122 |
| **Total liabilities** | 601,238 | 517 | 601,755 | 565,122 | 1,004 | 566,126 |

Not all adjustments have impacted equity, some have involved reclassification between line items within the statement of financial position. Notable reclassifications include i) the reclassification of mortgage origination fees now treated as 'effective interest' under FRS 102 / IAS 39, and ii) the separation between tangible fixed assets and intangible fixed assets.

## 32 Explanation of transition to FRS 102 from old UK GAAP (continued)

Notes to the reconciliation of equity at 30 November 2015

Each of the areas of change are discussed in more detail below and are quantified in the table on page 57.

1. Available for sale debt securities

On transition to FRS 102, and specifically under the recognition and measurement provisions of IAS 39, the classification of the portfolio of debt securities held by the Society has changed based on the nature of the instruments. The debt securities held by the Society are not held for trading purposes but are held for prudential purposes such as the management of liquidity risk. From time to time the Society may need to maintain the pool so that it is at appropriate levels. For these reasons the Society has classified the assets as 'available for sale' in accordance with IAS 39. Available for sale assets are held at fair value with movements in the fair value being recognised through other comprehensive income.

As with the other adjustments, the change in measurement of the debt securities has been applied retrospectively. The fair value of the debt instruments are based on quoted market prices. On transition the adjustment in fair value resulted in the recognition of a net unrealised gain of £67,215 (excluding deferred tax) within equity (year ended 30 November 2015: net unrealised gains of £35,802).

2. Hedge accounting

On transition to FRS 102 the derivatives used for hedge accounting purposes to manage interest rate risk were brought onto the Statement of Financial Position, and the fair value movements of the instruments were recognised retrospectively through the Statement of Comprehensive Income, consequently adjusting equity. Hedge accounting allows the volatility of fair value movements in the derivatives to be minimised within the Statement of Comprehensive Income by also recognising the fair value movement of the assets and liabilities being hedged. Due to the nature of the hedge relationship between the hedging instruments and the hedged items, the fair value movements of the hedging instruments and hedged items contra each other so that only relatively small net differences impact the Statement of Comprehensive Income. These differences represent the 'ineffectiveness' of the hedging instruments.

In addition, the Society has chosen not to classify a number of derivatives as designated hedging instruments and therefore the fair value movements of these derivatives are recognised through the Statement of Comprehensive Income.

At transition on 1 December 2014, the Society recognised total net designated hedging instrument liabilities of £173,972 (30 November 2015: net liabilities of £319,351) together with a corresponding net fair value increase in hedged items of £176,925 (30 November 2015: net fair value increase of £356,221). Consequently, reserves were increased by £33,917 in the year to 30 November 2015 relating to the introduction of hedge accounting due to the ineffectiveness of the fair value hedges. At 1 December 2014 undesignated derivative liabilities of £72,555 were recognised, and at 30 November 2015 these liabilities had a value of £42,455, resulting in an additional increase in reserves at 30 November 2015 of £30,100.

3. Impairment allowance on loans and advances to customers

Following the transition to FRS 102 the recognition of impairment losses has changed. In summary the concept of a 'general provision' has been removed with only incurred impairments being recognised within the Annual Accounts. Similarly, the concept of a 'suspended interest' provision ceases to be applied, with the provisions relating to this element of impairment instead forming part of the wider individual impairment provision. These changes have been applied retrospectively. The Society considers evidence of impairment for loans and advances at both an individual asset and a collective level with all individually significant loans and advances assessed for individual impairment. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. On transition the Society made a cumulative adjustment, increasing the total allowance for impairment by £345,056 (excluding deferred tax), thereby decreasing equity by the same amount (30 November 2015: cumulative increase of £11,465).

4. Income recognition

From 1 December 2014 any financial instruments not fair valued will be amortised using the effective interest rate ('EIR') method of amortisation. The change in measurement of such instruments has been applied retrospectively, and primarily affects the loans and advances issued by the Society. The application of the effective interest method results in the recognition of income/expenses at a level yield over the life of the underlying financial instrument, ensuring that income/expenditure is recognised in the period to which it relates. In practice, this involves a number of individual adjustments to the carrying value of the loan book, such as i) deferment of the net expenses incurred on origination of the loans (for those still deemed to be amortising on transition), and ii) reclassification of certain fee income and expenses as interest income.

On transition the EIR adjustments resulted in an increase to equity of £204,172 (excluding deferred tax) (30 November 2015: cumulative EIR adjustments and increase in equity was £505,902).

5. Fixed assets

The value of fixed assets has not changed in total but software development costs are now classified separately as intangible fixed assets. At 30 November 2015 software development costs with a net book value of £1,678,000 were moved from tangible to intangible assets in the Statement of Financial Position. This had no impact on reserves.

## 32 Explanation of transition to FRS 102 from old UK GAAP (continued)

### 6. Pension scheme

Under FRS 102 the deferred tax liability in respect of the pension scheme is shown as part of the pension scheme liability rather than being included within the provision for deferred tax. This adjustment is for reclassification purposes only and has no net effect on the Statement of Financial Position. In addition, actuarial losses of £129,000 previously recognised in other comprehensive income for the year to 30 November 2015 are now recognised within the pension finance expense shown in the Statement of Comprehensive Income.

### 7. Financial Services Compensation Scheme (FSCS)

IFRIC21 (Levies) provides guidance on accounting for Government imposed levies and this has resulted in a change in the timing of recognition of FSCS levies that impact the Society. The FSCS year runs from 1 April to 31 March and levies are based on the deposit taker's share of protected deposits at the preceding 31 December. IFRIC21 has clarified that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy. The revised trigger date of 1 April (being the start of the scheme year) remains in the same financial year for the Society as the previous accounting trigger date of 31 December preceding the start of a scheme year and therefore no adjustments on the application of IFRIC21 on transition to FRS102 were required.

| Restatement of assets and liabilities | 30 November 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Old UK GAAP £000 | Available for sale £000 | Hedge Accounting £000 | Impairment £000 | Income Recognition £000 | Fixed Assets £000 | Pension scheme £000 | FRS 102 £000 |
| **Assets** | | | | | | | | |
| Liquid assets | | | | | | | | |
| Cash in hand and balances with Bank of England | 47,736 | – | – | – | – | – | – | 47,736 |
| Loans and advances to credit institutions | 5,053 | – | – | – | – | – | – | 5,053 |
| Debt securities | 54,443 | 36 | 4 | – | – | – | – | 54,483 |
| Total liquid assets | 107,232 | 36 | 4 | – | – | – | – | 107,272 |
| Derivative financial instrument assets | – | – | 167 | – | – | – | – | 167 |
| Loans and advances to customers | 452,949 | – | 480 | (11) | 328 | – | – | 453,746 |
| Tangible fixed assets | 4,328 | – | – | – | – | (1,678) | – | 2,650 |
| Intangible fixed assets | – | – | – | – | – | 1,678 | – | 1,678 |
| Other assets | 449 | – | – | – | – | – | – | 449 |
| Prepayments and accrued income | 164 | – | – | – | – | – | – | 164 |
| **Total assets** | 565,122 | 36 | 651 | (11) | 328 | – | – | 566,126 |
| **Liabilities** | | | | | | | | |
| Shares | 465,657 | – | 128 | – | – | – | – | 465,785 |
| Amounts owed to credit institutions | 9 | – | – | – | – | – | – | 9 |
| Amounts owed to other customers | 60,853 | – | – | – | – | – | – | 60,853 |
| Derivative financial instrument liabilities | – | – | 529 | – | – | – | – | 529 |
| Other liabilities | 689 | – | – | – | – | – | – | 689 |
| Accruals and deferred income | 917 | – | – | – | (178) | – | – | 739 |
| Deferred tax | 243 | 6 | (1) | (2) | 91 | – | (177) | 160 |
| Provisions for liabilities | 195 | – | – | – | – | – | – | 195 |
| Net pension liability | 804 | – | – | – | – | – | 177 | 981 |
| Subordinated liabilities | 8,034 | – | – | – | – | – | – | 8,034 |
| | 537,401 | 6 | 656 | (2) | (87) | – | – | 537,974 |
| **Reserves** | | | | | | | | |
| Available for sale reserves | – | 30 | – | – | – | – | – | 30 |
| General reserves | 27,721 | – | (5) | (9) | 415 | – | – | 28,122 |
| **Total liabilities** | 565,122 | 36 | 651 | (11) | 328 | – | – | 566,126 |

## 32 Explanation of transition to FRS 102 from old UK GAAP (continued)

Reconciliation of profit for the year to 30 November 2015

| | Old UK GAAP £000 | Effect of transition to FRS 102 £000 | FRS 102 £000 |
|---|---|---|---|
| Interest receivable and similar income | 18,655 | 618 | 19,273 |
| Interest payable and similar charges | (8,817) | – | (8,817) |
| Net interest receivable | 9,838 | 618 | 10,456 |
| Pension finance income /(charge) | 86 | (129) | (43) |
| Fees and commissions receivable | 898 | (548) | 350 |
| Fees and commissions payable | (705) | 232 | (473) |
| Net income from other financial instruments at fair value through profit and loss | – | 64 | 64 |
| Net profit on financial operations | 10,117 | 237 | 10,354 |
| Other operating income | 18 | – | 18 |
| Total income | 10,135 | 237 | 10,372 |
| Administrative expenses | (7,502) | – | (7,502) |
| Depreciation and amortisation | (460) | – | (460) |
| Other operating charges | (15) | – | (15) |
| Operating profit before provisions | 2,158 | 237 | 2,395 |
| Impairment losses on loans and advances to customers | 39 | 334 | 373 |
| Provisions for contingent liabilities and commitments | (22) | – | (22) |
| Provision for FSCS levy | (271) | – | (271) |
| Operating profit and profit before tax | 1,904 | 571 | 2,475 |
| Tax on profit on ordinary activities | (389) | (104) | (493) |
| **Profit for the financial year** | 1,515 | 467 | 1,982 |

Not all adjustments have solely impacted equity, some have also involved reclassification between line items within the statement of comprehensive income, such as the reclassification of mortgage origination fees now treated as 'effective interest' under FRS 102 / IAS 39.

Reconciliation of other comprehensive income for the year to 30 November 2015

| | Old UK GAAP £000 | Effect of transition to FRS 102 £000 | FRS 102 £000 |
|---|---|---|---|
| Profit for the financial year | 1,515 | 467 | 1,982 |
| Actuarial loss recognised in the pension scheme | (66) | 129 | 63 |
| Movement in fair value of debt securities | – | (31) | (31) |
| Other tax on other comprehensive income | – | 7 | 7 |
| Movement in deferred tax relating to pension scheme | 13 | (26) | (13) |
| Total comprehensive income for the year | 1,462 | 546 | 2,008 |

## 32 Explanation of transition to FRS 102 from old UK GAAP (continued)

Reconciliation of reserves

| | Available for sale reserve 2015 £000 | General reserve 2015 £000 | Available for sale reserve 2014 £000 | General reserve 2014 £000 |
|---|---|---|---|---|
| At 1 December as stated under old UK GAAP | – | 27,721 | – | 26,259 |
| Derivatives assets in designated hedging relationship | – | 167 | – | 384 |
| Derivatives liabilities in designated hedging relationship | – | (486) | – | (558) |
| Derivatives liabilities not in designated hedging relationship | – | (43) | – | (73) |
| Fair value of hedged loans and advances | – | 480 | – | 533 |
| Fair value of hedged shares | – | (128) | – | (362) |
| Fair value of hedged debt securities and loans to credit institutions | – | 4 | – | 6 |
| Fair value of available for sale financial assets | 36 | – | 67 | – |
| Effective interest rate | – | 506 | – | 204 |
| Impairment allowances on loans and advances to customers | – | (11) | – | (345) |
| Net pension liability | – | (177) | – | (284) |
| Taxation | (6) | 89 | (13) | 326 |
| At 1 December under FRS 102 | 30 | 28,122 | 54 | 26,090 |

| Reconciliation of total comprehensive income from old UK GAAP to FRS 102 | 2015 £000 |
|---|---|
| Profit for the financial year under old UK GAAP | 1,515 |
| Adjustments to equity on transition to FRS 102 | |
| Hedge accounting | 34 |
| Fair value gain on derivatives not in designated hedge relationships | 30 |
| Impairment allowance on loans and advances to customers | 334 |
| Effective interest rate | 302 |
| Pensions | (129) |
| Deferred tax | (104) |
| Profit reported under FRS 102 | 1,982 |
| Total recognised gains under old UK GAAP | (53) |
| Actuarial loss recognised in the pension scheme | 129 |
| Movement in fair value of debt securities | (31) |
| Other tax on other comprehensive income | 7 |
| Movement in deferred tax relating to pension scheme | (26) |
| Total other comprehensive income | 26 |
| Total comprehensive income | 2,008 |

# Annual Business Statement

## for the year ended 30 November 2016

| 01 Statutory percentages | 2016 % | Statutory limit % |
|---|---|---|
| Lending limit | 0.8 | 25.0 |
| Funding limit | 10.6 | 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 impairement allowance less liquid assets, tangible and intangible 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 | 2016 % | 2015 restated % |
|---|---|---|
| As a percentage of shares and borrowings: | | |
| - Gross capital | 6.03 | 6.84 |
| - Free capital | 5.27 | 6.09 |
| - Liquid assets | 18.64 | 20.37 |
| As a percentage of mean total assets: | | |
| - Profit after tax for the financial year | 0.35 | 0.34 |
| - Management expenses | 1.46 | 1.36 |

"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 collective allowances on loans and advances to customers, less tangible and intangible fixed assets.

"Mean total assets" represent the average of total assets as stated in the Statement of Financial Position at 30 November 2015 and 30 November 2016.

"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 26 to 59.

## 03 Information relating to Directors at 30 November 2016

| 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 County Cricket Board Ltd<br>Essex Cricket Foundation |
| V M Dias FCCA, CCMI | Non-Executive Director | 18/10/59 | 26/03/15 | Member of the Board of Trustees of the Chartered Management Institute<br>Board of Trustees of UFI (University for Industry).<br>Non-Executive Director on the Board of Hastings Insurance |
| P Elcock ACIB, DipFS, MBA | Executive Director and Chief Risk Officer, Charter Court Financial Services Group Limited | 28/08/63 | 01/06/15 | Exact Mortgage Experts Ltd<br>Charter Mortgages Ltd<br>Charter Court Financial Services Ltd<br>Charter Court Financial Services Group Ltd<br>Broadlands Finance Ltd<br>Cornhill Consulting 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<br>Stonebridge International Insurance Ltd<br>Cornerstone International Holdings Ltd<br>The Prince Henry's High School Academy Trust<br>PHHS Trading Company Ltd |
| R H B Norrington MA (Hons) | Building Society Executive | 18/09/65 | 30/11/16 | Norrington Associates Ltd |
| S J K Reid FCIOBS, MA | Non-Executive Director | 29/07/63 | 01/11/16 | – |
| M A Tennens FCIM, DipM, DipTh | Company Director | 14/03/67 | 30/11/06 | redPepper Marketing Ltd |
| P Winter MBE BA, FCIB | Building Society Executive | 20/10/50 | 01/12/90 | BSA Pension Trustees Ltd<br>University Campus Suffolk Ltd |

### Directors' service contracts

At 30 November 2016 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; notice has been given under this contract.
K F Blackburn contract was entered into on 30 November 2008. Richard Norrington's contract was entered into on 30 September 2016 in advance of his appointment as a Director on the 30 November 2016.

### Correspondence and documents

Correspondence to Directors, jointly or individually, should be addressed "Private and Confidential" and c/o KPMG LLP, 1 Snowhill, Snowhill Queensway, Birmingham, B4 6GH.

## 04 Information relating to other Officers at 30 November 2016

| Name | Occupation | Other Directorships |
|---|---|---|
| I A Brighton CeMAP, CeRGI, CeRCC, CeRCH,AdvCeMAP | General Manager (Operations) | Trustee of the Stone Foundation<br>Trustee of the Ipswich Building Society Charitable Foundation<br>Trustee of the Ipswich Building Society Pension and Life Assurance Scheme |
| J Leah MCIM | General Manager (Retail and Distribution) | - |
| R J Newman LLB (Hons) Law | Society Secretary and Legal Counsel | - |

IPSWICH
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